

Table of Contents

Foreword V

Acknowledgements VII

Table of Contents IX

List of Abbreviations..... XV

List of Figures XXI

List of Tables..... XXIII

List of Symbols XXV

1 Introduction 1

1.1 Motivation and Objectives 1

1.2 Organization of the Thesis 4

2 Broad Theoretical Background 6

2.1 Need for Adoption of a Psychological Lens in Behavioral Research 6

2.1.1 Normative Economic Theory and Its Behavioral Limitations 6

2.1.2 Cognitive Psychology and its Contribution to Explaining Human Behavior 9

2.2 The Architecture of Cognition 10

2.3 Information Processing Approach..... 15

2.4 Auditor Judgment..... 16

2.4.1 Preliminaries..... 16

2.4.2 Determinants 21

2.4.2.1 Task Factors 21

2.4.2.1.1 Task Complexity..... 22

2.4.2.1.2 Information Relevance 23

2.4.2.1.3 Framing..... 24

2.4.2.1.4 Information Order..... 25

2.4.2.2 Environmental Factors 26

2.4.2.2.1 Incentives 26

2.4.2.2.2 Accountability 27

2.4.2.2.3 Feedback 28

2.4.2.2.4 Groups and Teams 29

2.4.2.2.5 Pressure..... 31

IX

2.4.2.2.6	Standards and Regulations.....	32
2.4.2.2.7	Audit Technology	33
2.4.2.3	Personal Factors	34
2.4.2.3.1	Knowledge and Expertise	35
2.4.2.3.2	Ability	37
2.4.2.3.3	Risk Attitude.....	38
2.4.2.3.4	Confidence.....	39
2.4.2.3.5	Tolerance for Ambiguity	39
2.4.2.3.6	Cognitive Style	40
2.4.2.3.6.1	Field Dependence-Independence.....	41
2.4.2.3.6.2	Locus of Control	42
2.4.2.3.7	Moral Development	43
2.4.2.3.8	Culture	45
2.4.2.3.9	Gender	48
3	Belief Revision and Information Order Effects	50
3.1	General Remarks	50
3.2	The Belief-Adjustment Model	53
3.2.1	Foundations	53
3.2.1.1	Task Characteristics	54
3.2.1.2	Evidence Characteristics	55
3.2.1.3	Cognitive Mechanisms.....	56
3.2.2	Model Specification	61
3.2.3	Model Implications and Predictions.....	64
3.2.4	Model Testing and Validation.....	68
3.2.5	Critical Evaluation.....	72
3.3	Relevance of Belief Revision in Auditing.....	73
3.4	Empirical Evidence on Information Order Effects in Auditing	75
4	The Concept of Professional Skepticism	82
4.1	General Remarks	82
4.2	Definitions and Views of Professional Skepticism	84
4.2.1	Skepticism in a General Sense	84
4.2.2	Professional Skepticism in a Normative Sense	89

4.2.3	Professional Skepticism as in the Auditing Literature	95
4.2.3.1	Neutrality Perspective	95
4.2.3.2	Presumptive Doubt Perspective	97
4.2.3.3	Other Perspectives	100
4.3	The Nelson Model	102
4.3.1	Model Overview	102
4.3.2	Determinants	104
4.3.2.1	Knowledge	104
4.3.2.2	Traits	108
4.3.2.2.1	Problem-Solving Ability	108
4.3.2.2.2	Ethics and Moral Development	109
4.3.2.2.3	Dispositional Skepticism	111
4.3.2.2.4	Dispositional (Dis)Trust	112
4.3.2.2.5	Culture	113
4.3.2.2.6	Gender	115
4.3.2.3	Incentives	116
4.3.2.3.1	Skepticism-Promoting Incentives	117
4.3.2.3.1.1	Oversight and Enforcement	117
4.3.2.3.1.2	Litigation and Reputation Loss	117
4.3.2.3.1.3	Audit Firm Culture	118
4.3.2.3.1.4	Accountability	119
4.3.2.3.2	Skepticism-Inhibiting Incentives	120
4.3.2.3.2.1	Client Retention Pressure and Fee Dependence	121
4.3.2.3.2.2	Tenure	123
4.3.2.3.2.3	Familiarity	124
4.3.2.4	Judgment	125
4.3.2.5	Action	127
4.4	Hurtt's Notion of Trait Professional Skepticism and the Hurtt Scale	128
4.4.1	General Remarks	128
4.4.2	Constituent Elements of Trait Professional Skepticism	130
4.4.2.1	Questioning Mind	130
4.4.2.2	Suspension of Judgment	132
4.4.2.3	Search for Knowledge	133

4.4.2.4	Interpersonal Understanding.....	135
4.4.2.5	Autonomy	136
4.4.2.6	Self-Esteem	137
4.4.3	Scale Development and Validation	138
4.4.4	Empirical Evidence	143
4.5	The Influence of Trait Skepticism on Auditors' Belief Revisions.....	145
5	Empirical Analysis	150
5.1	Research Method	150
5.2	Experimental Design	152
5.3	Research Instrument.....	153
5.3.1	Development and Preliminary Validation.....	153
5.3.2	Pretest.....	155
5.3.3	Experimental Materials and Procedures.....	160
5.3.4	Administration.....	163
5.4	Participants	164
5.5	Results	167
5.5.1	Manipulation Checks.....	167
5.5.2	Demographics.....	170
5.5.3	Preliminary Analyses	174
5.5.4	Hypothesis Testing	178
5.5.4.1	Method of Analysis.....	178
5.5.4.2	Summary of Results	180
5.5.4.3	Supplemental Tests	182
5.5.5	Additional Explorative Analyses	192
5.5.5.1	Skepticism and Evidence-Related Factors.....	192
5.5.5.2	Skepticism and Judgment Confidence	194
5.5.5.3	Skepticism and Cognitive Effort.....	194
5.5.5.4	Debriefing Questions	196
6	Conclusion.....	197
6.1	Summary and Discussion	197
6.2	Limitations and Directions for Future Research	200
	Appendix 1	205

Appendix 2 207

Appendix 3 219

Appendix 4 235

References 237

List of Normative Rules and Regulations 301