PRACTITIONER SUMMARY

The Role of Auditors’ Emotions and Moods on Audit Judgment: A Research Summary with Suggested Practice Implications

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SUMMARY: The reality for auditors is that, during the audit process, they will experience emotional reactions, such as liking or disliking toward client personnel, or anxiety about components of tasks. Auditors also may experience different moods while conducting audits. Research reveals that an important consequence of auditors experiencing emotions and moods is that these reactions can influence their decision making. We provide a summary of the results and practice implications associated with several studies in a stream of research that has examined the impact of auditors’ emotions and moods on audit judgments.

Keywords: client likability; moods; emotions.

INTRODUCTION

The purpose of this paper is to summarize the results and practice implications associated with several studies in a stream of research that has examined the role of emotions and moods in auditing. Research illustrates that auditors can experience emotional reactions toward a client (e.g., likability) or an element of a task environment (e.g., anxiety from dealing with certain types of people or about being held accountable), or general moods unrelated to the judgment context (e.g., bad mood related to the weather), which can result in judgment errors. Our objective in this

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1 Accounting research uses the term affect, which includes both emotions and moods. Emotions are reactions that are directed at a specific target (e.g., a person), and they go beyond simply positive or negative (e.g., anger, sadness, elation, joy). Moods generally are positive or negative affective states that are not directed at any specific trigger event.
review is twofold. The first objective is to synthesize these findings to enhance auditor awareness of these potential problems and their implications for audit practice. We believe that merely making auditors aware of the potential for such errors will play a very important role in minimizing the likelihood of their occurrence. Of equal importance, our second objective is to stimulate audit researchers’ interest in investigating tools and techniques that also will help to mitigate the occurrence of such errors.

We organize examples from this stream of research into three groups. The first group of papers examines the role that client likability can have on auditors’ judgments (Bhattacharjee and Moreno 2002; Bhattacharjee et al. 2012). The second group of papers examines how auditors’ and jurors’ feelings of anxiety toward components of tasks can influence decision making (Kadous 2001; Bagley 2010). The final group of papers examines the impact of general positive and negative moods on auditors’ decision making (Chung et al. 2008; Cianci and Bierstaker 2009). Importantly, these studies cover a wide range of tasks (i.e., inventory obsolescence, ratio analysis, ethical decision making) and multiple participant groups (auditors and jurors) within the auditing domain. All of these studies reveal that emotions and moods have the potential to inappropriately influence audit judgments. Ignored, these errors can have significant implications for auditor decision making and, consequently, on the overall effectiveness and efficiency of the audit process.

**CLIENT LIKABILITY**

Auditors’ evaluation of information from client management is an important element of audit evidence (Public Company Accounting Oversight Board [PCAOB] 2004). Because interactions between auditors and clients constitute a key mechanism by which audit evidence is gathered (American Institute of Certified Public Accountants [AICPA] 2007), auditors at all experience levels are likely to have interpersonal interactions with clients throughout the audit process. Through these interactions, auditors are apt to have interpersonal emotional reactions (e.g., liking or disliking) toward client personnel. While irrelevant feelings of liking or disliking toward a client should not impact an auditor’s judgment, a preponderance of research in psychology suggests that such emotional reactions can have a significant influence on judgments (e.g., Finucane et al. 2000). Bhattacharjee and Moreno (2002) was one of the first studies to examine the role of irrelevant interpersonal emotions toward a client on auditors’ judgments. In this paper, the authors manipulated irrelevant emotional information through client personality factors that were not relevant to the audit task (i.e., did not impact client reliability or audit risk). Drawing upon the expertise research in auditing, Bhattacharjee and Moreno (2002) predicted that, using an inventory obsolescence task, irrelevant feelings of dislike toward a client would have a greater impact on less experienced auditors’ judgments than on more experienced auditors’ judgments. The authors argued that experience could enable more experienced auditors to determine if their emotional responses provided relevant information to the task, because past experience is one determinant of how effectively we respond to our emotional reactions (LeDoux 1996). They also suggest that these expertise effects are consistent with prior research demonstrating that inexperienced auditors were influenced by information irrelevant to a going concern task that was not emotional in nature (e.g., client began a management rotation policy), but that experienced auditors were not (Shelton 1999).

The authors conducted a study in which auditors were divided into four groups based on (1) the auditors’ rank—higher (i.e., managers, senior managers, partners) and lower (i.e., staff, seniors), and (2) whether they received information in narrative form intended to elicit a negative
interpersonal emotion (dislike) toward client personnel (negative emotional information), or no emotional information. The authors provided all auditors with background information concerning a client, as well as information related to an inventory obsolescence issue that included items indicative of both high and low risk of obsolescence. The results indicated that less experienced auditors’ inventory obsolescence risk assessments were significantly higher when they were provided with negative emotional information concerning a client than when no such information was provided. No such differences were found for the more experienced auditors. These findings suggest that professional experience is one factor that influences individuals’ assessments of the informational value of emotional information.

Bhattacharjee et al. (2012) extend this research by examining whether irrelevant interpersonal emotional reactions toward a client impact auditors’ sensitivity to client competence, which is a relevant audit factor. Prior audit research has found that auditors appropriately place more weight on information received from more competent, objective, and high-integrity sources (e.g., Kaplan et al. 2008). However, persuasion research in psychology notes that an interpersonal emotional reaction is another source characteristic that can influence evidence persuasiveness (Petty and Cacioppo 1986). The authors’ theoretical predictions are guided by the Elaboration Likelihood Model (ELM), which predicts the factors that will influence the persuasiveness of information during decision making. The model predicts that individuals will be less motivated to think about information and more likely to rely on heuristic cues, including emotional feelings, when receiving information from a lower-competence source than when receiving information from a higher-competence source (Finucane et al. 2000). Based on this theory, the authors predicted that emotions of like and dislike toward a client would influence auditors’ judgments when the client source is of lower rather than higher competence.

The authors conducted an experiment in which lower-rank auditors were divided into six groups based on (1) whether they received information in narrative form intended to elicit a negative (dislike), positive (like), or neutral interpersonal emotional reaction toward client personnel, and (2) whether they received information indicative of a higher- or lower-competence client. The authors provided all auditors with background information about a client, as well as information related to an inventory obsolescence issue, which included items indicative of high and low risk of obsolescence. The results indicated that auditors assessed higher obsolescence risk and documented more items indicative of increased obsolescence in the workpapers when they were provided with negative emotional information for a low-competence client than for a high-competence client. The obsolescence ratings and documentation also were higher for auditors who were provided with negative emotional information for a low-competence client than for auditors who had no emotional reaction to a lower-competence client.

These findings have implications for audit efficiency, as auditors may perform more testing for a lower-competence client whom they dislike than for a comparable client for whom they have no emotional reaction. The obsolescence ratings (documentation) were similar (more positive) for auditors who received positive emotional information for a low-competence and a high-competence client. Consequently, the source competence effect is eliminated when auditors liked the client. The ratings and documentation were more indicative of decreased obsolescence for auditors who liked a lower-competence client than for auditors who had no emotional reaction to a lower-competence client. These findings have potential effectiveness implications because when source competence was lower, auditors relied on their positive interpersonal emotional reactions, resulting in similar obsolescence judgments to those for a higher-competence client.
The results of both of these studies suggest that lower-rank auditors’ feelings toward a client can have both effectiveness and efficiency implications.

**NEGATIVE FEELINGS TOWARD ELEMENTS OF THE TASK**

Several studies have examined how negative emotional reactions—specifically, anxiety—toward components of the audit task environment can influence judgments. Kadous (2001) examined how jurors’ negative emotional reactions toward negative audit outcomes influenced jurors’ evaluations of auditor negligence. This study was motivated by research that found that jurors relied on outcome information (e.g., client bankruptcy), rather than on the level of audit quality, which is the legal standard of care (Lowe and Reckers 1994; Anderson et al. 1997). Kadous (2001) proposed that such outcome effects in audit litigation may be caused by jurors treating their negative emotional reactions to the negative outcome information (i.e., anxiety) as an information cue related to auditor blameworthiness in their evaluation processes. Importantly, the author suggested that if jurors could be made to believe that their feelings were not diagnostic of auditor blameworthiness, then the outcome effects could be mitigated.

The author conducted an experiment in which jury-eligible adults were divided into eight groups based on (1) outcome information—either not provided or negative, (2) audit quality—higher or lower quality, and (3) attribution instructions to mitigate jurors’ use of negative feelings—either provided or not provided. The results demonstrate that an attribution manipulation designed to discredit jurors’ feelings of anxiety as a cue indicative of auditor blameworthiness can improve jurors’ judgments. Participants receiving the attribution instructions relied less on outcome information and more on audit quality in their evaluations of auditor negligence than did those who did not receive the instructions. These results suggest that outcome effects in audit litigation are caused in part by jurors’ emotions toward the outcomes and, more broadly, demonstrate how emotions toward components of a task can influence judgments.

Taking a similar approach to the study of emotions, Bagley (2010) examined whether accountability to multiple parties, a pervasive aspect of the audit environment, causes auditors to experience anxiety, and how this anxiety impacts audit performance. Auditors frequently are held accountable simultaneously to multiple parties with various preferences for performance (Bierstaker and Wright 2001). While multiple accountabilities may appear to have only positive quality benefits, psychology research suggests that the increased scrutiny from being held accountable to multiple parties can yield negative consequences, including negative emotional responses (Seta et al. 1989). The author predicted that as accountability requirements increased, negative emotions also would increase and impair auditor performance, particularly for high-complexity tasks.

The author conducted an experiment in which auditors were divided into three accountability groups (no accountability, single accountability, and multiple accountabilities), and they were asked to complete both a low- and high-complexity audit task. The author found that when auditors are accountable to multiple superiors, they experience significantly more anxiety than when they are accountable to either one superior or have no accountability when performing both low-complexity and high-complexity tasks. In addition, the increased negative emotions impaired performance on the low-complexity, but not the high-complexity, audit task. The author concluded that multiple accountabilities, which are pervasive in auditing, can cause negative emotions, and that the resulting negative reactions can harm low-complexity audit task performance. The results of both of these studies suggest that emotions toward components of the task environment can have detrimental influences on performance.
MOOD EFFECTS

While the prior studies summarized suggest that emotions toward specific targets (i.e., client or task) can influence judgments, there is a growing body of studies suggesting that auditors’ general moods also can impact performance. Chung et al. (2008) investigated the effect of different moods (positive, neutral, and negative) on professional auditors’ inventory valuation decisions. A mood is a state of mind or a feeling. While auditors can experience a variety of moods anytime during an audit, with these moods triggered by numerous events within and outside the audit, auditing studies have examined moods that tend to be task-irrelevant. Based on psychology research, the authors argued that individuals in a negative mood may retrieve more negative (conservative) information from memory when making judgments (Clore et al. 1994). Individuals in a negative mood also would be less concerned about staying in a negative mood, and would be willing to confront others and uncover negative information (Wegener and Petty 1994). Conversely, individuals experiencing positive moods may retrieve more positive information (i.e., information indicating lower risk of misstatement) from memory when making judgments, and would be interested in maintaining their positive moods by taking a less-confrontational stand. Thus, the authors predicted that auditors in a negative mood would provide more conservative inventory values than auditors in a positive mood.

In an experiment using practicing auditors as participants, the authors manipulated three types of moods by asking participants to read one of three passages that elicited positive, neutral, or negative moods. Auditors then were asked to make judgments on the fair presentation of a client’s inventory balance for which two independent appraisers had reported different inventory values. The results indicated that participants in the positive mood condition valued the inventory higher than did those in the negative mood condition, with the neutral mood condition in the middle. In addition, positive mood participants exhibited the lowest judgment consensus, as compared to the neutral mood and negative mood participants. These findings indicate that more disagreement is likely to occur with auditors in a positive mood than in a negative mood. In a separate experiment using the same task, auditing students in a positive mood made use of more positive and less negative information relative to the negative mood participants, suggesting that moods impact information use.

Cianci and Bierstaker (2009) extended this line of research by examining whether the impact of moods on audit judgments depends on the type of audit task. Based on findings in psychology indicating that positive or negative moods sometimes improve performance and sometimes impair it (e.g., Forgas 1995; Bless 2000), the authors examined mood’s impact on two different types of audit tasks, generating potential explanations for fluctuations in financial ratios and ethical judgments. The authors based their expectations on theory indicating that negative moods facilitate more effortful and analytical information processing than do positive moods (e.g., Forgas 1995). This effortful processing induced by negative moods may enhance auditors’ performance in generating potential explanations, because generating explanations is an unstructured audit task that requires effort to recall possible causes for the fluctuations. Consequently, the authors expected negative (positive) moods to improve (impair) task performance. With respect to ethical decision making, the authors based their expectations on theory indicating that positive moods facilitate behaviors that include helping coworkers and protecting the organization (George and Jones 2001). As a result, they predict that positive moods will lead to more truth telling (i.e., more ethical behavior), while negative moods will lead to less truth telling.

In an experiment, practicing auditors read a series of statements designed to produce a negative, positive, or neutral mood. Then, participants completed a task involving the generation of
explanations for fluctuations in the gross margin and inventory turnover ratios, as well as making two ethical judgments (one involving the reporting of audit work and the other involving writing off obsolete inventory). Results indicated that auditors in the negative (compared to positive) mood condition generated more correct explanations for fluctuations in the gross margin and inventory turnover ratios. Also, auditors in a negative mood condition made less ethical judgments on both ethical tasks, as compared to auditors in the positive mood condition. Overall, the study finds that the nature of the task is an important factor to consider when determining the impact of moods on audit judgment.

**SUMMARY AND IMPLICATIONS**

The research summarized in this paper reveals the potential for auditors’ judgments to be susceptible to emotional reactions toward client personnel and components of a task, as well as general negative and positive moods. Given the fact that auditors’ emotional reactions and moods are pervasive in the audit environment, such effects appear to be somewhat inevitable. The research summarized indicates the potential for these effects to have significant negative consequences. Consequently, a critical first step is to make auditors aware of the potential for emotions and moods to inadvertently impact their judgments, and how the reactions could impact audit effectiveness and efficiency.

The first group of studies discussed in this paper should be of interest to practitioners because they suggest that tasks performed by lower-rank auditors may be more susceptible to irrelevant emotional reactions toward the client. Lower-rank auditors will interact with client personnel throughout the audit process to gather audit evidence. While client management represents a vital source of audit evidence, the results from these two studies show that auditors need to be aware of the potential for their feelings toward client personnel to have inappropriate effects on their audit judgments. Also, it suggests that audit supervisors should consider the potential impact on audit performance of emotional reactions toward client personnel.

The second group of studies demonstrates that elements of an audit task can create anxiety, which in turn can affect performance. Notably, these studies were conducted with diverse participant groups. Kadous (2001) found that jurors’ negative feelings toward the audit outcome (e.g., fraud) erroneously influenced their audit quality assessments. These findings suggest that emotions have a far-reaching influence on the audit environment, with implications for evaluating the audit end product. Importantly, however, Kadous (2001) found that very simple instructions can reduce the effects of emotions on juror decision making, which has implications for the different debiasing techniques that can be used with jurors during audit litigation. Bagley (2010) finds that a pervasive quality control element of the audit structure, multiple accountabilities, can have unexpected negative consequences on auditor performance. Findings from this study have potential implications for the review process by highlighting the potential need to reduce anxiety resulting from being held accountable to multiple parties during an audit.

The third group of studies shows that auditors’ general positive or negative moods can influence various types of judgment tasks. Chung et al.’s (2008) findings should be of interest to the profession because they suggest that moods (which could be caused by aspects of the auditor’s work environment or factors outside of the audit) can impact auditors’ conservatism and their audit judgments. This result could call for training auditors to be aware of their existing moods and the possible effects on their professional judgment. Cianci and Bierstaker’s (2009) findings suggest that any training to reduce the deleterious impact of moods also needs to take into account the nature of the audit task. They demonstrate that positive moods may be beneficial for certain
audit tasks (e.g., ethical judgments), but not for others (e.g., analytical procedures), which needs to be incorporated into any type of awareness training.

The findings from the academic research summarized in this paper support emerging discussions in the practice community on the importance of emotional training on auditor expertise (Institute of Internal Auditors [IIA] 2012). Many accounting organizations have recognized that emotional intelligence skills are critical to success (Akers and Porter 2003). In CPA Vision 2011 and Beyond: Focus on the Horizon (available at: http://www.cpavision.org), the AICPA identified emotional skills as extremely important, and an Institute of Management Accountants (IMA) research study states that “interpersonal skills” are important for success as professional accountants.

Given these findings, audit firms can benefit from additional research that confirms the effects noted in the studies summarized, and examines the exact conditions under which the observed effects of auditors’ emotions and moods will be increased or decreased. For example, studies should investigate if the review process can minimize the impact of judgment errors caused by auditors’ moods and emotions. What would the effects be if auditors have more or less experience with a client or experience with a task? Finding when these effects are the most salient can help firms better design workflow arrangements to minimize the influence of emotions and moods and help auditors attend to relevant data. In addition, researchers can try to assist in developing interventions and/or training techniques that will serve to minimize the effects that emotions and moods have on auditor judgments.

The audit practice community should consider several mechanisms to address the issues highlighted in the summarized studies. Training exercises perhaps could be developed to increase auditors’ awareness of their potential to commit these errors. Such exercises could increase the salience of these issues to auditors and, potentially, limit their occurrence. Further, notifications could be built into the standardized audit programs to encourage auditors to attend to a balanced and complete set of data, rather than attending to data consistent with their emotions and moods, which could result in errors such as those addressed in this summary. Similar awareness techniques also may be beneficial for jurors in the audit ligation setting.

REFERENCES


