The Willingness to Report Errors in Audit Firms

Marco Haid and Sabine Graschitz

Abstract

Auditing is intended to find misstatements in financial statements. Within the audit process errors may occur that lead to misstatements not being detected. As the accuracy of the audit process is of severe relevance for the audit quality, it is extremely relevant to know which factors affect the audit team members’ willingness-to-report the errors. Specifically in audit firms the willingness-to-report should be high, as otherwise high liability claims could lead to seriously high costs (e.g. damaged reputation or increasing work effort).

Amongst others former studies (e.g. Gold/Gronewold/Salterio 2014, Gronewold/Gold/Salterio 2013) found that error-management-climate and the error originator affect the willingness-to-report. Within our study we aim to analyse the effects of the (1) error originator in terms of team size and the (2) error-management-climate onto the auditors’ willingness-to-report.

The error-management-climate is determined by the organizational treatment of errors made by their members. In a “high” error-management-climate errors are tolerated and accepted as normal, humanly and an opportunity to improve. By contrast in an error-averse error-management-climate (“low”), errors are attributed to incompetence and lead to blame and incomprehension (e.g. van Dyck et al. 2005). Gronewold, Gold & Salterio (2013) show that the willingness-to-report increases when the error-management-climate is high.

An error can either be an own or a peer error (the error originator might be a person or a group of persons). Rathert & May (2007) find that individuals feel more comfortable when reporting self-made errors than reporting peers’ errors. Miller & Thomas (2005) show that the willingness-to-report is the lowest if they were committed by fellow team members.

Teams consisting of members with equal positions tend to share the responsibility (Doorewaard/Van Hootegem/Huys 2002).

To gain data an experiment with a 2x3 factorial design is conducted. The variable error-management-climate (“high” vs. “low”) is manipulated between-subjects. The experiment’s participants receive a description of the company and its error-management-climate (similarly as Gronewold/Gold/Salterio 2013). The second manipulation is the team size - namely self-made errors, joint errors in a small team and joint errors in a large team. This variable is manipulated within-subjects. The team size variable is manipulated inspired by Gold, Gronewold & Salterio (2014) through information about the team size.

The results show that the willingness-to-report is the highest for self-made errors under a “high” error management climate. The study should lead to a better understanding of the effects of different team sizes and the error-management-climate on the auditors’ willingness to report errors.

Track: Auditing & Assurance