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THE INFLUENCE OF PARTNERS' VIEWS ON CHINESE AUDITORS' JUDGMENTS RELATED TO PROFESSIONAL SCEPTICISM

Abstract:

Professional scepticism remains one of the most important and controversial topics in auditing. This study examines the influence of partners' views on auditors' professional scepticism in China. This examination is important given the hierarchical structures of audit firms, and even more important in China given the strong cultural emphasis on subordination and obedience. Specifically, this study invokes social contingency theory to provide insights into partner influences on auditors from an accountability perspective. It is expected that auditors with knowledge of partners' views are likely to be susceptible to pressure to align their judgments to the partners' views, and such pressure influences auditors' professional scepticism when exercising judgments. A between-subjects experiment was conducted with practicing auditors in China. The independent variable, partners' views on professional scepticism, was manipulated across three groups: (1) a control group, in which there is no information about partners' view, (2) a group in which partners' known views reflect low emphasis on professional scepticism, or (3) a group in which partners' known views reflect high emphasis on professional scepticism. The results provide evidence that when partners' views on professional scepticism are known, auditors perceive considerable amount of pressure to follow the partners' views. Further, the results show that when partners' views reflect low emphasis on professional scepticism, auditors' levels of professional scepticism are significantly lower compared to when partners' views are unknown. However, when partners' views reflect high emphasis on professional scepticism, auditors' levels of PS do not significantly differ from when partners' views are unknown. Furthermore, the results show that when auditors learn partners' views, increased intensity of perceived pressure can strengthen the effects of partners' influences on auditors' professional scepticism. The findings of this study have important implications for auditing regulators, professionals, and audit firms.

Keywords:

Professional Scepticism, Auditing, China, Partner influences

JEL Classification: C93, M42, M40

Introduction

Professional scepticism remains one of the most important and controversial topics in auditing. Professional scepticism (hereafter PS) is defined in the International Standards on Auditing (ISAs) as, “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence” (International Auditing and Assurance Standards Board (IAASB), 2010). PS has been widely recognized as the foundation of the profession and the cornerstone of audit quality (Hurtt, 2010, Shaub and Lawrence, 1996, Nelson, 2009, Bell et al., 2005, Trotman, 2011). Auditing regulators worldwide continue to stress the fundamental importance of professional scepticism.¹ Regardless of its widely recognised importance, PS remains controversial in terms of its determinants. While auditors’ insufficient PS has been considered as one of the major causes of audit deficiencies and audit failures (Public Company Accounting Oversight Board (PCAOB), 2012, Australian Securities and Investments Commission (ASIC), 2012), there is a lack of clear understanding about factors that may influence PS (Hurtt et al., 2013, Nelson, 2009). In addition, there is a lack of guidance concerning implementation of PS in auditing standards (Public Oversight Board (POB), 2000, Pany and Whittington, 2001).

Given its importance and controversy, there are increasing calls for research on determinants of PS and how it can be enhanced (Hurtt et al., 2013, Nelson, 2009, Bell et al., 2005, Trotman, 2011). For example, Bell et al. (2005) call for more rigorous investigations concerning determinants of PS. Similarly, Trotman (2011) suggests that audit judgment researchers need to draw attention to continuing research opportunities on the core issues of auditing such as PS. Responding to these calls, there have been increasing number of studies examining factors influencing PS (McMillan and White, 1993, Shaub and Lawrence, 1996, Payne and Ramsay, 2005, Rose, 2007, Nelson, 2009, Hurtt, 2010, Kim and Trotman, 2014, Carpenter and Reimers, 2013, Quadackers et al., 2014, Hurtt et al., 2013, Popova, 2012, Kerler and Killough, 2009). However, much of the research has been conducted in Anglo-American countries, and little is known about issues related to PS in other national contexts.

It is important to examine PS in a different context from Anglo-American countries particularly in light of the current worldwide thrust towards international convergence of auditing standards. The ISAs as issued by IAASB have been adopted 126 jurisdictions.² Given the strong forces of the convergence, key auditing concepts, such

¹ Internationally, IAASB staff issued Questions and Answers document: *Professional Skepticism in an Audit of Financial Statements* in February 2012 (IAASB 2012b). In the U.S., Public Company Accounting Oversight Board (PCAOB) published *Staff Audit Practice Alert on Maintaining and Applying Professional Skepticism in Audits* in December 2012 (PCAOB 2012). In the U.K., Financial Reporting Council (FRC) issued discussion paper *Auditor Scepticism: Raising the Bar* in August 2010 (APB 2010) and *Professional Scepticism: Establishing a Common Understanding and Reaffirming Its Central Role in Delivering Audit Quality* in March 2012 (APB 2012). In Australia, Australian Auditing and Assurance Standards Board (AUASB) issued bulletin document: *Professional Scepticism in an Audit of a Financial Report* in August 2012 (AUASB 2012).

² The International Federation of Accountants (IFAC) is a global organization for the accountancy profession which is comprised of 179 members and associates in 130 countries and jurisdictions. IFAC has established IAASB to develop the International Standards on Auditing (ISAs) (IFAC 2011). According to the IFAC report, Basis of ISA Adoption, 126 jurisdictions have adopted ISAs (IFAC 2012).

as PS, conceived in a predominantly Anglo-American context, have been diffused worldwide. However, research shows that accounting and auditing are social and institutional practices deeply embedded in the contextual environment in which it operates, rather than a neutral, objective, and value-free technical practice (Chua, 1986, Patel, 2006, Hopwood, 1983, Gernon and Wallace, 1995, Napier, 1989, Harrison and McKinnon, 1999, Heidhues and Patel, 2011, Chand et al., 2008, Power, 2003). Specifically, evidence shows that national cultures influence auditors' professional judgments across countries (Patel et al., 2002, Lin and Fraser, 2008, Fan et al., 2012, Liu et al., 2011). Given that maintaining appropriate levels of PS requires extensive use of professional judgments, it is important to examine auditors' PS in cultural environments that are different from Anglo-American contexts.

This study examines auditors' PS in the largest and fastest growing transitional economy, namely, China. China provides an important and interesting national setting to examine issues related to PS due to its unique socio-cultural and economic environment. First, Chinese core cultural values differ significantly from typical Anglo-American cultural values (Bond and Hwang, 1986, Wong, 2010, Lam, 2003, Yao, 2000). In contrast to countries such as the United States, Australia, and the United Kingdom which are the most individualistic countries with low power distance, countries with Chinese background are the most collectivistic societies with high power distance (Hofstede, 1980, 1991). Chinese culture emphasizes the importance of maintaining hierarchical social order, which demands complete subordination and unquestioning obedience towards superiors (Jacobs et al., 1995, Bond and Hwang, 1986, Lin and Ho, 2009, Yao, 2000). These unique cultural features will play important role in how auditors apply PS in China. Second, there are concerns that audit quality and insufficient PS are severer in China as audit firms are under fierce competitive pressures. The Chinese audit market is much less concentrated compared to Anglo-American countries, and competition is mainly focused on price, rather than on quality or specialization (Chen et al., 2007, Li and Wu, 2004, DeFond et al., 2000). Chinese audit market with limited Big 4 market dominance and larger number of small and medium-size domestic audit firms are different from the audit market of Anglo-American countries which are dominated by Big 4 (Wang et al., 2008, Wei and Hu, 2012). Low concentration increases competition in the audit market. Under fierce competition, there are concerns that audit firms may be pressured to reduce cost and focus on audit efficiency rather than effectiveness. Finally, issues related to the qualities of financial reporting and auditing in China have attracted growing attention worldwide. As the second largest economy in the world, China has growing business interactions with the rest of the world. Recently, a series of accounting scandals involving Chinese companies listed in other countries such as the United States have caused growing concerns globally about audit quality in China (The Economist, 2011).³ In order to improve audit quality and boost investors' confidence, the Chinese regulators including Ministry of Finance (MOF) and China Securities Regulatory Commission (CSRC) have undertaken various policy changes (Gul et al., 2009). The worldwide attention to audit quality issues in China stresses the importance of investigating PS in a Chinese context.

³ In June 2011, the US Securities and Exchange Commission (SEC) "was seeking stop orders against two China-based firms, namely, China Intelligent Lighting and Electronics, and China Century Dragon Media, to protect investors by preventing any further sales under materially misleading and deficient offering documents" (SEC 2011, p.1). In September 2011, a Deloitte's Chinese affiliate was under investigation by the SEC due to suspected audit deficiency associated with Longtop, one of the several Chinese firms recently being delisted from the New York Stock Exchange (The Economist, 2011).

The objective of this study is to provide insights into the influence of partners' views on auditors' PS in China. The accounting literature has recognised the importance of examining partner influences on auditor judgments (Peecher, 1996, Turner, 2001, Wilks, 2002, Peecher et al., 2010, Peytcheva and Gillett, 2011, Carpenter and Reimers, 2013). Audit firms usually operate in a hierarchical structure, where partners who collectively own the firm occupy the top management positions, and managers, seniors and auditor associates are the respective ranks down to the hierarchical orders. In this hierarchical structure, partners hold formal authority for decisions such as hiring, firing or promoting lower level staff (Hudaib and Haniffa, 2009). As large audit firms often have the "up or out" policies, auditors face prevalent pressures to progress through the ranks in the hierarchical structure (DeZoort and Lord, 1994, Patel, 2003). In the context of the hierarchical structures and "up or out" policies of audit firms, subordinate auditors face pressures to gain approval from partners, and align their behaviours with the expectations of partners. Auditing research consistently show that when supervisors' views are known, auditors align their judgments to the supervisors' views (Peecher, 1996, Turner, 2001, Wilks, 2002, Peecher et al., 2010, Peytcheva and Gillett, 2011, Carpenter and Reimers, 2013). Given strong influences that partners may exert on auditors, it is urged that partners should set the proper tone at the top to help auditors maintain PS (Carpenter and Reimers, 2013, Ramos and American Institute of Certified Public Accountants (AICPA), 2003). As such, it is important to examine how partners' views influence auditors' PS judgments in order to understand how PS can be enhanced or impaired.

Furthermore, evidence on the influence of partners' views is particularly important in China given strong cultural emphasis on obedience. Chinese cultural tradition demands complete subordination and unreserved obedience to maintain hierarchical social order (Bond and Hwang, 1986, Lin and Ho, 2009, Yao, 2000, Jacobs et al., 1995, Cornberg, 1994). This requires subordinates to accept their social positions and unquestioningly obey their superiors. Chinese cultural values advocate unreserved obedience of the son to his father, of the younger to the older, of the subject to the ruler (Lang, 1968, Cornberg, 1994). Consistent with these cultural emphases, research in organisational behaviour shows that Chinese subordinates tend to follow authoritative supervisors' directions obediently and without question (Pellegrini et al., 2010, Tsui, 2001, Chen et al., 2014, Peng et al., 2001). These cultural emphases are likely to amplify Chinese auditors' pressure to align judgments with partners' views. However, research on how partners' views influence auditors' judgments in China is scant.

Specifically, to examine the influence of partners' views on auditors' PS in China, a between-subjects experiment was conducted with practicing auditors from two Big 4 and two non-Big 4 accounting firms in China. A total of 154 auditors participated in the experiment. The independent variable, *partners' views on PS*, was manipulated across three groups: (1) a control group, in which there is no information about partners' view, (2) a group in which partners' known views reflect low emphasis on PS, or (3) a group in which partners' known views reflect high emphasis on PS. Participants were randomly assigned to one of these three groups. It is expected that auditors with knowledge of partners' views are likely to be susceptible to pressure to align their judgments to the partners' views, and such pressure influences auditors' PS when exercising judgments.

The results provide evidence that when partners' views on PS are known, auditors perceive considerable amount of pressure to follow the partners' views. Further, the

results show that such pressure significantly influences auditors' PS judgments. When partners' views reflect low emphasis on PS, auditors' levels of PS are significantly lower compared to when partners' views are unknown. However, when partners' views reflect high emphasis on PS, auditors' levels of PS are not significantly higher compared to when partners' views are unknown. This suggests that partners' low emphasis on PS has adverse effects on auditors' PS, but partners' high emphasis on PS alone cannot enhance auditors' PS, even though in both situations auditors feel pressure from partners. Furthermore, the results show that when auditors learn partners' views, differing intensity of perceived pressure influence auditors' levels of PS. Specifically, when partners' views reflect high (low) emphasis on PS, auditors perceiving higher pressure from the partners exhibit higher (lower) levels of PS than when those perceiving lower pressure.

The results of this study contribute to the literature in a number of ways. First, the current study extends prior accountability studies in auditing by examining how partners' views may influence auditors' PS in a context involving no explicit justifications. From the perspective of accountability, extensive research in auditing demonstrates that auditors' judgments are influenced by known views of supervisors (Peecher, 1996, Bierstaker and Wright, 2001, Bierstaker and Wright, 2005, Turner, 2001, Wilks, 2002, Peecher et al., 2010, Peytcheva and Gillett, 2011, Carpenter and Reimers, 2013). However, these studies have largely focused on situations of explicit justifications, where participants were informed that their responses would be reviewed and/or require explicit justifications. Indeed, accounting professionals may perceive and react to accountability pressure even without encountering situations of explicit justification (DeZoort and Lord, 1997). The current study extends prior accountability studies in auditing by examining how partners' views may influence auditors' PS a context where explicit justification is not required. Our results suggest that auditors align their judgments with partners' views with low emphasis on PS even justifications are not explicitly required. This understanding is particularly useful in examining the influence of partners' views on PS because PS is essentially an attitude for which explicit justifications may not be applicable. The study suggests that accountability pressure can still be salient even in situations involving no explicit justification. This may be attributable to relevant features of Chinese culture. The cultural emphases on hierarchical order and unquestioning obedience to superiors, Chinese auditors are strongly motivated to gain approval from partners.

Second, the current study extends prior accountability studies in auditing by directly testing the relationship between the intensity of perceived pressure and auditors' judgments. The current study measures the intensity of perceived pressure, and shows that when partners' views are known, different intensity of pressure perceived by auditors influence their judgments. These findings provide evidence for the theoretical linkage between accountability pressure and its effects on auditors' judgments when partners' views are known. This further support theorisation from accountability perspective for the influence of partners' views on auditors' judgments.

Third, the current study complements Carpenter and Reimers (2013) that examine how auditors' judgements are influenced by partner's emphasis on PS. Their study only examines the conditions of high versus low partner emphasis on PS without using a control group where partners' views are unknown. As such, their results are not conclusive about whether auditors' judgments are influenced by low or high partner emphasis on PS, or both. The current study employs a control group, so we can compare auditors' judgments in the condition of unknown views of partners to those in

the conditions of either low or high partner emphasis on PS respectively. Our results suggest that compared to unknown views of partners, low partner emphasis significantly decrease auditors' PS, but high partner emphasis does not significantly increase auditors' PS. This suggests that while low partner emphasis on PS has adverse effects on auditors' PS, high partner emphasis on PS alone may not be able to enhance auditors' PS. By using a control group, the current study provides sharper insights into how low or high partner emphasis on PS influence auditors' judgments differently.

The remainder of this paper is organised as follows. Section two discusses relevant characteristics of Chinese culture, which is followed by theory and hypotheses formulation in section three. Section four describes research method, and the empirical results are presented in section five. Section six concludes the paper.

Relevant Characteristics of Chinese Culture

This section draws on historical, sociological and psychological literature, and cultural studies in management and accounting to demonstrate characteristics of Chinese culture that are relevant to the current study. It is increasingly recognised that audit practice is a social construction, rather than merely a series of technical steps (Dirsmith and Haskins, 1991, Power, 1995, Power, 2003, Pentland, 1993). Particularly, national cultures influence auditors' professional judgments across countries (Lin and Fraser, 2008, Fan et al., 2012, Liu et al., 2011, Patel and Millanta, 2011, Patel, 2006, Patel, 2003). As such, it is important to examine the Chinese cultural features in order to understand judgments of Chinese auditors.

Insights into Chinese cultural values may be gained by examining Confucianism that is derived from the teachings of the Chinese philosopher Confucius (551 - 479 B.C.) (Yao, 2000, p.21). Confucianism, as the traditional root of Chinese culture, is a complex system of moral, social, political, philosophical thought that has profound influences on the Chinese culture (Bond and Hwang, 1986). Confucianism constitute the fundamental social values and norms that were shared within society in ancient China for over two thousand years (Lin and Ho, 2009, Yao, 2000). Nowadays, Confucius' thought remains powerful and influential across all Chinese societies (Lin and Ho, 2009, Yao, 2000).

The fundamental assumption of Confucianism is that an individual, as a social or relational being, exists in relation to others (Bond and Hwang, 1986, Lu, 1983). A person is seen "as a relational being, socially situated and defined within an interactive context" (Bond and Hwang, 1986, p. 215). Confucian believe on the interdependence of events in the universe, that is all things can be described only in relation to each other (Yeung and Tung, 1996). Confucianism emphasises that an individual is an integrated part of the collective which he or she belongs (Bond and Hwang, 1986). In other words, any event or individual does not stand alone and must be explained in relation to others. Under the heavy influence of Confucianism, Chinese often regard themselves as being interdependent of their surrounding social context (Tsui and Farh, 1997). This fundamental concept of interdependence in Confucianism has profound influences on how Chinese view themselves and interact with others.

The fundamental assumption of interdependence is deeply embedded in the ultimate goal of familial, social and political stability and *hexie* (harmony 和谐). *Hexie* (harmony) in Chinese culture refers to a state of being in which there is no conflict or friction and everything is balanced and at peace (Schaefer-Faix, 2008). By advocating *Ren*

(benevolence 仁), *Yi* (righteousness 义) and *Li* (rites 礼) as the basic doctrines, Confucius called for maintaining the established social order to achieve social harmony (Jacobs et al., 1995).

To achieve the ultimate goal of social and political stability, and *hexie* (harmony 和谐), Confucianism stresses the importance of "harmony within hierarchy". Confucius emphasized hierarchically structured relationships within the Kingdom and family, and advocated "let the ruler be a ruler, the minister be a minister, the father be a father, and the son be a son" (Confucian Analects in Lu, 1983, p.101). According to Confucianism, the social system should focus on "higher ups govern, lower ranks obey" (Beamer, 1998, p. 54). Confucianism maintained the importance of family and "five relationships" (*wu lun* 五伦) including hierarchical relationships between father and son, husband and wife, older brother and younger brother, ruler and subject, and friend and friend.⁴ Hierarchically structured relationships and established social order are maintained by people accepting a hierarchical order in which everybody has a rightful place that needs no further justification (Jacobs et al., 1995, Bond and Hwang, 1986).

Maintaining "harmony within hierarchy" demands unquestioning obedience of subordinate. In order to build an orderly society, Confucian promoted complete subordination of inferiors by expressing "love and piety towards superiors, as well as observance of rites and rules of propriety" (Lang, 1968, p.9). Confucius demanded unreserved obedience of the son to his father, of the younger to the older, of the subject to the ruler (Lang, 1968). In each of the "five relationships" (*wu lun* 五伦), the superior member has the duty of benevolence and care for the subordinate member, and the subordinate member has the duty of obedience (Ross, 2012). Particularly, Confucianism emphasizes "filial piety" (*xiao* 孝), which requires "subordinations of personal desires to a hierarchy of deference that reaches up to the father, back to the ancestors, and up to heaven" (Cornberg, 1994, p.138). Mencius, one of the most famous Confucian and principal interpreters, stated that "content of benevolence is the serving of one's parents; the content of dutifulness is obedience to one's elder brother" (quoted in Yearley, 1975, p.189). Subordinate obedience to superiors is important for maintaining hierarchically structured social order and achieving "harmony within hierarchy".

Consistent with Chinese cultural emphases on accepting hierarchical orders, complete subordination, and unquestioning obedience towards superiors, numerous cultural studies in management and accounting literature have demonstrated that countries with Chinese background features high power distance. One influential study is Hofstede (1980, 1991) that develop framework of cultural dimensions to explore cultural differences and similarities among nations using an extensive international survey on perceptions of work-related attitude among IBM employees in over 50 countries. Among the five cultural dimensions that Hofstede (1980, 1991) have identified, power distance is particular relevant to the focus of this study, namely, obedience pressure. Hofstede (1980, p. 83) defines power distance as "the extent to which members of society accept that power in institutions and organizations is distributed unequally". Hofstede (1980, 1991) further provides evidence that countries with Chinese background are high power distance societies in contrast to Anglo-American countries with low power distance. Furthermore, subsequent cross-cultural

⁴ In Confucianism, the relationship between friends is considered to be similar to that between brothers in which the older is superior to the younger and thus the younger should respect the older.

studies consistently show that employees including professional accountants from Chinese background have significantly higher power distance orientation than those from Anglo-American countries (Kirkman et al., 2009, Bochner and Hesketh, 1994, Newman and Nollen, 1996, Patel, 2006, Smith and Hume, 2005, Harrison et al., 1994). Consistently, research in organisational behaviour shows that Chinese subordinates tend to follow authoritative supervisors' directions obediently and without question (Pellegrini et al., 2010, Tsui, 2001, Chen et al., 2014, Peng et al., 2001).

In summary, prior research provides evidence that China is a high power distance society with strong emphasis on unreserved subordinate and unquestioning obedience. Chinese cultural tradition demands complete subordination and unreserved obedience to maintain hierarchical social order and achieve "harmony within hierarchy" (Bond and Hwang, 1986, Lin and Ho, 2009, Yao, 2000, Jacobs et al., 1995, Cornberg, 1994). This requires subordinates to accept their social positions and obey superiors. Cross-cultural studies on both management and accounting further show that these cultural traditions are reflective of high power distance orientation among Chinese employees including professional accountants (Kirkman et al., 2009, Bochner and Hesketh, 1994, Newman and Nollen, 1996, Patel, 2006, Smith and Hume, 2005, Harrison et al., 1994). The cultural features of high power distance with emphasis on hierarchical order and obedience are important in understanding the influence of obedience pressure on Chinese auditors in exercising their judgments.

Theory and Hypotheses Formulation

The Influence of Partners' Views on PS

It is important to note that maintaining appropriate levels of PS requires extensive use of professional judgments. PS relates to, "achieving an appropriate balance between distrusting management and placing complete trust in the integrity of management" (Leung et al., 2011, 431). When the level of PS is too high, over auditing may occur, while when it is too low, inefficient audits might occur (Hurtt, 2010). The Auditing Practices Board (APB) specifies that, "Too little skepticism endangers audit effectiveness; too much risks unnecessary cost" (APB 2010). While the most appropriate level of PS should be the one that results in the optimal balance of effectiveness and efficiency, it is hard to determine where such optimal level would be (Nelson, 2009). Also, the professional standards have not provided clear guidance on which levels of PS are deemed appropriate (Pany and Whittington, 2001).

In practice, the engagement partner in charge of an audit is often the one who set the tone relating to PS and balances between efficiency and effectiveness of the audit engagement (Carpenter and Reimers, 2013). One possible situation is that partners may place low emphasis on PS due to efficiency concerns. Competitive pressure among firms and pressure to retain clients create an incentive to maintain audit efficiency (Rich et al. 1997). Alternatively, partners may place high emphasis on PS due to litigation concerns. If an audit fails to detect fraud, the audit firm may face significant litigation and reputation loss (Bonner et al. 1998). As such, depending on their focuses, partners' views on PS may reflect either low or high emphasis on PS.

Carpenter and Reimers (2013) examine how auditors' fraud judgements in planning-stage tasks are influenced by either high or low partner emphasis on PS. Their study provides evidence that compared to auditors in the condition of low partner emphasis on PS, auditors in the condition of high partner emphasis on PS identify a larger number of relevant fraud risk factors, provide higher fraud risk assessments, and

suggest a higher number of relevant audit procedures. This suggests that auditors align their judgments with the partners' views on PS. However, their study only examines the conditions of high versus low partner emphasis on PS without using a control group where partners' views are unknown. As such, it is questionable whether auditors' judgments are influenced by low or high partner emphasis on PS, or both. It is possible that their findings may only be driven by the influence of the low partner emphasis on PS rather than the influence of the high partner emphasis on PS. We suggest that the finding of their study can be further enhanced by including a control group. The current study employs a control group, so we can compare judgments in the condition of unknown views of partners to those in the conditions of either low or high partner emphasis on PS respectively. By using a control group, the current study extends the literature and provides sharper insights into the influence of partners' views on auditors' PS judgments.

In addition, the current study extends research on PS to a context of evaluating client-provided audit evidence in debtor confirmation procedures. Prior research on PS has mainly focused on contexts involving analytical procedures during audit planning stages (Payne and Ramsay, 2005, Kim and Trotman, 2014, Quadackers et al., 2014, Carpenter and Reimers, 2013). It is important to examine PS not only in audit planning procedures, but also in tasks during performance of audits, as auditors are required to maintain PS throughout audit processes. As an important procedure in performing audits of financial statements, debtor confirmation has been selected as an appropriate context for this study. Confirmation is considered to be among the most persuasive forms of audit evidence particularly for the audits of receivables (Caster et al., 2008). Also, confirmation procedure is regarded as an important process in addressing fraud risks relating to revenue recognition, one of the most important areas of financial reporting that is susceptible to fraud (Public Company Accounting Oversight Board (PCAOB), 2010).⁵ Furthermore, a task involving evaluation of client-provided audit evidence is selected because exercising PS is particularly important in such evaluation. Due to increasing attention being placed on auditors' responsibility to detect and prevent fraud, evaluating audit evidence has become more critical in audit procedures (Bell et al., 2005). Specifically, client-provided information, as an essential part of audit evidence, is considered as less reliable than evidence collected directly by auditors (Rennie et al., 2010, IAASB 2012a, 391). If client-provided audit evidence is not assessed with sufficient PS, then the risk of failure to detect fraud will increase. These risks may not be fully mitigated by reviewing process if auditors fail to identify and report fraud-related issues. As such, focusing the context of evaluating client-provided evidence can provide useful insights into how auditors' PS will be enhanced or impaired.

Social Contingency Theory

Social contingency theory explains how subordinates' judgments are influenced by supervisors' views due to accountability pressure. Accountability refers to "the implicit or explicit expectation that one may be called on to justify one's beliefs, feelings and

⁵ To restore public trust in the financial markets, the USA Congress passed the Sarbanes-Oxley Act of 2002 ("the Sarbanes-Oxley Act"). Section 704 of the Sarbanes-Oxley Act directs the Securities and Exchange Commission (SEC) to study enforcement actions over the five years preceding its enactment in order to identify areas of issuer financial reporting that are most susceptible to fraud, inappropriate manipulation, or inappropriate earnings management. In SEC's Report Pursuant to Section 704 of the Sarbanes-Oxley Act of 2002, 227 enforcement matters were studied and 126 involved improper revenue recognition (SEC 2003).

actions to others” (Lerner and Tetlock, 1999, p. 255). Accountability, resulting in pressures to justify individuals’ judgments and decisions, “is a near-universal features of decision-making on important issues in the real world” (Buchman et al., 1996, p. 380). Social contingency theory suggests that decision-makers use a variety of cognitive strategies to cope with demands of accountability to a variety of justifiees in their social-organisational environments, including supervisors, clients, regulators, and the profession. When decision-makers learn justifiees’ views, they tend to engage in less effortful cognitive processes, and align their judgments with the known views of the justifies (Tetlock, 1985, Tetlock, 1992). This avoidance of “unnecessary cognitive work” and adopting a “salient, socially acceptable position” is referred to as *acceptability heuristic* (Tetlock et al., 1989, p. 633). This is regarded as “a cognitively economical and socially adaptive strategy for making decisions” (Tetlock, 1985, p. 314). In contrast, when justifiees’ views are unknown, decision-makers tend to “become more vigilant, complex, and self-critical information processors” (Tetlock, 1985, p. 314), and carefully think through alternative options (Buchman et al., 1996). This cognitive strategy is called *vigilant information processing* (Tetlock et al., 1989, Lerner and Tetlock, 1999, Buchman et al., 1996).

Drawing on social contingency theory, extensive accountability research in auditing demonstrates that auditors’ judgments are influenced by known views of supervisors as justifiees in the contexts of analytical procedures in audit planning-stage (Peecher, 1996), audit planning decisions (Bierstaker and Wright, 2001, Bierstaker and Wright, 2005), accounts receivable collectability review tasks (Turner, 2001), going-concern judgments (Wilks, 2002), the valuation of financial assets (Peecher et al., 2010), the audit of fixed assets (Peytcheva and Gillett, 2011), and fraud judgments (Carpenter and Reimers, 2013). These studies consistently show that when supervisors’ views are known, auditors align their judgments to the supervisors’ views. For example, Wilks (2002) provides evidence that auditors who learn partners’ views before examining evidence assigning greater weight to evidence that confirms partners’ views. Similarly, Peytcheva and Gillett (2011) show that auditors with knowledge of partners’ views align their judgments with these views more than auditors without knowledge of partners’ views. The current study draws on social contingency theory and extends prior accountability research in auditing to examine how partners’ views may influence auditors’ PS judgments in China.

The Influence of Partners’ Views on PS

Partners’ known views reflecting low emphasis on PS versus unknown views of partners

As discussed earlier, the current study employs a control group, so we can compare judgments in the condition of unknown views of partners to those in the conditions of either low or high partner emphasis on PS respectively. In this section, we compare the condition of unknown views of partners to the condition of low partner emphasis on PS. As discussed earlier, social contingency theory provides insights into how supervisors’ views influence subordinates’ judgments. It is suggested that when decision-makers learn justifiees’ views, they tend to adopt the cognitive strategy of *acceptability heuristic*, and engage in less effortful cognitive processes, and align their judgments with the known views of the justifiees (Tetlock et al., 1989, Lerner and Tetlock, 1999, Buchman et al., 1996). In contrast, when justifiees’ views are unknown, decision-makers tend to adopt the strategy of *vigilant information processing*, and

engage in more vigilant, complex, and self-critical thinking (Tetlock, 1985, Buchman et al., 1996).

Consistent with social contingency theory, auditing studies provide evidence that auditors' judgments are influenced by partners' views (Peecher et al., 2010, Turner, 2001, Peecher, 1996, Bierstaker and Wright, 2001). For example, Turner (2001) examines the influence on auditors judgments by audit firms' credence preferences that are to encourage reliance on client-provided explanations. The results show that compared to auditors without knowledge of audit firms' preferences, auditors with knowledge of the firms' credence preferences examine fewer audit evidence items and followed a more client-prompted search in conducting accounts receivable collectability review tasks. Similarly, Bierstaker and Wright (2001) provide evidence that compared to auditors without knowledge of partners' preferences, auditors with knowledge of partners' preferences for efficiency significantly reduce the number of planned tests. In these studies, both credence preferences and preferences for efficiency encourage less cautiousness, and thus reflect low emphasis on PS. Their findings suggest that auditors with knowledge of partners' views that reflect low emphasis on PS are less sceptical in exercising their judgments.

The above findings in Anglo-American research suggest that auditors' judgments are likely to be influenced by partners' views that reflect low emphasis on PS. Social Contingency theory suggests that when partners' views are known auditors are likely to adopt *acceptability heuristic* to engage in less cognitive efforts, and align their judgments with the known views of the partners. Accordingly, when partners place low emphasis on PS, auditors are likely to align their judgments with the partners' views and be less sceptical in exercising their judgments. In contrast, when partners' views are unknown, auditors are likely to engage in *vigilant information processing* and carefully exercise their judgments. This cautionness in exercising judgments is likely to lead to higher levels of PS. As such, auditors without knowledge of partners' views are likely to be more sceptical when exercising judgments.

We suggest that the influence of partners' views on auditors' PS are likely to be more intense in China, given strong emphasis on complete subordination and unquestioning obedience in the Chinese context. As discussed earlier, Chinese cultural values require subordinates to accept their social positions and unquestioningly obey their superiors (Bond and Hwang, 1986, Lin and Ho, 2009, Yao, 2000, Jacobs et al., 1995, Cornberg, 1994). Consistently, research on organisational behaviour shows that Chinese subordinates tend to follow authoritative supervisors' directions obediently and without question (Pellegrini et al., 2010, Tsui, 2001, Chen et al., 2014, Peng et al., 2001). As such, when partners place low emphasis on PS Chinese auditors are likely to feel pressured to lower their levels of PS to be consistent with the partners' views. To align their judgments with the partners' views, Chinese auditors are likely to engage in less cognitive efforts, be less careful, and less sceptical in exercising judgments. In a context of evaluating client-provided audit evidence, it is expected that when partners place low emphasis on PS, auditors are likely to engage in less cognitive efforts, be less cautious, and therefore less sceptical in their evaluation evidence. In contrast, when partners views on PS are unknown, Chinese auditors are likely to engage in more cognitive efforts, and be more cautious, and thus more sceptical when evaluating client-provided audit evidence. This leads to the following hypothesis.

H1a: When partners place low emphasis on professional scepticism, auditors are likely to be less sceptical about client-provided audit evidence than when partners' views are unknown.

Partners' known views reflecting high emphasis on PS versus unknown views of partners

In this section, we then compare the condition of unknown views of partners to the condition of high partner emphasis on PS. As discussed earlier, social contingency theory suggests that when partners' views are known, auditors tend to align their judgments with the known views of the partners (Tetlock et al., 1989, Lerner and Tetlock, 1999, Buchman et al., 1996). Accordingly, when partners place high emphasis on PS, to be consistent with the known views of the partners, auditors are likely to exhibit heightened levels of PS. Alternatively, when partners' views are unknown, auditors are likely to engage in "vigilant information processing" and think through the alternative options especially carefully (Buchman et al., 1996, p. 380). Consistent with this strategy, prior research in auditing shows that auditors without knowledge of partners' views are more cautious and vigilant when evaluating audit evidence (Peytcheva and Gillett, 2011, Hoffman and Patton, 1997). These cautiousness and vigilance in evaluating of audit evidence allows auditors to maintain heightened PS. The above discussion suggests that both unknown and known views of partners with high emphasis on PS can lead to heightened levels of auditors' PS.

Furthermore, a number of studies in auditing have found that both unknown preferences of audit firms and knowledge of firms' scepticism preferences can enhance auditors' PS in conducting audits, but auditors' judgments are not significantly different between these two situations (Turner, 2001, Peecher, 1996). For example, Turner (2001) shows that compared to auditors without knowledge of firms' preferences, auditors with knowledge of firms' scepticism preferences do not significantly differ in their judgments on evidence search when conducting accounts receivable collectability review tasks. In these studies, scepticism preferences were operationalized by firms' concerns about auditors' ready acceptance of client explanations without adequate justification. We expect that their results can be generalised to the influence of partners' views reflecting high emphasis on PS. It is expected that when partners place high emphasis on PS, which can indicate scepticism preferences, auditors' judgments are not significantly different compared to when partners' views are unknown. As such, in the context of evaluating client-provided audit evidence, it is therefore expected that there is likely to be no significant difference in auditors' PS between unknown and known views of partners with high emphasis on PS. This leads to the following hypothesis:

H1b: When partners place high emphasis on PS and when partners' views are unknown, there is likely to be no significant differences in auditors' professional scepticism in evaluating client-provided audit evidence.

The Influence of the Intensity of Perceived Pressure from Partners

As discussed earlier, social contingency theory explains how partners' views influence auditors' judgments through accountability pressure. Specifically, the theory suggests that when partners' views are known, auditors feel pressured to align their judgments with partners' views. Extant research in auditing suggests that known views of partners result in considerable perceived pressure, and such pressure influences auditors' judgments (DeZoort et al., 2006, Nasution and Östermark, 2012, Lord and DeZoort,

2001, Peytcheva and Gillett, 2011, Turner, 2001). However, the relationship between the intensity of perceived pressure and auditors' judgments has not been empirically examined. To enhance our understanding of the pressure effects when partners' views are known, the current study measures the intensity of perceived pressure and empirically examines how different intensity of pressure perceived by auditors may influence their judgments.

Transactional process theory developed by Lazarus and Folkman (1987) provides a useful theoretical approach to understanding pressure effects. This theory suggests that due to differences in personality and coping tendencies, the intensity of cognitive reaction towards certain pressure-induced conditions varies from individual to individual (Lazarus and Folkman, 1987). In other words, individuals may perceive different intensity of pressure under the same pressure-induced condition. Prior studies also shows that exposure to the same instructions by a supervisor, subordinates perceived different intensity of pressure (Davis et al., 2006). According to transactional process theory, we expect that known views of partners are likely to result in different intensity of perceived pressure by auditors.

Furthermore, transactional process theory decomposes pressure effects into two cognitive processes, namely, how pressure stimulus is perceived, and how the perceived pressure consequently influence behaviour outcome (Lazarus and Folkman, 1987). This theory recognizes that the relationship between decision-makers and their environment is not static but dynamic, depending on specific situational and personal context. With respect to pressure effects, it is concluded that the influence of pressure stimulus on behaviour outcome are affected by both perceptions of the pressure stimulus and coping skills of individuals (Lazarus and Folkman, 1987, DeZoort and Lord, 1997). This suggests that intensity of perceived pressure, as a mediating variable, is likely to influence the relationship between pressure stimulus and pressure outcome.

We apply the above reasoning to the context of how partners' known views influence auditors' PS. As discussed in the formulation of hypotheses H1a and H1b, low partner emphasis on PS is likely to lead to lower levels of auditors' PS, and vice versa. This is because auditors feel pressured to align their judgments with partners' view, and such pressure influences their judgments. In this context, partners' views are considered as pressure stimulus, and auditors' judgments that are influenced by partners' views can be seen as pressure outcome. Drawing on transactional process theory, we expect that different intensity of perceived pressure is likely to mediate the influence of partners' views on auditors' PS judgments. Specifically, the greater pressure perceived by auditors, the more likely they are motivated to align their judgments with the partners' views, and be more prone to be influenced by the partners' views. Accordingly, when greater pressure is perceived, the influence of partners' views on auditors' judgments is likely to be stronger, and vice versa. In a context of evaluating client-provided audit evidence, it is therefore expected that when partners' views reflect low (high) emphasis on PS, auditors perceiving greater pressure are likely to less (more) sceptical in evaluating of the evidence than auditors perceiving lesser pressure. This leads to the following hypotheses:

H2a: When partners place **low** emphasis on professional scepticism, auditors perceiving **greater pressure** from the partners are likely to be **less sceptical** about client-provided audit evidence than auditors perceiving **lesser pressure**

from the partners. (Supported for all three dependent variables in both ANOVA & regression analysis)

H2b: When partners place **high** emphasis on professional scepticism, auditors perceiving **greater pressure** from the partners are likely to be **more sceptical** about client-provided than auditors perceiving **lesser pressure** from the partners. (Supported for all three dependent variables in both ANOVA & regression analysis)

Research Method

Research Design and Variables

To examine the influence of partners' views on auditors' PS, a between-subjects experiment was conducted. The independent variable, *partners' views on PS*, was manipulated across three groups: (1) a control group, in which there is no information about partners' view, (2) a group in which partners' known views reflect low emphasis on PS, or (3) a group in which partners' known views reflect high emphasis on PS. Participants were randomly assigned to one of these three groups. Each group received one of three versions of the research instrument that only varied in the manipulation information about partners' views. Additional details about the manipulation of partners' views on PS are described in the research instrument section.

In order to capture the multifaceted feature of PS, our study operationalizes auditors' PS, the dependent variable, using three measures based on a review of the prior literature. First, prior studies have equated PS with suspicion or distrust (e.g. Shaub, 1996, Shaub and Lawrence, 1996, Rose and Rose, 2003, Payne and Ramsay, 2005, Kerler and Killough, 2009). Accordingly, perceived reliability of client-provided information has been used as a measure of PS (Kim and Trotman, 2014, Payne and Ramsay, 2005). Consistent with these studies, the first measure of auditors' PS used in this study is the likelihood of assessing client-provided evidence as reliable. Second, Quadackers et al. (2014), and Hurtt (2010) posit that an indication of PS is the extent to which auditors would search for additional evidence. Therefore, this study uses likelihood of searching for additional audit evidence as the second measure of auditors' PS. Third, a number studies has shown that auditors' fraud risk assessment is an appropriate measure of their PS (Kerler and Killough, 2009, Popova, 2012, Quadackers et al., in press, Carpenter and Reimers, 2013). Consistent with these studies, we also use auditors' assessed fraud risk of clients as the third measure of auditors' PS. Overall, we expect that auditors with lower (higher) levels of PS in evaluating client-provided audit evidence, would (1) be less (more) likely to assess the audit evidence as reliable, (2) more (less) likely to search for additional audit evidence, and (3) assess higher (lower) likelihood of fraud.

In addition, this study uses Hurtt's scale (2010) to measure auditors' trait scepticism in order to control for individual differences in traits that may influence their PS judgments. Hurtt (2010) concludes that, as an individual characteristic, trait scepticism is a relatively stable, enduring aspect of personality. It is suggested that auditors who are inherently more sceptical exhibit higher levels of trait scepticism, and this personality trait may influence their judgments (Hurtt, 2010). However, evidence on the influence of trait scepticism on auditors' judgments is inconclusive. Some studies provide evidence that trait scepticism significantly influence auditors' judgments. For example, evidence shows that auditors with higher levels of trait scepticism tend to be more sceptical in exercising their judgments, such as being more sensitive to fraud

cues (Popova, 2012), and provide higher fraud risk assessment (Quadackers et al., 2014). In contrast, other studies find that trait scepticism does not significantly influence auditors' judgments. For example, evidence shows that auditors' level of trait scepticism does not significantly influence their fraud judgments including identification of fraud risk factors, fraud risk assessments, and selection of audit procedures (Carpenter and Reimers, 2013), and also does not influence their cognitive performance in a hypothesis-testing task (Peytcheva, 2013). Given the conflicting evidence, trait scepticism was included in this study as a control variable. Additional details about Hurr's scale (2010) are described in the research instrument section.

Research Instrument

The experimental material contained a cover letter that informed participants about the procedures, emphasized that participation in the study was voluntary and confidential. Participants were also advised that the task would take approximately thirty minutes to complete.

After reading the cover page, participants were presented with the research instrument that consisted of two parts. Part One was an audit case study involving debtor confirmation procedure. The case scenario was adapted from D'Aquila and Capriotti (2011), and based on a fraud case compiled by the Securities and Exchange Commission (SEC) of the USA. The introductory section of the case explained to participants that they were assuming the role of a senior auditor working for a large public accounting firm, and were recently assigned to the year-end audit for a listed company. The instrument then described the hypothetical audit client that designed and sold semiconductors, and provided information about several changes relating to the client's sales. Participants were further informed that they were performing debtor confirmation for the client, and a discrepancy on a trade receivable balance was found between a returned confirmation from a customer and the audit client's record. Further, the case material described evidence, including shipping documents and delivery notes, which were provided by clients' Chief Financial Officer to support their assertion about the trade receivable balance.

The experimental material then presented information about the engagement partner's views on PS. This part of information was manipulated across three experimental groups, namely, low partner emphasis on PS, high partner emphasis on PS, and control group. Each group received one of three versions of the research instrument that only varied in the information about partners' views on PS. In the group with low partner emphasis on PS, participants were informed that the engagement partner commented that there is precedent for auditors to accept client-provided explanations as given, and suggested that auditors should fully utilize the client's insights about business transactions to improve the efficiency of the audit. Alternatively, in the group with high partner emphasis on PS, participants were informed that the engagement partner expressed concerns about the potential for auditors to accept, without adequate justification, client-provided explanations, and suggested that auditors should approach client-provided explanations with a sufficient attitude of professional scepticism. Participants in the control group received no information about partners' views.⁶

⁶ These descriptions of partners' views are adapted from prior studies (Turner, 2001, Peecher, 1996).

After reading the case details and information about the partner's views, participants were asked to provide judgments for each of three questions on a seven-point Likert scale. These questions were used to measure participants' levels of PS when evaluating client-provided audit evidence. As discussed earlier, these three measures include likelihood of assessing client-provided evidence as reliable, likelihood of searching for additional audit evidence, and likelihood of fraud.

Part Two of the research instrument contained a post-experiment questionnaire that included three sections. The first section presented four questions related to the case, and asked participants to provide their answers on a seven-point Likert scale for each question. The first question measured the amount of pressure that participants perceived from the partner on a scale anchored "no pressure at all" and "a great deal of pressure". The second question as manipulation check asked participants about their perceptions of the partner's attitude of professional scepticism on a scale anchored "not at all sceptical" and "highly sceptical". This question was used to determine whether the manipulation of partners' views as either low or high emphasis on PS was successful. Two additional questions were also included to assess participants' familiarity and confidence in performing the case-specific task.

The second section of the post-experiment questionnaire collected demographic details about participants, including gender, age, nationality, organisational position, and work experience.

The third section of the post-experiment questionnaire contained Hurr's scale (2010) of trait scepticism. This 30-item scale is designed to measure an individual's inherent scepticism by focusing on six primary characteristics including: a questioning mind, suspension of judgment, need to search for knowledge, interpersonal understanding, self-confidence, and self-determination. Each question had a scale from one to six anchored "strongly disagree" and "strongly agree".

Participants and Procedure

Participants in this study were practicing auditors from two Big 4 and two non-Big 4 audit firms located in four cities of mainland China.⁷ Participants' positions ranged from associate auditors to managers. These auditors are appropriate participants because they are more likely to be subject to the influence of partners' views.⁸

The experiment was conducted at training sessions of each of the four participating firms. One of the researchers attended all four experimental sessions to ensure consistency in procedures for administering the research instrument. At each session, the contact partner of the firm introduced the researcher and expressed support for the research project. Before administering the experimental material, the researcher provided a brief introduction about the study and emphasised that participation was voluntary and responses would be treated with strict confidence. After the introduction, participants were randomly assigned to one of three groups. Each group received one of three versions of the research instrument that only varied in the manipulation information about partners' views. The distribution and collection of the research

⁷ The two Big-4 and two non-Big 4 audit firms are located in Shenzhen, Shanghai, Guangzhou and Nanjing respectively. These cities are among the most important commercial centres in China. Guangzhou and Nanjing is the capital cities of Guangdong and Jiangsu provinces respectively. These two provinces contributed the largest and the second largest GDP among the provinces of China from 2008 to 2012 (National Bureau of Statistics of China, 2013).

⁸ As this study focuses on partner's influence, six responses from partners were excluded from the sample.

instrument involved the following steps. First, participants received an envelope containing Part One of the research instrument (the case study). To ensure that all participants received the same instruction and in the same format, all relevant instructions about experimental tasks were provided in a cover letter attached to the envelope. After completing Part One and placing it in the envelope provided, participants received and completed Part Two (the post-experiment questionnaire). As instructed, participants placed completed Part Two in the envelope. Finally, each envelope was personally collected by the researcher. Then, the participants were debriefed and given opportunity to ask questions.

Results

Demographic Details and Descriptive Statistics

A total of 154 usable responses were received from two Big 4 and two non-Big 4 audit firms located in four cities of mainland China, representing a response rate of 71%. The demographic details are shown in Table 1.

Gender	N	
Male	89	57.8%
Female	65	42.2%
Age		
20-24	42	27.3%
25-29	48	31.2%
30-34	23	14.9%
35-39	12	7.8%
40-44	17	11.0%
45-49	9	5.8%
50-54	3	1.9%
Highest education level		
Bachelor's degree	135	87.7%
Master's degree or above	19	12.3%
Current position		
Auditor associate	65	42.2%
Senior auditor	57	37.0%
Manager	32	20.8%
Audit work experience: Range (mean)		
Auditor associate		0.5 - 5 (1.7)
Senior auditor		2-10 (4.1)
Manager		2 - 20 (7.5)
Total		0.5 - 20 (3.8)
Current organisation		
Big 4 audit firm	77	50.0%
Domestic non-Big 4 audit firm	77	50.0%
Professional qualification		
A member of the Chinese Institute of Certified Public Accountants (CICPA)	36	23.4%
Currently studying for CICPA examination	102	66.2%
Not a member of any professional accounting bodies	16	10.4%

Of the total 154 respondents, 58 percent were male. Majority of the respondents were aged between 20 and 34 years. Forty-two percent of the respondents were at the associate level, 37 percent were audit seniors, and 21 percent were managers. On average, the respondents had 3.8 years of audit work experience. Majority (91%) of the respondents reported that they had task-specific experience in conducting receivable confirmation procedures.⁹ Both general experience and task-specific experience indicate that the participants possess the requisite task knowledge. Statistical tests show that the demographic variables such as gender, age, organisational positions and work experience did not significantly affect respondents' scores on the dependent variables. In addition, there was no significant differences on the dependent variables among respondents across the four participating firms. As such, the responses were aggregated for further analyses.

Table 2: Descriptive statistics for each dependent variables

Mean (S.D.) [<i>n</i>]	Partners' views are known		Partners' views are unknown
	Low partner emphasis on PS	High partner's emphasis on PS	Control group
<i>Likelihood of assessing client-provided audit evidence as reliable</i>	3.72 (1.220) [54]	4.73 (1.370) [44]	4.91 (1.240) [56]
<i>Likelihood of searching for additional audit evidence</i>	4.57 (1.368) [54]	5.73 (1.086) [44]	5.48 (1.440) [56]
<i>Likelihood of fraud</i>	3.94 (0.998) [54]	5.02 (1.577) [44]	5.02 (1.300) [56]

Recall that auditors' PS was measured by three dependent variables including likelihood of assessing client-provided audit evidence as reliable, likelihood of searching for additional audit evidence, likelihood of fraud. The first measure, likelihood of assessing client-provided audit evidence as reliable, is a reverse item, which means that the higher scores indicate lower levels of PS. For the other two measures, the higher scores indicate higher levels of PS. To be consistent with other measures, the scores on the first measure was subtract from 7 and then the reversed number was used in the subsequent data analysis. This recoding enables a straightforward comparison across each measure. Descriptive statistics of the dependent variables are presented in Table 2. The means of low partner emphasis on PS are smaller than those of control group for all three dependent variables. These results are consistently with expectation of H1a that auditors with knowledge of low partner emphasis on PS are likely to be less sceptical about client-provided audit evidence than auditors without knowledge of partners' views. Furthermore, the means of high partner emphasis on PS are either smaller, same or higher than those of control group for three dependent variables. These results seem to be consistent with the expectation of H1b that auditors with knowledge of high partner emphasis on PS are

⁹ As the full sample also contains responses from 14 participants who reported no experience on accounts receivable confirmation produced, additional statistical tests excluding these responses were also conducted. The results are consistent. As such, only the statistical tests for the full sample are reported.

Table 3: Correlations for dependent variables

		<i>likelihood of assessing client- provided audit evidence as reliable</i>	<i>Likelihood of searching for additional audit evidence</i>	<i>Likelihood of fraud</i>
<i>Likelihood of assessing client- provided audit evidence as reliable</i>	Pearson Correlation (Sig.)	1	.289** (.000)	.517** (.000)
<i>Likelihood of searching for additional audit evidence</i>	Pearson Correlation (Sig.)	.289** (.000)	1	.487 ** (.000)
<i>Likelihood of fraud</i>	Pearson Correlation (Sig.)	.517** (.000)	.487 ** (.000)	1

** denotes significance at the 0.01 level (2-tailed).

not significantly different from those without knowledge of partners' views in their PS when evaluating client-provided audit evidence. Detailed statistical tests for the hypotheses are reported in the later section.

Manipulation Check

To assess the manipulation of partners' views as either low or high emphasis on PS, we asked the participants about their perceptions of the partner's attitude of PS. These perceptions were measured by a seven-point Likert scale anchored "no at all sceptical" and "highly sceptical". The mean score of 3.80 (S.D. = 1.62) in the group with low partner emphasis on PS is significantly lower ($p = 0.000$) than the mean score of 5.02 (S.D. = 1.47) in the group with high partner emphasis on PS. This indicates a successful manipulation of partners' views as either low or high emphasis on PS.

In addition, to assess the pressure perceived by auditors, we asked the participants how much pressure they would feel to follow the partner's suggestion. These perceptions were measured by a seven-point Likert scale anchored "no pressure at all" and "great deal of pressure". In the group with low partner emphasis on PS, the mean score is 4.26 (S.D. = 1.51), and in the group with high partner emphasis on PS the mean score is 4.45 (S.D. = 1.59). Further analysis shows that there is no significant difference in the intensity of pressure for these two experimental groups ($p = 0.54$). This indicates that both groups with either low or high partner emphasis on PS perceived considerable amount of pressure from the partner.

Preliminary Tests

Multivariate analysis of variance (MANOVA) was firstly used to test the influence of the independent variables on the combination of the three dependent variables measuring PS. An important preliminary test for MANOVA is to examine the correlation of the three dependent variables that measure PS as there would be no reason to use MANOVA if the dependent variables were not correlated. The correlations shown in Table 3 indicate that the three dependent variables were significantly correlated to each other ($p < 0.01$). This suggests that it is appropriate to use MANOVA.

Hypotheses Tests

The influence of partners' views on PS

Table 4: Results of MANOVA and univariate tests for hypotheses testing (H1)

MANOVA	Wilks' Lambda	Hypothesis df	Error df	<i>F</i> -statistic	Significance	
Partners' Views ^a	0.816	6	278	4.962	0.000**	
Univariate	Type III Sum of Squares	df	Mean Square	<i>F</i> -statistic	Significance	
Contrast	1) <i>likelihood of assessing client-provided audit evidence as reliable</i>	31.210	2	15.605	9.879	0.000**
	2) <i>likelihood of searching for additional audit evidence</i>	23.302	2	11.651	7.134	0.000**
	3) <i>likelihood of fraud</i>	28.370	2	14.185	8.679	0.000**
Error	1) <i>likelihood of assessing client-provided audit evidence as reliable</i>	222.716	141	1.580		
	2) <i>likelihood of searching for additional audit evidence</i>	230.267	141	1.633		
	3) <i>likelihood of fraud</i>	230.449	141	1.634		

^a The manipulation of partners' views for three experimental groups is: low partner emphasis on PS, high partner emphasis on PS, and no knowledge of partners' views.

Recall that auditors' PS is measured by three dependent variables, namely, *likelihood of assessing client-provided audit evidence as reliable*, *likelihood of searching for additional audit evidence*, and *likelihood of fraud*. Multivariate analysis of variance (MANOVA) was firstly used to test the differences on the combination of the three dependent variables across three experimental groups, namely, low partner emphasis on PS, high partner emphasis on PS and control group. The MANOVA results reported in Table 4 show significant main effects on the level of auditors' PS ($F = 4.96$, $p = 0.000$ based on Wilks' Lambda). Follow-up univariate testes were used to further examine the influence of partners' views on each dependent variable separately. The results of univariate tests reported in Table 4 show significant main effects on *likelihood of assessing client-provided audit evidence as reliable* ($F = 9.88$, $p = 0.000$), *likelihood of searching for additional audit evidence* ($F = 7.13$, $p = 0.000$), and *likelihood of fraud* ($F = 8.68$, $p = 0.000$).

Then, pairwise comparisons across three groups were conducted to further test Hypotheses H1a and H1b. Hypothesis H1a predicts that when partners place low emphasis on PS, auditors are likely to be less sceptical about client-provided audit evidence than when partners' views are unknown. It is therefore expected that participants in the group of low partner emphasis on PS are likely to score lower than those in the control groups for all of the three dependent variables. The results in Table

5 show that levels of auditors' PS are significantly lower in the group with low partner emphasis on PS than those in the control group ($p < 0.01$) for all of the three dependent variables. H1a is therefore supported.

Hypothesis H1b predicts that there is likely to be no significant difference in auditors' PS judgements between unknown and known views of partners with high emphasis on PS. The results in Table 5 show that there are no significant differences ($p > 0.10$) in the levels of auditors' PS between the group with high partner emphasis on PS and the control group for all of the three dependent variables. These results support H1b.

Table 5: Pairwise comparisons across three treatment groups

		Mean differences	Hypotheses supported	Significance
Low partner emphasis on PS versus control group (H1a)	1) <i>likelihood of assessing client-provided audit evidence as reliable</i>	-1.077	Yes	0.000**
	2) <i>likelihood of searching for additional audit evidence</i>	-0.778	Yes	0.003**
	3) <i>likelihood of fraud</i>	-0.986	Yes	0.000**
High partner emphasis on PS versus control group (H1b)	1) <i>likelihood of assessing client-provided audit evidence as reliable</i>	-0.238	Yes	0.360
	2) <i>likelihood of searching for additional audit evidence</i>	0.167	Yes	0.527
	3) <i>likelihood of fraud</i>	-0.091	Yes	0.730
Low versus high partner emphasis on PS	1) <i>likelihood of assessing client-provided audit evidence as reliable</i>	-0.839		0.002**
	2) <i>likelihood of searching for additional audit evidence</i>	-0.945		0.001**
	3) <i>likelihood of fraud</i>	-0.895		0.001**

** denotes significance at $p < 0.01$.

The influence of perceived pressure from partners

Hypothesis H2a and H2b predict that when partners' views reflect low (high) emphasis on PS, auditors perceiving greater pressure are likely to be less (more) sceptical in evaluating of audit evidence. Linear regression was used to test these hypotheses in low and high partner emphasis on PS respectively. Since auditors' PS is measured by three dependent variables, the regression model was tested for each of the three dependent variables respectively. The regression model is presented below:

$$\text{PS JUDGMENT} = \beta_0 + \beta_1 * \text{PRESSURE} + \varepsilon$$

When partners place low emphasis on PS, hypothesis H2a predicts that auditors perceiving greater pressure from the partners are likely to be less sceptical about client-provided audit evidence than auditors perceiving lesser pressure from the partners. It is therefore expected that when partners place high emphasis on PS,

participants perceiving greater pressure from partners are likely to score significantly lower than auditors perceiving lesser pressure from the partners. The sign of the coefficient on the variable PRESSURE is thus predicted to be negative. Table 6, Panel A shows that the coefficient on PRESSURE is negative and significant ($p < 0.01$) for all of the three dependent variables. These results provide strong support for H2a.

When partners place high emphasis on PS, hypothesis H2b predicts that auditors perceiving greater pressure from the partners are likely to be more sceptical about client-provided audit evidence than auditors perceiving lesser pressure from the partners. It is therefore expected that when partners place high emphasis on PS, participants perceiving greater pressure from partners are likely to score significantly higher than auditors perceiving lesser pressure from the partners. The sign of the coefficient on the variable PRESSURE is thus predicted to be positive. Table 6, Panel B shows that the coefficient on PRESSURE is positive and significant ($p < 0.01$) for all of the three dependent variables. Therefore, H2b is supported.

Table 6: Results of regression of PS judgments on the intensity of perceived pressure (H2)

Panel A: Low partner emphasis on PS (H2a)					
<i>Dependent variable - likelihood of assessing client-provided audit evidence as reliable</i>					
Variable	Predicted Sign	Estimated Coefficient	Standard Error	<i>t</i>	Significance
INTERCEPT		5.531	0.431	12.827	0.000
PRESSURE	-	-0.425	0.096	-4.444	0.000**
<i>Dependent variable - likelihood of searching for additional audit evidence</i>					
Variable	Predicted Sign	Estimated Coefficient	Standard Error	<i>t</i>	Significance
INTERCEPT		6.062	0.524	11.557	0.000
PRESSURE	-	-0.349	0.116	-3.005	0.004**
<i>Dependent variable - likelihood of fraud</i>					
Variable	Predicted Sign	Estimated Coefficient	Standard Error	<i>t</i>	Significance
INTERCEPT		5.085	0.379	13.405	0.000
PRESSURE	-	-0.268	0.084	-3.185	0.002**
Panel B: High partner emphasis on PS (H2b)					
<i>Dependent variable - likelihood of assessing client-provided audit evidence as reliable</i>					
Variable	Predicted Sign	Estimated Coefficient	Standard Error	<i>t</i>	Significance
INTERCEPT		2.827	0.545	5.186	0.000
PRESSURE	+	0.427	0.115	3.696	0.001**
<i>Dependent variable - likelihood of searching for additional audit evidence</i>					
Variable	Predicted Sign	Estimated Coefficient	Standard Error	<i>t</i>	Significance
INTERCEPT		3.909	0.399	9.804	0.000
PRESSURE	+	0.408	0.084	4.836	0.000**
<i>Dependent variable - likelihood of fraud</i>					
Variable	Predicted Sign	Estimated Coefficient	Standard Error	<i>t</i>	Significance
INTERCEPT		2.710	0.615	4.404	0.000
PRESSURE	+	0.519	0.130	3.986	0.000**

** denotes significance at $p < 0.01$.

Measured Trait Scepticism

As discussed earlier, this study uses Hurr's scale (2010) to measure auditors' trait scepticism in order to control for individual differences in traits that may influence their PS judgments. Consistent with the scoring method of Hurr (2010), each question had a scale from one to six. Thus, the scores can range from 30 to 180, and the theoretical midpoint is 105. Higher scores means greater trait scepticism and vice versa. The auditors' trait scepticism scores obtained in this study ranged from 84 to 172 with mean of 130.83 (S.D. = 15.11). These scores are consistent with auditors' trait scepticism reported in prior studies.¹⁰ Table 7, Panel A shows that the mean score of trait scepticism in three experimental groups. The mean score is 129.52 for the group with low partner emphasis on PS, 130.36 for the group with high partner emphasis on PS, and 132.46 for the control group. Furthermore, Table 7, Panel B shows the ANOVA

Table 7: Auditors' Trait Scepticism

Panel A: Descriptive Statistics of Auditors' Trait Scepticism					
Mean (S.D.) [n]	Low partner emphasis on PS	High partner's emphasis on PS	Control group	Overall	
Auditors' Trait Scepticism	129.52 (15.545) [54]	130.36 (13.994) [44]	132.46 (15.637) [56]	130.83 (15.109) [154]	
Panel B: Results of an ANOVA of Partners' Views on Auditors' Trait Scepticism					
Source of Variation	S.S.	df	M.S.	F-statistics	Significance
Partners Views	252.019	2	126.009	0.549	0.579
Error	34675.592	151			
Panel C: Results of an MANCOVA of Partners' Views and Trait Scepticism on auditors' PS judgments					
MANCOVA	Wilks' Lambda	Hypothesis df	Error df	F-statistic	Significance
Trait Scepticism	0.985	3	148	0.736	0.532
Partners Views	0.772	6	296	6.812	0.000

results on trait scepticism scores across three groups. The results show no significant group effects on trait scepticism scores ($p = 0.579$). This suggests that random allocation of participants across experimental groups has successfully control for

individual differences in trait scepticism.

We also conducted additional analysis with the trait scepticism scores to determine its influences on auditors' PS judgments. Specifically, we compute a MANCOVA with *likelihood of assessing client-provided audit evidence as reliable*, *likelihood of searching for additional audit evidence* and *likelihood of fraud* as the dependent variables, using partners' views as independent variables, and trait scepticism as a covariate. The MANCOVA results reported in Table 7, Panel C, show no significant influence of trait scepticism on auditors PS judgments ($p = 0.532$ based on Wilks' Lambda).

¹⁰ Hurr (2010) reports that the mean score of auditors' trait scepticism is 135 on one administration and 138.60 on another. Quadackers et al. (2014) report the means score of 133.09 for auditors' trait scepticism in their study.

Conclusions

Given its importance and controversy, there are increasing calls for research on determinants of PS and how it can be enhanced (Hurt et al., 2013, Nelson, 2009, Bell et al., 2005, Trotman, 2011). Responding to these calls, there have been increasing number of studies examining factors influencing PS (McMillan and White, 1993, Shaub and Lawrence, 1996, Payne and Ramsay, 2005, Rose, 2007, Nelson, 2009, Hurtt, 2010, Kim and Trotman, 2014, Carpenter and Reimers, 2013, Quadackers et al., 2014, Hurtt et al., 2013, Popova, 2012, Kerler and Killough, 2009). However, much of the research has been conducted in Anglo-American countries, and little is known about issues related to PS in other national contexts.

This study examines the influence of partners' views on auditors' PS in China. Our results indicate that when partner places low emphasis on PS, auditors' levels of PS are significantly lower compared to when partners' views are unknown. This suggests that partners' low emphasis on PS has adverse effects on enhancing auditors' PS. To maintain appropriate levels of PS, auditors need to be aware that their PS can be impaired when supervisors' views reflect low emphasis on PS. However, when partner places high emphasis on PS, auditors' levels of PS are not significantly higher compared to when partners' views are unknown. This suggests that even in China where subordination and obedience to supervisors are strong, partners' high emphasis on PS alone may not effectively enhance auditors' PS. While prior literature suggests that high partner emphasis on PS is a relatively easy and low-cost way to enhance auditors' PS (Carpenter and Reimers, 2013), our results indicate that relying on such mechanism may not be sufficient. Auditors are constantly primed to be sceptical by auditing standards, codes of conduct, and training programs which may diminish the effectiveness of additional primes to behave sceptically (Peytcheva, 2013). Particularly, due to current ongoing regulatory high emphasis on PS, partners' reinforcement of such emphasis may not be able to impose incremental effects to further enhance auditors' PS. We suggest that more research is needed to examine other mechanisms for enhancing auditors' PS in presence of current high regulatory emphasis on PS.

Further, these results imply possible differential magnitude of the influence of partners' views on auditors' PS levels, depending on whether partners' views reflect low or high emphasis on PS. The results suggest that such influence may be stronger in the situation with low partner emphasis on PS than in the situation with high partner emphasis on PS. One possible reason is that compared to decreasing PS, increasing PS demands more rigorous examination of audit evidence and thus requires more cognitive efforts. In other words, increasing PS may be cognitively harder than decreasing PS. This further highlights the importance of enhancing PS. Also, considering the current competitive environment in the audit market, partners are facing pressure to maintain clients and reluctant to challenge clients. In such climate, due to auditors' desires to "fit in", they may be more inclined to be influenced by partner's low emphasis on PS than partner's high emphasis on PS. Given the ongoing concerns about auditors' lack of appropriated levels of PS, it is important to investigate and design appropriate interventions to enhance auditors' PS.

Furthermore, the results provide evidence that when partners' views on PS are known, auditors perceive considerable amount of pressure to follow the partners' views. The results show that when auditors learn partners' views, differing intensity of perceived pressure influence auditors' levels of PS. Specifically, when partners' views reflect

high (low) emphasis on PS, auditors perceiving higher pressure from the partners exhibit higher (lower) levels of PS than when those perceiving lower pressure. By establishing empirical linkage between perceived pressure and auditors' PS levels, these results provide further evidence to support accountability theorisation for the influence of partners' views on auditors' judgments. It also implies that mechanisms that can increase the intensity of pressure perceived by auditors may strengthening the effects of partners' influences on auditors' PS. For example, partner repeatedly place high emphasis on PS may create increased pressure on auditors so as to enhance its effects on auditors' PS judgments. Future research may examine whether repetition of partners' emphasis can influence auditors' judgments.

The results of this study also have important practical implications. Auditing regulators, professionals and audit firms may benefit from better understanding of how partners' views may influence auditors' PS. It is important to be aware that low partner emphasis on PS has adverse effects on enhancing auditors' PS. However, partners' high emphasis on PS alone may not effectively enhance auditors' PS. These results support regulators' emphasis that partners should set proper tone at the top in restraining communications from partners that may impair auditors' PS. However, they also highlight that in order to enhance auditors' PS, relying only on high partner emphasis on PS not sufficient. Audit firms may consider other mechanisms such as training to enhance auditors' PS. As suggested by Carpenter et al. (2011), a course that emphasizes forensic accounting may provide benefit of enhancing trainees' PS in exercising their judgments.

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