

THE IMPACT OF AUDIT REVIEW AND RELATED ACCOUNTABILITY ON AUDITOR PERFORMANCE: EVIDENCE FROM AN EMERGING ECONOMY

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Abstract

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This study aims to examine the role of accountability in audit review over auditors' performance in an emerging setting which suffers from the ineffective implementation of the regulatory framework. An experiment was conducted where anticipation of audit review is being manipulated. Participants are senior auditors working in an audit firm with international affiliation. They were randomly assigned to one of two groups: review (accountable), or no review (non-accountable) to assess control and fraud risk and determine the type of the audit report. The results show that anticipation of audit review and related accountability feeling has no significant impact on auditors' performance toward either risk assessment or reporting decisions. However, the performance of the review group's participants was closer to that of a benchmark, and they were also more conservative in their fraud risk assessment compared to the no-review group. The findings suggest that less regulatory environments do not introduce sufficient pressure or monitoring over auditors to enhance their performance. The findings have implications for regulators and the accounting profession concerned with monitoring and promoting auditor performance.

Keywords: Accountability, Audit Review, Auditor Performance, Risk Assessment, Fraud, Audit Report, Emerging Market, Egypt

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1. INTRODUCTION

Auditors perform their audit procedures and have working papers knowing, that their work will be reviewed. The audit review process, involving a reviewer assessing the work quality of the preparer, is a primary quality control mechanism designed to improve the quality of both the documentation of working papers and the conclusions reached during the audit process (Tan & Trotman, 2003). The International Standard on Auditing 220 (IAASB,

2020) requires the audit partner to provide oversight and review of the audit team's work and audit documentation as a quality management mechanism within audit firms. This implies that the audit team also has responsibility and is therefore accountable in the context of the firm's quality management system. In addition, the International Code of Ethics for Professional Accountants (IESBA, 2018) requires auditors to exercise professional skepticism and to have an objective evaluation of audit evidence. The Code emphasizes the need to review the audit

work performed to avoid threats created by any conflicts of interests with audit clients and to assess whether key judgments and conclusions are appropriate (IESBA, 2018).

The audit review process is an integral part of a financial statement audit and can impact both the effectiveness and efficiency of the audit. Moreover, this process can reduce both the level of systematic bias and the variance in individual judgments (Trotman, 1985). Accordingly, the examination of the effect of the review process on the accuracy of individual judgments is important given that the basic purpose of the review process is to reduce errors in judgment (Anderson, 1977, as cited in Trotman, 1985).

Auditors typically perform their duties and tasks and give an opinion decision with the knowledge that the decision will be reviewed and that an explanation of the decision may be required. Thus, accountability is an important factor in the auditor's decision-making environment. The psychology and organizational behavior literature discusses several forms of pressure faced by decision-makers, many of which are directly related to decision-makers responsibility for their decisions (Lord, 1992). The anticipation of review is important to consider due to the concept of accountability feeling. Accountability is defined as "the pressure to justify one's judgments to others" (Tan & Kao, 1999, p. 210). Review pressure exists when individuals realize that they can be linked to their performance (DeZoort et al., 2006).

Tetlock's (1985) theory of accountability suggests that people are motivated to maintain the approval and respect of those to whom they are accountable. The objective of the theory is "to identify the behavioral strategies that people have developed for coping with fundamental or invariant features of natural decision environments (features likely to be present in at least some degree in all social and organizational settings)" (Tetlock, 1985, as cited in Johnson & Kaplan, 1991, p. 98).

While accountability is present in most natural environments, it is particularly important in auditing. The audit team typically consists of at least one member from each of the following levels: partner, manager, senior and staff. Audit teams are responsible for conducting routine, though not necessarily cognitively simple tasks. The review process is an integral part of audit teams. The work performed, the methods used, and the conclusions drawn by the subordinate auditor are subject to verification by a superior auditor. As a result of the review process, the subordinate auditor (whether staff, senior, or manager) expects to be accountable to the superior (Johnson & Kaplan, 1991). Moreover, under anonymity, auditors cannot be held accountable for their decisions and therefore cannot be concerned about the personal or professional consequences of their decisions (Lord, 1992). To be held accountable, auditors feel a sense of obligation that the job performed follows the requirements of auditing standards (Pratiwi, 2022).

Given the importance of the role of audit expectations and, more specifically, the associated accountability effect, a significant amount of research has been conducted to examine their impact on audit judgments and performance. Previous studies

(Lord, 1992; Glover, 1997; Brazel et al., 2004; DeZoort et al., 2006; Agoglia et al., 2009; Houston & Stefaniak, 2013; DeZoort & Harrison, 2018; Hoos et al., 2019) provided evidence that either type of audit review (e.g., face-to-face versus electronic review) or anticipation of the review process had a significant impact on auditor performance and the quality of audit judgments and justifications. However, most of these studies were conducted in developed countries. Donnelly and Donnelly (2023) believe that additional research on accountability in auditing is needed due to conflicting results in the literature or limited accountability research in a particular area. Little is known about the role of the audit review process and related accountability feeling in developing countries, which are characterized by lower levels of social accountability and public awareness of the auditor's role with increased audit expectations (Ackerman, 2005; Wahdan et al., 2005; Tanko, 2011). Moreover, corruption, which is a phenomenon in emerging markets, represents a threat to the establishment of good governance and the role of law in such countries (Ackerman, 2005). Monitoring the auditing profession in developing countries has its own challenges which make it different from that of developed countries in terms of strategies and approaches (Eldaly & Abdel-Kader, 2017).

Egypt, as an example of a developing market, faces several barriers that affect the quality of audits. Wahdan et al. (2005) argue that poor educational quality, lack of audit experience, lack of protective regulations and weak professional and ethical standards are important factors affecting audit judgment and quality in Egypt. There is still a significant gap between the regulatory framework and its effective implementation in Egypt (Kaspar & Puddephat, 2012). Audit firms in the Egyptian audit market are not mandated (or even on a voluntary basis) to publish public reports on their annual performance (Eldaly & Abdelkader, 2017). The Egyptian Society of Accountants and Auditors (ESAA) has issued auditing standards, which are a translated copy of the International Standards of Auditing (ISA) (Hegazy & Kamar, 2010). These standards are submitted for further discussion and approval by the Permanent Committee for Standards of Accounting and Auditing which reports to the Ministry of Investment and International Cooperation (Egypt) (Eldaly & Abdel-Kader, 2017). The Egyptian Code of Corporate Governance (Egyptian Institute of Directors [EIoD], 2016) is based on the principles set by the Organization for Economic Co-operation and Development (OECD). Unlike the United Kingdom and the United States, the Egyptian corporate governance requirement is not mandatory to be complied with except for listed companies with limited penalties set by the Egyptian Financial Reporting Authority (FRA) (Ebaid, 2011). Thus, the audit profession in Egypt faces many problems, such as a shortage of qualified auditors, a lack of public accountability, ineffective legislation, weak enforcement mechanisms, and increasing corruption (Wahdan et al., 2005; Elbayoumi et al., 2019). Thus, more efforts are still needed to enhance the enforcement of accounting and auditing standards. These characteristics of the Egyptian audit environment motivate the authors to examine

the role of audit review over auditors' judgments and decisions and related accountability feeling in such an emerging setting.

Using an experimental task, the results of the current study indicate that the accountability feeling that could result from the anticipation of the audit review of auditors' judgments does not appear to affect auditors' performance in an emerging setting. The results indicate that there is no significant difference between the review (accountable) and non-review (non-accountable) groups in their audit judgment regarding assessing risk or identification of the appropriate type of audit report. Despite this, the accountability group's responses were closer to the standard than the non-accountability group's responses on the control risk assessment task.

This paper makes several contributions. To the best of the authors' knowledge, this paper is the first to examine the impact of the feeling of accountability through the anticipation of the audit review process on auditor performance in an emerging market (i.e., Egypt). The article extends prior developing market literature regarding the regulatory environment and accountability role in such markets. The findings could motivate regulators in emerging markets to introduce more effective control mechanisms and oversight inside audit firms to enhance auditor performance. Moreover, this paper contributes to previous literature that provides mixed results regarding the impact of anticipation of audit review on auditor performance through using different measures and proxies such as control and fraud risk assessment.

The remainder of the paper is organized as follows. Section 2 provides the literature review and hypotheses development. Section 3 presents the research method. Section 4 discusses the results of the data analysis, and Section 5 presents the conclusion.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Beginning in the 1990s, there is recognition that the gains arising from the audit review process do not necessarily arise directly from the reviewer. Rather, preparers are accountable to the reviewers (Tetlock, 1985), and the prospect of a review is sufficient to induce greater vigilance among preparers. If the reviewers disagree with the position adopted by an auditor, the performance of the auditor will likely be evaluated unfavourably, which may result in an eventual economic loss to the auditor. Alternatively, if the position adopted by an auditor is supported by the partners of the firm, the auditor may be more highly respected in the organization and eventually gain economically and at the management level within the organization (Lord, 1992). Thus, understanding the determinants of the accountability performance relation is important because accountability can be used by audit firms to influence auditors' performance through the review and performance evaluation processes (Tan & Kao, 1999).

However, Ashton (1990) argues that "pressure can lead to either better or worse performance. Better performance can result from the increased attention and effort induced by pressure, but

increasingly intense pressure can lead to an increased level of psychological arousal which results in worse performance" (p. 150). While the arousal created by incentives typically is positively related to performance, high incentive levels often induce anxiety which typically is negatively related to performance. Anxiety is heightened by performance feedback, especially when it reveals poor performance, and, of course, performance is more likely to be poor, especially in difficult tasks (Ashton, 1990). Moreover, Peecher et al. (2013) state: "Auditor's current accountabilities are unlikely to motivate them to target high-quality financial statement audit. Instead, these accountabilities likely motivate shorter-term, compliance-focused behaviors, with auditor operating at or slightly above the threshold of noncompliance to avoid sanctions" (p. 597).

Zahmatkesh and Rezazadeh (2017) show that accountability can motivate auditors to complete the audit work well and on time, knowing that the work is carefully examined, reviewed by the supervisor, and accountable to the employer. Pratiwi (2022) concluded that auditors must have an attitude of accountability that consists of self-motivation, commitment to the profession, and social obligations for it to have an impact on the auditor's performance.

Brazel et al. (2004) and Agoglia et al. (2009) provided evidence that in developed markets, anticipating face-to-face review made the preparers achieve high-quality work-paper documentation and arrive at high-quality judgments. Similar findings are reached by Tan (1995) and Koonce et al. (1995) but without specifying the type of review expected by the preparers. On the other hand, Tan and Shankar (2010) found that when subordinates realize that reviewers reward opinion congruence with their superiors, less attention is paid to the justification memos. Extending prior literature, this paper investigates the impact of the anticipation of audit review on auditor performance toward control risk assessment, fraud risk assessment and identification of audit report type. Suggestions and recommendations made by Houston and Stefaniak (2013) give motivation toward further investigation of the role of anticipation of audit review toward the audit process. They suggest that researchers should examine whether auditors at all levels modify judgments and decisions related to audit planning and reporting when they anticipate internal quality control review or Public Company Accounting Oversight Board (PCAOB) inspection. Furthermore, the unique characteristics of the developing countries, mainly the Egyptian audit market, motivate the researchers to examine the role of accountability in such an environment toward auditor performance. Donnelly (2017) suggests that research should continue investigating accounting feeling's effect on auditors' decision-making process taking into consideration changes in the audit environment and differences in regulatory oversight.

Regarding the role of the audit review process on auditor performance, previous research studies have examined it from two main perspectives: either 1) the anticipation of review and no-review, or 2) the anticipation of the type or mode of review. The first group of studies focused on the impact of anticipation of alternative methods of review on

auditor performance. Using different experimental tasks, some studies (Brazel 2004; Agoglia et al., 2009) showed that anticipation of face-to-face review arrive at higher quality pre-review judgment than anticipation of electronic review using measures related to client going concern assessment. The results reveal that face-to-face review preparers feel more accountable to managers than those anticipating an electronic review. Moreover, Payne et al. (2010) found that auditors anticipating interactive review upon completion of their work made a more thorough examination of audit evidence related to an accounts receivable audit program and more effective identification of a fraud red flag.

The second group of studies focused on the impact of awareness or anticipation of review on auditor performance. Johnson and Kaplan (1991) show that auditors who are accountable to a reviewer with unknown views exhibit better consensus and self-insight. Lord (1992) shows that auditors who are accountable to a partner with unknown views are more conservative by being more likely to issue a qualified opinion, and less likely to prefer aggressive accounting positions. Tan (1995) found that awareness of review reduces the consistency effect of prior audit involvement and improves the quality of the audit decision process by using measures related to memory for different types of audit evidence and assessing the client's current financial condition. However, Koonce et al. (1995) argue that auditors who expect a subsequent review document more total justifications than those who do not expect a review, but there are no differences in the types of such justifications. Glover (1997) showed in his study that even though accountability has no significant impact on the dilution effect, the accountable group provided more written notes showing their higher effort and complex processing of information. Moreover, in a substantive analytical procedures task, Asare et al. (2000) found that auditors who expected a superior review of their work performed better, by increasing the extent and breadth of testing, compared to those in the unaccountable condition. Using four levels of accountability, DeZoort et al. (2006) found that higher levels of accountability pressure (justification and feedback) lead to more conservative materiality judgments and less judgment variability than lower levels (anonymity and review). Moreover, Houston and Stefaniak (2013) showed that anticipation of internal quality review (IQR) is more timely and helpful for improving auditor performance. Hoos et al. (2019) find that auditors subject to review by an audit partner in the same firm are significantly more sceptical of the reasonableness of a going concern assumption than auditors subject to review by a partner in the firm with whom they are jointly completing the audit and those who are not subject to review.

Despite that much research demonstrates the positive effects of good quality control and review processes on audit quality. However, a few studies identify some aspects of the review and quality control process that can lead to unintentional, negative effects on the quality of auditor judgments. For example, Tan and Shankar (2010) found that when reviewers consider it important that subordinates align their preferences with their

superiors, they reward opinion congruence and pay less attention to the strength of the justification memos they are evaluating. Duh et al. (2016) suggest that auditors' conformity to the reviewer preference can be moderated by review mode for process accountability but not outcome accountability. Similarly, Phang and Fargher (2019) find that requiring auditors to justify the process rather than justifying the final decision effectively mitigated the effect of prior commitment bias on a subsequent event adjustment. Peecher et al. (2013) argue that auditors' current accountabilities are unlikely to motivate them to improve long-term audit quality. Instead, these accountabilities likely motivate shorter-term quality to avoid penalties and sanctions. Stefaniak (2009) study did not find that auditors make more conservative judgments where a post-audit review is salient.

Moreover, studies regarding the effect of accountability through the review process varied in their mechanisms. Experimental manipulations vary in terms of whether auditors are instructed: 1) to document their justifications for decisions made, with no instructions of an actual review (Ashton 1990); 2) that their responses will be reviewed by audit partners, with no explicit requirement to justify their decisions (Tan & Kao, 1999); 3) to justify their judgments, with a subsequent review by actual partners (Glover, 1997); and 4) to document their justifications, be aware of partner's review, and attend a small group session to justify their decisions (Johnson & Kaplan, 1991). All these mechanisms can be viewed as increasing the amount of accountability induced, but each mechanism (written and private justification versus oral and semi-public justification versus awareness of review) can potentially have different effects in isolation and in combination with each other (Nelson & Tan, 2005).

Some studies look at the boundary conditions under which accountability operates. Accountability is not a remedy for all biases and performance deficiencies, and it is important to identify conditions under which it works. Kennedy (1993, 1995) identifies conditions under which judgment biases can be reduced with increased accountability. Others examine how improvements in performance through increased accountability can be limited by the skills of the auditor (technical knowledge, problem-solving ability) as well as the task demands (Tan & Kao, 1999). Although there are some studies which examined the impact of audit review anticipation, such impact could be more evident through using different measures or proxies. This is supported by the suggestions and recommendations made by Houston and Stefaniak (2013) that researchers should examine whether auditors at all levels modify judgments and decisions related to audit planning and reporting when they anticipate internal quality control review or PCAOB inspection.

These different views regarding the role of accountability through the anticipation of audit review make it difficult to draw distinctive conclusions regarding their effect on auditor performance. Thus, it needs to be extensively investigated regarding their impact on auditor performance using different measures and tasks in different environments. Through a systematic review of experimental audit research on accountability, Donnelly and

Donnelly (2023) believe that additional research on accountability in auditing is needed due to conflicting results in the literature or limited accountability research in a particular area. They concluded that as the audit environment evolves through changes in auditing and accounting standards, changes in technology and changes in regulatory oversight, research should continue to investigate how these changes affect auditor perceptions of accountability and auditor decision-making processes. This is evidenced by DeZoort and Harrison's (2018) study which found that accountable United States and Mexican auditors brainstormed significantly less detection procedures than Australian, Belgian, and Canadian auditors. Cultural and nationality differences impact the nature and level of accountability pressure felt by auditors and how they affect the auditor's decision process and outcomes. This requires additional research that specifically examines those differences associated with accountability (Donnelly & Donnelly, 2023).

Limited studies (Sangkala et al., 2018; Rusman & Assih, 2018; Etkayanti et al., 2020) were conducted in an emerging setting, mainly Indonesia, to get auditors' perceptions regarding the effect of accountability on the quality of audit work. They suggest that accountability could have a positive impact on audit quality and audit opinion. However, those studies relied on a survey-based questionnaire to reach such findings without empirically investigating such effects through anticipation of an audit review. Thus, accountability feeling needs to be studied more extensively in emerging markets where inadequate behavior or performance is rarely faced by significant corrective actions or significant penalties. This reflects mostly the culture of low-regulated environments.

Results introduced by Johnson and Kaplan (1991) suggest that the auditors' decision environment and the accountability pressure they face can mitigate shortcomings in their judgment. DeZoort et al. (2006) found that auditors under higher levels of accountability pressures (justification and feedback) report more conservative materiality judgments than those under lower levels of pressure. Risk assessment is an integral part of every audit engagement and understanding the client and its control environment is essential to achieve a high-quality audit (Zengin-Karaibrahimoglu et al., 2021). Previous research indicates that auditors recognize and respond to risk factors, and are subsequently more skeptical, when there are high-risk factors (Bedard & Johnstone 2004; Ruhnke & Schmidt, 2014). One of the most important risk factors is the assessment of the client's control environment because it has a significant impact on the likelihood of material misstatements (Quadackers et al., 2014). The failure of an auditor to timely identify material control weaknesses prior to a restatement may suggest poor audit quality (PCAOB, 2013). DeFond and Zhang (2014) view that auditor performance-related measures are considered more direct and straightforward measures of the quality of audit service performed by auditors. Control risk assessment is considered as an essential audit task to plan the audit and to determine the nature, timing, and extent of tests to be performed. Hammersley et al. (2011) suggest that identifying

risk factors focused on the fraud area is also critical to the development of high-quality audit plans. Auditor performance toward fraud risk assessment continues to be the most critical task in the audit process (Mohd-Sanusi et al., 2015). Furthermore, audit reports are an important measure of auditor performance. Audit reports convey the outcome of the audit process. They have important influences on audit quality as they are considered by stakeholders in their assessments of audit quality (Chadegani, 2011) and represent a highly salient output of the audit process (DeFond & Zhang, 2014). Supporting such importance are the frameworks developed by IAASB (2014), Francis (2011), and Knechel et al. (2013).

Houston et al. (2005) suggest that overall acceptable audit risk should be influenced by the potential of being selected for either an inspection or an IQR. Houston and Stefaniak (2013) suggest that decisions related to audit planning and reporting should be examined when auditors expect IQR or inspection. Audit decisions are subject to evaluation by different parties (e.g., partners, regulators, clients, and the public). Due to the pervasiveness of accountability in auditing, it is extremely important to understand how these pressures affect auditor decision-making (Donnelly, 2017). Results and arguments introduced by prior studies justify the prediction that accountability feeling presented by the anticipation of audit review can affect auditor judgment and performance in different audit tasks. Given the previous arguments, the research hypotheses are formulated as follows:

H1: Anticipation of audit review has a significant impact on auditor performance toward control risk assessment.

H2: Anticipation of audit review has a significant impact on auditor performance toward fraud risk assessment.

H3: Anticipation of audit review has a significant impact on auditor performance toward the determination of the appropriate type of audit report.

3. RESEARCH METHODOLOGY

3.1. Method

The study employed an experimental method undertaken in the last quarter of 2023 to test the research hypotheses. One independent variable is being manipulated: anticipation of audit review. Auditors with the same audit position (i.e., seniors) were randomly assigned to one of two groups: 1) review (accountable), or 2) no-review (non-accountable/control condition). This design involves examining the effect of anticipation of review and hence the effect of accountability on auditor performance toward the specified tasks. In the review group, the instructions included a statement that their judgments would be reviewed and evaluated by a few audit partners. They were also asked if they would require justifying their judgments and they may be called up by their superiors to provide a rationale for their assessment. Auditors in the accountability condition were asked

to write their names on the booklet they received. However, in the unaccountable condition, the instructions included a statement that the responses to the task would be completely anonymous. This design follows Johnson and Kaplan's (1991) experimental design but with varying tasks and measures.

The participants of the experiment were fifty (50) audit seniors who work in an audit firm with international affiliation, but they were divided into two groups: the review group (experimental group) and the no-review group (control group). The average year of experience is 4,8 years. An audit partner of the firm assured us that the participants were exposed to similar audit tasks and were expected to have sufficient knowledge to deal with the experimental material. A minority of the participants (12%) hold a professional certificate. Audit seniors were chosen because they are more affected by the review processes by audit managers and partners, and they are expected to have a high accountability feeling if their work is being reviewed.

3.2. Experiment details and data collection

Participants completed an audit task driven by the management letter of an actual audit engagement. The task was developed with the consultation of an engagement partner, who provided background information on an audit client (i.e., a publicly listed financial company which received a qualified audit report). However, the company's identity remains a confidential issue. Participants were asked to make judgments related to the internal control system of the client company (through assessing the control risk) and judgments related to some of the auditor findings in the financial statements of this company. These judgments involve assessing 1) the control risk of the company's internal control system, 2) the fraud risk that could be involved in the company financial statements, and 3) determining the proper audit report that the auditor could issue if those risks are not mitigated by the company management. The experiment was conducted in two separate meeting rooms set in one of the audit firms with international affiliations. The first room included the review group while the other room involved the no-review group. Each participant received a booklet containing an overview of the objective of the experiment, instructions, and the experimental materials. The researchers were present during the time the experiment was conducted to ensure that participants had the appropriate materials and followed all instructions given. The experimental material was developed after consulting an audit partner of one of the audit firms with international affiliations as an expert in the field.

Following a brief verbal introduction, participants began by reading a set of instructions describing the case and the procedures to be followed during the experiment. The instructions included a brief description of one of the companies. The company's internal control system has many shortcomings, which auditors note in their letters to management. Moreover, the management letter included some of the misstatements included in the company's financial statement. Participants were also provided with some financial data about the company, which

helped them draw conclusions and evaluate the significance of the risks associated with the experimental task. Then, in the first part, they were given a list of some of the internal control deficiencies that were discovered by the company's external auditors and included in the letter to the auditor's management. Then they were asked to assess regarding each control weakness the control risk that could be involved using a 5-point Likert scale, with 5 being a very high risk and 1 being a very low risk. The second part was a list of some of the misstatements in the company's financial statements that are part of the audit firm's management letter. Then they were asked to assess regarding each misstatement the fraud risk involved using a 5-point Likert scale, with 5 being a very high risk, 1 being a very low risk, and finally the appropriate type of audit report that the auditor would issue in relation to each misstatement. (unqualified/qualified/adverse). These internal control weaknesses (five items) and financial statement misstatements (eight items) were obtained from a management letter related to this actual client used in the experiment. The items presented and the required tasks have varying degrees of complexity, as recommended in previous studies by Bonner (1991), and Abdolmohammadi and Wright (1987). Following these questions, participants responded to a post-experimental questionnaire that required demographic information, including years of auditing experience and qualifications. The experiment included five internal control deficiencies and eight financial statement misstatements presented to participants to make judgments. Participants are asked to rate how responsible they felt when making judgments using a scale from 1 to 10, with 1 being unaccountable and 10 being extremely responsible in a post-experimental questionnaire. Participants expecting an audit review had a mean score of 7.2, and those in the control group had a mean score of 3.4, with $p < 0.05$. Thus, the manipulation is successful.

4. RESEARCH RESULTS

The statistical analysis of the experiment is mainly based on descriptive statistics and t-tests since there are only two levels of the independent variable (review versus no-review group). T-tests are mainly concerned with testing differences between means. An independent samples t-test is used when different participants (review group and non-review group) were assigned to the experimental condition (i.e., anticipation of the review process).

4.1. Anticipation of audit review and control risk assessment

From the results of Table 1, it is shown that there is no significant difference between the audit group and the non-audit group in their control risk assessment with a p-value (t-test) greater than 0.05 for all internal control weaknesses presented. This is supported by the descriptive statistics as the mean responses of both groups are approximately similar. For example, the mean response for the first internal control weakness for the review and no-review groups is 3.17 and 3.69, respectively.

Contrary to the notion that accountability feeling leads to more conservative judgments (DeZoort et al., 2006), the mean responses of the review group are lower than those of the no-review group for most of the control weaknesses they presented, i.e., they assessed lower control risk. For example, the absence of detailed organizational structure gained a mean response of 3.08 among the review group's participants compared to a mean response of 3.62 among the non-review group's participants. However, the non-existence of either an internal audit department or audit committee gained the highest means (4.67 and 3.83, respectively) among the participants who expected an audit review. This could be due to the importance of such matters as a part of the internal control system of the company and their role in reducing abnormal accruals and improving the quality of financial reporting (John et al., 2013; Bananuka et al., 2018). The findings indicate that the accountability effect resulting from the anticipation of the review procedure has no significant impact on auditors' performance toward their control risk assessment. Despite that, it is noticed that there is a significant difference between the responses of a group that is not expecting an audit review and benchmark responses for all five weaknesses but there is a significant difference between the review group and benchmark responses in only two control weaknesses with a p-value of 0.000 as shown by the one-sample t-test in Table 1. This means that the responses of those who are expecting an audit review were closer to that of the benchmark compared to those who are not required to justify their assessment. The insignificant difference between the two groups could be related to the nature of the task assigned (i.e., control risk assessment) to the participants as they could view it as a less complex task and there is no need for accountability to affect their performance. However, these results are not consistent with studies by Tan (1995) and Houston and Stefaniak (2013), which suggest that anticipation of review could improve the quality of the audit process. A possible interpretation of such differences is the difference in culture and close relationships in developing countries, such as Egypt, between senior partners and audit partners when they are provided with daily guidance and consultation, compared to such relationships in developed countries where the above-mentioned studies were conducted. In addition, the lack of sanction mechanisms and the ineffective role of oversight bodies in emerging markets could be the reason behind such results concerning the insignificant effect of accountability feeling. To summarize, the results of the previous analysis indicate that anticipation of the review process does not have a significant impact on audit control risk assessment. Thus, *H1* is rejected.

4.2. Anticipation of audit review and fraud risk assessment

The independent samples t-tests in Table 2 show that there is also no significant difference between the review and the no-review group in their fraud risk assessment with a p-value more than 0.005 for the eight misstatements presented to them. It could be noticed that it is the same result obtained

for the control risk assessment task. However, the descriptive statistics in Table 2 show that the mean responses of the review group are higher than those of the no-review group when assessing fraud risk for most matters being presented to them. Those who expected an audit review and justification of their assessment assessed higher fraud risk and were slightly more conservative than those who were not required to provide such justification but without a significant difference as $p > 0.05$. The improper valuation of investments in subsidiaries and incomplete recording of investments in the last quarter gained the highest mean among the participants in both groups without significant difference ($p > 0.05$) in their responses. Since these two misstatements could affect the proper valuation of investment and lead to economic loss, they are regarded as high fraud risk matters by the majority of the participants. Both groups were more conservative in assessing such risk regardless of the accountability feeling. In relation to their responses against the expert benchmark, the two groups' performance are approximately the same. There is no significant difference between the review group and the expert benchmark for only the sixth, seventh, and eighth misstatements with p-values = 0.765, 0.765, and 0.073, respectively. There is no significant difference between the no-review group and the expert benchmark for the third, sixth, seventh, and eighth misstatements with p-values = 0.207, 0.615, 0.365, and 0.106, respectively as shown by the one-sample t-test in Table 2. They outperformed the review group by only one more misstatement (No. 3) but without a significant difference, as mentioned earlier.

The legal environment in emerging markets and the absence of effective control mechanisms over audit firms support such findings. The findings are not consistent with Tetlock's theory of accountability, which states that people are assumed to be motivated to enhance their performance to maintain the respect of those to whom they are accountable. They are also not in line with the findings of DeZoort et al. (2006) study which shows that higher levels of accountability lead to more conservative judgments than lower levels. The results also are not consistent with Hoffman and Patton (1997), who showed that the accountability effect resulted in more conservative fraud risk judgments. However, the results are consistent with Peecher et al. (2013) argue that current auditor accountability is unlikely to improve audit quality in the long term. They also support Ashton's (1990) argument that increased pressure does not necessarily lead to improved performance.

To summarize, the experiment provides results that indicate that auditors' anticipation of the audit process does not have a significant impact on their assessment of fraud risk. Thus, *H2* is also rejected.

Table 1. Anticipation of audit review and control risk assessment

| <i>Internal control weaknesses</i> | <i>Descriptive statistics</i> | | | | <i>Independent samples t-test</i> | | <i>One-sample t-test</i> | |
|--|--------------------------------|-----------------|-----------------------------------|-----------------|---|----------------|--|---|
| | <i>Review group N = 24</i> | | <i>No-review group N = 26</i> | | <i>Review group # No-review group</i> | | <i>Review group # Expert benchmark</i> | <i>No-review group # Expert benchmark</i> |
| | <i>Mean</i> | <i>St. dev.</i> | <i>Mean</i> | <i>St. dev.</i> | <i>t</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> |
| 1. No prenumbered minutes of meetings of directors | 3.17 | 1.551 | 3.69 | 1.408 | -1.256 | 0.215 | 0.604 | 0.019 |
| 2. No detailed organization structures for each department | 3.08 | 1.472 | 3.62 | 0.752 | -1.589 | 0.121 | 0.784 | 0.000 |
| 3. No clear and identified job descriptions | 3.25 | 1.113 | 3.77 | 1.142 | -1.626 | 0.111 | 0.283 | 0.002 |
| 4. No independent internal audit department for authorizing the company transactions | 4.67 | 0.637 | 4.38 | 0.852 | 1.332 | 0.189 | 0.000 | 0.030 |
| 5. No audit committee consisting of at least three non-executive board of directors | 3.83 | 1.007 | 3.92 | 0.935 | -0.327 | 0.745 | 0.000 | 0.000 |

Table 2. Anticipation of audit review and fraud risk assessment

| <i>Financial statement matters</i> | <i>Descriptive statistics</i> | | | | <i>Independent samples t-test</i> | | <i>One-sample t-test</i> | |
|--|--------------------------------|-----------------|-----------------------------------|-----------------|---|----------------|--|---|
| | <i>Review Group N = 24</i> | | <i>No-review group N = 26</i> | | <i>Review group # No-review group</i> | | <i>Review group # Expert benchmark</i> | <i>No-review group # Expert benchmark</i> |
| | <i>Mean</i> | <i>St. dev.</i> | <i>Mean</i> | <i>St. dev.</i> | <i>t</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> |
| 1. Land provided by shareholders as a non-financial share in the company's capital was improperly recorded even though the land was never registered in the company's name (X1). | 4.17 | 1.007 | 4.31 | 0.838 | -0.536 | 0.595 | 0.000 | 0.000 |
| 2. The company used the equity method rather than the cost method to account for investment in subsidiaries. This resulted in misstatements for the investment in subsidiaries balances (X2). | 4.33 | 1.274 | 4.31 | 0.838 | 0.085 | 0.933 | 0.017 | 0.000 |
| 3. The company did not record the investment for the last quarter, a matter which affected the auditor's ability to calculate the balance for such an account (X3). | 4.42 | 0.881 | 4.23 | 0.908 | 0.734 | 0.467 | 0.030 | 0.207 |
| 4. Nonmoving balances for more than one year, the company did not provide the auditor with any data confirming the correctness of such amount or the reason behind not collecting it providing that there is an insufficient allowance (X4). | 3.58 | 1.213 | 3.46 | 0.761 | 0.421 | 0.676 | 0.027 | 0.005 |
| 5. Debtors & other debit balances included a client balance representing an advance payment to the company for a feasibility study to perform housing projects; the study was not undertaken yet (X5). | 2.25 | 1.391 | 2.31 | 1.350 | -0.149 | 0.882 | 0.015 | 0.015 |
| 6. Debtors & other accounts included an account for a client related to a lawsuit associated with the previous chairman of the company (X6). | 3.08 | 1.349 | 2.85 | 1.541 | 0.577 | 0.567 | 0.765 | 0.615 |
| 7. There are some expenses recorded without supporting documents for such amounts (X7). | 2.92 | 1.349 | 3.23 | 1.275 | -0.845 | 0.403 | 0.765 | 0.365 |
| 8. There are fees for recruiting new employees and it is found that such fees are remunerations for the human resource manager for hiring those employees without management formal approval (X8). | 3.38 | 0.868 | 3.33 | 1.169 | -0.175 | 0.862 | 0.073 | 0.106 |

4.3. Anticipation of audit review and type of audit report

As stated before, there are three types of audit reports available to the participants to choose from (unqualified, qualified, and adverse opinion). To analyze the data statistically, the unqualified opinion assigned a value of 1 while the adverse opinion had a value of 3. The descriptive statistics in Table 3 show that the participants in the accountable (those who anticipate an audit review) group were slightly more conservative than the non-accountable group in their responses as all the misstatements gained a mean response exceeding the value of 2. On the other hand, the mean responses of the non-accountable group for the first, second and third misstatements were 1.85, 1.85, and 1.92, respectively. However, it is shown in Table 3 that there is no significant difference between the review group and no-review group performance regarding the determination of the appropriate type of audit report and that the feeling of accountability that could result from such review has no significant impact on auditors' performance. The mean responses for most of the presented misstatements for the accountable group are approximately close to those of the non-accountable group. The independent sample t-test in Table 3 shows a p-value > 0.05 for all misstatements presented to the participants. In comparison with the expert benchmark, both group responses were not significantly different from that of the expert for only the first three misstatements. However, there is a significant difference between them and the expert performance for the other five misstatements as $p < 0.05$ according to the one-sample t-test in Table 3.

To sum up, the accountability effect resulting from anticipation of the review process and expected evaluation by top-level audit managers did

not significantly affect their performance to come close to that of the expert benchmark or even to make a significant difference between groups' performance.

The findings are not consistent with Lord's (1992) study which shows that auditors who are accountable to a partner with unknown views are more conservative by being more likely to issue a qualified opinion. They are not also consistent with the results of some studies which conducted survey-based questionnaires (Sangkala et al., 2018; Rusman & Assih, 2018; Etkayanti et al., 2020) that accountability feeling will improve audit quality and opinion in an emerging setting. Using experimental evidence, the findings of the current study do not support the results of those prior exploratory studies conducted in less developed countries. However, the results are consistent with the findings of Stefaniak (2009) that auditors did not make more conservative judgments where a post-audit review is salient.

In addition to the nature of the legal environment and oversight mechanisms in emerging markets, a possible interpretation of such results is that the participants are senior auditors who are not able to be held responsible for audit report issuance which is mainly associated with managers' and partners' decisions. Thus, there is no expected responsibility or accountability of those lower-level auditors in case of in proper determination of the appropriate type of audit report. This also shows the need for better training and awareness by audit partners and managers for those seniors to understand the nature and type of audit reports when identifying various misstatements and how they would affect the auditors' opinion considering the requirements of the auditing standards and regulations. These results lead to the rejection of $H3$.

Table 3. Anticipation of audit review and type of audit report

| Financial statement matters | Descriptive statistics | | | | Independent samples t-test | | One-sample t-test | |
|-----------------------------|------------------------|----------|---------------------------|----------|-----------------------------------|---------|------------------------------------|---------|
| | Review group N = 24 | | No-review group N = 26 | | Review group # No-review group | | Review group # Expert benchmark | |
| | Mean | St. dev. | Mean | St. dev. | t | p-value | p-value | p-value |
| X1 | 2.08 | 0.504 | 1.85 | 0.543 | 1.597 | 0.117 | 0.426 | 0.161 |
| X2 | 2.08 | 0.504 | 1.85 | 0.543 | 1.597 | 0.117 | 0.426 | 0.161 |
| X3 | 2.08 | 0.504 | 1.92 | 0.628 | 0.991 | 0.327 | 0.426 | 0.538 |
| X4 | 2.33 | 0.482 | 2.31 | 0.471 | 0.190 | 0.850 | 0.000 | 0.000 |
| X5 | 2.67 | 0.482 | 2.62 | 0.496 | 0.370 | 0.713 | 0.003 | 0.001 |
| X6 | 2.33 | 0.637 | 2.46 | 0.508 | -0.790 | 0.434 | 0.000 | 0.000 |
| X7 | 2.33 | 0.482 | 2.31 | 0.471 | 0.190 | 0.850 | 0.000 | 0.000 |
| X8 | 2.42 | 0.504 | 2.38 | 0.496 | 0.227 | 0.822 | 0.000 | 0.000 |

5. CONCLUSION

The auditing literature conducted in developed markets provides mixed evidence that expectations of audit scrutiny of auditor performance and the associated accountability feeling had a significant impact on different aspects of auditor performance. While some studies (Lord, 1992; Tan, 1995; DeZoort et al., 2006; Houston & Stefaniak, 2013) support the importance of accountability feeling and anticipation of auditors' performance, there are few similar studies in an emerging setting. This emerging situation (i.e., Egypt) is characterized by the lack of either effective sanctions mechanisms or effective oversight over audit firms (Elbayoumi et al., 2019;

Eldaly & Abdel-Kader, 2017). To shed light on this issue, the current study extends prior auditing literature by examining the impact of anticipation of audit review by audit partners over senior auditors' risk assessment and audit reporting tasks in such a setting. The study employed an experiment where anticipation of audit review is being manipulated. Participants, who are audit seniors, in the review condition expect to justify their assessment and reporting decision to an audit manager or partner. However, participants in the control group did not expect any kind of audit review of their judgments and decisions and were told that their responses would be anonymous.

Contrary to Tecklot's theory of accountability and the notion that the feeling of accountability could provide motivation to enhance performance, the findings show that the expectation of audit review and increased accountability feeling did not significantly impact senior auditors' assessment of control or fraud risk and audit reporting decisions in an emerging market. Despite that, the performance of the participants who felt accountable was closer to the expert benchmark's responses for some misstatements compared to those participants who experienced less accountability feeling. The findings are not consistent with the results of some prior studies (DeZoort et al., 2006; Houston & Stefaniak, 2013) which found that different levels of accountability significantly affected auditor performance. The findings support concerns that there are deficiencies in oversight systems over audit firms in developing countries and that there is a lack of effective sanction mechanisms (Wahdan et al., 2005; Elbayoumi et al., 2019; Eldaly & Abdel-Kader, 2017). These findings suggest that less regulatory environments do not introduce sufficient pressure or monitoring over auditors to enhance their performance.

The results of this study contribute to the literature by providing experimental evidence regarding the accountability role toward auditor

performance in an emerging setting. The findings could motivate regulators in emerging markets to introduce more effective control mechanisms and revise the effectiveness of their oversight system over audit firms. This could help by introducing more pressure on auditors to enhance their performance. Moreover, this paper adds to the prior literature that provides mixed results regarding the impact of anticipation of audit review on auditor performance through using different measures and proxies such as control and fraud risk assessment.

The study has some limitations that could serve as avenues for future research directions. First, the present study focused on examining audit judgments related to risk assessment and reporting decisions. Though they are essential tasks in the audit process, other audit tasks (e.g., audit evidence determination) are to be further examined to validate the findings. Second, the participants in the current study represent a single accounting firm with international exposure, so whether the results generalize to other firms requires further study. Finally, the study participants are senior auditors who experience less responsibility and accountability for audit reporting decisions. Future research could consider the involvement of audit managers and partners, who are expected to have greater responsibility for the reported results.

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