

# The influence of partners' known preferences on auditors' sceptical judgements: The moderating role of perceived social influence pressure

Sammy Xiaoyan Ying<sup>1</sup>  | Chris Patel<sup>2</sup>  | Aeson Luiz Dela Cruz<sup>2</sup>

<sup>1</sup>Newcastle Business School, The University of Newcastle, Sydney, New South Wales, Australia

<sup>2</sup>Department of Accounting and Corporate Governance, Macquarie Business School, Macquarie University, North Ryde, New South Wales, Australia

## Correspondence

Sammy Xiaoyan Ying, Newcastle Business School, The University of Newcastle, 55 Elizabeth, Sydney, NSW 2000, Australia.  
Email: [sammy.ying@newcastle.edu.au](mailto:sammy.ying@newcastle.edu.au)

## Abstract

We examine the moderating effect of auditors' perceived social influence pressure on the influence of partners' known preferences on auditors' sceptical judgements in China. We invoke social influence theory to provide complementary insights into the driving forces behind auditors' judgements, over and above the pressure arising from accountability. We hypothesise that the influence of partners' known preferences on auditors' sceptical judgements is stronger for auditors who perceive higher social influence pressure than those who perceive lower pressure. Our results support the hypothesis and establish the value of understanding auditors' perceived social influence pressure in managing partners' communication with audit teams.

## KEYWORDS

partners' communication, perceived social influence pressure, professional scepticism

## JEL CLASSIFICATION

M42, M12

## 1 | INTRODUCTION

Professional scepticism (PS) is one of the most fundamental and challenging issues in improving audit quality (Harding & Trotman, 2017; Hurtt et al., 2013; IAASB, 2012a). Both academics and professionals acknowledge that PS is an essential component of audit practice (Brown-Liburd et al., 2013; Grenier, 2017; Hoos et al., 2019). It is also fundamental for enhancing audit quality and a challenging priority in international regulators' work plans (IAASB, 2015). Moreover,

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regulators, such as the Public Company Accounting Oversight Board (PCAOB, 2012), have identified a lack of PS as a major factor in accounting scandals. Nevertheless, concerns have been raised about auditors' ability to maintain sufficient scepticism in the audit (AUASB, 2012; IAASB, 2012a; PCAOB, 2012, 2013), and auditors worldwide are under increasing regulatory scrutiny for failure to exercise adequate PS.

Given the significance and associated challenges of PS to auditing, there have been calls for more studies to examine the determinants of auditor scepticism and how it can be enhanced (Carpenter & Reimers, 2013; Hurtt et al., 2013; Nelson, 2009; Nolder & Kadous, 2018). Many studies examine various situational and individual factors that influence auditors' PS (Carpenter & Reimers, 2013; Harding & Trotman, 2017; Khan & Harding, 2020; Kim & Trotman, 2015; Ying et al., 2020). Among these is the recognition that audit partners' preferences communicated to audit teams are important in influencing auditors' sceptical judgements. While prior research examining partner influences, such as Peytcheva and Gillett (2011) and Gong et al. (2014), has used the *known preferences* and *known views* of partners interchangeably; consistent with Kim and Harding (2017), we use the known preferences of partners as our focal construct. This is consistent with regulators' emphasis on 'tone at the top' as an essential determinant of auditors' application of PS (APB, 2012; AUASB, 2012; IAASB, 2012a; PCAOB, 2012, 2013).

The importance of tone at the top and the critical role of audit partners in establishing the ethical culture of audit firms is well established (Finn et al., 1988; Gunz & Thorne, 2015). For example, the Auditing Practices Board (APB) (2012, p. 15) stresses that partners play an essential role in developing an ethical organisational culture that is necessary for auditors to apply appropriate levels of PS. Understanding the effect of the known preferences of partners is essential as partners must recognise the overall impact of their communications on their audit team members' appropriate application of PS (Harding & Trotman, 2017; IAASB, 2015).

There is extensive evidence that auditors align their judgements with the known preferences of partners (Bierstaker & Wright, 2005; Carpenter & Reimers, 2013; DeZoort et al., 2006; Kim & Harding, 2017; Lord & DeZoort, 2001). These studies show that partners' preferences communicated to audit teams influence auditors' judgements, which could either reduce audit quality by impairing the objectivity of auditor judgements (Bierstaker & Wright, 2005; Lord & DeZoort, 2001) or enhance audit quality by providing auditors with valuable information and appropriate guidance (Carpenter & Reimers, 2013; Kim & Harding, 2017). Drawing mainly on accountability theory (Lerner & Tetlock, 1999; Tetlock, 1985), these studies consistently show that, as a result of accountability pressure, auditors align their judgements with the perceived preferences of those to whom they are accountable (Bierstaker & Wright, 2005; Peecher, 1996; Turner, 2001).

We suggest that social influence theory complements and provides additional insights into accountability to understand how the known preferences of partners can operate as a form of social influence that affects auditors' sceptical judgements. Social influence is the 'subjective norm, which describes the amount of pressure that people perceive they are under from significant others to perform a specific behavior' (Smith et al., 2007, p. 239). Individuals' judgements and decision-making (JDM) involve a dynamic process that often entails complex motives anchored in social influence (Rader et al., 2017). In addition to the pressure that comes from being held accountable, social influence theory pays particular attention to two main motives, namely, informational and normative social influence, which provides insights into the tendency of individuals to conform to others, along with the associated social pressures arising from such tendencies in decision-making contexts. While accountability is implicitly part of our theory development, we suggest that the motivations underlying social influence, specifically informational and normative social influence, offer additional insights into the driving forces behind auditors' tendency to align their judgements with partners' known preferences over and above the pressure arising from accountability.

The extant literature provides evidence that accounting professionals are susceptible to various kinds of social influence pressure (Bishop & DeZoort, 2016; Davis et al., 2006; Lord & DeZoort, 2001). These studies predominantly focus on how social influence pressure leads to dysfunctional behaviour that threatens the ability of auditors to arrive at objective judgements (Bishop & DeZoort, 2016; Davis et al., 2006; Lord & DeZoort, 2001). While useful, these studies primarily examine social influence pressure in isolation, which overlooks the possibility that such pressure may generate beneficial rather than detrimental outcomes in conjunction with other contextual factors. For example, in some cases, auditors are confronted with pressure to align their judgements with the preferences of a credible source (Pornpitakpan, 2004), one with greater perceived expertise which may provide valuable information that may augment auditors' lack of experience and aid in formulating appropriate judgements (Kim & Harding, 2017). Such potential for perceived pressure to aid auditors' JDM requires further examination.

Drawing on social influence theory, we examine how auditors' perceived social influence pressure shapes their tendency to conform to the known preferences of partners. Specifically, we examine the potential role of auditors' perceived social influence pressure in moderating the influence of partners' known preferences on auditors' sceptical judgements. We suggest that individuals' perceived social influence pressure may vary when exposed to partners' known preferences. This is because different individuals perceive the same situation differently, and these variations in perception may influence the extent to which they react to the situation (Edwards & Endler, 1989; Magnusson, 2013; Magnusson & Ekehammar, 1978; Rauthmann & Sherman, 2019; Tett & Guterman, 2000).<sup>1</sup> Specifically, we examine *social power*, which is an individual's 'capacity to modify others' states by providing or withholding resources or administering punishment' (Keltner et al., 2003, p. 265), as an antecedent of perceived social influence pressure. Evidence shows that individuals' social power, mostly operationalised in terms of their rank in the organisation, is an important determinant of their perceived social influence pressure (Pitesa & Thau, 2013). Indeed, findings from prior studies demonstrate that lower-ranked employees with less social power in the organisation are likely to perceive greater social influence pressure and, therefore, are more susceptible to influence from others (Abrams & Hogg, 1990; Gardner, 2012; Wallace et al., 2005). Our study further contributes to the literature by providing additional insights into the antecedents of social influence pressure in the context of auditors' JDM.

When exposed to partners' preferences, individual auditors' perceived social influence pressure may be higher or lower, which may influence their tendency to align their judgements with the known preferences of partners. When auditors' perceived social influence pressure is higher, they are likely to be more attentive to their partners' preferences. Based on this reasoning, we predict that perceived social influence pressure will amplify the effect of partners' known preferences on auditors' sceptical judgements. Thus, we hypothesise that the influence of the known preferences of partners on sceptical judgements will be stronger for auditors who perceive higher social influence pressure than those who perceive lower social influence pressure.

We collected data from 98 practicing auditors in mainland China. We randomly assigned participants to one of two situations: (i) in which the partner's known preference reflects a greater focus on PS; and (ii) in which the partner's known preference reflects a lesser focus on PS.<sup>2</sup> We also measured the intensity of auditors' perceived social influence pressure from partners.

<sup>1</sup>In psychology, early theorists made a conceptual distinction between: (i) the situation 'as it is'; and (ii) the situation 'as it is perceived' (Magnusson & Ekehammar, 1978; Murray, 1951; Pervin, 1968). This distinction has been discussed in terms of *alpha* and *beta* situations (Murray, 1951; Pervin, 1968) and *objective* and *subjective* situations (Magnusson & Ekehammar, 1978). Perceived situation has also been referred to as a *psychological* situation (Rauthmann et al., 2015; Rotter, 1981).

<sup>2</sup>Additional details of the manipulation of the partner's preference are provided in the research method section.

Our results support the hypothesis and show that the influence of known preferences of partners on sceptical judgements is stronger (weaker) for auditors with higher (lower) perceived social influence pressure. Specifically, when perceived social influence pressure is higher, partners' known preferences significantly influence auditors' sceptical judgements. However, such an effect is no longer significant when perceived social influence pressure is lower. These results demonstrate how perceived social influence pressure operates as a boundary condition that amplifies auditors' tendency to align their judgements with the known preferences of partners. They also suggest that when higher perceived social influence pressure interacts with partners' greater (lesser) focus on PS, it has the potential to enhance (impair) auditors' scepticism in their judgements. Our study also enlarges the literature on antecedents of social influence pressure by showing that lower ranked auditors perceive higher levels of social influence pressure and, thus, are more susceptible to aligning their sceptical judgements with their partners' known preferences. This finding establishes the value of understanding auditors' perceived social influence pressure in managing PS-related challenges.

Our findings provide additional insights into the influence of the known preferences of partners on PS by invoking and testing the social influence theory. Building on prior research where participants were explicitly held accountable to their superiors whose preferences were made known (Peecher, 1996; Turner, 2001), our research involves implicit accountability and provides additional insights from a social influence perspective. Complementing prior studies suggesting that auditors align their judgements with partners' preferences, our findings help explain *when* auditors' sceptical judgements are more or less likely to be susceptible to the influence of partners' preferences. That is, when auditors perceive higher social influence pressure driven by their desire to enhance the accuracy of their judgements and gain social approval. Moreover, our findings show that over and above accountability, these motivations anchored in social influence give rise to relevant social pressures affecting auditors' conformity with partners' known preferences. We also provide further insights into *who* is most likely to experience higher social influence pressure that may influence their sceptical judgements, specifically lower ranked auditors. Taken together, our findings highlight the importance of understanding the role of social influence pressure on auditors' JDM.

The remainder of this paper proceeds as follows. Section 2 discusses the relevant background literature and develops the hypothesis. The research design is outlined in Section 3. The results are presented in Sections 4 and 5 concludes the study.

## 2 | BACKGROUND AND HYPOTHESIS DEVELOPMENT

### 2.1 | The Chinese context

We examine auditors' sceptical judgements in China, an appropriate research setting because the country plays a prominent role in the Asia-Pacific and global economies (Clayton et al., 2018; Weinland, 2019; Zhang et al., 2021). Audit firms in China, including those affiliated with the Big 4, contribute substantially to listed auditing companies in various countries, including the United States (Clayton et al., 2018; PCAOB, 2013; Weinland, 2019).<sup>3</sup> However, international audit firms and their networks sometimes fail to provide consistent and high-quality audits, particularly in emerging countries such as China (PCAOB, 2011, 2013, 2016).

<sup>3</sup>Around 240 non-US firms in over 50 foreign jurisdictions have registered with the PCAOB (Clayton et al., 2018; PCAOB, 2013). These firms issue audit opinions on US firms and must be inspected every 3 years (PCAOB, 2013). However, inspection of audit firms in countries such as China continues to pose challenges (PCAOB, 2013, 2016, 2020).

International standard setters, such as the International Auditing and Assurance Standards Board (IAASB), have raised concerns about audit quality and PS, particularly in emerging countries, and have called for more research to develop a high-quality global audit profession (IAASB, 2014, 2018).

Researchers and regulators acknowledge the importance of understanding issues related to financial reporting and audit quality in China as the country faces continuous challenges in its economic transformation towards a market economy (Han et al., 2018; Huang et al., 2019; PCAOB, 2011). Considerable concerns have been raised about audit quality in China because of fierce market competition, a relatively weak legal environment and audit partners' incentives to maintain good relationships with their clients in the audit market (Dang et al., 2017; Huang et al., 2019; Zhao et al., 2020). Accordingly, researchers and regulators have called for more research on PS in China (PCAOB, 2016; Ying et al., 2020). We respond to these calls, suggesting that it is appropriate to examine auditors' sceptical judgements in the Chinese context.

## 2.2 | Known preferences of partners' and auditors' sceptical judgements

Extensive evidence shows that when responding to pressure from partners, auditors align their judgements with the known preferences of partners in various auditing contexts, including client acceptance/retention decisions, going-concern judgements, audit planning decisions, asset valuations and fraud judgements (Bierstaker & Wright, 2005; Carpenter & Reimers, 2013; Cohen & Trompeter, 1998; Kim & Harding, 2017; Wilks, 2002). These studies provide useful insights into the motives behind auditors' aligning their judgements with the known preferences of partners, mostly from the accountability perspective. Accountability theory in social psychology suggests that accountability pressures can lead to less effort and increased bias as decision-makers strategically align their judgements with the known preferences of those to whom they are accountable (Lerner & Tetlock, 1999; Tetlock, 1985). Consistent with the accountability perspective, studies in auditing suggest that as a result of accountability pressure, auditors exercise judgements to conform to the known preferences of their supervisors (Bierstaker & Wright, 2005; Peecher, 1996; Turner, 2001).

Particularly relevant are two studies that extend prior research on accountability in the context of auditors' sceptical judgements. First, Carpenter and Reimers (2013) show that when partners place a greater (lesser) focus on PS, auditors are more (less) sceptical in their judgements. Second, Harding and Trotman (2017) find that auditors are less sceptical in exercising their judgements in situations where partners express their individual preferences or do not express any preferences, rather than management's preferences regarding the likelihood of fraud. Overall, from the perspective of accountability, these findings demonstrate that auditors align their judgements with the known preferences of partners. We extend this strand of research by examining the influence of partners' known preferences on auditors' sceptical judgements from a social influence perspective. While accountability is an implicit part of our theory development, we suggest that both the informational and normative motives underlying social influence are useful for understanding auditors' tendency to align their judgements with partners' known preferences, in addition to the pressure arising from accountability.

## 2.3 | Auditors' perceived social influence pressure

The literature recognises that perceived social influence pressure from superiors influences accountants' JDM (Bishop & DeZoort, 2016; Chong & Syarifuddin, 2010; Davis et al., 2006). For example, Davis et al. (2006) provide evidence that accountants who are subject to social influence pressure from superiors are likely to increase budget slack in violation of the company's

policy. Lord and DeZoort (2001) find that auditors are more willing to sign off an account that is materially misstated when instructed by the partner to do so, which is a form of social influence pressure. In another study, Bishop and DeZoort (2016) document that when chief financial officers (CFOs) perceive pressure to obey and comply with the chief executive officer's requests to revise their initial inventory assessment, they are more likely to acquiesce to such pressure. Extending these studies, we examine the role of social influence pressure in conjunction with the knowledge of partners' preferences in driving auditors' sceptical judgements.

We focus on measuring perceptions of social influence pressure because research suggests that specific situations or contexts are 'perceived and assigned meaning' and 'constructed by and represented in the mind' of an individual, and these perceptions will, in turn, affect individuals' judgements (Magnusson, 2013, p. 14). Prior studies have also shown that auditors' perceptions affect their judgements and that there is a significant variance in how social influence pressure is perceived, even by members of the same firm (DeZoort et al., 2006; Lord & DeZoort, 2001). We propose that understanding auditors' perceived social influence pressure is imperative in ascertaining their reactions to situations involving exposure to partners' preferences. This is consistent with the interactional perspective in social psychology, which suggests that understanding how situations are perceived and cognitively constructed is important (Magnusson, 2013; Rauthmann et al., 2014). Moreover, Rauthmann and Sherman (2019) suggest that research that manipulates situational factors could be enriched by measuring variations in individuals' perceptions of the situation. Similarly, researchers advocate that differences in perception between organisational members represent legitimate concerns and thus warrant further examination (Bobek et al., 2015; Treviño et al., 2008).

Social influence theory provides insights into how individuals' thoughts, feelings and behaviours respond to the social world, including their tendencies to conform (Cialdini & Goldstein, 2004; Pitesa & Thau, 2013). Social influence research suggests that individuals' JDM is a dynamic process that often entails complex motives resulting from perceived social influence pressure to conform to others (Rader et al., 2017; Smith et al., 2007). Based on our earlier discussion, social influence theory pays particular attention to two main motives, namely, normative and informational social influence. The normative motive is based on individuals' desire to fit into a particular social context, obtain social approval from others and preserve social harmony (Cialdini & Goldstein, 2004; Rader et al., 2017). In contrast, the informational motive is based on individuals' desire to form accurate interpretations of situations (Cialdini & Goldstein, 2004). See et al. (2011) further differentiate these motives by arguing that while a normative motive aims for affiliation-oriented goals driven by social pressures and the desire to avoid social sanctions, an informational motive is focused on accuracy-oriented goals, mainly to improve decision outcomes.

While there are conceptual differences between these two motivational factors, researchers acknowledge that the two are interrelated and often difficult to disentangle theoretically and empirically (David & Turner, 2001). However, we do not disentangle these two motives but rather consider that the desire to gain social approval and form accurate judgements are intertwined in driving auditors' decisions to conform to partners' preferences.

## 2.4 | Moderating role of auditors' perceived social influence pressure

Decision makers are heterogeneous in their susceptibility to social influence because such influence invokes varying intensities of psychological pressure on individuals (Cialdini & Goldstein, 2004). As noted earlier, lower-ranked employees with less social power in the organisation are likely to perceive greater social influence pressure and, therefore, are more predisposed to be influenced by others (Abrams & Hogg, 1990; Gardner, 2012; Wallace et al., 2005). Prior research shows that subordinates' behaviour in an audit firm is influenced by their

superiors (Kim & Harding, 2017; Otley & Pierce, 1996). We posit that due to differences in power in the social hierarchy of the organisation, individuals may perceive a different intensity of social influence pressure. Therefore, when exposed to partners' preferences, auditors with lower (higher) rank may perceive higher (lower) social influence pressure.

We predict that individual auditors' perceived social influence pressure is likely to amplify their tendency to conform to the known preferences of partners. This is because when exposed to partners' preferences, the informational and normative motives of social influence will be more (less) salient for auditors who perceive higher (lower) social influence pressure. We expect that auditors who aim to enhance the accuracy of their judgements while preserving harmony and gaining social approval are also more likely to feel the pressure to align their judgements with their partners' known preferences. Specifically, when the perceived social influence pressure is higher, the known preferences of partners are likely to be represented more strongly in auditors' minds, resulting in greater attention to and alignment with partners' preferences. This, in turn, will amplify the influence of partners' known preferences on auditors' sceptical judgements, which leads to the following hypothesis:

**H1** *The influence of partners' known preferences on sceptical judgements will be stronger for auditors who perceive higher social influence pressure than those who perceive lower social influence pressure.*

### 3 | RESEARCH METHODS

#### 3.1 | Research design

We randomly assigned participants to one of two situations: (i) in which the partner's known preference reflects a greater focus on PS; and (ii) in which the partner's known preference reflects a lesser focus on PS. In both situations, we measured the intensity of auditors' perceived pressure in the context of advice-taking from the partner.

The research instrument included a cover page that outlined the procedure, assured participants that their responses would be confidential and stressed that participation in the study was voluntary. Participants were told that it would take about 30 to 40 minutes to answer all questions.

The instrument consisted of two parts: the audit case and the questionnaire. The audit case is based on an actual fraud case in D'Aquila and Capriotti (2011). The task required participants to evaluate management representation in light of client-provided audit evidence in the context of a debtor confirmation procedure. This was considered appropriate for two reasons. First, evaluating management assertions and audit evidence provided by clients is becoming more important in audit procedures because increasing pressure is placed on auditors to detect and prevent fraud (Bell et al., 2005; Caster et al., 2008). The main reason for this is that client-provided information is less reliable than auditor-collected evidence (IAASB, 2012b, p. 391). Second, debtor confirmation is an essential procedure in assessing fraud risk in revenue recognition, which is critical in detecting fraud in financial reporting (PCAOB, 2010). Debtor confirmation is a relevant audit task for the purpose of our study because the essence of PS lies in the critical evaluation of audit evidence which is particularly crucial in detecting fraud (Olsen & Gold, 2018; Ying et al., 2020). In addition, it is also relevant to the study's participants because, in practice, auditors who are involved in the debtor confirmation procedure also include junior auditors. Prior studies, including Bennett and Hatfield (2013) and Yang et al. (2018), use a similar context involving debtor confirmation audit tasks to examine audit judgements among students and junior auditors respectively. Thus, we suggest that junior auditors are sufficiently qualified to carry out this audit procedure.

The introduction to the audit case stated that participants should assume they are an audit senior allocated to a team responsible for auditing a listed company. In the scenario, the participants also had a good chance of being promoted ahead of their peers in the following year. The scenario then provided information about the client's sales. Specifically, participants were told that they were performing receivables confirmation. The audit case further specified a material discrepancy between the accounts receivable balance and returned confirmation. The case further stated that 'the CFO explained that the item being noted as a discrepancy was "in-transit" at year-end, and as all the goods were shipped out before the year-end, the sales and trade receivables are properly recorded'. The client's CFO also presented copies of the invoice and shipping documents to justify the discrepancy.

The scenario then described our manipulation of partners' preferences, which was adapted from prior studies (Peecher, 1996; Turner, 2001). In the situation where the partner's preference reflected a greater focus on PS, the information specified that:

The 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.

In the situation where the partner's preference reflected a lesser focus on PS, the information specified that:

The partner commented that there is a precedent for auditors to accept client-provided explanations as given and suggested that auditors should fully utilise the client's insights about business transactions to improve the efficiency of the audit.

We then asked participants to make judgements on each of three questions that measured our dependent variable – auditors' sceptical judgements – on a seven-point Likert scale where 1 = highly unlikely and 7 = highly likely. Specifically, we asked participants: (i) 'What is the likelihood that the explanation provided by the CFO is reliable?'; (ii) 'What is the likelihood that you would collect additional audit evidence concerning the trade receivable balance?'; and (iii) 'What is the likelihood that there was an intentional misstatement concerning the client's trade receivable balance?' Prior studies apply auditors' perceived reliability of audit evidence to measure their sceptical judgements (Harding & Trotman, 2017; Kim & Trotman, 2015). Other studies, such as Hurtt (2010) and Quadackers et al. (2014), also use the likelihood of collecting additional audit evidence to measure sceptical judgements. Evidence also suggests that auditors' assessments of fraud risk reflect their sceptical judgements (Carpenter & Reimers, 2013; Popova, 2012). The scores obtained from these three questions were then averaged to form an aggregate measure for auditors' sceptical judgements.<sup>4</sup>

In the second part of the research procedure, we began by asking participants to indicate the intensity of pressure they would likely feel in following the partner's preference on a seven-point Likert scale (where 1 = no pressure at all and 7 = a great deal of pressure). Prior auditing studies that examine pressure effects also use this question to measure the intensity of perceived social influence pressure from superiors (DeZoort et al., 2006; Lord & DeZoort, 2001). There is no established instrument to measure individuals' perceived social

<sup>4</sup>We ran exploratory factor analysis (EFA) in SPSS to ascertain whether our measures of sceptical judgements were unidimensional before aggregating them. The resulting EFA showed that a single factor with an eigenvalue of 1.948 emerged. Therefore, scores obtained for these items were aggregated.



influence pressure, so we opted for a simple and direct approach and asked participants: 'How much pressure would you feel in following the partner's suggestion?'. However, we acknowledge that using a single item does not capture the potential multidimensional aspects of social influence pressure.

Next, we asked the participants three questions related to the scenario. The first was: 'What are your perceptions of the partner's attitude towards PS?' Participants were required to respond on a seven-point Likert scale (where 1 = not at all sceptical and 7 = highly sceptical). This is a manipulation check question, and the objective was to verify if the manipulation of partners' preferences was effective. The second question was: 'How familiar are you with the audit task of trade receivable confirmation?' Participants were required to respond on a seven-point Likert scale (where 1 = not at all familiar and 7 = highly familiar). The third question was: 'How confident are you in your ability to perform the audit task in the case – trade receivable confirmation?' on a seven-point Likert scale (where 1 = not at all confident and 7 = highly confident). Questions (i) and (ii) were designed to control differences in participants' familiarity with and confidence in conducting the audit task.

We then gathered participants' demographic details, such as gender, age, company position, and general and task-specific experience in auditing. Finally, the research instrument included the 30-item scale of trait scepticism developed by Hurtt (2010) to measure participants' predisposition towards scepticism. Trait scepticism is included as a covariate to control for auditors' predisposition towards scepticism. Each of the 30 items was assessed on a six-point Likert scale (where 1 = strongly disagree and 6 = strongly agree). The audit case used in the research instrument is presented in [Appendix 1](#).

### 3.2 | Participants and procedure

Our participants were practicing auditors in China who were employed by two Big 4 and two local audit firms.<sup>5</sup> Following Shafer (2009), local firms are those that are based only in China. Surveying practicing auditors rather than students has the advantage of mitigating external validity threats because auditors in practice face pressures that can only really be captured if they are the participants. In addition, students and practitioners are likely to differ in their susceptibility to social influence pressure from partners, and such difference poses a threat to external validity. Prior auditing research suggests that the use of student participants poses a particular threat if students and practitioners differ in characteristics that are of theoretical interest to the researcher (Peecher & Solomon, 2001). The data were collected during training workshops involving the participating firms. The first author of our paper was present during the workshops, which ensured that a consistent approach was followed in data collection. Before the workshop started, the researcher provided relevant details about the research project and reiterated that participation was voluntary and that responses would be confidential. Next, the researcher randomly placed the participants in one of the two groups described earlier. To mitigate potential demand effects, the researcher then left the training venue.

Each participant received an envelope containing the information outlined above. Participants completed the audit case (Part One) first, sealed it in the envelope provided, and then moved on to complete the questionnaire (Part Two). Participants then sealed their responses in the envelope provided and placed them in a box. All envelopes were collected by the researcher after all participants had left the training venue.<sup>6</sup>

<sup>5</sup>The four participating firms are based in Guangzhou, Nanjing, Shanghai and Shenzhen, all major Chinese commercial hubs (National Bureau of Statistics of China, 2013).

<sup>6</sup>The research project has ethics clearance from the authors' university.

## 4 | RESULTS

### 4.1 | Demographic data

We received 98 completed responses from 107 auditors, which represents a response rate of 91.6%. Nine responses were incomplete and were therefore excluded from the analysis. [Table 1](#), Panel A presents a summary of the respondents' demographics. Approximately 52% were employed by Big 4 firms, and the remaining were employed by local firms. Respondents had an average of 4 years' general audit work experience, and 25% were qualified as Certified Public Accountants. A majority (91%) had the task-specific experience of the audit of receivables.<sup>7</sup> Thus, participants were deemed to possess appropriate knowledge and skills.

Statistical analyses established that there were no significant effects of gender, age, position, or general or task-specific audit experience on respondents' sceptical judgements. Also, there was no significant difference in auditors' sceptical judgements across the four participating firms or between Big 4 and local audit firms. Given that the local firms that participated in our study are among the Big 10 audit firms in China, this result is consistent with evidence that larger local audit firms have similar incentives to the Big 4 to maintain their reputation (Mo et al., 2015). Prior studies of the Chinese audit market also use the Big 10 as a proxy for high-quality auditors (Lennox et al., 2016; Zhang et al., 2019).

### 4.2 | Descriptive statistics

We asked participants to indicate the extent of pressure they would likely feel in following the partner's suggestion on a seven-point Likert scale. Lower scores indicate lower perceived pressure and vice versa. The mean score is 4.259 (SD = 1.507) for the situation where the partner places a lesser focus on PS and 4.455 (SD = 1.591) for the situation where the partner places a greater focus on PS. Both mean scores are significantly greater than the midpoint of 4, indicating that participants perceived considerable pressure to conform to the partner's preference in both situations. Further analysis indicates that the auditors' perceived pressure scores between these two situations do not significantly differ ( $p = 0.54$ ).

To test whether perceived social influence pressure moderates the relationship between partners' preferences and auditors' sceptical judgements, we ran a moderation model using Hayes' (2017) PROCESS Macro (Model 1). We used the following linear regression model:

$$PS = \alpha + \beta_1 \text{Partners' Preferences} + \beta_2 \text{Perceived Pressure} + \beta_3 \text{Partners' Preferences} \\ \times \text{Perceived Pressure} + \gamma \text{Controls} + \epsilon$$

*Partners' Preferences* are coded one when the partner has a greater focus on PS and zero otherwise. *Perceived Pressure* measures the intensity of auditors' perceived social influence pressure. Higher scores indicate higher perceived social influence pressure. Gender, age, educational qualification, Big 4, position, general audit experience, task-specific experience and professional qualification are included as control variables. [Table 1](#), Panel B reports the descriptive statistics of the main variables. Definitions of all variables are provided in [Table A1](#).

<sup>7</sup>Completed responses included those from 14 auditors with no experience of audits of receivables. Thus, we also conducted additional statistical analyses by excluding these responses. The inferences of these results are consistent with our main results.

**TABLE 1** Demographic data and descriptive statistics.

	<i>N</i>
Panel A: demographic data	
Gender	
Male	58 (59.2%)
Female	40 (40.8%)
Age	
20–24	10 (10.2%)
25–29	30 (30.6%)
30–34	12 (12.2%)
35–39	10 (10.2%)
40–44	21 (21.4%)
45–49	9 (9.2%)
50–54	6 (6.2%)
Educational qualification	
Bachelor's degree	87.7%
Master's degree or above	12.3%
Position	
Associate	41 (41.8%)
Senior	35 (35.7%)
Manager	22 (22.5%)
General audit work experience range (mean)	
Associate	0.5–4 (1.56)
Senior	2–10 (4.34)
Manager	2–20 (7.86)
Total	0.5–20 (3.97)
Audit firm	
Big 4	51 (52.0%)
Local	47 (48.0%)
Task-specific experience	
None	9 (9.2%)
1–5 times	56 (57.1%)
6–10 times	11 (11.2%)
More than 10 times	22 (22.5%)
Professional qualification	
Member of CICPA	24 (24.5%)
Passed at least one CICPA subject	61 (62.2%)
No CICPA subject passed	13 (13.3%)
Total sample size	<i>n</i> = 98

(Continues)

TABLE 1 (Continued)

Variable	Mean	Median	SD	Min.	Max.
Panel B: descriptive statistics					
Question (i)	4.173	4	1.377	1	7
Question (ii)	5.09	5	1.370	2	7
Question (iii)	4.429	4	1.392	2	7
Partners' preferences	1.449	1	0.500	1	2
Perceived pressure	4.347	5	1.541	1	7
Gender	1.408	1	0.494	1	2
Age	4.541	4	1.794	2	8
Educational qualification	3.041	3	0.429	2	4
Big 4	1.480	1	0.502	1	2
Position	1.806	2	0.782	1	3
General audit experience	3.969	3	3.453	0.5	20.0
Task-specific experience	2.469	2	0.944	1	4
Professional qualification	1.888	2	0.607	1	3
Trait scepticism	129.898	131.500	14.799	84	172

Note: Definitions of variables are provided in Table A1.

### 4.3 | Moderating effects of auditors' perceived social influence pressure

Recall that hypothesis H1 predicts that the effect of partners' preferences on sceptical judgements will be stronger for auditors who perceive higher social influence pressure than for those who perceive lower social influence pressure. Table 2, Panel A reports the OLS regression results for the hypothesis tests. Consistent with Hayes (2017), mean centring was used for product terms and all coefficients are unstandardized regression coefficients. Table 2, Panel A shows that the coefficient of the interaction term *Partners' Preferences*  $\times$  *Perceived Pressure* is positive and significant ( $\beta = 0.794$ ,  $p < 0.01$ ).

We further probed the nature of the interaction effect using conditional values of our moderator (*Perceived Pressure*) that are one standard deviation above and below the mean. As depicted in Figure 1, at lower levels of perceived pressure ( $-1$  SD that is one standard deviation below the mean), the effect of partners' known preferences on auditors' sceptical judgement is insignificant ( $\beta = -0.298$ ,  $p > 0.05$ , as shown in Table 2, Panel B). In contrast, when perceived pressure is higher ( $+1$  SD that is one standard deviation above the mean), the effect of partners' known preferences on auditors' sceptical judgement is positive and significant ( $\beta = 2.149$ ,  $p < 0.01$ , as shown in Table 2, Panel B).<sup>8</sup> The results suggest that the effect of partners' preferences on auditors' sceptical judgements is stronger when the perceived social influence pressure is higher than when it is lower. The results support hypothesis H1.

Additionally, when each measure of sceptical judgement is examined separately, the results are consistent with our findings using the aggregated measure of auditors' sceptical

<sup>8</sup>We also conducted a median split to partition the sample into two sub-samples: higher or lower perceived social influence pressure. We then conducted MANOVA and univariate tests to examine the effect of partners' views on auditors' sceptical judgements. The untabulated MANOVA results show that when perceived social influence pressure is higher, there is a significant and positive effect of partners' preferences on auditors' sceptical judgements ( $p < 0.01$ ). Consistently, the results from univariate tests show that when perceived social influence pressure is higher, partners' preferences significantly influence each of the three sceptical judgement measures ( $p < 0.01$ ). In contrast, when perceived pressure is lower, the effect of partners' preferences on auditors' sceptical judgements is not significant ( $p > 0.10$ ), which is consistent with our findings.

TABLE 2 Results for the moderating effect.

Variable	Sceptical judgements			
	Aggregate	Question (i) <sup>c</sup>	Question (ii) <sup>c</sup>	Question (iii) <sup>c</sup>
	(1)	(2)	(3)	(4)
Panel A: regression results – moderating role of auditors' perceived social influence pressure (H1)				
Direct and interaction effects				
Partners' preferences <sup>a</sup>	0.925***	0.800***	0.866***	1.110***
Perceived pressure <sup>b</sup>	0.037	0.017	0.110	-0.012
Partners' preferences × perceived pressure	0.794***	0.893***	0.768***	0.721**
Control variables				
Gender	-0.213	-0.225	-0.355	-0.059
Age	0.053	0.023	0.089	0.049
Educational qualification	0.223	0.555	0.284	-0.170
Big 4	0.010	0.215	0.077	-0.262
Position	0.140	0.102	0.071	0.246
General audit experience	-0.003	-0.014	0.045	0.041
Task-specific experience	-0.010	0.189	-0.135	-0.086
Professional qualification	0.245	0.445	0.425	-0.135
Trait scepticism	0.008	-0.004	0.014	0.0134
<i>N</i>	98	98	98	98
Adj. <i>R</i> <sup>2</sup>	0.588	0.440	0.444	0.401
Panel B: conditional effects of partners' preferences				
Level of perceived pressure				
(-1 SD)	-0.298	-0.575	-0.318	-0.001
Mean	0.925***	0.800**	0.866***	1.110***
(+1 SD)	2.145***	2.176***	2.049***	2.222***

Note: Definitions of variables are provided in Table A1. Unstandardised regression coefficients are reported; \*, \*\* and \*\*\*Significance at  $p < 0.10$ ,  $p < 0.05$  and  $p < 0.01$ , respectively (two-tailed).

<sup>a</sup>Partners' preferences were manipulated as either a lesser or greater focus on PS.

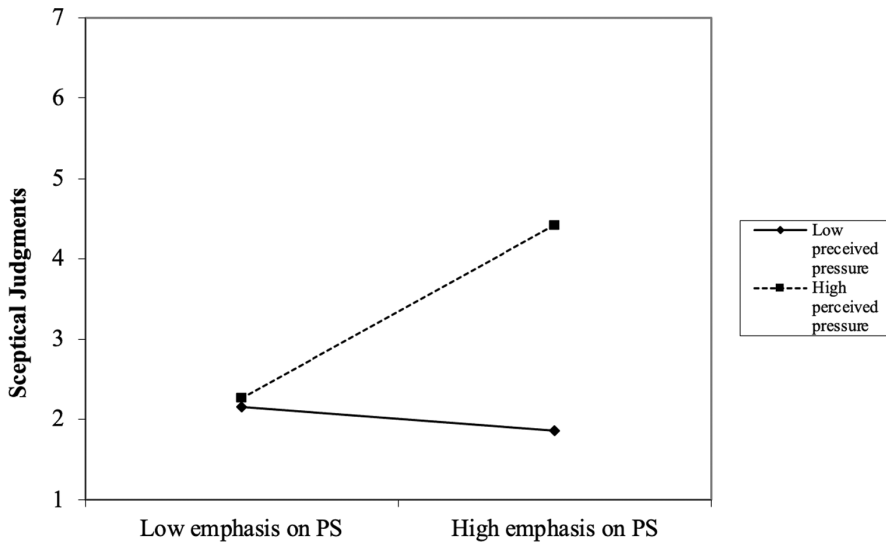
<sup>b</sup>Perceived pressure was mean-centered prior to running the regression analysis.

<sup>c</sup>Participants provided their judgements on each of the three questions on a seven-point scale: (i) What is the likelihood that the explanation provided by the CFO is reliable? (ii) What is the likelihood that you would collect additional audit evidence concerning the trade receivable balance? (iii) What is the likelihood that there was an intentional misstatement concerning the client's trade receivable balance? To be consistent with the other measures, the scores on the first question were reverse-coded to enable a straightforward comparison. Therefore, higher scores indicate more scepticism.

judgements. In addition, the coefficients on *Partners' Preferences* are positive and significant ( $\beta = 0.800$ ,  $0.866$  and  $1.110$  for questions (i), (ii) and (iii), respectively and  $p < 0.01$  for all three questions). The results further confirm that partners' preferences significantly influence auditors' sceptical judgements in that partners' greater (lesser) focus on PS leads to their judgements being more (less) sceptical.

#### 4.4 | Determinant of social influence pressure

To provide further insights into determinants of auditors' perceived social influence pressure, we examined whether the auditor's rank in the firm is associated with their level of perceived pressure. As discussed earlier, we posit that due to differences in power in the social hierarchy



**FIGURE 1** The moderating effect of perceived social influence pressure.

**TABLE 3** Additional analyses: determinants of perceived social influence pressure.

	Coefficient	Bootstrapped SE	<i>p</i> -Value
Constant	4.150	1.578	0.010
Gender	-0.235	0.317	0.461
Age	-0.066	0.088	0.454
Rank	-0.575	0.278	0.042**
General audit experience	0.122	0.064	0.060
Trait scepticism	0.011	0.011	0.332

Notes: Definitions of variables are provided in Table A1. \*\*Significance at  $p < 0.05$ . Coefficients are unstandardised.

of the organisation, auditors may perceive a different intensity of social influence pressure. Specifically, we predict that when exposed to partners' preferences, auditors with a lower (higher) rank may perceive higher (lower) social influence pressure. We performed a multiple regression analysis to ascertain whether social power is associated with auditors' perceived social influence pressure. The results are shown in Table 3. As predicted, we find a significant negative association between perceived social influence pressure and auditors' rank, suggesting that as auditors move to higher ranks within the organisation, they perceive less pressure when exposed to partners' known preferences. This also implies that lower-ranked auditors, specifically associates, who perform a substantial amount of the work in gathering audit evidence, are most likely to feel greater social influence pressure when exposed to partners' preferences.

#### 4.5 | Additional analysis: The mediating role of auditors' perceived pressure

We also tested whether perceived pressure mediates the relationship between partners' preferences and auditors' sceptical judgements. It is possible that perceived pressure may act as a mediator – rather than a moderator, as argued earlier – that explains *how* partners' known preferences influence sceptical judgements. Different situations, such as exposure to partners' known preferences, may result in different intensities of individuals' perceived pressure. For

**TABLE 4** Additional analyses: mediating role of auditors' perceived social influence pressure.

Test for the indirect effect of partners' known preference on sceptical judgements via perceived social influence pressure				
	Effect	Bootstrapped SE	95% CI upper bound	95% CI lower bound
Indirect effect	-0.001	0.276	-0.120	0.092
Direct effect	1.134	0.276	0.587	1.682
Total effect	1.133	0.272	0.592	1.674

Note: Estimated using POCRESS Model 4, with a 95% confidence interval and 5000 bootstraps.

example, auditors perceive higher pressure in situations involving formal feedback than in reviews by their supervisors (DeZoort et al., 2006). Accountants also report higher perceived pressure when they obey their superiors' orders to ignore policy and increase budget slack than when they refuse to obey their orders (Davis et al., 2006, p. 27). While not directly testing the mediating effect, these studies suggest that perceived pressure may play a mediating role in linking pressure situations and professional judgements.

We follow the approach suggested by Hayes (2017) to test whether perceived pressure mediates the influence of partners' known preferences on sceptical judgements. We use Hayes' (2017) PROCESS Macro to perform our mediation analysis which has been used in prior studies in auditing (Commerford et al., 2018; Eutsler et al., 2018; Hatfield et al., 2020; Stevens et al., 2019). The results are shown in Table 4. We find that the indirect effect of partners' known preferences on auditors' sceptical judgements via perceived pressure is insignificant, considering that the bootstrapped confidence interval included zero (indirect effect =  $-0.001$ , SE =  $0.276$ , 95% CI  $[-0.120, 0.092]$ ). Therefore, we rule out a possible alternative explanation that perceived pressure mediates the influence of partners' known preferences on auditors' sceptical judgements.

## 5 | CONCLUSIONS

Professional scepticism is regarded by regulators, standard setters, professional bodies and researchers as one of the most important responsibilities of auditors (IAASB, 2012a, 2018; PCAOB, 2016). However, PS remains a complex and challenging concept for global auditing professionals to apply in practice (Glover & Prawitt, 2014; IAASB, 2015; PCAOB, 2011). As a result, there have been extensive calls for more research to understand 'tone at the top', particularly by partners in managing audit quality in general and PS in particular (Free et al., 2021; Harding & Trotman, 2017; IAASB, 2015). We respond to these calls by examining the moderating effect of auditors' perceived social influence pressure on the influence of partners' known preferences on auditors' sceptical judgements in China.

We find that the effect of partners' known preferences on sceptical judgements is stronger (weaker) for auditors who perceive higher (lower) social influence pressure. Drawing on social influence theory, our results suggest that both the normative and informational motives, specifically the desire to form accurate judgements while gaining social approval, result in higher levels of pressure on auditors. Prior studies show that auditors align their judgements to reflect partners' preferences (Carpenter & Reimers, 2013; Harding & Trotman, 2017). We extend these studies and find that when perceived social influence pressure is higher, partners' known preferences are strongly represented in auditors' minds, thereby amplifying the influence of partners' known preferences on auditors' sceptical judgements. Our results imply that higher perceived social influence pressure reinforces (inhibits) auditors' ability to exercise PS in conjunction with partners' known preferences expressing a greater (lesser) emphasis on PS.

However, when perceived pressure is lower, the influence of partners' known preferences on auditors' sceptical judgements becomes insignificant.

Our results also demonstrate *when* auditors' tendency to align their judgements with partners' known preferences is likely to be stronger or weaker. Drawing on social influence theory, our findings also offer additional insights that complement accountability, which is an important feature of the audit environment and a strong incentive that impacts auditors' sceptical judgements (Gong et al., 2014; Hurtt et al., 2013). Our findings demonstrate that in a cultural context such as that of China, where collectivism and harmony within the hierarchy are of fundamental importance (Patel et al., 2002; Ying et al., 2020), the desire of auditors to form accurate judgements while gaining social approval serves as a salient motivation that induces additional pressures over and above the pressure arising from being held accountable which amplifies their tendency to conform with the known preferences of partners.

We also examine social power, proxied by auditors' rank within their audit firms, as a possible driving force behind auditors' perceived pressure. We find a significant negative association between social power and perceived pressure, in that auditors with a lower (higher) rank feel higher (lower) perceived social influence pressure. Our findings demonstrate *who* among audit team members are more likely to be susceptible to such pressures. Specifically, lower-ranked auditors with lesser social power in the organisation who are largely dependent on superiors such as partners are more susceptible. We suggest that audit firms may engage in initiatives to manage such pressure.

Our findings contribute to auditing research by recognising the importance of auditors' perceived social influence pressure in the context of PS. The literature has widely acknowledged the direct effect of partners' known preferences on PS (Carpenter & Reimers, 2013; Harding & Trotman, 2017), which is broadly consistent with Nelson's (2009) model, directly linking auditors' incentives and sceptical judgements. Our examination of perceived social influence pressure implicates possible boundary conditions, thereby refining our understanding as to *when* such a direct effect of partners' known preferences on sceptical judgements holds true.

Our findings will interest auditors, audit firms, regulators and researchers. Global regulators, including the PCAOB and the Financial Reporting Council (FRC), have noted a significant decline in audit quality due to a lack of sufficient PS (FRC, 2012, 2019; PCAOB, 2012; Trentmann, 2019). The results will be useful to audit firms and auditing professionals in developing strategies to utilise better tone at the top as a useful resource to enhance auditor scepticism. It is important that audit partners understand the likely implications of their communications within audit team members on PS. As a double-edged sword, higher levels of perceived social influence pressure may enhance organisational members' motivation to perform but may also encourage dysfunctional behaviour, which has the potential to damage the auditor's career and the firm's reputation (DeZoort & Lord, 1997; Gardner, 2012). While the partners' communication induces higher social influence pressure, such pressure also enhances the salience of the partners' preference which in turn may encourage auditors to form more sceptical judgements provided that partners provide greater emphasis on PS.

Furthermore, the communication of partners' known preferences to lower-ranked auditors becomes more important for audit firms whose affiliates operate in countries with high power distance cultures where social influence pressure may be higher (Bond & Smith, 1996; Patel et al., 2002). Hence, they are more likely to be reluctant to challenge the views expressed by their superiors (Dickson et al., 2003; Patel, 2006), which induces higher social influence pressure. If partners' known preferences consistently accentuate the importance of PS, lower-ranked auditors are then more likely to approach audits with greater PS. Understanding the crucial role of partners' communication of their preferences can help regulators and the audit profession to better ensure that audit firms operating in diverse cultural contexts provide consistent high-quality audits.



Our study has limitations that suggest future research opportunities. First, we only focus on a limited number of determinants of sceptical judgement, namely, partners' known preferences and auditors' perceived social influence pressure. However, in the real world, partners' communications with audit teams take place in a complex environment in which various factors, including communication channels and content, play an essential role. Future research may explore whether different communication channels that convey partners' preferences may influence auditors' sceptical judgements.

We also measured auditors' perceptions concerning social influence pressure rather than inducing an experimental manipulation. In doing so, we emphasise the relevance of taking into account how auditors would 'make sense of and respond' to what they are provided in their environment since they play an active role in processing and interpreting environmental or situational influences (Lent et al., 2000). While this approach is common in the organisational behaviour literature, it comes with challenges. As discussed earlier, there is no established instrument to measure individuals' perceived social influence pressure. While our use of a single item measure is a simple and direct approach, we acknowledge that it does not capture potential multidimensional aspects of social influence pressure. Future studies can construct a multidimensional measure to examine how perceived social influence pressure influences auditors' judgements. Future studies may also confirm whether the influence of partners' known preferences on auditors' sceptical judgements becomes insignificant when perceived pressure is lower. Finally, our study focuses on a single country, China. Future studies may explore cross-cultural differences in auditors' PS between, for example, the United States, Australia and China. Specifically, future studies may examine whether there are differences between auditors in China and those in Anglo-American countries concerning the extent to which they align their judgements with partners' known preferences.

## ACKNOWLEDGEMENT

Open access publishing facilitated by The University of Newcastle, as part of the Wiley - The University of Newcastle agreement via the Council of Australian University Librarians.

## DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

## ORCID

Sammy Xiaoyan Ying  <https://orcid.org/0000-0003-0158-8515>

Chris Patel  <https://orcid.org/0000-0001-6790-6155>

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**How to cite this article:** Ying, S.X., Patel, C. & Dela Cruz, A.L. (2023) The influence of partners' known preferences on auditors' sceptical judgements: The moderating role of perceived social influence pressure. *Accounting & Finance*, 63, 3193–3215. Available from: <https://doi.org/10.1111/acfi.13030>

## APPENDIX 1

### THE AUDIT CASE USED IN THE RESEARCH INSTRUMENT

Assume that you are a senior auditor working in a large accounting firm and your career has been advancing rapidly. You expect to have a very good chance of being promoted next year which would be at least 1 year ahead of your peers. You have been assigned to the audit team to perform the 2014 fiscal year audit for New Technologies Inc. (hereafter, NT), a listed company. You have not previously worked on NT's audit team. Your firm has audited NT for the past 4 years, and has always given standard, unqualified opinions for both its financial statements and internal controls.

NT is a growing company in the fast-changing technology industry. The company, which was formed in 2005, designs and sells semiconductors. NT is a relatively small player in this industry. It relies on a few core markets for the bulk of its sales, including mobile handsets, personal computing and digital consumer electronics markets. These markets are characterised by intense competition. NT sells its products to original equipment manufacturers, such as Dell, Inc., Hewlett-Packard Company and Sony Corporation.

This year the audit team is aware of several changes relating to NT's customers. The bad news is that NT lost a large customer, Apple Computer, Inc. This customer represented 32%

**TABLE A1** Definitions of variables.

Dependent variables	
Question (i)	Auditors' sceptical judgement measured on a seven-point Likert scale from 1 (highly unlikely) to 7 (highly likely) in response to the question 'What is the likelihood that the explanation provided by the CFO is reliable?' The scores on this question were reverse-coded
Question (ii)	Auditors' sceptical judgement measured on a seven-point Likert scale from 1 (highly unlikely) to 7 (highly likely) for the question 'What is the likelihood that you would collect additional audit evidence concerning the trade receivable balance?'
Question (iii)	Auditors' sceptical judgement measured on a seven-point Likert scale from 1 (highly unlikely) to 7 (highly likely) for the question 'What is the likelihood that there was an intentional misstatement concerning the client's trade receivable balance?'
Independent variables of interest	
Partners' preferences	A categorical variable that is assigned the value one for a greater partner focus on PS and zero for a lesser partner focus on PS
Perceived pressure	Auditors' perceived pressure measured on a Likert scale from 1 (no pressure at all) to 7 (a great deal of pressure)
Control variables	
Gender	A categorical variable with a value of one for male, and zero otherwise
Age	A categorical variable with the value one to 11 for age ranges <20, 20–24, 25–29, 30–34, 35–39, 40–44, 45–49, 50–54, 55–59, 60–64 and ≥65, respectively
Educational qualification	A categorical variable with the value one to four for education levels High School Certificate, Undergraduate Diploma, Bachelor's degree and Master's degree, respectively
Big 4	A categorical variable with the value one for Big 4 international firms and two for non-Big 4 domestic firms
Position	A categorical variable with the value one to four for four levels of seniority, namely, assistant, senior, manager and partner, respectively
General audit experience	The number of years of audit experience
Task-specific experience	A categorical variable with the value one to four for experiences of audits of accounts receivables as none, 1–5 times, 6–10 times and more than 10 times, respectively
Professional qualification	A categorical variable with the value one, two or three for being a member of the Chinese Institute of Certified Public Accountants (CICPA), not being a member of the CICPA, but having passed at least one CICPA subject or not having passed any CICPA subject, respectively
Trait scepticism	Auditors' trait scepticism measured on the 30-item scale of trait scepticism developed by Hurtt (2010). Each of the 30 items was assessed according to a six-point Likert scale (where 1 = strongly disagree and 6 = strongly agree)

of product sales during the fiscal year 2013 and only 6% of sales during the first half of the fiscal year 2014. The good news is that NT just entered into a new agreement to licence new technology to Hitachi Metals Ltd. Accordingly, the revenue from this licence (i.e., non-product sales) will offset the lost revenue from Apple Computer, Inc. In addition to the new agreement with Hitachi, NT has also started selling more goods to foreign customers, many of whom are located in Southeast Asia and Africa.

The audit team has also noticed other issues during prior audits. Historically, NT has recognised 70%–90% of sales in the last month of each quarter. The audit team is sure to focus on trade receivables, since it is a critical area in this audit.

You have been assigned to the audit of trade receivables. One of your tasks relates to trade receivable confirmation. You are reviewing a trade receivable confirmation that has been

returned from a domestic customer, Company JIA. You find that JIA has confirmed only part of the balance claimed by NT, and the amount of the discrepancy is material. You take up the matter with NT's chief financial officer (CFO). The CFO states that the item being noted by JIA as a discrepancy was 'in-transit' at year-end, and as all the goods were shipped out before the year-end, the sales and trade receivables are properly recorded. The CFO also provides you with copies of the invoice and shipping documents to verify the shipping dates.

**Additional information (when the partner's known preference reflects a lesser focus on PS)**

During a meeting at your audit firm today, you met with Chenran, the audit partner who is in charge of NT's engagement. You asked Chenran for advice on the issue of Company JIA's trade receivable confirmation. The partner Chenran commented that there is a precedent for auditors to accept client-provided explanations as given and suggested that auditors should fully utilise the client's insights about business transactions to improve the efficiency of the audit.

**Additional information (when the partner's known preference reflects a greater focus on PS)**

During a meeting at your audit firm today, you met with Chenran, the audit partner who is in charge of NT's engagement. You asked Chenran for advice on the issue of Company JIA's trade receivable confirmation. The partner Chenran 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.