

Empowering Auditors to Pursue Fraud during Evidence Evaluation

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SYNOPSIS: Auditors struggle to respond skeptically to fraud, diminishing audit quality. This problem is particularly prevalent during the evidence evaluation phase of the audit, when auditors perceive intense time constraints. Theory suggests that employees who feel empowered overcome constraints and produce higher quality work. We predict and find support for our empowerment theory-driven judgment model. Specifically, as auditors in the evidence evaluation phase feel more empowered, they assess fraud risk higher when fraud is present, leading them to indicate a greater need for more work and, ultimately, recommend more effective audit procedures. In further support for our theory, we find that as auditors feel more empowered, they perceive audit constraints as less restrictive. Regulators advocate for increased auditor vigilance against fraud, and this study contributes to research and practice by identifying an audit management strategy—empowerment—that successfully improves auditors’ fraud pursuit during evidence evaluation.

Keywords: audit quality; budget pressure; empowerment; fraud; professional skepticism; time constraints.

I. SYNOPSIS AND CONTRIBUTION TO PRACTICE

The Public Company Accounting Oversight Board (PCAOB) has proposed a new auditing standard that would increase auditors’ responsibility for identifying fraud (PCAOB 2023a). This development follows regulators’ concerns that auditors often fail to respond skeptically to audit evidence that is suggestive of fraud (e.g., PCAOB 2023c; IAASB 2024; SEC 2024). Fraud evidence can emerge during the evidence evaluation phase of the audit, which occurs after planned audit procedures have been determined and when time constraints are particularly

We appreciate helpful feedback provided by workshop participants at Georgia State University, Georgia Institute of Technology, Queens University, the University of Massachusetts Amherst, The University of Mississippi, the University of Pittsburgh, and the University of Georgia, as well as by participants at the 2016 Institute for Fraud Prevention Fall Meeting, the 2018 American Accounting Association Annual Meeting, the 2019 Audit Midyear Meeting, the 2022 Accounting Behavior and Organizations Meeting, and the 2022 International Symposium on Audit Research. We are grateful to Ann Backof, Sanjay Banerjee, Bradley Bennett, Joe Brazel, Ted Christensen, Paul Demere, Jackie Hammersley, Erin Hawkins, Eric Johnson, Macy Knutson, Justin Leiby, Pamela Murphy, Kyle Sopp, Jane Thayer, and Jennifer Winchel for their thoughtful feedback on this manuscript. Special thanks to Mike Ricci, Rich Mautz, and Miranda Hugie for their able research assistance. We are thankful for the financial support provided through an IFP grant and for auditor participants provided through a Center for Audit Quality (CAQ) grant. Tina D. Carpenter and Margaret H. Christ appreciate the financial support provided by a Terry-Sanford research grant. The authors of this publication have no conflicts of interest related to this research.

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Editor’s note: Accepted by Linda A. Myers, under the Senior Editorship of D. Scott Showalter.

Submitted: December 2023
Accepted: July 2024
Early Access: August 2024

salient (Lambert, Jones, Brazel, and Showalter 2017).¹ These constraints make it difficult for auditors to detect and report fraud (Braun 2000; Austin 2023). Together, this suggests that it is critical and timely to identify audit management techniques that render improved fraud detection and, ultimately, audit quality. Audit firms tout the importance of empowering employees (EY 2023; Deloitte 2024), suggesting—although not yet empirically tested—that empowerment could be one management technique associated with improved audit outcomes, namely more effective fraud pursuit. Therefore, we examine whether auditors more effectively respond to unanticipated fraud evidence during evidence evaluation when they feel more empowered to do so.

Empowerment is the feeling that one can navigate the course of his or her own work, and it motivates people to overcome constraints, thus improving their work outcomes (Conger and Kanungo 1988). Although auditors may technically possess the necessary authority and time to perform additional audit procedures in response to fraud evidence, they perceive demotivating constraints such that they do not feel empowered to pursue fraud evidence. That is, auditors are demotivated from pursuing fraud evidence by a warranted fear of negative professional evaluations if this pursuit is unfruitful (Brazel, Jackson, Schaefer, and Stewart 2016; Brazel, Leiby, and Schaefer 2022). Presumably, these negative evaluations result from unfruitful fraud pursuit exacerbating the already severe time constraints that auditors experience during evidence evaluation. We investigate whether auditors who feel more empowered respond more effectively to unanticipated fraud evidence encountered during evidence evaluation, despite these perceived constraints.

Empowerment theory suggests that when people feel they have influence over their activities at work, they overcome workplace constraints and their performance improves (Logan and Ganster 2007). That is, empowerment both improves their cognition and motivates them to action. It is troubling, however, that auditors indicate that they do not always feel empowered at work (Brazel et al. 2016; Clor-Proell, Kadous, and Proell 2023), which could diminish audit quality. We develop a path model which predicts that when auditors who encounter fraud evidence feel more empowered, their cognition and motivation to act improve such that they appropriately perceive fraud risk as higher, believe performing more work is more important, and respond more skeptically by suggesting more effective audit procedures targeted at fraud evidence.

We test our theory using senior auditor participants who perform an evidence evaluation task related to revenue, with a seeded fraud present. We tell the participants that there is time pressure because time constraints are often associated with the evidence evaluation phase of the audit. As our primary variables, we capture auditors' feelings of empowerment, their assessment of fraud risk, their interest in performing more procedures, and the effectiveness of the specific procedures that participants note they would like to perform.

We find evidence supporting our predictions. Our path model reveals that in a setting in which fraud is present, as auditors feel more empowered, they assess fraud risk higher. Subsequently, these auditors indicate a greater necessity to perform additional procedures and, then, suggest more effective fraud procedures. That is, our path model highlights how both improved cognition (i.e., fraud risk evaluation and effective fraud procedures) and motivation (i.e., the necessity to pursue fraud) work in tandem to improve more empowered feeling auditors' work. Importantly, our final dependent measure captures the *proportion* of effective procedures that auditors recommend, alleviating the concern that auditors who feel more empowered inefficiently recommend a larger number of both effective and ineffective procedures. In supplemental analysis, we provide additional evidence that empowerment theory is at work in our study. Namely, we find that one perceived constraint—perceptions that supervisors will view unfruitful fraud pursuit unfavorably—is negatively associated with auditors' feelings of empowerment. Overall, we provide evidence that feelings of empowerment embolden auditors to pursue fraud when it is present.

This study makes important contributions to research and practice. First, the PCAOB has proposed an amendment to the auditing standards that requires increased auditor vigilance against fraud (PCAOB 2023a) and cautions that the recent “economic environment may have created greater opportunities, incentives, and pressures to commit fraud” (PCAOB 2023b, 4). Our results suggest that auditors who feel more empowered more willingly and more effectively investigate unanticipated fraud evidence than auditors who feel less empowered, even when deadlines loom. This evidence indicates that empowerment is an audit management technique that could aid audit firms in complying with the spirit of newly proposed regulation. As such, we call on audit researchers to build on our study by investigating empowerment interventions.

Second, although most fraud research focuses on the planning phase of the audit (e.g., Carpenter 2007; Dennis and Johnstone 2018), auditors are also responsible for responding to fraud evidence later, during the evidence evaluation phase (PCAOB 2010, 2022). The conditions under which auditors make judgments and decisions about fraud differ between these phases (Austin 2023). During evidence evaluation, auditors obtain new fraud evidence but face

¹ An example of fraud evidence is a customer confirmation returned with a note that a lease renegotiation was requested by the lessor-client, rather than the customer, which is outside of the ordinary course of business.

considerable time constraints that lead to warranted concerns that unfruitful fraud pursuit will be punished (Brazel et al. 2016; Lambert et al. 2017). Thus, practitioners will benefit from our insights into successful fraud pursuit during the critical evidence evaluation phase. Moreover, auditors' work during this phase has a stronger proximal connection with the information received by financial statement users, relative to auditors' planning work, highlighting the criticality of auditors' evidence evaluation decisions.

Third, we advance theory suggesting that perceived constraints in the audit environment impair the professional skepticism with which auditors pursue fraud. Thereby, we answer calls from both standard setters and academics for research on auditors' skepticism and, in particular, reasons for its deficiency (e.g., PCAOB 2017; Nolder and Kadous 2018). We find that stronger feelings of empowerment are associated with auditors' reduced perceptions of constraints, improved cognition, and greater motivation for skeptical action.

II. LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

Literature Review

Auditing standards require that auditors exhibit professional skepticism and identify fraud risks during the initial planning phase of the audit, and that they respond to these risks with appropriate modifications to planned audit procedures (PCAOB 2010). However, during planning, auditors have only general information about fraud risks and prior research finds that they often struggle to effectively modify planned audit procedures for specific fraud risks (Asare and Wright 2004; Hoffman and Zimbelman 2009; Hammersley 2011). Auditors execute their planned audit procedures during the evidence collection and evaluation phase of the audit. During this phase, they may encounter fraud evidence that should compel them to modify their audit plan. However, despite the importance of responding to new, unanticipated fraud evidence, auditors struggle to do so effectively (PCAOB 2020, 2023c; Austin 2023).

Auditors may feel constrained in their fraud evidence response because of the time pressure that is particularly salient during evidence evaluation (PCAOB 2012, 2017; IAASB 2024), when client deadlines are approaching and there is less time remaining in the budget (Agoglia, Hatfield, and Lambert 2015; Lambert et al. 2017). Research shows that auditors exhibit higher levels of stress when faced with time pressure (Margheim, Kelley, and Pattison 2005), causing them to approach evidence, especially related to fraud, less skeptically (McDaniel 1990; Braun 2000; Austin 2023). Thus, perceived time constraints inherent to evidence evaluation impair auditors' cognition when faced with unanticipated fraud evidence.

Furthermore, auditors who encounter fraud evidence may feel constrained by their supervisors' expected response to fraud pursuit. Audit managers lower auditors' performance ratings to penalize staff and seniors who spend time on fraud pursuit that is ultimately unfruitful (Brazel et al. 2016, 2022), presumably due to time constraints in the audit. If these auditors anticipate managers' penalties and view the expected penalties as a constraint, this will demotivate them from taking skeptical action when faced with fraud evidence.

Development of Hypotheses

Empowerment is a motivational construct that prompts people to believe they can "effectively influence the course of activities at work" (Logan and Ganster 2007, 1525). It is positively associated with employees' beliefs that they have (1) access to necessary workplace tools, information, and resources, (2) personal control and decision-making power, (3) value in the organization, and (4) supervisors' support (Spreitzer 1996; Deci and Ryan 1987; Laschinger, Finegan, and Shamian 2001; Peccei and Rosenthal 2001; Logan and Ganster 2007).

The supervisory support aspect of empowerment is of particular interest. Cirka (2005, 294) surveyed more than 1,100 employees and found that feelings of empowerment are positively associated with perceived autonomy support, defined as "a condition when managers acknowledge employees' perspectives and encourage their proactive participation in work activities." Moreover, stronger perceived organizational support, which in part depends on perceived supervisory support, also leads to improved work attitudes and improved employee performance (Riggle, Edmondson, and Hansen 2009; Kurtessis et al. 2017). In accounting, Aghazadeh, Hoang, and Nolder (2024) provides a framework in which stronger perceived supervisory support bolsters auditors' work attitudes.

More broadly, researchers find that empowerment yields various benefits to the organization and its employees. For example, employees who feel empowered perform a greater quantity and quality of work, are more likely to engage in organizational citizenship behaviors, are more satisfied in their jobs, and are more innovative (Spreitzer 1996; Logan and Ganster 2007). Indeed, in a meta-analysis of 142 articles, Seibert, Wang, and Courtright (2011) shows that feelings of empowerment are associated with improved task performance. When individuals feel empowered, they overcome

constraints more effectively, are more motivated to initiate and persist on work tasks, and produce higher quality work (Conger and Kanungo 1988; Marginson and Ogdén 2005). In sum, empowerment works toward positive workplace outcomes through multiple channels, namely, by both improving cognition and motivating thoughtful action.

Empowerment theory suggests that empowering auditors to investigate fraud evidence could help them to overcome the aforementioned perceived cognitive and motivational constraints that reduce their skeptical behavior, which would ultimately improve audit quality. Drawing on this theory, we develop a judgment process model, depicted in Figure 1, that breaks down the sequence through which we expect improved cognition and motivated action to improve auditors' responses to unanticipated fraud evidence.

We expect that feeling more empowered will first improve auditors' cognition, despite the perceived constraints characteristic of the evidence evaluation phase of the audit. Researchers identify cognition as central to the empowerment construct (Robbins, Crino, and Fredendall 2002) and, more specifically, show that empowerment is associated with the cognitive aspects of trust in immediate supervisors (Ergeneli, Ari, and Metin 2007). We expect that improved cognition will lead more empowered feeling auditors to evaluate evidence more effectively. When evidence is suggestive of fraud, we expect auditors who feel more empowered to more accurately recognize the potential for fraud and, thus, assess fraud risk higher.

H1: As auditors who encounter unanticipated fraud evidence during evidence evaluation feel more empowered, they will assess fraud risk higher.

Next, we expect auditors who feel more empowered and assess fraud risk higher will be motivated to investigate perceived fraud risk more completely. That is, empowerment affects not only cognition but also subsequent motivation to act. Indeed, studies find that empowerment leads to more proactive behavior and a greater quantity of work (Spreitzer 1996; Logan and Ganster 2007). Therefore, we expect auditors who feel more empowered and, thus, assess fraud risk higher to identify performing additional work to investigate unanticipated fraud evidence as more warranted. Formally:

H2: When auditors who encounter unanticipated fraud evidence during evidence evaluation assess fraud risk higher, they will be more willing to perform additional work.

Finally, employees who feel empowered perform higher quality work, exhibit greater innovation and creativity (Spreitzer 1996; Logan and Ganster 2007), and display improved workplace agility—i.e., the ability to adjust quickly to work smarter but not necessarily harder (Muduli and Pandya 2018). These benefits are particularly important in the audit context because auditors struggle to identify procedures that *effectively* respond to fraud risk (Hammersley, Johnstone, and Kadous 2011). For example, auditors are more likely to recommend testing an increased sample size than testing a sample targeted at particularly risky transactions, even though the former is less likely to uncover fraud. However, we expect auditors who feel more empowered to advance more innovative, tailored audit procedures in response to fraud evidence. Thus, we expect auditors who feel more empowered not only to respond more readily to unanticipated fraud evidence but also to use their improved cognition to advance audit procedures that more *effectively* address the seeded fraud. We predict that auditors who indicate more willingness to perform more work, as a result of

FIGURE 1
A Theoretical Model of the Hypothesized Relations

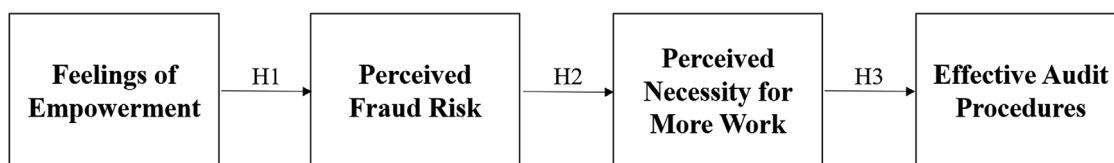


Figure 1 summarizes the hypotheses that derive from our theoretical model. *Feelings of Empowerment* is a continuous measure capturing the sum of auditors' responses to Menon's (2001) validated empowerment scale. We tailored these questions to fit our audit setting. *Perceived Fraud Risk* is a dependent measure that captures auditors' response to the question, "What is your assessment of the risk of material misstatement due to fraud at [the company]?" anchored at *extremely low risk* (0) and *extremely high risk* (10). *Perceived Necessity for More Work* is a dependent measure that captures auditors' response to the question, "Given what you've learned while working on audit procedure REV-1, you believe performing more work is" anchored at *completely unnecessary* (0) and *completely necessary* (10). *Effective Audit Procedures* is a dependent measure calculated as the ratio of effective audit procedures recommended to total audit procedures recommended, where effective procedures are those that target the fraud evidence in a way that could unveil the fraud.

See Appendix A for our tailored scale.

feeling more empowered and perceiving heightened fraud risk, will respond more skeptically by developing audit procedures that target the seeded fraud. Formally:

H3: When auditors who encounter unanticipated fraud evidence during evidence evaluation are more willing to perform additional work, they will advance more effective audit procedures.

III. RESEARCH METHOD

We examine how practicing auditors, who feel varying degrees of empowerment, respond to fraud evidence during the evidence evaluation phase of the audit.² We recruited senior auditor participants through the Center for Audit Quality (CAQ), and independently from one additional firm. Audit seniors are appropriate participants because they examine evidence, decide on next steps, and experience time constraints during evidence evaluation (Agoglia et al. 2015; Lambert et al. 2017).³ Of the 139 auditors recruited by the CAQ who met our viability requirements, 119 completed the requisite independent and dependent variable measures to be included in our analyses. All 25 independently recruited auditors who met these same viability requirements are included in our analyses. Our analyses include 144 audit seniors from Big 4 and non-Big 4 firms, who report an average of 36.92 months of audit experience.

Notably, we manipulated two variables that drive variation in auditors' sense of empowerment. Although we employed experimental best practices, in evaluating our results, we discovered a failure of random assignment across our experimental conditions for both manipulated variables. Because the random assignment failure makes inferences from these manipulated variables difficult to discern, we cautiously consider these manipulations in Appendix A. Here, we instead focus on auditors' measured sense of empowerment and its impact on audit quality outcomes.

Task

Our case, adapted from Carpenter (2007), is based on a real company for which the U.S. Securities and Exchange Commission (SEC) detected and reported several instances of fraudulent financial reporting in an Accounting and Auditing Enforcement Release. These case materials were reviewed by two Big 4 audit partners for realism.

Auditors completed our study online, using Qualtrics. First, they received background information including general fraud risk factors identified by the audit team during planning. The background information conveyed that there was little time left in the budget and that supervisors were monitoring the budget. Second, auditors completed a lessor revenue recognition task in which they evaluated whether a lease should be accounted for as new or renegotiated. During the audit task, auditors received information on the relevant accounting standards, audit program, and a workpaper. The workpaper highlighted one remaining open item for auditors to complete in one substantive audit procedure. Auditors received evidence related to the open item and then decided how to respond to it. The evidence indicated that the renegotiated lease was fraudulently accounted for as a new lease, resulting in unwarranted revenue recognition.⁴ Finally, participants answered questions about themselves, including their feelings of empowerment during the task. On average, participants completed the task in 29 minutes.

Independent Variable

Our independent variable is auditors' *Feelings of Empowerment*. As shown in Appendix A, we tailor Menon's (2001) validated empowerment scale to our audit setting to capture this construct. We measure each question on an 11-point Likert scale, anchored from *strongly disagree* (0) to *strongly agree* (10). We sum auditors' responses to create our variable.

Dependent Variables

Our theory predicts that auditors who feel more empowered will respond to fraud evidence more effectively. To investigate this relation, we measure three dependent variables. First, because our theoretical model posits that auditors who feel more empowered will more competently assess fraud risk, we measure *Perceived Fraud Risk* with the question,

² Institutional Review Board approval was granted by the relevant universities.

³ Throughout data collection, we updated the CAQ on the number of audit seniors who participated and met initial viability criteria (i.e., (1) they were indeed seniors and (2) they remained in our study until substantially complete).

⁴ According to accounting standards applicable at the time of the experiment (FASB, ASC 842), companies that renegotiate sales-type lease contracts do not recognize additional revenue if the lease continues to be classified as a sales-type lease (FASB 2020). Rather, the discount rate is updated such that no additional revenue is recognized (FASB 2020, ¶10-25-11). All participants received this information in the case materials and the renegotiated lease continued to be a sales-type lease.

“What is your assessment of the risk of material misstatement due to fraud?” Auditors answered using an 11-point Likert scale, ranging from *extremely low risk* (0) to *extremely high risk* (10).

Second, because our theoretical model posits that auditors who feel more empowered will be more willing to perform additional work in response to fraud evidence, we measure *Perceived Necessity for More Work*. Specifically, we ask, “Given what you’ve learned while working on audit procedure REV-1, you believe performing more work is,” anchored by *completely unnecessary* (0) and *completely necessary* (10) on an 11-point Likert scale.

Third, because our theoretical model posits that auditors who feel more empowered will work more effectively, we measure the percentage of *Effective Audit Procedures* that auditors recommend. We code an open-ended question, “What evidence do you want to collect and what additional procedures do you want to perform?” We define *Effective Audit Procedures* as those that are more likely to uncover the fraud if implemented (cf. Hammersley et al. 2011). One member of the research team and one independent research assistant, blind to our research question, coded the effectiveness of audit procedures.⁵ Both coders were blind to experimental condition. See Appendix A for example coding. To calculate *Effective Audit Procedures*, we count the number of effective procedures that auditors recommend and divide by the total number of procedures that they recommend. As an alternative measure, we use the count of the number of effective procedures.

IV. RESULTS

Table 1 provides descriptive statistics for auditors’ judgments and decisions from our theoretical model based on auditors’ feelings of empowerment.⁶ Although our theoretical model uses a continuous *Feelings of Empowerment* measure, we present a median split for this variable in Table 1 for ease of interpretation. “More Empowered Feeling” auditors fall above the median and “Less Empowered Feeling” auditors fall at or below the median.

Test of Theoretical Model: H1, H2, and H3

We use PROCESS, model 6, to estimate and test our theoretical model (Hayes 2022). Our PROCESS model captures *Feelings of Empowerment* as an independent variable that could affect both of our mediators—*Perceived Fraud Risk* and *Perceived Necessity for More Work*—as well as our dependent variable, *Effective Audit Procedures*. Additionally, our mediators can affect our subsequent mediators and dependent variable. Thus, this model is designed to provide evidence for all hypotheses.

The PROCESS model results reported in Figure 2 demonstrate support for an indirect path from *Feelings of Empowerment* to *Perceived Fraud Risk* to *Perceived Necessity for More Work* and, finally, to *Effective Audit Procedures* (95 percent confidence interval (CI): +0.0000, +0.0028).^{7,8} That is, our PROCESS model provides holistic evidence in support of H1, H2, and H3. We provide coefficients and statistical significance for the regressions in our PROCESS model below.

H1 predicts that during the evidence evaluation phase of the audit, as auditors who encounter unanticipated fraud evidence feel more empowered, they will assess fraud risk higher. Consistent with H1, we find a significant and positive relation between *Feelings of Empowerment* and *Perceived Fraud Risk* ($t = 2.17$, one-tailed $p = 0.02$), indicating improved auditor cognition.

H2 predicts that when auditors who encounter unanticipated fraud evidence assess fraud risk higher, they will indicate greater necessity that the audit team perform additional work. Consistent with H2, we find a significant and positive relation between *Perceived Fraud Risk* and *Perceived Necessity for More Work* ($t = 3.55$, one-tailed $p < 0.01$), indicating improvements to auditors’ motivation to act. Consistent with partial mediation, our independent variable less significantly affects *Perceived Necessity for More Work* ($t = 1.92$, two-tailed $p = 0.06$). This provides additional evidence in support of H2.

⁵ The coders initially agreed at a rate of 87 percent, with a Cohen’s kappa of 0.73 ($p < 0.01$), suggesting substantial agreement. The coders reconciled initial disagreements, jointly determining the final coding used in our analyses.

⁶ One auditor did not complete the *Effective Audit Procedures* question so that measure includes one fewer participant.

⁷ We expect the described indirect path from *Feelings of Empowerment* to *Effective Audit Procedures* to be positive, and this 95 percent confidence interval (+0.0000, +0.0028) reveals that 97.5 percent of the bootstrapped estimates are greater than 0.0000. For PROCESS, this is statistically equivalent to a one-tailed prediction with 97.5 percent confidence (Hayes 2022).

⁸ Note that significant indirect effects are not contingent on significant direct effects (Hayes 2022). We do not find a significant direct effect (CI: -0.0082 , $+0.0113$). Consistent with this, in untabulated individual analysis of variance (ANOVA) tests including the continuous *Feelings of Empowerment* variable as our independent variable, we find evidence that feelings of empowerment are strongly associated with improvements in *Perceived Fraud Risk* and greater *Perceived Necessity for More Work* (one-tailed p 's < 0.02), but are not significantly associated with *Effective Audit Procedures* ($t_{142} = 1.23$, one-tailed $p = 0.11$). This pattern is consistent with an indirect effect and highlights the importance of *Feelings of Empowerment* leading to our mediators and, then, to our final dependent variable.

TABLE 1
Descriptive Statistics

| | <i>More Empowered Feeling</i> | <i>Less Empowered Feeling</i> |
|--|-------------------------------|-------------------------------|
| <i>Perceived Fraud Risk</i> | 6.08 (0.28) [64] | 5.53 (0.25) [80] |
| <i>Perceived Necessity for More Work</i> | 7.58 (0.33) [64] | 6.79 (0.29) [80] |
| <i>Effective Audit Procedures</i> | 45.42% (5.45%) [64] | 37.29% (4.87%) [80] |
| <i>Supervisor View of Unfruitful Fraud Pursuit</i> | −0.47 (0.39) [64] | −1.26 (0.35) [80] |

Dependent variables by more and less empowered feeling—means (SE) [n]. Table 1 reports the means, standard errors, and sample size for dependent variables of interest, including those in our theoretical model, based on levels of auditors' feelings of empowerment. The Appendix A gives our tailored scale.

Variable Definitions:

More Empowered Feeling = a measured variable that captures all of the participants above the median on the sum of our empowerment scale measures. We utilize Menon's (2001) validated empowerment scale, which we tailor to fit our audit setting;

Less Empowered Feeling = a measured variable that captures all of the participants at or below the median on the sum of our empowerment scale measures;

Perceived Fraud Risk = a dependent measure that captures auditors' response to the question, "What is your assessment of the risk of material misstatement due to fraud at [the company]?" anchored at *extremely low risk* (0) and *extremely high risk* (10);

Perceived Necessity for More Work = a dependent measure that captures auditors' response to the question, "Given what you've learned while working on audit procedure REV-1, you believe performing more work is" anchored at *completely unnecessary* (0) and *completely necessary* (10);

Effective Audit Procedures = a dependent measure calculated as the ratio of effective audit procedures recommended to total audit procedures recommended, where effective procedures are those that target the fraud evidence in a way that could unveil the fraud; and

Supervisor View of Unfruitful Fraud Pursuit = a dependent measure that captures auditors' response to the question, "Assume that follow-up efforts today would have resulted in NOT finding a misstatement. Under this assumption, do you feel that John Reynolds (your manager on this engagement) would view the time spent on follow-up as a normal cost of conducting an audit or as lost time?" anchored at *Lost time* (−5) and *Normal cost* (5).

H3 predicts that when auditors who encounter unanticipated fraud evidence during evidence evaluation are more willing to perform additional work, they will advance more effective audit procedures. Consistent with this, we find a significant and positive relation between *Perceived Necessity for More Work* and the percentage of *Effective Audit Procedures* that auditors recommend ($t = 4.27$, one-tailed $p < 0.01$), indicating improved auditor cognition. Consistent with full mediation, our independent variable and previous mediator do not significantly affect *Effective Audit Procedures* (both p 's > 0.75), providing additional evidence in support of H3.

Because it examines the *proportion* of effective audit procedures that auditors recommend, our H3 results suggest that auditors who feel more empowered recommend an improved set of audit procedures. Using this measure allows us to alleviate the concern that auditors who feel more empowered inefficiently recommend a larger number of both effective and ineffective procedures. Nonetheless, as additional support for H3, we substitute the count, rather than the percentage, of *Effective Audit Procedures* as our final dependent variable. We find a positive and significant relation between *Perceived Necessity for More Work* and the number of *Effective Audit Procedures* that auditors recommend ($t = 4.62$, one-tailed $p < 0.01$).⁹

In sum, our results indicate that greater feelings of empowerment benefit auditors because these feelings yield improved cognition and motivate more skeptical action in response to unanticipated fraud evidence during evidence evaluation.

⁹ The indirect effect for our theoretical model remains significant when we use the number, rather than percentage, of *Effective Audit Procedures* (95 percent CI: +0.0000, +0.0053).

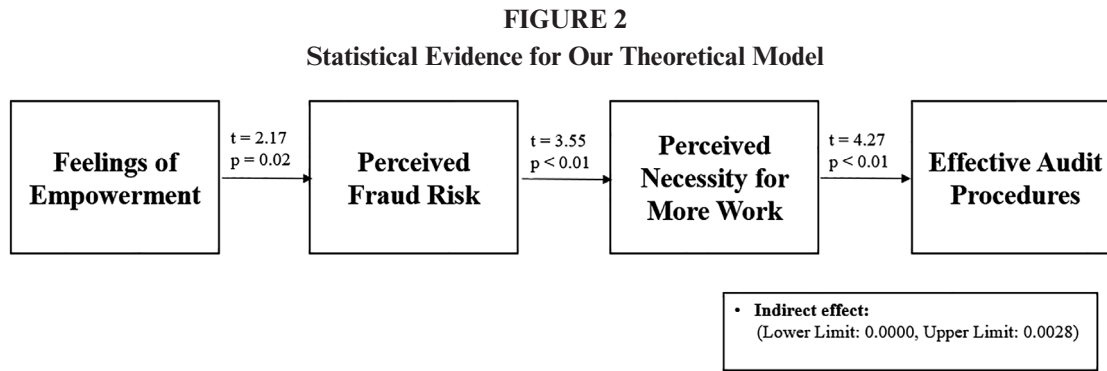


Figure 2 provides evidence for H1, H2, and H3. That is, Figure 2 shows the results of PROCESS (model 6), modeling the effects of auditors' feelings of empowerment on their perceived fraud risk, then their perceived necessity for more work, and finally their effective audit procedures. Although not included in Figure 2, our PROCESS model includes paths to both of our mediators and to our dependent variable from our independent variable and from our preceding mediators. The only of these additional paths that are significant is the path between *Feelings of Empowerment* and *Perceived Necessity for More Work* ($t = 1.92$, $p = 0.06$). *Feelings of Empowerment* is a continuous measure capturing the sum of auditors' responses to Menon's (2001) validated empowerment scale. We tailored these questions to fit our audit setting. *Perceived Fraud Risk* is a dependent measure that captures auditors' response to the question, "What is your assessment of the risk of material misstatement due to fraud at [the company]?" anchored at *extremely low risk* (0) and *extremely high risk* (10). *Perceived Necessity for More Work* is a dependent measure that captures auditors' response to the question, "Given what you've learned while working on audit procedure REV-1, you believe performing more work is" anchored at *completely unnecessary* (0) and *completely necessary* (10). *Effective Audit Procedures* is a dependent measure calculated as the ratio of effective audit procedures recommended to total audit procedures recommended, where effective procedures are those that target the fraud evidence in a way that could unveil the fraud. All p-values are one-tailed, reflecting directional predictions. We expect our indirect path to be positive, and indeed 97.5 percent of the bootstrapped estimates are greater than 0.0000 (i.e., 95 percent are within 0.0000 and 0.0028, and another 2.5 percent are greater than 0.0028). For PROCESS, this is statistically equivalent to a one-tailed prediction with 97.5 percent confidence (Hayes 2022).

See Appendix A for our tailored scale.

Supplemental Analysis

Empowerment theory posits that more empowered employees better *overcome workplace constraints* and their work outcomes improve. Our theoretical development and evidence thus far focus on auditors' improved cognitive and motivational work outcomes. However, Brazel et al. (2016, 2022) find that auditors have warranted fear of negative performance evaluations when their pursuit of fraud evidence is unfruitful, and we contribute to this stream of research by examining whether auditors' feelings of empowerment are negatively correlated with this perceived constraint—that is, with perceptions of supervisors' negative views of unfruitful fraud pursuit. We find good news: auditors' feelings of empowerment are negatively correlated with viewing supervisors' expected reaction to unfruitful fraud pursuit as a constraint ($F = 5.43$, two-tailed $p = 0.02$).¹⁰ This examination provides additional evidence that empowerment theory is at work in our study. Specifically, our findings are consistent with the tenets of empowerment theory, which in our setting suggest that when auditors feel more empowered, they feel less constrained from appropriately pursuing fraud evidence.

V. IMPLICATIONS

Our study contributes to theory and practice. Audit firms tout empowerment because it improves organizational talent (Deloitte 2017) and results (EY 2023), although auditors report not always feeling empowered in their work (Clor-Proell et al. 2023). Our findings indicate that when auditors *do* feel empowered, additional benefits ensue because they more effectively pursue fraud evidence during evidence evaluation, improving audit quality. Improvement in auditors' fraud pursuit is critical and timely given regulators' concerns that auditors struggle to respond to fraud risks with sufficient professional skepticism (PCAOB 2012, 2017) and regulators' ensuing proposed standard modification aimed at increasing auditors' responsibility for fraud identification (PCAOB 2023a). We call on researchers to build on our study

¹⁰ We asked participants, "[A]ssume that follow-up efforts today would have resulted in **not finding a misstatement**...Do you feel that your manager on this engagement would view the time spent on follow-up as a normal cost of conducting an audit or as lost time?" (emphasis in the original). Participants replied using an 11-point Likert scale, anchored at *lost time* (−5) and *normal cost* (5). This measure reflects concerns identified in Brazel et al. (2016), which constrain the important aforementioned supervisory support aspect of empowerment.

by investigating empowerment interventions in the audit domain. Our findings indicate that empowerment interventions may be particularly helpful during the evidence evaluation phase of the audit, a phase that features unique complexities but that is, nonetheless, understudied in the auditing literature. Finally, in answer to calls for research in [Nolder and Kadous \(2018\)](#) and [PCAOB \(2017\)](#), we find that more empowered auditors exhibit heightened skepticism in both their cognitive judgments and motivation to action, thereby better protecting the capital markets.

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APPENDIX A

Methods and Supplementary Information

Random Assignment of Manipulated Variables

We manipulated two factors that drive variation in auditors' sense of empowerment: supervisor support and a professional skepticism charge code. Auditors use charge codes to document their time on audit tasks, and traditionally these charge codes relate to the time budgeted for work on specific audit cycles (e.g., planning, revenue, inventory, etc.). The skepticism charge code is a charge code that auditors can use if they feel the need to exercise professional skepticism related to investigating potential fraud. We posited that these independent variables would not only drive variation but would *cause* auditors to feel more empowered.

While analyzing the data, we noted that despite random assignment of participants to experimental conditions, the percentage of auditors who are Certified Public Accountants (CPAs) was unevenly distributed across our independent variables. Based on initial evidence of correlation, we used a logit regression with a CPA indicator variable to investigate random assignment failure. In this analysis, supervisor support was moderately significant ($\chi^2 = 2.59$, two-tailed $p = 0.10$), access to a skepticism charge code was significant ($\chi^2 = 4.13$, two-tailed $p = 0.04$), and the interaction between these two independent variables was insignificant ($\chi^2 = 0.03$, two-tailed $p = 0.86$). Statisticians commonly assert that with fluke random assignment failures like this, controlling for the related variable is necessary for appropriate interpretation of results (Piercey 2023). Thus, to investigate whether supervisor support and our professional skepticism charge code empower auditors, we included CPA and its interactions with our independent variables in our ANOVA model. We removed any insignificant interactions because removing insignificant, unexpected interactions is appropriate for model parsimony (Piercey 2023).

Although we find a significant interaction between supervisor support and CPA on *Feelings of Empowerment* ($F = 2.99$, two-tailed $p = 0.08$), we also recognize that including CPA as a covariate in our analysis results in small, unstable cell sizes (i.e., cell sizes less than ten).¹¹ Thus, we warn readers that our model could be overfitted where our data are most sparse (in non-CPA conditions) and, thus, these results may not be replicable. We find no evidence that receiving a skepticism charge code increases auditors' *Feelings of Empowerment* ($F = 0.07$, one-tailed $p = 0.40$) but again urge caution in over-relying on the results from this analysis.¹²

Although the failure of random assignment across our experimental conditions makes inferences from our manipulated variables difficult to discern, we do find variance in auditors' sense of empowerment. Capitalizing on that variance, our study is able to successfully reveal improved audit outcomes driven by auditors' sense of empowerment.

Of additional note, CPA is correlated with auditors' *Feelings of Empowerment*. Neither *Feelings of Empowerment* nor CPA are correlated with other descriptive information about participants, including audit experience, whether they are from Big 4 audit firms, their experience with fraud, the number of fraud classes completed, or their experience with leases (all $> p = 0.10$). When we include CPA as a covariate in the analyses we report in our paper, our inferences are unchanged (95 percent CI, lower limit: +0.0000, upper limit: +0.0028).¹³

(continued on next page)

¹¹ Specifically, this analysis suggests that *Feelings of Empowerment* increase when CPAs receive supervisor support ($t_{95} = 2.08$, two-tailed $p = 0.04$) but do not increase when non-CPAs receive supervisor support ($t_{95} = 0.72$, two-tailed $p = 0.47$). For context, our data suggest that non-CPAs report feeling more empowered (35.55) than CPAs (32.79, $F = 3.49$, two-tailed $p = 0.06$). Furthermore, in the absence of explicit statements of support, non-CPAs' *Feelings of Empowerment* (36.42) are significantly greater than CPA's *Feelings of Empowerment* (31.11, $t_{95} = 2.54$, two-tailed $p = 0.01$) but they do not significantly differ from the feelings of CPAs who receive supervisor support (34.47, $t_{95} = 1.02$, two-tailed $p = 0.31$). Note that our sample size differs in these analyses, relative to our primary analyses, because, for these analyses related to our manipulated variables, we excluded participants who did not meet manipulation-related attention checks.

¹² The interaction between access to a skepticism charge code and CPA has an insignificant effect on auditors' *Feelings of Empowerment*, and thus, we removed this interaction from our model.

¹³ We also ran a model comparison with *Feelings of Empowerment* as the independent variable and *Perceived Fraud Risk* as the dependent variable. We compared between models that did and did not include CPA and the interaction of *Feelings of Empowerment* and CPA (see Piercey 2023). There is no significant difference in the models ($F_{2,139} = 0.20$, two-tailed $p = 0.82$), indicating that these two variables are not needed in our PROCESS model.

APPENDIX B (continued)

Effective Audit Procedures

For our final dependent variable, we code *Effective Audit Procedures* from auditors' responses to an open-ended question about evidence and procedures that auditors want to pursue. We code *Effective Audit Procedures* as those that (1) test a targeted sample of modified leases or otherwise evaluate the severity of the modified lease problem, (2) investigate the nature of the specific leases that were inappropriately modified, (3) confirm leases with specific customers, or (4) recalculate revenue in light of the modified lease problem. We code other procedures, like expanding the sample in a nontargeted way and obtaining lease agreements, as ineffective audit procedures.

We provide examples of each of these four groups of effective procedures that auditors recommend. For the first group, auditors said things like, "Issue is a direct departure from [Generally Accepted Accounting Procedures]. I would look at additional modified lease contracts to set if the company is overstating revenue," and like, "I would like the client to perform a scrub of their lease population to identify how many leases may be affected by this." For the second group, auditors said things like, "[I] would want to ask the Controller for some type of evidence (email, letter, etc.) noting when the contract negotiations were taking place - were the terms ever solidified or did the Controller request the modification." For the third group, auditors said things like, "Add confirmations if we are not doing that already." And, for the fourth group, auditors said things like, "I would want to request the payment and trace the payment to the GL to see how it was recorded. I would want to see how the \$230K is recorded in the GL since per the guidance, the additional revenue should not be recognized."

Empowerment Scale

We capture auditors' *Feelings of Empowerment* using Menon's (2001) validated empowerment scale, from the author's Study II. We exclude one question that was redundant in our audit setting and tailor the remaining eight questions to fit our setting. All eight questions were tailored at *strongly disagree* (0) and *strongly agree* (10). We specifically asked for auditors' agreement with the statements, where the *italicized* words indicate that we tailored that word to our setting, "I was inspired by what we were trying to achieve *as an audit team*," "I was inspired by the goals *of the audit team*," "I was enthusiastic about working toward the *audit team's* objectives," "I influenced the way work was done *on the audit*," "I had the authority to make decisions *on the audit*," "I had the capabilities required to do my job well," "I had the skills and abilities to do my job well," and, "I had the competence to work effectively."