Essays on Auditors' Judgments and Decisions in Negotiation and Communication

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Arizona Mustikarini
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List of studies

This doctoral dissertation consists of the following three studies:

1. Mustikarini, A., & Adhariani, D. (2022). In auditor we trust: 44 years of research on the auditor-client relationship and future research directions. *Meditari Accountancy Research*, *30*(2), 267-292. doi:10.1108/MEDAR-11-2020-1062
2. Mustikarini, A., Der, B. A., & Stuart, I. C. (2022). Applying ISA 240 for Fraud Detection and Resolution: Evidence from Indonesia and Ghana. *Journal of International Accounting Research*, *forthcoming*. doi:10.2308/JIAR-2021-024
3. Mustikarini, A. (2022). Auditors' professional skepticism over email and video responses: Evidence from client reputation in remote audits. *Working Paper, School of Business and Law, University of Agder.*

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An Overview of the Dissertation: Essays on Auditors' Judgments and Decisions in Negotiation and Communication

1 Introduction

Auditors conduct various audit tasks during an audit in order to arrive at an audit opinion regarding whether the financial statements are fairly presented in accordance with the applicable financial reporting framework. To perform these audit tasks and arrive at a decision about the audit opinion, auditing standards require auditors to exercise their professional judgment. From this requirement, two important terms emerge, *judgment* and *decision*. Bonner (1999, p. 385) defines *judgment* as "forming an idea, opinion, or estimate about an object, an event, a state, or another type of phenomenon," and a *decision* as "making up one's mind about the issue at hand and taking a course of action." In short, *judgment* involves subjective assessment established before taking actions, and *decision* refers to actions taken to perform tasks or solve problems (Solomon & Trotman, 2003). In a more formal term defined by the auditing standards, professional judgment refers to "the application of relevant training, knowledge, and experience, within the context provided by auditing, accounting, and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement" (IAASB, 2018, para. 13).

Auditors are required to exercise their professional judgment throughout the audit process, beginning from risk assessments and related audit planning procedures and continuing to evidence collection and evaluation processes. At the final stage of the audit, auditors apply professional judgment about "uncorrected adjustments" to evaluate whether to require clients to post the proposed audit adjustments and which audit report to issue—after evaluating the going concern assumption and making a decision about key audit matter disclosures (IAASB, 2018; Nelson & Tan, 2005).

Prior research has attempted to understand judgment and decision-making in the accounting and auditing disciplines (see review papers, for example, from Bonner, 1999; Mala & Chand, 2015; Nelson & Tan, 2005; Solomon & Trotman, 2003; Trotman, Tan, & Ang, 2011). Among these reviews, Nelson and Tan (2005) focus their review on the audit setting by categorizing judgment and decision-making in three broad areas: (1) audit task, (2) the auditor's attributes, and (3) interaction between auditors and other stakeholders related to audit task performance. Auditors make numerous judgments and decisions related to audit tasks to form an audit opinion, and to do so, a variety of auditors' personal attributes (e.g., experience, skills, personality) and interpersonal interaction with other auditors and stakeholders of the firm (e.g., audit clients) influence outcomes of the audit (Nelson & Tan, 2005). Investigating questions related to these three features—task, person, and interpersonal interaction—underlie the overall purpose of this doctoral dissertation.

In this *Kappa*, I briefly describe three studies I completed in this doctoral dissertation. This brief description includes the purpose and the motivation of each study, an overview of the theoretical framework and an outline of the research design, including research context and data sources. Finally, I conclude the *Kappa* by summarizing the findings of the three studies. Together, these studies feature three broad areas in the audit judgment research stream: task, person, and interpersonal interaction, listed as follows:

1. The *first* study, titled "*In auditor we trust: 44 years of research on the auditor-client relationship and future research directions*." This study was published in *Meditari Accountancy Research* in 2021.
2. The *second* study, titled "*Applying ISA 240 for fraud detection and resolution: Evidence from Indonesia and Ghana*." This study was published in the *Journal of International Accounting Research* in 2022.
3. The third study, titled "*Auditors' professional skepticism over email and video responses: Evidence from client reputation in remote audits*." This study is under review in the *Journal of International Accounting Research.*

2 Purpose and motivation

The doctoral dissertation starts with the first study. The purpose of the first study is to systematically review the interaction and relationship between auditors and their clients in the auditing literature, spanning from 1976 to 2019. This review identifies research gaps and provides future research directions. This study aims to understand how the auditing literature portrays the dominant elements surrounding auditor-client interaction, including whether this interaction engenders audit disputes or conflicts and how these conflicts are resolved amongst disputing parties. Based on this review, I provide five potential research agendas, wherein two of the research agendas are further investigated in the second and third studies of this doctoral dissertation, pertinent to (1) *negotiation* and (2) *communication* modes and processes between the auditor and the client.

Next, the second study investigates audit partners and managers' decisions regarding fraud detection and the negotiation process involving uncorrected misstatements in an audit. Prior research in developed countries has investigated this process (e.g., Asare, Wright, & Zimbelman, 2015; Hassink, Meuwissen, & Bollen, 2010), but it is unclear whether the results from developed countries apply in developing countries even though the same set of auditing standards for fraud detection is applied by auditors worldwide. Fraud detection practices in developing countries may differ from those in developed countries, using data from two developing countries—Indonesia and Ghana—for several reasons (1) fraud in these settings is not a rare occurrence, (2) a lower litigation risk is present in developing countries, (3) economic status is not comparable to developed countries, and (4) similar societal trust and culture may differ in developing countries compared to developed countries. Therefore, using data from Indonesia and Ghana, this study examines how auditors identify, investigate, and resolve potential fraud issues.

Finally, the third study examines staff auditors' judgment and decisions in the evidence collection process, where they are required to conduct the audit remotely during the Coronavirus pandemic and change how they interact with the client personnel using computer-mediated communication modes like email and video. This issue becomes more relevant because, in practice, audit staff are often assigned to recurring audit clients. As such, auditors may have developed an impression of the client reputation from prior audits, which could generally be a positive or negative impression of the client personnel and is carried forward to the current computer-mediated interaction. Thus, this study aims to investigate whether evidence received in the email or video affects auditors' skeptical judgment when auditors have a prior positive or negative client reputation and how auditors respond to this evidence with email or video.

3 Theoretical framework

Sutton and Staw (1995) assert that theory connects phenomena—it provides a story about why acts, events, structure, and thoughts occur. The theoretical framework describes the nature of causal relationships and underlying processes to understand the systematic reasons for a particular occurrence or nonoccurrence of the phenomena by presenting a set of convincing and logically interconnected arguments (Sekaran & Bougie, 2016; Sutton & Staw, 1995). In other words, theory explains, predicts, and highlights the research problem under consideration. In understanding judgment and decision-making in an audit setting, Nelson and Tan (2005) argue that research in this stream usually involves a part of the larger area of psychological research called "behavioral decision theory." Empirical studies in this doctoral dissertation—the second and the third studies—use psychology theories as an underlying theory that intermingles with other theoretical frameworks in the auditing literature.

The second study employs a combination of a theoretical framework from psychology and auditing literature to understand whether auditors' experience with fraud helps them in judgment and decisions in fraud detection and resolution in an audit engagement. This theory suggests that an individual's knowledge structure changes and develops by gaining relevant experience (Knapp & Knapp, 2001). Individuals develop insights from past events and apply them to future actions (Daudelin, 1996). The setting in the second study indicates that fraud is not a rare occurrence, and therefore, auditors in this setting may obtain more relevant experiences regarding fraud and use these experiences in the judgment and decision about fraud detection and negotiation.

In the third study, the theory focuses on auditors' judgment and decisions about an account balance when the auditor collects evidence from the client using a computer-mediated communication mode. A theory in communication psychology, *Social Presence Theory* (Daft & Lengel, 1986; Short, Williams, & Christie, 1976), is used to understand the level of interaction and engagement and how different communication modes affect the communicators' judgment and decision in the communication exchange.

4 Research design, context and data sources

A research design is a blueprint or plan for collecting, measuring, and analyzing data created to answer the research questions (Sekaran & Bougie, 2016). In my work on this doctoral dissertation, *positivism epistemology* underpins the three studies affecting the choice of the research design.[1] In this section, I briefly discuss the research design, context, and data of the three studies in this doctoral

[1] *Positivism* views scientific research as the way to get to *objective* truth to understand the world so that it can be predicted and controlled (Sekaran & Bougie, 2016). Thus, positivist researchers are concerned with rigor, replicability, reliability, and generalizability, and use deductive reasoning to test theories by applying a fixed, predetermined research design, and objective measures and criteria (Sekaran & Bougie, 2016). Positivist researchers position themselves as observers who are independent of what is being observed and value freedom. Therefore, the key methodological approach to answering research questions is usually archival, surveys, or experiments.

dissertation, where the first study is a systematic review, while the second and third are empirical studies.

The first study uses a systematic literature review, which is a method for studying a corpus of scholarly literature to (1) summarize a particular issue or topic and understand the knowledge development, (2) develop insights and critical reflections, (3) identify research gaps, and (4) provide guidance for future research paths and research questions (Massaro, Dumay, & Guthrie, 2016). The systematic review in this study was undertaken by combining content analysis and bibliometric techniques to answer the research questions. Content analysis extracts and gains insights into the substantive article content by encoding the textual material into relevant and manageable bits of data (Gaur & Kumar, 2018). The bibliometric technique uses statistical and quantitative analyses of published articles, usually using citation analysis (Zupic & Čater, 2015). This technique offers several benefits for the review, such as systematic, transparent, replicable, objective, and reliable analyses (Aria & Cuccurullo, 2017). The bibliometric technique in this study utilizes three software packages: *Bibliometrix* R-package, HistCite, and VOSviewer (Aria & Cuccurullo, 2017; van Eck & Waltman, 2010). The data used in this study is 140 relevant articles from the Web of Science database, authored by 259 scholars across 28 countries and published in 47 journals.

Moving on to the two empirical studies, it is common to utilize experiment and field study to undertake behavioral research, or in this particular situation, to investigate auditors' judgments and decisions. Both of the empirical studies use primary data: professional auditors. Specifically, the second study applies an archival field study technique (Gibbins & Qu, 2005) to examine auditors' judgments and decisions in identifying, investigating, and resolving potential fraud issues in an audit engagement. The data was collected from audit partners and managers from Big4 firms in Indonesia and Ghana, using a questionnaire distributed via a web-based survey platform and hardcopy. The questionnaire instrument was pretested with three audit partners and three audit managers to ensure its reliability. After the data was collected, it was analyzed in a descriptive manner using several statistical techniques, such as *t*-tests, logistic regression, and analysis of variance (ANOVA).

The third study applies an experimental method to examine auditors' judgment and decisions associated with communication modes. An experiment is a method of inquiry where participants are randomly assigned within a controlled setting in which the researcher reproduces some phenomenon (an individual or social process) and actively manipulates the phenomenon—the independent variable—to study the effect of the manipulation—the dependent variable—and various observations (e.g., measurements) or related phenomenon (Sekaran & Bougie, 2016; Solomon & Trotman, 2003). In the third study, the experimental design was a 2x2 between-subjects, where the first independent variable is prior client reputation—manipulated as positive or negative; and the second independent variable is computer-mediated communication modes—manipulated as email and video communication. The experiment uses case material developed and adapted from prior studies on audit judgments and decisions (e.g., Popova, 2013), where participants were assumed to perform an audit task about an account balance. Before distributing, the experimental case was pretested with two Big4 audit staff, two PhD students and a lecturer in auditing, and a panel of 92 final-year undergraduate accounting students to ensure the realism of the experimental material and measurements. Having all pretesting satisfactorily, the experiment was distributed via Qualtrics, and the targeted participants were staff auditors in Indonesia, mostly Big4 auditors, who are suitable for the audit task. After the data was collected, they were analyzed using several statistical techniques, such as ANOVA, *t*-tests, ordinary least square regression, and path analysis.

5 Summary of findings and implications

Based on a systematic review, the first study, "*In auditor we trust: 44 years of research on the auditor-client relationship and future research directions*," finds three research streams pertinent to the auditor-client relationship and interaction: (1) tenure, (2) attributes, and (3) negotiation, where the negotiation topic is relatively underexplored compared to other streams; thus it gives scope for further research. The review also implies that underrepresented regions, such as developing countries, warrant special consideration in future research because they could invigorate discussions about auditor-client interaction amid Western domination. These underrepresented regions may offer distinct characteristics influencing this interaction. Finally, this study offers five potential research agendas for future research: (1) negotiation between the auditor and the client, (2) communication modes and processes between auditors and clients, (3) auditor-client relationship and social ties, (4) auditor-client relationship and reputation, and (5) extended auditor-client relationship in multiple contexts and perspectives.

The second study, "*Applying ISA 240 for fraud detection and resolution: Evidence from Indonesia and Ghana,*" suggests distinct key takeaways regarding auditors' identification, investigation, and negotiation of potential fraud in two developing countries, Indonesia and Ghana, compared to prior fraud detection research in developed countries. These takeaways are as follows, first, unlike prior research asserting the significant involvement of lower-level staff in asset misappropriation fraud (Albrecht, Albrecht, Albrecht, & Zimbelman, 2018; Hassink et al., 2010), auditors in Indonesia and Ghana identify potential asset misappropriation committed mainly by senior managers of the client firms. Second, regardless of the dominant notion of internal control assessment and the use of information technology (IT) for fraud detection (Donelson, Ege, & McInnis, 2016; Halbouni, Obeid, & Garbou, 2016; Knechel, 2015; Tang & Karim, 2019), few auditors cite the benefits of internal control assessment and none report using IT to detect potential fraud. Third, failure to modify audit programs is the most common finding in fraud detection research (Asare & Wright, 2004; Glover, Prawitt, Schultz Jr., & Zimbelman, 2003; Hammersley, Johnstone, & Kadous, 2011); however, auditors in Indonesia and Ghana modify audit programs when potential fraud is identified. Finally, auditors' resolution of potential fraud issues using a more contending strategy does not lead to the client booking all the proposed audit adjustments. Overall, the results of the second study extend our understanding of fraud detection and resolution in the existing auditing literature about how these practices are performed in developing countries.

Finally, the third study, "*Auditors' professional skepticism over email and video responses: Evidence from client reputation in remote audits*," finds that auditors' skeptical judgment is more influenced by prior reputation of the client personnel when assessing evidence received as an email response than a video response. Notably, auditors with a prior positive client reputation exhibit lower skeptical judgment when assessing an email than a video response. However, auditors with a prior negative client reputation exhibit a marginally higher skeptical judgment when assessing an email than a video response. This may indicate that auditors may be more attentive to negative information, resulting in a weak difference in auditors' skeptical judgment between email and video responses. After assessing the client response, auditors are expected to respond to the client based on the evidence they received. Results suggest that auditors with a more positive impression of the client reputation are less likely to follow up with the client personnel when they receive the evidence and respond by video than by email, indicating that auditors take less skeptical actions. Taken together, due to the trend of remote working in the post-pandemic environment, the results of this study may inform decision-makers whether the use of email and video is equally effective for maintaining auditors' professional skepticism considering their prior experience with the recurring client.

To summarize, this doctoral dissertation contributes to the auditing literature on three features of judgment and decision-making—task, person, and interpersonal interaction. It covers not only top auditor's rank in the audit firms like audit partners and managers about their decisions regarding fraud detection and negotiation process, but it also encompasses staff auditors' judgment and decisions related to their task of performing and assessing a client inquiry in changing audit environment. The next section of this *Kappa* presents the three studies that form the core of this doctoral dissertation.

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Study 1: In auditor we trust: 44 years of research on the auditor-client relationship and future research directions

In auditor we trust: 44 years of research on the auditor-client relationship and future research directions[2]

Abstract

Purpose – This study systematically reviews the auditor-client relationship (ACR) literature spanning 1976 to 2019 to provide future research directions.

Design/methodology/approach – The study analysed 140 articles from the Web of Science database, authored by 259 scholars across 28 countries and published in 47 journals. It identified three major research streams to understand the ACR dynamics: auditor tenure, ACR attributes, and auditor-client negotiation.

Findings – Three major findings emerged based on this review. First, few studies examine auditor-client negotiation relative to other streams; thus, it offers scope for further research. Second, given that various fields have employed diverse frameworks as theoretical underpinnings in prior studies, continuing this trend can better portray ACR from multiple perspectives. Finally, despite strong international regulations on ACR aspects, such as auditor independence, tenure, and rotation, implementation in several countries warrants special considerations, specifically on legal enforcement and investor protection, given diverse cultures and country-level institutional environments.

Originality/value – This study contributes to the synthesis of existing and emerging research streams and provides future research suggestions.

Keywords Literature review, Auditor-client relationship, Content analysis, Bibliometric, Auditor-client interaction, Auditor-client negotiation

Paper type Literature review

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1 Introduction

Auditor-client relationship (ACR) studies are well-established in auditing research (see for example, the latest work by Dodgson *et al.*, 2020, Acito *et al.*, 2018). Moreover, the dynamics of ACR have garnered academic (e.g., DeFond and Zhang, 2014, Myers *et al.*, 2003, Gibbins *et al.*, 2010) and policymaker (U.S. House of Representatives, 2002, PCAOB, 2011, IAASB, 2018) attention. Before the fall of Enron, however, ACR received little attention from academics. Nonetheless, a considerable body of works have accumulated over the last 44 years since the first paper on ACR was published in 1976. Twenty ACR papers were published in the pre-Enron era (approximately 0.8 papers per year); it rose to 120 articles in the post-Enron era (approximately 6.3 papers per year or eight times more). After the Sarbanes Oxley Act (SOX Act) prevailed in 2003, interest in the topic grew significantly (see Figure 2). This development may highlight the impact of corporate scandals on the advent of auditing regulations, spurring the auditing profession and several research issues therefrom (Hay, 2015). It may also highlight the importance of investigating auditing and auditor capabilities in detecting scandals and deterring fraudulent acts.

DeFond and Zhang (2014) reviewed archival auditing studies and posited that understanding ACR dynamics in delivering a higher quality audit is a dominant notion in auditing research. However, rather than focus on overarching audit quality, this study aims to understand how the ACR literature portrays the dominant elements of peripheral auditor-client interaction, including whether this interaction engenders audit disputes or conflicts and how these conflicts are resolved among disputing parties. Prior ACR research has explored various contexts, dimensions, models, and theories, much of which is scattered in numerous areas and directions, thus creating an abstracted reality or 'a black box'. Accordingly, we synthesise the fragmented literature via a systematic, in-depth review, summarising the field's knowledge. This study systematically reviews ACR publications to explain the interactions between auditors and their clients and trace the ACR evolution. Thus, the study addresses the following research questions:

RQ1. How has the ACR concept evolved?
RQ2. What are the key research streams in the ACR literature?
RQ3. What top perspectives from influential journals, centres of excellence, articles, authors, key methods, and theoretical underpinnings give scope for future studies?
RQ4. What are the future research directions?

We collected data from 140 ACR publications from the Web of Science (WoS) and applied a systematic literature review [1], coupled with a hybrid approach, by integrating the tenets of content analysis and bibliometric techniques (Massaro *et al.*, 2016, Paul and Criado, 2020). The content analysis critically examines published articles in a qualitative manner, while the bibliometric technique captures the quantitative aspects of the data. We also conducted bibliographic mapping to visualise 44 years of bibliometric results. The technique generates patterns regarding the ACR evolution and intellectual structures therein.

This study contributes to the ACR and auditing literature as follows. First, it offers an overview of the ACR research history. It pinpoints early breakthrough works in the literature and discusses the research evolution. Moreover, it traces the dynamic evolution of the literature over 44 years by disaggregating the topic emergence per the critical period. Novice researchers will especially benefit from understanding the main issues and theories of each period. Second, the study employs the bibliographic coupling technique to provide the knowledge base pertinent to ACR and the intellectual structures of the emerging research streams [2]. Intellectual structures serve as a quick reference map to navigate auditing studies. Thus, this study defragments prior studies to understand the auditor-client intricacies more comprehensively.

Third, the study outlines, structures, and identifies leading journals, institutions, articles, authors, key methods, and theoretical underpinnings for future studies. Identifying top institutions can, for example, proxy for regional trends in ACR research. Moreover, empirical assessments of the most-cited articles and research trends contribute insight into the ACR research environment and invigorate discussions on ACR issues perceived to be essential by academia and how they are related to audit practices. Given globalised ACR regulations, regional circumstances may induce a potential conflict of ACR regulations with local customs and wisdom on human relationships, which gives scope for further investigation.

Underrepresented issues and regions can also stimulate the discussion of whether the ACR concept works as intended in regulation or only works as a ‘simulacra’, a ‘tick-box’ practice to feign compliance but actually conceals the complexity of ACR. Further, this study presents the key methods and theoretical underpinnings of ACR studies. Thus, researchers can benefit from diverse theoretical and methodological perspectives within the field. Finally, findings from the systematic review provide future research directions.

The remainder of this paper is structured as follows. Section 2 presents the data and study design. Section 3 discusses the findings and analyses, including the evolution of ACR studies, emerging research streams, key perspectives in the literature, and directions for future research. Section 4 concludes.

2 Design and data

This study adopts a structured literature review using a hybrid approach that combines content analysis and bibliometric citation techniques (Massaro *et al.*, 2016, Paul and Criado, 2020). Content analysis reviews the selected literature qualitatively to extract and gain insight into the substantive article content. Thus, we encode the textual material that answers our research questions to relevant and manageable bits of data (Gaur and Kumar, 2018, Weber, 1990).

The bibliometric technique is the quantitative aspect of the study. Bibliometric analysis is considered a new methodological lexicon for reviewing the literature in accounting and auditing fields. Although some researchers remain somewhat sceptical of the utility of bibliometric analysis (Paul and Criado, 2020), its benefit in conducting a structured literature review cannot be underrated [3]. Zupic and Čater (2015) describe bibliometric analysis as a literature review technique that employs statistical and quantitative analyses of published studies. The method has two primary purposes: performance analysis and science mapping. Performance analysis evaluates individual and institutional research and publication performance. Science mapping reveals the structure and dynamics of scientific fields. A crucial benefit of bibliometric analysis is its powerful and efficient quantitative technique in reviewing voluminous studies. It offers a systematic, transparent, and replicable literature review (Aria and Cuccurullo, 2017); guides the researcher to the most influential works; maps the research field with less subjective bias (Zupic and Čater, 2015); and provides more objective and reliable analyses [4]. Given the exponential growth of academic studies, bibliometric analysis has significantly improved the review quality. Furthermore, this study utilised a cartography analysis or visualisation technique to visualise the evolution and development of the research streams and 44 years of intellectual structure in the ACR field. Accordingly, integrating the content analysis, bibliometric, and visualisation techniques furnished the best way to answer the research questions.

Figure 1 illustrates the methodology in three major steps:
(1) defining the research questions;
(2) formulating the research design; and
(3) analysing the results and interpreting the findings.

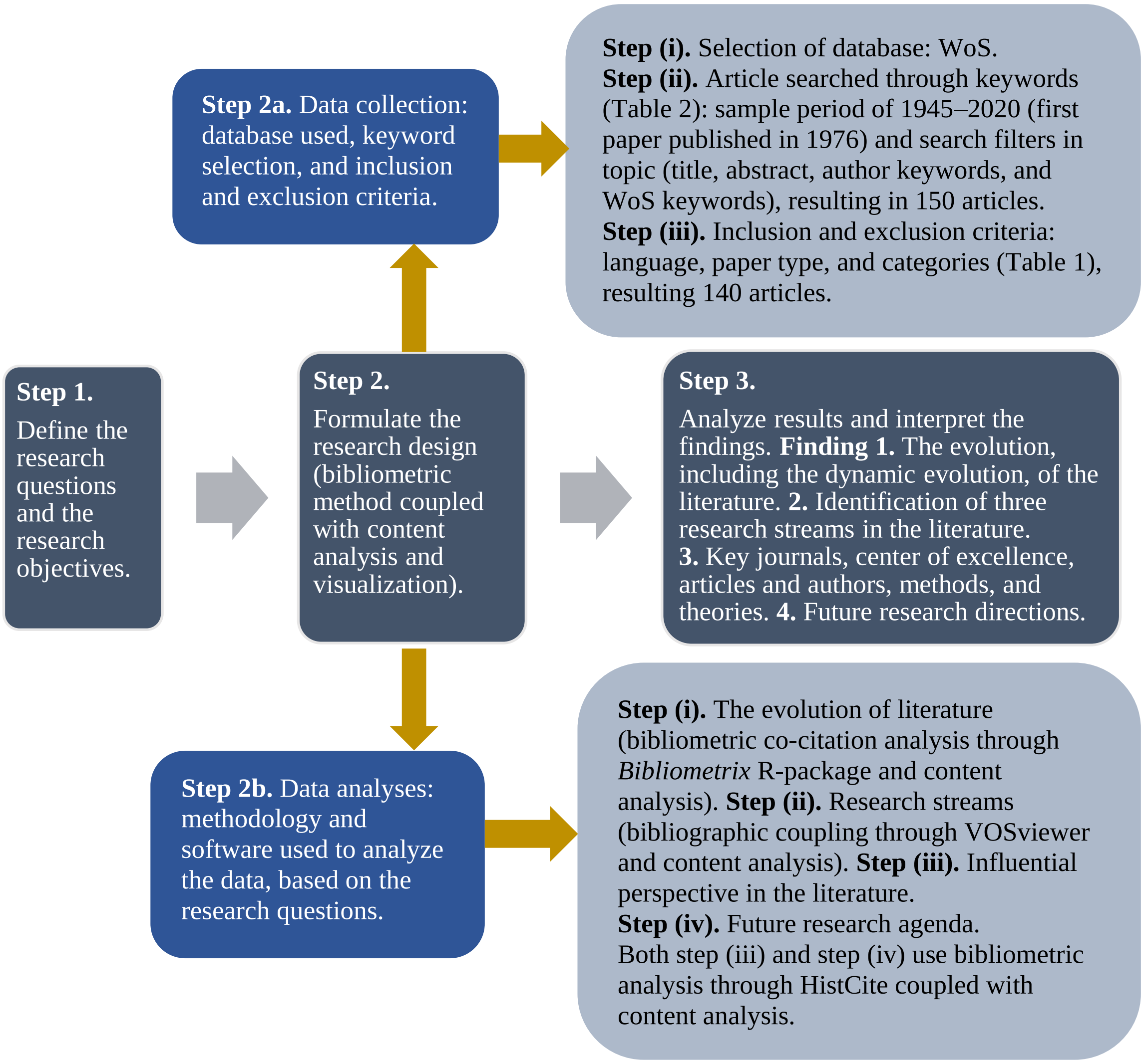


Figure 1. Methodological approach

The research questions (Step 1 in Figure 1) are highlighted in Section 1. We then developed a research design to answer the research questions. In designing the study, we considered methods to collect and analyse the data (Step 2 in Figure 1). We collected data from WoS as the basis for reviewing the ACR literature. WoS is the leading database on academic studies, comprising a collection of bibliography data. It is widely acknowledged as a reputable source for accounting and auditing research (Mingers and Leydesdorff, 2015). WoS arguably provides the best coverage for ACR research from leading scholars based on several criteria: timely review and publication of papers, a rigorous peer-review process, and broad dissemination through the Internet and related channels (Merigó and Yang, 2017). However, given its selective nature, WoS has inherent limitations regarding the number of published articles on auditing topics [5]. WoS does not have a specific accounting and auditing section.

We conducted a keyword search using a Boolean function in the WoS database to collect relevant bibliography data (Table 1). The final keywords were in two parts. The first part (‘auditor-client’ OR ‘auditor-auditee’ OR ‘auditor and client’ OR ‘auditor and auditee’ OR ‘audit partners and CFO’) captures the parties involved in the audit process. The second part (relationship* OR interact* OR negotiat* OR disput* OR conflict* OR resolution* OR disagreement*) covers the nature of the relationship usually applied in auditing research. Keyword selection is an iterative process to ensure that relevant studies are covered.

Table 1. Process of selecting the sample from WoS

Keywords and filters	Combination words and criteria	# Articles
(“auditor-client” OR “auditor-auditee” OR “auditor and client” OR “auditor and auditee” OR “audit partners and CFO”)	(relationship* OR interact* OR negotiat* OR disput* OR conflict* OR resolution* OR disagreement*)	150
Search filters	Topic (search keywords in title, abstract, author keywords, and WoS keywords)	150
Period search	1945–2020 (first paper published in 1976 and the latest paper published in 2019)	150
Language	English	150
Paper type	All types, except proceedings	142
Categories	All categories, except Law and Operations research	140

Note: Search: January 27, 2020

The search spanned 1945 to 2020; however, the earliest hit was Blakeney *et al.* (1976), and the latest was Riccardi (2019) [6]. A preliminary search found 150 English documents. We further reviewed the article types and excluded eight proceedings and two law and operations research articles. Finally, 140 articles served as the bibliographic data frame for the systematic review.

Next, we analyse the bibliometric data using three software packages: *Bibliometrix* R-package, HistCite, and VOSviewer (Eck and Waltman, 2010, Aria and Cuccurullo, 2017). This study employed two primary bibliometric techniques: co-citation analysis and bibliographic coupling (Table 2) [7].

Table 2. Methodology and software to analyze the data

Research questions	Content analysis	Bibliometric technique	Bibliometric software
Main information and publication trend	No	Bibliometric citation analysis	*Bibliometrix* R-package
RQ1. How has the concept of auditor and client relationship evolved?	Yes	Dynamic co-citation analysis and visualization	*Bibliometrix* R-package
RQ2. What are the key research streams in the ACR literature?	Yes	Bibliographic coupling and visualization	VOSviewer
RQ3. What are the leading perspectives in the literature in terms of influential journals, centers of excellence, articles, authors, key methods, and theoretical underpinnings, therefore worth reading for future studies?	Yes	Bibliometric citation analysis	HistCite
RQ4. What are the future research directions?	Yes	Bibliometric citation analysis	HistCite

A descriptive analysis of the bibliographic data frame included the main information about the number of journals, authors, type of documents, and publication trends during the given period. We used *the Bibliometrix* R-package to produce a descriptive bibliometric analysis. Table 3 presents the key terms related to bibliometric data.

Table 3. Bibliometric key terms

Terms	Abbreviation	Definition
Total global citation	TGC	TGC is the number of times an article is cited by any other articles that are available on the WoS database.
Average global citation	TGC/t	TGC/t is the average global citation per year from an article published to the end of the sample of this study.
Total local citation	TLC	TLC is the number of times an article is cited by any other articles in the sample of this study.
Average local citation	TLC/t	TLC/t is the average local citation per year from an article published to the end of the sample of this study
Total number of articles published	P_{ACR}	P_{ACR} is the total number of articles published in the ACR literature.

We then address each of the research questions as follows. First, we apply dynamic co-citation analysis to understand the ACR evolution. Co-citation analysis is appropriate for mapping intellectual heritage based on high impact. We visualised the citation network via *the Bibliometrix* R-package and performed a content analysis to narrate the evolution. Second, we identify key research streams in the field using bibliographic coupling and visualise them using VOSviewer. Bibliographic coupling is fitting since it focuses on present and forward-looking activities of the literature. Third, we identify influential perspectives from authors, articles, journals, institutions, countries, methods, and theories using content analysis and bibliometric citation analysis in HistCite. Finally, we provide future research directions.

3 Findings and analyses

3.1 Descriptive analysis

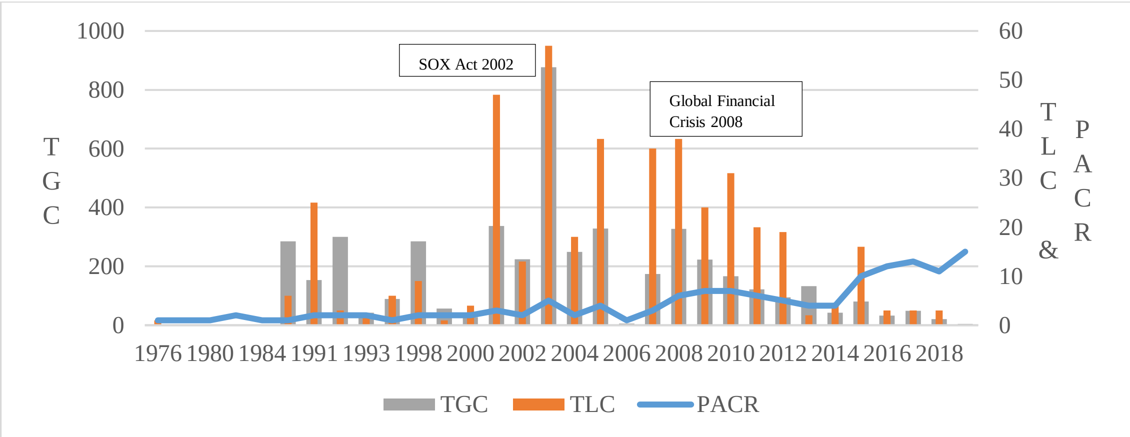
This study reviews 140 articles on ACR between 1976 and 2019 in 47 journals. Most of the articles were peer-reviewed papers (91.4%) (Table 4). In total, 259 authors wrote 140 studies with an average citation level of 33.81. Most studies were multi-author studies (90%, n = 233); only 10% (n = 26) were single-authored. Figure 2 shows the yearly publication trends and impacts. ACR publications have been increasing at a rate of 9.13% annually. Nonetheless, the expansion of WoS to include more accounting and auditing journals after 2004 contributed to the increasing trend (Merigó and Yang, 2017). The impact was measured using the bibliometric citation measures of total global citations (TGC) and total local citations (TLC). Both TGS and TLC indicate a spring in the 2002–2003 and 2007–2008 periods, when the global financial crisis occurred. Hay (2015) argues that corporate scandals, the global financial crisis of 2008, and the enactment of auditing-related laws profoundly affected the auditing profession, giving rise to many auditing research opportunities.

3.2 The auditor-client relationship evolution in the literature

Exploring which work has had the most significant impact on the ACR literature is essential to understanding how the research stream evolved. Figure 3 illustrates the evolution into three periods: (a) a period before the major fraud scandals and ratification of the SOX Act 2002 (1976–2003), (b) a period before the global financial crisis in 2008/2009 (1976–2009), and (c) the study period (1976–2019). The size of the nodes for each layout denotes the frequency of citations in the ACR literature. The larger the node size, the higher the citation and relevance of the reference. The different colours of each layout represent distinct clusters.

Table 4. Main information

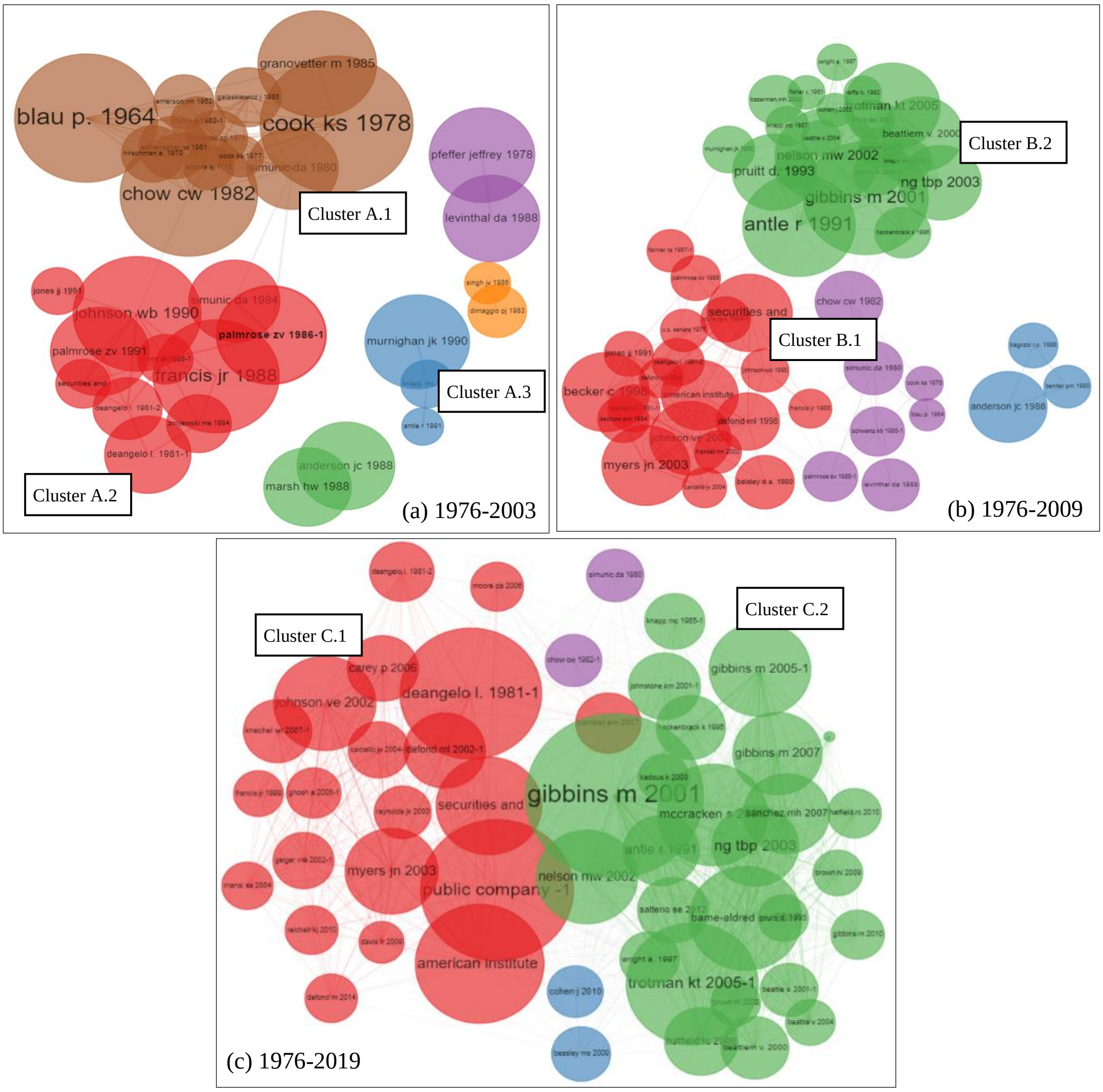
No	Description	Results	Percentage
1	Journals	47	
2	Average citations per document	33.81	
3	Total authors	259	
	Single-authored documents	26	10%
	Multi-authored documents	233	90%
4	Document type		
	Peer-reviewed	128	91.4%
	Editorial note and discussion	6	4.3%
	Review articles	3	2.1%
	Book review	3	2.1%
	Total documents	140	100.0%



Notes: TGC: total global citation received; TLC: total local citation received; P_{ACR}: number of ACR articles published. Data is processed from HistCite.

Figure 2. Publication trend 1976–2019

In the first period (Figure 3 [a]), the ACR literature first discussed theories underpinning ACR, such as from the economic and sociological standpoints (Granovetter, 1985, Cook and Emerson, 1978, e.g., Blau, 1964), including agency (Chow, 1982) and institutional theories (DiMaggio and Powell, 1983). Second, the early discourse on the ACR duration by Levinthal and Fichman (1988), transitioned to discussions on the concept of auditor independence, thus promoting higher audit quality (DeAngelo, 1981b, DeAngelo, 1981a, Palmrose, 1991, Francis and Wilson, 1988, Simunic, 1984) and its consequences on the audit market, audit fees, and non-audit services (Palmrose, 1986a, Johnson and Lys, 1990, Palmrose, 1986b). Third, the proposed new perspective of auditor-client interaction is a large negotiation system (Murnighan and Bazerman, 1990). However, as demonstrated in Figure 3 [a], the concepts and research streams within this period were scarcely interrelated.



Notes: Legend: Cluster A.1. ACR theoretical underpinning; A.2. Early concept and consequences of auditor independence and audit quality; and A.3. Early concept of auditor-client interaction as a large negotiation system. Cluster B.1. Auditor tenure and agency theory; and B.2. Auditor-client negotiation. Cluster C.1. Auditor tenure; and C.2. Auditor-client negotiation.

Figure 3. Dynamic evolution of co-citation network

In the second period (Figure 3 [b]), the ACR literature emerged into two major research streams. The first stream addresses auditor tenure, and the second, auditor-client negotiation. Both streams stem from agency theory and audit market competition (Chow, 1982, Palmrose, 1986a, Simunic, 1980). Moreover, the interrelation between studies is more lucid than in the first period. On the second stream, Antle and Nalebuff (1991) posit that financial statements are a joint statement between auditors and clients. This view provides a background where negotiations occur when discussing final financial statements. Pruitt and Carnevale (1993) discussed a wider negotiation context in sociology; however, Gibbins *et al.*

(2001) established the initial negotiation model in the auditing context. Further, broader themes in auditing research have set the scene for the evolution of negotiation studies, such as auditor judgement and decision making (Trotman, 2005), the likelihood of client earnings management (Nelson *et al.*, 2002), and the effectiveness of corporate governance (Ng and Tan, 2003, Cohen *et al.*, 2002). Finally, the last period (Figure 3 [c]) asserts the two major research streams in ACR literature: auditor tenure and auditor-client negotiation.

3.3 Research streams

We employ 79 most-bibliographically coupled studies, with a minimum number of citations per document of five, to identify emerging ACR research streams (Figure 4). The cluster names follow the content analysis: (1) auditor tenure, (2) ACR attributes, and (3) auditor-client negotiation.

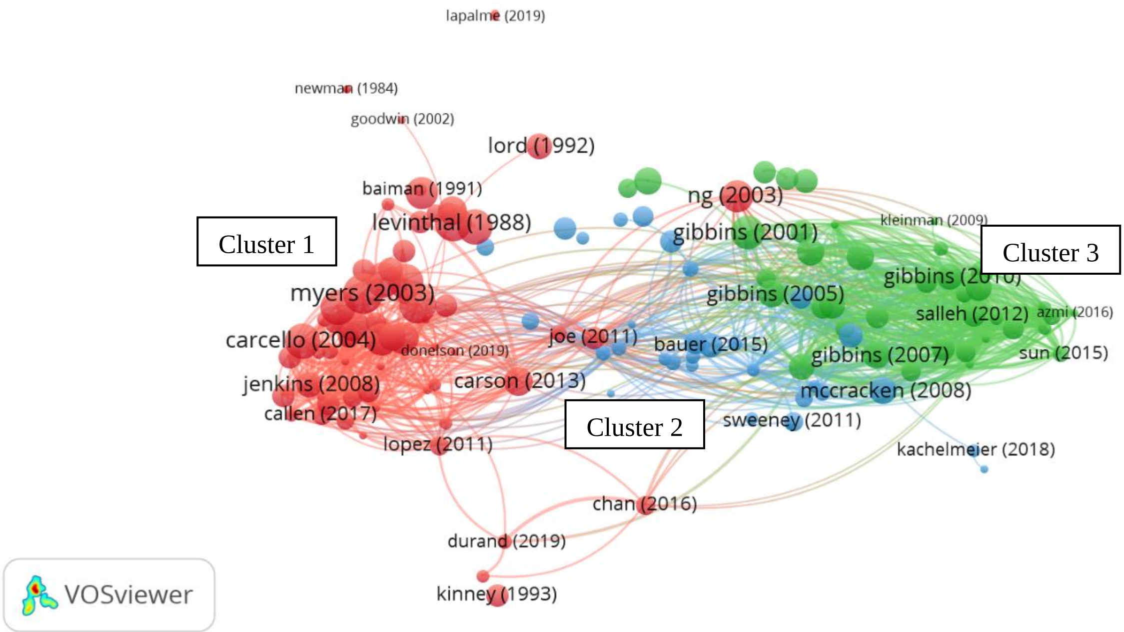


Figure 4. Research clusters of ACR literature

3.3.1 Cluster 1: Auditor tenure

The debate on auditor tenure mostly stems from positive and negative arguments on the impact of audit quality. We further elaborate on how the pre- and post-SOX regimes maintain the auditor's independence and affect audit quality. The pre- and post-SOX findings are discussed based on the dataset timeframe, not the year when the study was published.

Most studies argue for mandatory auditor rotation in the pre-SOX regime. They suggest that longer auditor tenure is associated with higher audit quality. Thus, a shorter ACR tenure is likely to deteriorate audit quality. Various indicators, such as increased conservative earnings and earnings quality (Jenkins and Velury, 2008, Ghosh and Moon, 2005), less extreme income-increasing and -decreasing accruals (Myers *et al.*, 2003, Chen *et al.*, 2008), and the auditor's likelihood of detecting client bankruptcy by issuing modified audit opinions (Geiger and Raghunandan, 2002) infer higher audit quality. On the contrary, pre-SOX regime research suggests that mandatory auditor rotation promotes the reduction of fraudulent reporting (Carcello and Nagy, 2004), auditor's waiver of audit adjustments (Joe *et al.*, 2011), and the propensity to issue a going-concern opinion (Ye *et al.*, 2011).

In an attempt to reconcile the debate, Davis *et al.* (2009) argue that short- and long-term auditor tenure is associated with the increased use of discretionary accruals to meet or beat earnings forecasts in the pre-SOX period; however, the results disappear in the post-SOX regime. Davis *et al.* (2009) provide supporting evidence for arguments by proponents and opponents of mandatory rotation in the pre-SOX period. Further, in the post-SOX era, Singer and Zhang (2018) argue that a longer audit firm tenure leads to less timely discovery and correction of misstatements, which is consistent with the negative effect of long auditor tenure on audit quality. The negative association is mainly present in the first 10 years of the audit engagement.

3.3.2 Cluster 2: Auditor-client relationship attributes

Attributes play an imperative role in ACR and affect overall audit quality. Their effect can be directly observed from the final audit adjustments agreed upon by both parties. Trompeter (1994) examines the association between audit partners' compensation and audit adjustments. He finds that partners with compensation more closely tied to client retention are less likely to require downward adjustments to income, suggesting that partners' compensation can compromise their audit judgements. Although auditors attempt to strengthen social bonds with clients to gain their trust (Rennie *et al.*, 2010), strengthening social bonds by forming a close relationship facilitates the client acquisition process that threatens the auditors' independence, even when partner or firm tenure is short. Bauer (2015) and Svanberg and Ohman (2015) support this argument. They find that auditors who identify more strongly with their clients (e.g., shared values) are more likely to agree with the client's preferred accounting treatment and reduced audit quality.

Other ACR attributes related to intrapersonal and interpersonal contexts have been heavily discussed. These include ethnicity (Berglund and Eshleman, 2019), leadership (Svanberg *et al.*, 2017), social bond, trust, and commitment (e.g., Kuenzel and Krolikowska, 2008, Kerler and Killough, 2009, Aschauer *et al.*, 2017), reputation (Donelson *et al.*, 2019), and communication between auditors and their clients (Kachelmeier, 2018, Saiewitz, 2018). Table 9 summarises the various attributes and their relation to the theoretical perspective.

3.3.3 Cluster 3: Auditor-client negotiation

The third research cluster in the ACR literature regards the auditor-client negotiation. Auditor-client negotiation research initially aimed to understand auditor-client interactions (Antle and Nalebuff, 1991, Beattie *et al.*, 2000, Kleinman and Palmon, 2000). Within the audit process context, the auditor and the client work to reconcile conflicting views that require bargaining and a strategy to resolve conflicts. Prior studies show that negotiation mainly occurs near the end of the audit process (Bennett *et al.*, 2015, Gibbins *et al.*, 2007).

Gibbins *et al.* (2001) developed a basic auditor-client negotiation model comprising six major elements: antecedents, accounting issues, negotiation processes, accounting outcomes, consequences, and context [8]. Two principal strategies in auditor-client negotiation are discussed: distributive and integrative. A distributive negotiation strategy usually results in a 'distributive' outcome where only one or neither party 'wins'. It comprises three types of strategies: contending, conceding, and compromising. Integrative negotiation strategies attempt to provide a 'win-win' solution to mutually benefit both parties (Gibbins *et al.*, 2010). This strategy comprises two types: problem-solving and expanding the agenda. Prior studies have shown that distributive strategies are the most popular (Gibbins *et al.*, 2007, Gibbins *et al.*, 2001, Kulset and Stuart, 2018).

The corpus of the auditor-client negotiation literature mainly investigates the contextual features that affect negotiation strategies and the impact on negotiation outcomes. These contextual features include external conditions, such as deadline pressures, auditor rotation, and clients' corporate governance (e.g., Bennett *et al.*, 2015, Wang and Tuttle, 2009, Beattie *et al.*, 2014, Salleh and Stewart, 2012); the intrapersonal context, such as cognitive characteristics, gender, and norms (Kleinman *et al.*, 2014, e.g., Jones *et al.*, 2019, Sun *et al.*, 2015); and parties' capabilities in the negotiation, such as role, rank and audit experience, negotiation experience, and skills (e.g., Fu *et al.*, 2011, Kulset and Stuart, 2018, McCracken *et al.*, 2008).

3.4 Key aspects of the ACR literature

3.4.1 Influential journals

Table 5 summarises the top 15 journals on ACR per their productivity and influence. *Auditing: A Journal of Practice & Theory* (AJPT) is the most productive ACR journal, publishing more than a fifth of ACR studies. It is followed by *The Accounting Review* (TAR) [9]. *Contemporary Accounting Research* (CAR) ranks third. *Accounting, Organizations and Society*, and *Journal of Accounting Research* are fourth and fifth, respectively, and *Managerial Auditing Journal* is sixth. Figure 5 details the most productive and impactful journals in ACR literature [10].

Table 5. Ranking of 15 most productive and influential journals

Rank	Journal	Abbr.	ABS*	P_{ACR}	TLC	TLC/t	TGC	TGC/t
1	*Auditing: A Journal of Practice & Theory*	AJPT	3	29	88	6.38	1042	77.49
2	*Accounting Review*	TAR	4*	14	94	7.16	1146	90.51
3	*Contemporary Accounting Research*	CAR	4	8	53	5.68	401	38.89
4	*Accounting Organizations and Society*	AOS	4*	7	38	3.52	267	21.92
5	*Journal of Accounting Research*	JAR	4*	7	72	3.36	606	31.75
6	*Managerial Auditing Journal*	MAJ	2	7	1	0.50	5	3.08
7	*Accounting Horizons*	AH	3	6	13	1.50	72	8.49
8	*Group Decision and Negotiation*	GDN	2	5	8	0.54	42	2.50
9	*International Journal of Auditing*	IJA	2	4	2	0.40	15	3.25
10	*Behavioral Research in Accounting*	BRA	3	4	1	0.25	9	2.25
11	*Current Issues in Auditing*	CIA	2	4	0	0.00	2	0.40
12	*Accounting and Business Research*	ABR	3	3	4	0.69	26	4.44
13	*Accounting Auditing & Accountability Journal*	AAAJ	3	3	3	0.38	23	3.92
14	*Journal of Business Ethics*	JBE	3	3	3	0.27	43	5.48
15	*Accounting and Finance*	AF	2	2	15	1.88	60	6.54
Total				106	(75.7% of 140 articles)			

Notes: The journal rank is presented based on the number of articles published (P_{ACR}). In the case of equal P_{ACR}, the rank is presented based on the higher TLC/t. *The rank is based on the Association of Business School (ABS) Academic Journal Guide 2018.

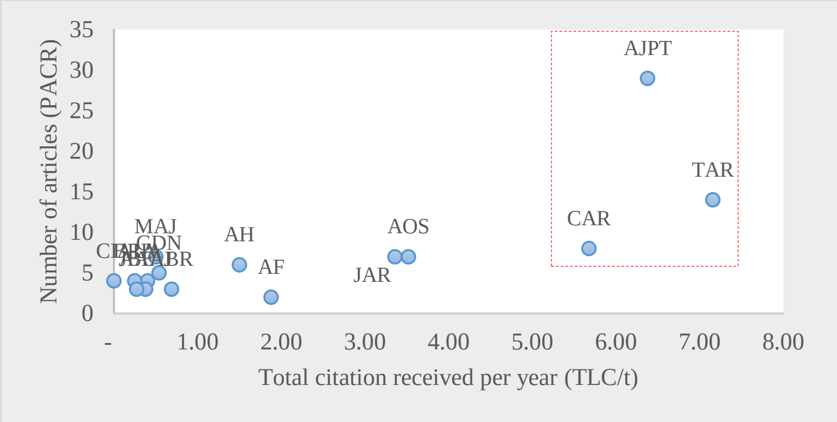


Figure 5. Journal productivity and impact on ACR

3.4.2 Centres of excellence

Several leading institutions in the field are regarded as 'centres of excellence' in prior ACR studies (Table 6). *The University of Illinois at Urbana–Champaign* has produced the highest number of ACR studies with eight articles and is the most influential institution with the highest TGC (560, rank 1). *The University of Alberta* is the most impactful institution in the ACR field with the highest TLC (109, rank 6). Such results are relevant for researchers and institutions seeking collaboration or job employment. Most leading institutions are located in the U.S., followed by Canada, Australia, and Singapore. The U.S. has a long tradition of promoting and developing accounting and auditing research (Merigó and Yang, 2017). Further, the dominance of U.S.-based affiliations is deeply rooted in the association of audit practice and research with significant corporate scandals and major institutional events (Andrikopoulos *et al.*, 2016).

Table 6. Ranking of 10 centres of excellence in the ACR field

Rank	Institution*	Country	P_{ACR}	% P_{ACR}	TLC	TGC
1	University of Illinois at Urbana–Champaign	U.S.	8	5.7	30	560
2	Queen's University	Canada	6	4.3	83	264
3	Nanyang Technological University	Singapore	6	4.3	43	239
4	University of Alabama	U.S.	6	4.3	23	146
5	University of Massachusetts	U.S.	6	4.3	15	139
6	University of Alberta	Canada	5	3.6	109	408
7	Florida International University	U.S.	4	2.9	6	340
8	Boston College	U.S.	4	2.9	29	275
9	University of New South Wales	Australia	4	2.9	17	168
10	University of Arizona	U.S.	4	2.9	1	51

Notes: *The institutions are ranked based on P_{ACR}; in the case of equal PACR, the institutions are ranked based on TGC.

3.4.3 Influential articles and authors

The ACR is unique and generally does not exist between other professionals and their clients because the audit service is primarily essential to parties outside the auditor-client system (e.g., shareholders, creditors, and government agencies). Thus, the ACR literature affects (and is affected by) other research streams within the auditing discipline. Table 6 provides the 10 most influential articles in the literature, most of which contribute to auditor tenure and auditor-client negotiation streams. Although Gibbins *et al.* (2001) contributed the most relevant study, Myers *et al.* (2003) garnered most citations globally (see Table 7) due to its strong connection to other study streams (e.g., auditor tenure, audit rotation, earnings quality, and audit quality). Thus, it has a broad influence on other studies and is among the most influential articles in the literature.

3.4.4 Key research methods

Table 8 presents the key research methods in ACR studies per the three research clusters identified in Figure 4. Most ACR studies apply quantitative methods, representing 74% of 140 articles. Archival studies (34.7%, n=48) accounted for the majority of the quantitative methods, followed by experiment (23%, n=32) and survey (12.8%, n=18) methods. Audit tenure studies mostly use the archival method, arguably due to data availability. Negotiation articles mostly use experiments and survey methods to investigate the behavioural and experiential aspects of auditor-client negotiation. Studies on ACR attributes have applied various methods.

Of the 140 articles, qualitative studies accounted for only 7% (n=10). The case study method is most popular in ACR qualitative research (2.8%, n=4), followed by interviews, critical papers, and document analysis (three, two, and one article, respectively). Auditor tenure studies appear to gain no benefit from qualitative methods; only one study employs document analysis for qualitative research. The unpopularity of qualitative and mixed methods in the ACR literature is unsurprising. The ease of data gathering and the long tradition of the quantitative school of thought in auditing and accounting research (Lee and Humphrey, 2006) may contribute to the popularity (unpopularity) of quantitative studies (qualitative and mixed methods).

Table 7. Ranking of top 10 articles in the ACR literature

Rank	Author(s)/year/title	Topic	Journal*	TLC	TLC/t	TGC	TGC/t	Findings/Contributions
1	Gibbins et al. (2001) Evidence about auditor-client management negotiation concerning client's financial reporting	Negotiation	JAR (4*)	41	2.16	187	9.84	Develop a model of auditor-client accounting negotiation, using negotiation elements in behavioural literature and accounting contextual features.
2	Antle and Nalebuff (1991) Conservatism and auditor-client negotiation	Negotiation	JAR (4*)	25	0.86	152	5.24	Challenge the common perception that auditors are conservative in auditor-client negotiation setting.
3	Ng and Tan (2003) Effects of authoritative guidance availability and audit committee effectiveness on auditors' judgments in an auditor-client negotiation context	Negotiation	TAR (4*)	25	1.47	121	7.12	Auditors' perceived negotiation outcome is jointly influenced by authoritative guidance availability and audit committee effectiveness.
4	Myers et al. (2003) Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation?	Auditor tenure	TAR (4*)	23	1.35	475	27.94	Longer auditor tenure is associated with less extreme income-increasing and income-decreasing accruals.
5	Gibbins, McCracken, and Salterio (2005) Negotiations over accounting issues: The congruency of audit partner and chief financial officer recalls	Negotiation	AJPT (3)	22	1.47	54	3.60	High-level congruency across CFOs and partners in the type of issues negotiated, parties involved in resolving the issue, and elements making up the negotiation process.
6	Gibbins et al. (2007) The chief financial officer's perspective on auditor-client negotiations	Negotiation	CAR (4)	19	1.46	66	5.08	CFOs view the negotiation with auditors as their responsibility to resolve the issue and in a compliance mode. The issue discussed is mostly related to revenue recognition.

Rank	Author(s)/year/title	Topic	Journal*	TLC	TLC/t	TGC	TGC/t	Findings/Contributions
7	McCracken et al. (2008) Auditor-client management relationships and roles in negotiating financial reporting	Negotiation	AOS (4*)	17	1.42	57	4.75	The audit partner is the "relationship manager" whose job to make the client management remains "happy."
8	Sanchez, Agoglia, and Hatfield (2007) The effect of auditors' use of a reciprocity-based strategy on auditor-client negotiations	Negotiation	TAR (4*)	17	1.31	54	4.15	Clients are more satisfy and willing to post significant adjustments if the auditor is exposed to the concession approach.
9	Carcello and Nagy (2004) Audit firm tenure and fraudulent financial reporting	Auditor tenure	AJPT (3)	16	1.00	227	14.19	Fraudulent financial reporting is more likely to occur in the first three years of auditor and client relationship, but no support for the long audit tenure.
10	Salterio (2012) Fifteen years in the trenches: Auditor-client negotiations exposed and explored	Negotiation	AF[a] (2)	15	1.88	37	4.63	Examine the experimental research over the last 15 years and suggest that archival research on audit report delays should be a construct for auditor-client negotiation.

Notes: *The ranking is based on TLC. In cases of equal TLC, the rank is presented based on TGC. TLC, TLC/t, TGC, TGC/t are compiled from HistCite.* *For abbreviations of journal names, see Table 4. Except for ([a]) AF: Accounting Horizons, ([b]) ASQ: Administrative Science Quarterly. Journal ranking in parenthesis is based on the Association of Business School (ABS) Academic Journal Guide 2018.

Table 8. Key methods

Type	Method	# Articles (n, %)			
		Cluster 1	Cluster 2	Cluster 3	Total
Quantitative	Archival	22 (16.0)	25 (18.0)	1 (0.7)	48 (34.7)
	Experiment	-	11 (8.0)	21 (15.0)	32 (23.0)
	Survey	1 (0.7)	9 (6.4)	8 (5.7)	18 (12.8)
	Textual analysis	-	2 (1.4)	-	2 (1.4)
	Meta analysis	-	2 (1.4)	-	2 (1.4)
	Mathematical modelling	-	-	1 (0.7)	1 (0.7)
Total quantitative					103 (74.0)
Qualitative	Case study	-	1 (0.7)	3 (2.1)	4 (2.8)
	Semi-structured/in-depth interview	-	3 (2.1)	-	3 (2.1)
	Critical paper	-	1 (0.7)	1 (0.7)	2 (1.4)
	Document analysis	1 (0.7)	-	-	1 (0.7)
Total qualitative					10 (7.0)
Mixed methods	Interview and experiment	-	1 (0.7)	1 (0.7)	2 (1.4)
	Archival and interview	1 (0.7)	-	-	1 (0.7)
	Interview and survey	-	1 (0.7)	-	1 (0.7)
Total mixed method					4 (2.8)
Literature review		3 (2.1)	3 (2.1)	4 (2.8)	10 (7.0)
Conceptual paper and commentary		-	12 (8.5)	1 (0.7)	13 (9.2)
Total		**28 (20.2)**	**71 (50.7)**	**41 (29.1)**	**140 00.0)**

3.4.5 Key theoretical underpinnings

Table 9 illustrates diverse theoretical frameworks from various fields, such as economics and finance, psychology, sociology, marketing, education, and information systems in ACR studies. We classify these theories based on the research clusters identified in Figure 4 and categorise them based on the issue associated with each cluster (we code it as keywords). In this way, we show that a similar issue/topic within a cluster can be portrayed from different theoretical lenses.

Of the 140 articles, only 50.7% (n=71) discussed the theory they employed. The rest (49.3%, n=69) did not specifically mention the theory underpinning their studies, perhaps due to the tradition of forming hypotheses arguments based primarily on previous auditing studies. This situation is salient, especially in archival studies (Myers *et al.*, 2003, Heninger, 2001, Whisenant *et al.*, 2003, Tanyi and Roland, 2017, Joe *et al.*, 2011, e.g., Chan *et al.*, 2016).

Table 9. Theoretical underpinnings

Keywords	Theory	# Article	
Panel A. Cluster 1: Auditor tenure			
Alumni affiliation	Relationship theory	1	
Auditor changes/switching	Organizational change theory	1	
	Economic theory	1	
	Positive accounting theory	1	
Auditor independence	Lending credibility theory	1	
Corporate social responsibility	Stakeholders theory	1	
Exchange, attachment, dynamic	Exchange theory	2	
Stock price risks	Theory of crash risk	1	9 (6.4% of 140)
Panel B. Cluster 2: ACR attributes			
Accountability, pressures	Psychology behavioral theory	1	
Audit fees	Low-balling theory	2	
Audit market	Institutional isomorphism theory	1	
Audit tender and selection	Role-theory perspective	1	
	Communication and psychology theory	1	
Auditing education	Theory of learning	1	
Auditor compensation	Contracting theory	1	
Auditor disclosure	Economic theory	1	
	Hogarth's theory on information assimilation	1	
Communication	Social presence theory	2	
Compliance, surveillance	Foucault's model of centralized surveillance	1	
Conflict, defense mechanism	Social system theory	1	
	Theory of defense mechanism	1	
Contractual relationship	Agency theory	2	
	Prospect theory	1	
Corporate governance	Moral seduction theory	1	
Ethnicity	Sociological inclination theory	1	
Fraud incentive, ambiguity	Ambiguity aversion theory	1	
Leadership	Transformational theory of leadership	1	
Outsourcing	Reduced risk perspective	1	
Performance improvement	Social learning theory	1	
Pressures	Theory of exchange, Theory of real conflict	1	
Reputation	Reputation theory	1	
Social bonds, commitment, trust, identification	Theory on commitment and trust	2	
	Trust attracting behavior theory	1	
	Social identity theory	6	
Uncertainty	Theory of decision making under uncertainty	1	36 (25.7% of 140)
Panel C. Cluster 3: Auditor-client negotiation			
Accountability	Level-of-aspiration theory	1	
Audit opinion	Economic game theory	1	
Cognitive characteristic	Cognitive theory	1	
Communication	Knowledge sharing theory	1	
Concession tactic	Reciprocity theory, Anchoring theory	3 2	

Keywords	Theory	# Article	
	Expectancy violation theory	1	
	Norm-violation theory		
Conflict, dispute, mandatory rotation, client inflexibility	Dual concern theory	3	
	Goal-setting theory	1	
Corporate governance, audit committee	Prospect theory	1	
	Dissonance theory	1	
	Cultural efficacy theory	1	
	Agency theory and Resource dependency theory	1	
Deadline pressure	Power dependence theory	1	
Gender	Social identity theory	1	
Group decision-making	Intra-team decision-making theory	1	
Interorganizational negotiation	Theory of evolutionary system design	1	
Negotiation model	Dynamic theory	1	
Persuasion tactic	Pervasive power of social validation theory	1	
Role and relationship	Social positioning theory	1	
Simultaneous, sequential, ambiguity	Ambiguity aversion theory	1	26 (18.6% of 140)
Total			**71 (50.7% of 140)**

Panel A of Table 9 presents the theory underpinning auditor tenure in the ACR literature. We identify nine (6.4%) articles mentioning theories in this cluster. Prior early-period studies draw from the *exchange theory* to examine auditor tenure (see Levinthal and Fichman, 1988, Seabright *et al.*, 1992). Two studies utilise normative accounting theories, such as *stakeholders' theory* and *lending credibility theory*, to investigate issues of corporate social responsibility and auditor independence associated with auditor tenure (Duc *et al.*, 2019, Brooks *et al.*, 2019). Ye *et al.* (2011) borrow from the marketing field's *relationship theory* to explain how alumni affiliation is associated with auditor tenure.

Panel B of Table 9 lists the theoretical frameworks utilised to explain ACR attributes; most draw from economics, psychology, and sociology. Classic *low-balling* and *contracting theories* are employed to explain audit fees, auditor's compensation, and disclosures (Desir *et al.*, 2014, Grant *et al.*, 2018, Trompeter, 1994, Omer *et al.*, 2012). Psychology theories explain some ACR attribute issues regarding pressures, audit tender or selection, and fraud incentive (Lord, 1992, Chang and Stone, 2019, Zimbelman, 1997). Sociology theories (*institutional*, *social presence*, *sociological inclination*, and *social learning theories*) are predominantly applied to explain issues regarding audit market, communication between auditors and clients, ethnicity, and performance improvement (Ma'ayan and Carmeli, 2016, Berglund and Eshleman, 2019, Kachelmeier, 2018, Saiewitz, 2018, Han, 2000).

Panel C of Table 9 presents theories used in auditor-client negotiation studies, dominated by psychology and sociology theories. Psychology theories explain various behavioural aspects in a negotiation, while the negotiation literature is rooted in sociology. The *dual concern theory* is dominant in investigating auditor-client negotiation, explaining conflicts, disputes, or inflexible positions (Goodwin, 2002, Gibbins *et al.*, 2010, Awadallah, 2018).

3.5 Future research directions

Research on ACR has seen rapid growth and been viewed from multiple perspectives. From our review, however, we argue that some areas need further exploration to improve our understanding of the complexity of ACR, especially when involving different contextual features. We utilised a four-step methodology to provide recommendations for future research. First, we identified the latest three-year-articles covered in the bibliometric citation analysis. Second, we performed a content analysis of these articles to determine future research directions. Third, we converted the identified directions into research questions. Finally, we verified and excluded questions that have been addressed. The procedure resulted in five potential research agendas, as discussed below.

3.5.1 ACR and social ties

One 'classical' topic that warrants future research is the ACR and homophily principle, which states that social actors with similar backgrounds and traits are attracted to each other and form network ties (McPherson *et al.*, 2001, Guan *et al.*, 2016). Social network analysis using network data or big data can be utilised to identify attributes that contribute to network emergence in certain social settings (Lusher *et al.*, 2013). Future studies can explore factors that develop social bonding, such as similarities in political party affiliations or political ideologies, culture, religious views, and common non-professional interests.

Future research may also identify the impact of social bonding in areas where auditors' integrity is potentially compromised, such as reporting deficiencies in internal controls over financial reporting (Naiker and Sharma, 2009) and the transparency of key audit matters presented in audit reports. Given that the interaction between clients and auditors with social ties is not publicly observable, the channels by which ties influence audit quality is unclear (Baumann and Ratzinger-Sakel, 2020). Thus, directly investigating the interaction dynamics via a case study or participant observation to complement an experimental study, such as Bhattacharjee and Brown (2017), is an interesting avenue for future research.

3.5.2 ACR and reputation

This stream focuses on studies that explore the impact of alleged client misconduct, auditor deficiencies (e.g., poor audit quality), or negligence of due care on firm reputation or the auditor (Donelson *et al.*, 2019, Rothenberg, 2020). Future studies can examine areas outside accounting-related litigation as measures of reputational damage and the impact of salient misconduct by auditors (e.g., employment-related litigation) or clients (e.g., corporate social responsibility, environmental, social, and governance risks due to bribery, or environmental or labour law violations) on audit firm reputation. However, future studies may also examine whether the reputation capital of those charged with corporate governance (e.g., board reputation) will result in a demand for high audit effort and quality (Fredriksson *et al.*, 2020), thus supporting audit firms' reputation.

3.5.3 Negotiation between auditor and client

The latest research on auditor-client negotiation focuses on the determinants and negotiation process. Jones *et al.* (2019) investigate the effect of gender on negotiations over audit adjustments and find that female auditors recommend higher audit adjustments than their male counterparts, consistent with women's behaviour toward risk in gender and risk tolerance research. In gender research, there is ample evidence that women are more risk-averse than men. In the audit context, Breesch and Branson (2009) show that female auditors are more risk-averse and, hence, discover more potential misstatements than male auditors. The difference in risk tolerance suggests that female auditors are less likely to accept clients' explanations and are more likely to propose conservative estimates and audit adjustments. However, little is known of the difference between male and female auditors dealing with and enacting their complex social identities in the context of audit negotiations. Moreover, the constraints faced by female auditors due to the interaction of gender with factors such as politics, religion, and culture, which potentially limit their experience in the audit negotiation process and access to other areas of auditing, are less appealing (Sian *et al.*, 2020).

The impact of 'mean' auditor personality traits such as psychopathy, narcissism, and Machiavellianism in audit negotiation also provide ample avenues for future research (Church *et al.*, 2020, Hobson *et al.*, 2020). For example, since narcissism may lead to less aggressive financial reports, narcissistic partners are more likely to be targeted for a switch. Therefore, researchers can examine the role of narcissism in auditor-client negotiation and whether it leads to voluntary partner rotation. Studying the potential positive effect of auditor narcissism on the assessment of management estimates also warrants potential research. It is especially important in economic crises or global pandemic (e.g., COVID-19) uncertainties.

Another stream of negotiation research is the negotiation process. Regarding negotiation strategies, more research is needed to study auditors' problem-solving tactics and their impact on resolving accounting disputes (Kulset and Stuart, 2018). Measuring conceding and compromising strategies that gauge auditors' use, rather than their intentions or motivational orientation during the conflict, need clarification. Further, it is essential to investigate the impact of clients' negotiation preferences (reactive vs proactive) on the effectiveness of the negotiation strategies (Perreault *et al.*, 2017). The dynamics and interdependencies of trust, such as mutual competence trust (trust regarding the ability of the counterpart) and mutual goodwill trust (trust regarding the benevolence and integrity of the counterpart) in auditor-client negotiation (Maresch *et al.*, 2019), are other avenues for future studies.

3.5.4 Auditor and client communication

This research stream discusses the mode and process of communication between auditors and clients. Audit inquiry through email can have a different impact than an in-person inquiry to obtain unbiased information from a client (Saiewitz, 2018, Saiewitz and Kida, 2018). Further research is needed to identify additional ways to improve the audit inquiry process and the factors that may affect client responses, such as tone or language errors in written communication. This issue is particularly salient in COVID-19 circumstances, where audit processes occur at a distance.

Research on the communication between auditors and specific client governing bodies (e.g., audit committees, CFOs, and board members) can contribute to the literature. Dramaturgical approaches can portray some social interaction characteristics in the audit communication process to serve multiple accountabilities (Compernolle, 2018). However, other approaches could enhance our understanding of this topic.

3.5.5 Extended ACR in multiple contexts and perspectives

The domination of the U.S., Canada, Singapore, and Australia in ACR research may drive future studies in developing countries. Given the derivation of SOX standards into local regulations and the global power of the 'Big 4' and multinational corporations, future research in underrepresented regions can reveal other factors when devising local standards. These contextual factors may enrich theoretical contributions. Even though the U.S. dominates ACR investigations, practical implications of ACR studies cannot necessarily be directly inferred in other contexts. Distinct social culture, institutional environment, and local wisdom of the person-to-person relationship in non-U.S. regions may interact with the foundational relationships of auditors and their clients. Therefore, these distinct characteristics are avenues for future research to investigate, understand, further critique, or even reconceptualise the appropriate ACR.

Future research can also provide different theoretical lenses to study auditor tenure, ACR attributes, and auditor-client negotiation research streams. As proposed by Knechel *et al.* (2020), empirical research to complement auditing from a service perspective can contribute to studies on the idiosyncratic nature of audit engagement, where standardisation of the audit process may not increase audit quality. However, to what extent social power (Daoust and Malsch, 2020) may harm the value of co-creation of the audit service must be investigated.

4 Conclusion

This study reviews the last four decades of ACR studies via a structured literature review and combines quantitative bibliometric techniques and qualitative content analysis. Bibliographic data are generated from the WoS database, which reflects the limitation of this review since WoS does not have a specific accounting and auditing section. AJPT, TAR, and CAR are the most influential journals in the field, accounting for a majority of popular and influential ACR papers, most of which are written by U.S. authors. The U.S. dominates the field, followed by Canada, Singapore, and Australia.

Using data visualisation and content analysis with the bibliometric citation analysis, we provide an evolution of ACR studies for the last 44 years. We also identify three major research streams in ACR literature: (1) auditor tenure,

(2) ACR attributes, and (3) auditor-client negotiation. The latter remains underexplored and, hence, gives scope for future research. Further, exploring various theoretical perspectives can better explain the complexity of ACR reality to inform ACR regulations. Moreover, to intensify multiple ACR perspectives, it may be valuable to consider performing a structured literature review by analysing intellectual sources from a specific theoretical perspective. A structured review from a critical perspective, for example, can provide a comprehensive analysis of ACR as a socially constituted phenomenon.

Notes

1. Readers may refer to Massaro *et al.* (2016) for a thorough discussion on the benefit of a structured literature review relative to a traditional literature review. They emphasise that a structured literature review is transparent and replicable, thus minimising researcher bias and subjectivity.
2. The knowledge base refers to a set of articles most cited by the current studies. The structure of the knowledge base is the intellectual structure (Zupic and Čater, 2015).
3. As advocated by Massaro *et al.* (2016), we employ the 'leading-edge technology' of bibliometric analysis in conducting a structured accounting and auditing literature review. Some researchers are sceptical of the bibliometric technique, given that most accounting review papers use a traditional approach. However, novice researchers will especially find the technique to be very helpful in conducting a systematic review.
4. Despite being less subjective and more objective, researchers might be more cautious about their subjectivity when selecting the keywords in the database (e.g., WoS or Scopus) to search for the relevant literature. Thus, the iterative process for the selection of keywords is pivotal. Further discussion pertinent to the iterative process of this study is presented in this section.
5. Accounting is a research field that currently does not have a significant position in WoS, as only 20 journals are included. Before 2004, only eight journals were included (Merigó and Yang, 2017).
6. Six new articles were published under ACR after the search date of this study (January 27, 2020, see Table 1).
7. Co-citation occurs when two papers are cited together and included in the same reference list. However, bibliographic coupling transpires when two documents have at least one reference in common (Vogel and Güttel, 2013, Aria and

Cuccurullo, 2017). Thus, a co-citation analysis seeks a similarity relationship between two cited articles. Meanwhile, bibliographic coupling measures the association between two citing articles. Readers may refer to Vogel and Güttel (2013) for a thorough explanation about co-citation analysis and bibliographic coupling.

8. Readers may refer to Salterio (2012) for further elaboration on the six major elements in the auditor-client negotiation model and Brown and Wright (2008) for phases in negotiation as an alternative model of the auditor-client negotiation.
9. Although AJPT is the most productive, TAR has been the most influential per the average total local citation per year (TLC/t).
10. The results from Bradford's Law (untabulated) produced by the *Bibliometrix* R-package tool also reveals similar outputs. AJPT, TAR, and CAR are the most influential journals that significantly contribute to the ACR literature.

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Study 2: Applying ISA 240 for Fraud Detection and Resolution: Evidence from Indonesia and Ghana

Applying ISA 240 for Fraud Detection and Resolution: Evidence from Indonesia and Ghana[3]

Abstract

Prior studies in developed countries investigate the auditor's fraud detection process. However, it is unclear whether the results from developed countries apply in developing countries because no fraud detection research has been performed in this setting. The current study examines how auditors in two developing countries, Indonesia and Ghana, apply ISA 240 for fraud detection, including how auditors identify, investigate, and resolve potential fraud issues. We find that: (1) senior managers originate most asset misappropriation frauds; (2) auditors in Indonesia and Ghana do not use information technology or internal control assessment for fraud investigation; (3) auditors modify the audit program once potential fraud is detected; and (4) auditors use a more contending than conceding negotiation strategy when resolving potential fraud issues, which often stop short of requiring audit clients to record all audit adjustments.

Keywords: ISA 240, fraud detection, auditor-client negotiation, developing countries, Big4

JEL Classifications: M42

Data Availability: contact the authors.

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1 Introduction

This study examines whether auditors detect and respond to fraud in a financial statement audit according to International Standards on Auditing (ISA) requirements. ISAs state that the auditor's responsibility is to obtain reasonable assurance that financial statements are free from material misstatements, whether due to fraud or error (IAASB 2018c, 2018f). Specifically, ISA 240, *The Auditor's Responsibilities Related to Fraud in the Audit of Financial Statements* (hereinafter the fraud standard), emphasizes that material misstatements due to fraud (an intentional act) could be more difficult to discover than misstatements arising from errors (an unintended mistake) because of the concealment nature of fraud (W. Albrecht, C. Albrecht, C. Albrecht, and Zimbelman 2018; IAASB 2018c). To meet the ISA requirements, auditors gather evidence during an audit, beginning with the planning process and continuing until the audit report is issued.

During the planning process, auditors identify and assess the risks of material misstatements due to fraud and develop audit procedures to respond to these risks (IAASB 2018c). Auditors apply these procedures in the testing phase to evaluate whether the financial statements are materially misstated. At the end of the audit, they propose audit adjustments based on misstatements identified from the evidence gathered during the testing phase. Auditors review the proposed audit adjustments schedule with the client and discuss which audit adjustments must be recorded. We often think of discussions about proposed audit adjustments between management and the auditor as a form of negotiation where each party attempts to win (Cohen, Krishnamoorthy, and Wright 2010; Gibbins, McCracken, and Salterio 2010). The auditor wants the client to record audit adjustments so the financial statements are not materially misstated (IAASB 2018e). However, the client usually prefers not to record audit adjustments. This study examines how auditors identify and investigate potential fraud, and how they resolve any issues with their clients. Prior fraud research focuses on how auditors make these decisions in developed countries. This study investigates this issue in two developing countries: Indonesia and Ghana.

Prior studies investigate auditors' judgment on fraud detection during several stages of the audit.[4] These studies are motivated by an attempt to

[4] See, for example, Asare, Wright, and Zimbelman (2015), Brasel, Hatfield, Nickell, and Parsons (2019), Brazel, Carpenter, and Jenkins (2010), Brazel, Jones, and Zimbelman (2009), Glover,

understand why auditors in developed countries rarely detect fraud. In general, they conclude that auditors often fail to apply fraud-related audit procedures, which leads to fraud detection failure. They stress that detecting fraud is difficult because fraud is rare so auditors often lack experience in responding to fraud.

Prior research in psychology and auditing shows that the knowledge structures of individuals change and develop as they obtain relevant experience (Daudelin 1996; Knapp and Knapp 2001; Nokes, Schunn, and Chi 2010). Experienced individuals have an ability to understand complex relationships and develop greater capacities to identify underlying problems in the evidence. Thus, one might expect that auditors' experience with fraud can be an important factor in helping auditors respond appropriately to fraud. This may be one explanation for why auditors in developed countries find it difficult to detect fraud. That is, in this setting, fraud detection is difficult for auditors because fraud is a rare occurrence. Due to a lack of fraud experience, auditors may be unable to rely on their fraud knowledge obtained from previous fraud experiences to appropriately respond to fraud risk (Hammersley, Johnstone, and Kadous 2011).

We conduct this study in a setting where fraud is not a rare occurrence. Developing countries, especially Indonesia and Ghana, provide a unique setting because fraud is not a relatively rare occurrence (Ernst & Young 2018; Hail, Tahoun, and Wang 2018; PwC 2018a; 2018b). We argue that prior fraud experience can influence auditors in two possible ways. One possibility is that the more fraud experiences auditors are exposed to, the more likely they respond to fraud effectively. Another possibility is that once fraud becomes a more expected occurrence, auditors might become more insensitive to fraud, and thus less responsive in detecting fraud. Furthermore, research also suggests that auditor pressures and incentives play a role in encouraging or inhibiting auditors from effectively detecting fraud (Asare et al. 2015). In a low litigation risk environment, such as in Indonesia and Ghana, the auditors may feel less pressure for fraud detection because they will be less liable for undetected fraud if it eventually becomes publicly known (Michas 2011).

Given that the same set of auditing standards for fraud detection is applied by auditors worldwide (IFAC 2019) it is surprising that we do not have information

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Prawitt, Schultz Jr., and Zimbelman (2003), Hassink, Meuwissen, and Bollen (2010), Lee, Welker, and Wang (2013), Trotman and Wright (2012).

about how auditors respond to fraud in the developing world.[5] Although standard-setters claim that a set of international auditing standards "enhance the quality and uniformity of [auditing] practice throughout the world and strengthens public confidence…." (IAASB 2017), we do not know whether this claim is true relative to fraud detection practices in developing countries. Does more experience with fraud translate into better fraud detection practices, or do other environmental factors in a developing country prevent auditors from performing fraud detection effectively? Therefore, it is important to determine whether consistency in standards leads to consistency in the application of standards.

Indonesia and Ghana are ISA-adopter countries with different legal systems, which may lead to different applications of the ISAs (Assenso-Okofo, Ali, and Ahmed 2011; La Porta, Lopez-de-Silanes, Shleifer, and Vishny 1998; Simunic, Ye, and Zhang 2015). However, they have a comparable economic size relative to wealthy economic countries (World Bank 2021) and enforce similar law quality for auditor litigation risk. Along with a similar societal culture, such as collectivism, high-power distance, and a low-trust society (Hofstede 1984), Indonesia and Ghana provide a sufficiently similar research setting.

We gather data from audit partners and managers about their firsthand experience when discovering a potential fraud in a recent audit engagement.[6] We collect 71 responses from Indonesian and Ghanaian Big4 firms.[7] Respondents are 14 audit partners and 57 audit managers, with an average audit experience of 9.7 years. Our findings contribute to auditing literature and provide practical

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[5] ISAs are issued by the International Auditing and Assurance Standards Board (IAASB) as part of the International Federation of Accountants (IFAC) and are widely used by auditors around the world. According to IFAC (2019), 127 countries have adopted ISAs, including Indonesia and Ghana.

[6] We use an archival field study method which is utilized in prior studies including Brazel et al. (2010), Jenkins, Negangard, and Oler (2018), and Nelson, Elliott, and Tarpley (2002).

[7] Big4 firms in Indonesia and Ghana dominate the national audit market. The market share of Big4 firms in Indonesia is approximately 80 percent of the total listed entities (IFIAR 2021). Appiah, Awunyo-Vitor, Mireku, and Ahiagbah (2016) report that from 2008 to 2012, of the 31 out of the 36 Ghanaian listed firms, or about 79 percent of Ghanaian listed entities are audited by Big4 firms. Hence, collecting responses from Big4 auditors provide a more generalization inference on the findings. Furthermore, prior studies suggest that Big4 auditors provide higher quality audits than non-Big4 (e.g., Lennox and Pittman 2010), and therefore, we expect that Big4 auditors can detect more fraud, despite the possibility that Big4 auditors engage with relatively lower-fraud risk audit clients than non-Big4 (Hassink et al. 2010).

implications for standard-setters and the auditing profession. Important takeaways of this study are as follows. First, unlike extant literature asserting the significant involvement of lower-level staff in asset misappropriation fraud (e.g., Albrecht et al. 2018; Hassink et al. 2010), we find that our participants identify potential asset misappropriation committed mainly by senior managers. Although policymakers and academics emphasize fraudulent financial reporting more than asset misappropriation due to fraud's severe impact on the overall financial statements (ACFE 2020; DeZoort and Harrison 2018; IAASB 2018c), our findings in Indonesia and Ghana imply that asset misappropriation involving senior managers should also receive attention from auditors, regulators, and academics.

Second, among fraud detection techniques required by the fraud standard (IAASB 2018c), assessing clients' internal control concomitant with using information technology (IT) has become a dominant notion and an emerging trend in the developed world (Donelson, Ege, and McInnis 2017; Halbouni, Obeid, and Garbou 2016; Knechel 2015; Tang and Karim 2019). Specifically, using IT for fraud detection can aid auditors in developing a more efficient focus on higher fraud risk areas. Despite this, very few participants cite the benefits of internal control assessment, and none report using IT to detect potential fraud. This is one major difference in fraud detection procedures between developed and developing countries. Although international audit firms have a global IT audit methodology available, this finding implies that audit clients in our setting do not use extensive IT control for their day-to-day business and heavily rely on manual controls. This coupled with the significant involvement of high-level management in the commission of fraud makes auditors less likely to rely on internal control assessment instead, they respond to potential fraud issues by using more traditional approaches (e.g., substantive tests, analytical procedures). Furthermore, once potential fraud is detected, participants adequately address the issue by gathering more evidence, communicating the issue with top management, and modifying the audit program according to the fraud standards. The latter finding is important, especially because researchers often report that auditors assess fraud risk adequately but generally fail to modify audit procedures to respond to heightened fraud risk (e.g., Mock, Srivastava, and Wright 2017).

Finally, responding to Asare et al.'s (2015) call for further research on fraud resolution, we examine the negotiation strategy used by our participants, as well as how this strategy leads to potential fraud resolution at the end of the audit.[8] Specifically, we investigate whether participants apply a contending negotiation strategy, requiring the client to post potential fraud adjustments, or a conceding strategy, where they waive the posting of adjustments. We find that participants are more likely to use a contending than a conceding negotiation strategy. However, even when applying a contending approach, they are less likely to require the client to record all of the proposed audit adjustments. Despite being the auditor's preferred negotiation outcome (e.g., Kulset and Stuart 2018; McCracken, Salterio, and Schmidt 2011), a contending strategy leads to client dissatisfaction (Kleinman, Palmon, and Yoon 2014; Perreault and Kida 2011) and may harm the auditor-client relationship. Our further analysis indicates that because contending behavior can be more problematic in collectivist and high-power distance societies like Indonesia and Ghana (Cai, Wilson, and Drake 2006), auditors can benefit from finding a balance between using a contending and conceding strategy.

The remainder of the paper is organized as follows. The second section discusses the research setting, reviews the literature, and proposes research questions. The third section presents our research design. The fourth section reports our field data and discusses the empirical results. The last section concludes.

2 Background

2.1 Research Setting

Indonesia and Ghana represent developing countries that uphold similar auditing regulatory regimes as ISA-adopter countries (Boolaky and Soobaroyen 2017; IFAC 2019).[9] In addition, they have comparable economic status relative to

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[8] Although there are a significant number of studies on auditor-client negotiation and the resolution of differences (e.g., Brown and Johnstone 2009; Fu, Tan, and Zhang 2011), to date, none of these studies examines auditor-client negotiation for fraud resolution. Therefore, we respond to Asare et al.'s (2015) call for research on this issue and expand the research agenda to developing countries.

[9] Although IFAC (2019) reports Indonesia and Ghana as ISAs adopter-countries, there is a slightly different adoption process across countries. Ghana fully adopts ISAs without modification (Adafula, Degraft-Hanson, Kocevski, and Mabheju 2014), but Indonesia adopts outdated versions of equivalents ISAs (Donna and Fabling 2018). Unlike Ghana, English is not the official language in Indonesia, and thus, the Indonesian auditing profession needs to translate ISAs into the national

wealthy economic countries (World Bank 2021).[10] Nonetheless, one can argue that Indonesia and Ghana's institutional backgrounds, such as their legal systems, industry compositions, capital market size, investor protections, and culture and social norms, remain incomparable. Indonesia inherits the French-civil-law legal system from the Dutch, whereas Ghana adopts an English-origin common-law system (Assenso-Okofo et al. 2011; La Porta et al. 1998). Common-law countries generally have the strongest legal investor protection, whereas French-civil-law countries have the weakest (La Porta et al. 1998).[11] However, Indonesia has a more developed capital market system, which is approximately three times larger than Ghana’s market capitalization per GDP ratio.[12] This increases pressure for higher audit quality relative to Ghana. Furthermore, Indonesian listed firms are dominated by manufacturing companies (Rusmin and Evans 2017), whereas mining, technology, and financial industries comprise approximately 97 percent of Ghana’s market capitalization (GSE 2021).

Research suggests that wealthier countries enforce higher law quality and are negatively associated with earnings management (La Porta et al. 1998; Shen and Chih 2005). Less developed countries have lower auditor litigation risk (Michas 2011) and a lower degree of societal trust (Ho, Yen, Gu, and Shi 2020). Societal trust, along with other cultural dimensions (e.g., individualism-

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language so that the auditing standards can be widely understood by Indonesian auditors, especially those in non-internationally affiliated firms.

[10] World Bank (2021) classifies both Indonesia and Ghana in the middle-income category. Specifically, Indonesia is in the upper-middle-income status and Ghana in the lower-middle-income category, with Gross Domestic Product (GDP) per capita in 2021 of US$4,136 and US$2,202, respectively. Other studies identify Indonesia and Ghana as emerging and developing markets, respectively (Boolaky and Soobaroyen 2017; Michas 2011). Relative to other developed countries, such as the United States (U.S.), United Kingdom, and European Union with GDP per capita in 2021 of US$ 65,297, US$42,329, and US$34,913, respectively, Indonesia and Ghana are arguably similar economic.

[11] Despite the inclusion of four sub-Saharan African countries in the 18 common-law countries in La Porta et al.’s (1998) dataset, Ghana is not included. Thus, it is unknown where Ghana is placed on the legal investor protection continuum.

[12] Indonesia has 622 listed entities and a market capitalization of US$518 billion (OECD 2019), with the ratio of market capitalization per GDP of 0.51. Meanwhile, Ghana has 37 listed firms and a market capitalization equivalent to US$10.5 billion (Ghana Stock Exchange (GSE) 2021), with the ratio of market capitalization per GDP of 0.16. Thus, the Indonesian capital market is 3.2 times bigger than Ghana.

collectivism, power distance), can influence auditors' fraud detection process (Bik and Hooghiemstra 2018; Ho et al. 2020; Patel, Harrison, and McKinnon 2002). Because Indonesia and Ghana are collectivist, high-power distance, low-trust societies (Hofstede 1984), these cultural aspects may contribute to auditors' judgment and client interaction on fraud detection and resolution. Overall, relative to developed countries, Indonesia and Ghana offer a sufficiently similar setting for this research.

2.2 Applying ISA 240 in an Audit

The risk of material misstatements due to fraud has received much attention from policymakers (e.g., IAASB 2018c; PCAOB 2012) and academics (e.g., Brasel et al. 2019; Trotman and Wright 2012) in recent years. Fraud is difficult to detect (Albrecht et al. 2018; KPMG 2016), and it impacts the reliability of financial statements and results in damage to the auditing profession, harming public trust and financial market sustainability (ACFE 2020; Giannetti and Wang 2016; Karpoff, Lee, and Martin 2008). To avoid the negative consequences of financial statement fraud, ISA 240 is clear about managements' and auditors' responsibility for fraud detection. Management is responsible for designing control systems to prevent, detect, and correct fraud. The auditor is responsible for planning the audit to determine whether material misstatements caused by fraud or error are present in the financial statements (IAASB 2018c).

ISA 240 describes the auditors' responsibilities to detect potential fraud in every phase of an audit, from audit planning to audit completion. During the planning process, ISA 240 requires auditors to assess the risks of material misstatement due to fraud by performing several audit procedures, including inquiries to management and those charged with governance, preliminary analytical reviews of any unusual or unexpected relationships, and gaining an understanding of the client's internal controls and control activities (IAASB 2018b). Auditors respond to assessed fraud risks by designing fraud-related audit procedures and applying these procedures during the audit testing phase (IAASB 2018c).[13] These procedures can include conducting internal control and

[13] ISA 240 also asserts to respond to assessed fraud risks by assigning and supervising appropriate audit team members to perform fraud-related audit procedures, evaluating the client's accounting policies that may indicate fraud, and incorporating an element of unpredictability in performing the audit procedures.

substantive tests (e.g., analytical procedures, observation, inquiry, inspection, recalculation, reperformance), reviewing and testing manual journal entries, and evaluating the overall financial statements. At the final step, auditors communicate the proposed audit adjustments based on the material misstatements identified during the testing process (IAASB 2018e). This final step is critical to ensure that financial statements are not materially misstated.

Extant research investigating auditors' judgments and the application of fraud-related procedures is extensive but is primarily in developed countries. For instance, Asare et al. (2015) report that auditors in developed countries fail to detect fraud mainly due to failure to perform fraud risk assessments and modify the audit program to respond to fraud cues. Trotman and Wright (2012) conduct an experiment with Big4 auditors in a developed country and find that auditors fail to exercise skeptical judgment when receiving evidence from management, even if evidence from external parties disconfirms this evidence. Lee et al. (2013) corroborate this failure in skeptical judgment and suggest that auditors in developed countries fail to exercise presumptive doubt skepticism when performing fraud inquiries; this occurs because most auditors follow presumptive trust assumptions. Moreover, a survey of auditors in a developed country indicates that auditors fail to comply with some critical elements of fraud standards during an audit. Thus, they encounter corporate fraud by chance rather than because of a deliberate plan to identify fraud (Hassink et al. 2010). Research also suggests that high-quality fraud brainstorming can help detect fraud (Trotman, Simnett, and Khalifa 2009). However, Brazel et al. (2010) survey internationally-affiliated auditors in a developed country and find that their fraud brainstorming quality is medium-to-low. In sum, these studies indicate that auditors in developed countries often fail to apply auditors' judgment and fraud-related procedures, leading to a failure in detecting fraud.

We extend this line of research by examining how auditors in two developing countries, Indonesia and Ghana, use a set of fraud standards to detect and respond to potential fraud. This is important because, to our knowledge, research on fraud detection has been conducted only in developed countries. Following the framework of effective fraud detection in Asare et al. (2015), we expect some differences in applying fraud detection and resolution processes in developing countries versus developed countries. We theorize that differences are attributable to fraud-related experiences in developing countries and the interplay of fraud detection with auditor incentives and pressures in this setting.

Internationally-affiliated audit firms (e.g., Big4) employ global firm policies and put firm-wide control systems in place to ensure the consistency of “seamless audit services,” including a fraud-related audit methodology, across their branches worldwide (Barrett, Cooper, and Jamal 2005). Despite this similarity, the environments where these firms operate differ from country to country. Environmental factors, such as national litigation risk, regulations, and culture, can result in variation in the application of a uniform global audit methodology. Research suggests that Big4 firms’ compliance with a global fraud risk assessment methodology differs at the country level (Bik and Hooghiemstra 2018), confirming our expectation that fraud detection and resolution may differ in developed and developing countries. Yet, developing countries are often overlooked, and previous fraud research lacks evidence addressing this issue. Therefore, this study provides exploratory answers to our research question: “*How do auditors in developing countries identify, investigate, and resolve potential fraud issues?*” The following sections elaborate on the research question in more detail.

2.3 Auditors’ Identification and Investigation of Potential Fraud

Identifying the likelihood of fraud is the first and most critical step for auditors to detect fraud. However, this step can be challenging because fraud occurrences are rare and often hidden, and the signs of fraud can be very subtle. As a result, auditors may lack experience recognizing the signs of fraud (Asare et al. 2015). Research suggests that the occurrence of fraud in developed countries is less common than in developing countries for several reasons. For example, the institutional environment in developed countries leads to effective regulation, with more effective law enforcement preventing future fraud (Berglöf and Claessens 2006; Hail et al. 2018; La Porta et al. 1998). As a result, auditors in developed countries may have less opportunity to experience fraud.

ISA 240 describes two types of fraud that might occur during an audit: fraudulent financial reporting and misappropriation of assets. Fraudulent reporting occurs when management intentionally misleads users of financial statements by failing to follow accounting standards when preparing the financial statements. Asset misappropriation fraud occurs when individuals take company assets for their use. Existing literature places more emphasis on fraudulent reporting due to the involvement of higher-level management. Management at this level has the ability to conceal fraud and override internal controls, which can allow fraud to occur in the financial statements. Meanwhile, asset misappropriation is often perceived as immaterial fraud associated with lower-level employees (Albrecht et al. 2018; ACFE 2020; IAASB 2018c). Regardless of its immateriality, however, research in developed countries (e.g., U.S., Finland, and The Netherlands) finds mixed results about the perceived importance of identifying asset misappropriation fraud (DeZoort and Harrison 2018; Gullkvist and Jokipii 2013; Hassink et al. 2010). In our study, we investigate how auditors respond to both types of fraud. We assess whether the assumption that asset misappropriation is immaterial fraud associated with lower-level employees holds in the developing countries we study.

ISA 240 requires auditors to perform several audit procedures for early fraud detection. These include fraud-related inquiries, analytical procedures, internal controls assessments, and fraud brainstorming within the audit team (IAASB 2018c). Once the risks of material misstatements due to fraud are identified, ISA 240 requires auditors to respond to potential fraud by gathering more audit evidence in terms of its nature, extent, and timing and, if necessary, assigning forensic specialists and IT experts to the audit. In recent years, audit firms have used IT procedures to improve the effectiveness of assessments of the risk of material misstatement due to fraud (Halbouni et al. 2016; Lowe, Bierstaker, Janvrin, and Jenkins 2018). Audit firms have stated that IT audit procedures are necessary because of extensive IT innovations used by their clients to manage more complex business processes. The need for IT to perform fraud risk assessments may differ between developed and developing countries because IT is more prevalent in developed countries. Prior research in developed countries demonstrates that IT audit procedures can help auditors navigate high key fraud risk areas more effectively than traditional approaches (e.g., manual analytical procedures) by taking velocity, veracity, and volume to process clients' information into accounts (Tang and Karim 2019).[14] Furthermore, increased reliance on forensic specialists to improve the effectiveness of fraud investigation is an emerging theme in developed countries (Asare and Wright 2018; Boritz, Kochetova, Robinson, and Wong 2020; Jenkins et al. 2018). Despite the benefit, however, other studies indicate that the use of forensic specialists is not more

[14] One emerging technology for fraud detection is the use of big data analytics (Appelbaum, Kogan, and Vasarhelyi 2017), which can be especially beneficial in fraud brainstorming sessions (Tang and Karim 2019).

effective at detecting fraud than is modifying the audit program (Boritz, Kochetova-Kozloski, and Robinson 2015).

In developed countries, a failure to modify the audit program to respond to heightened fraud risks is perhaps one of the most common findings in fraud detection research (Asare and Wright 2004; Glover et al. 2003; Hammersley et al. 2011). Prior research suggests that this failure is attributed to auditors' lack of fraud-related experiences (Asare et al. 2015; Popova 2018). Because the auditors in developing countries that we study may have more fraud experiences than auditors in developed countries, they may be more able to identify fraud symptoms by integrating fraud risk factors from their prior fraud experiences into their planning process. Research also suggests that internationally-affiliated auditors operating in low trust societies are more likely to comply with a global fraud methodology because they tend to believe that their client management does not promote honesty, and thus, they are unlikely to rely on information provided by client management (Bik and Hooghiemstra 2018). Both factors –more fraud experience and a lack of trust in their audit clients– may cause auditors in the two developing countries in our study to modify their audit plans and respond to potential fraud more aggressively, compared to auditors in developed countries. In contrast, prior research finds that a low litigation risk environment may not provide adequate auditor incentives to investigate potential fraud symptoms (Michas 2011). A low litigation environment provides less pressure for fraud detection because auditors are less likely to be sued for undetected fraud, even if it eventually becomes known to the public. Based on this discussion, we ask the following research questions:

RQ1 How do auditors in Indonesia and Ghana apply ISA 240 to identify potential fraud issues?

RQ2 How do auditors in Indonesia and Ghana apply ISA 240 to investigate potential fraud issues?

2.4 Auditors' Resolution of Potential Fraud

Following ISA 240's requirements for potential fraud resolution, auditors review the proposed audit adjustment schedule, communicate their findings, and request that client management correct potential misstatements (IAASB 2018c, 2018e). This auditor-client negotiation usually occurs during the final phase of the audit process (Antle and Nalebuff 1991; Beattie, Fearnley, and Brandt 2000; Gibbins et al. 2010). To avoid material misstatements due to fraud in the financial statements, two actions must occur. The auditor must first identify the fraud, and then the auditor must require the client to correct material misstatements caused by the fraud. Failure to complete either of these actions will result in misstatements in the financial statements and a failure on the part of the auditor to follow the requirements of the fraud standard.

Research suggests that negotiations about audit adjustments can affect both the audit outcome and the future auditor-client relationship (Brown and Wright 2008; Gibbins, Salterio, and Webb 2001; McCracken, Salterio, and Gibbins 2008). In this regard, we argue that a potential fraud negotiation is a more complex situation than a negotiation involving audit adjustments without fraud. In a fraud situation, auditors accuse the client of not only misstating the financial statements, but also of intentionally misstating them.

When negotiating potential fraud adjustments, auditors can apply a contending or conceding negotiation strategy.[15] Research in developed countries indicates that auditors prefer a contending strategy. This includes convincing the client to accept the proposed audit adjustment, explaining the implications, or even threatening to qualify the audit report if the adjustment is not made (Beattie, Fearnley, and Brandt 2004; Church, Dai, Kuang, and Liu 2020; Gibbins et al. 2010; Kulset and Stuart 2018). Auditors usually approach the client with a contending strategy to ensure the client records the auditor's proposed audit adjustments. Nevertheless, applying a contending approach in collectivist-high-power-distance societies can be problematic (Cai et al. 2006). Unfavorable impacts may be more prominent in this context, including audit delay and client dissatisfaction that leads to detrimental auditor-client relationships (Kleinman et al. 2014; Perreault and Kida 2011).

If results from prior research on the negotiation strategy used in developed countries also apply in developing countries, auditors in Indonesia and Ghana will use a contending strategy to negotiate potential fraud adjustments, which will lead

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[15] Generic negotiation literature finds that a distributive negotiation strategy (contending and conceding) is most commonly used in a negotiation, where only one party "wins" the negotiation and the other party "losses," or neither party "wins." We call the result of this negotiation a "distributive" outcome. Prior studies in auditor-client negotiation find a similar use of the distributive negotiation strategy (Bennett, Hatfield, and Stefaniak 2015; Brown-Liburd and Wright 2011; Gibbins et al. 2010; Gibbins et al. 2001; Kulset and Stuart 2018; McCracken et al. 2011).

to the client accepting all of the proposed audit adjustments. Conversely, if auditors do not use a contending strategy in this setting, the client will not accept the proposed adjustments. Thus, the following research question is proposed:

RQ3 *What is the negotiation strategy used by auditors in Indonesia and Ghana when negotiating potential fraud issues, and how does this negotiation strategy impact the outcome of the audit?*

3 Research Design

3.1 Data Collection

We use an archival-based field study technique to examine how auditors identify and investigate potential fraud, as well as how they apply a negotiation strategy to arrive at an audit outcome. Because we cannot directly observe auditors' working papers related to specific fraud experiences and fraud detection practices in their recent audits, we asked our participants to complete a questionnaire involving a potential fraud that they had recently experienced in their work. This recency minimizes retrospective bias. We gathered data from Big4 auditors in Indonesia and Ghana. Our participants are partners and managers because they are the ultimate decision-makers when applying fraud standards and they are responsible for communicating and resolving potential fraud issues with client management (IAASB 2018c).

We developed the questionnaire based on the fraud standard in ISA 240 and related ISAs (IAASB 2018b, 2018c, 2018d, 2018e, 2019), as well as previous fraud detection and auditor-client negotiation studies (Gibbins et al. 2010; Gibbins et al. 2001; Kulset and Stuart 2018). The questionnaire was designed to gather specific information about auditors' experience with potential fraud and consists of four sections. First, we asked our participants about a potential fraud in their recent audit and how they discovered it. Second, we asked about their agreement (or disagreement) with various statements pertinent to their contending and conceding negotiation tactics. We did not use the word "negotiation" in the questionnaire because some participants might have viewed that term disparagingly. The third section asked questions pertinent to the outcome of the negotiation. Lastly, we sought information about the client, the engagement, and information about the auditors.

The questionnaire was pretested in three stages—the first pilot test was conducted with two Big4 audit managers in Indonesia and Ghana. The second pilot test was done with an audit partner in Indonesia and an audit manager in Ghana after revising the questionnaire based on the comments from the first pilot test. The final pilot test was with two audit partners in Ghana. This allowed us to ensure that the questionnaire was suitable for all partners and managers in both countries. The questionnaire was written in English because our participants have sufficient English literacy to complete the survey.

After these preliminary tests, the questionnaire was completed and sent to participants using a web-based survey platform (SurveyXact).[16] The questionnaire link was sent to our contacts in Big4 firms and we asked them to circulate the link to all colleagues in partner and manager positions at their offices. The link was distributed to all four Big4 firms in Indonesia and three of the Big4 firms in Ghana.[17] Unlike in some countries where Big4 firms have several offices in different cities, Big4 firms in Indonesia and Ghana have only one office located in the capital city. In addition to web-based questionnaires, some Ghanaian participants were sent a paper-based version for their convenience. The participants' anonymity was fully guaranteed to improve the response rate and minimize response bias due to the topic's sensitive nature.[18] We did not request specific identifying information (e.g., names, e-mail, or mailing addresses). The responses were collected over approximately five months.

We received 71 complete responses, 44 (62%) from Indonesia and 27 (38%) from Ghana. Some of the responses are descriptive in nature (e.g., potential fraud issues), and thus, we coded them as illustrated in the Appendix. Table 1 presents demographic information for our participants. Twenty percent are partners, and 80 percent are managers. Their average auditing experience is 9.7 years, with audit

[16] This study received Institutional Review Board approval. The survey questions were administered with other questions not reported in this study.

[17] Big4 firms in Indonesia and Ghana provide three types of services: audit and assurances, tax, and advisory or consulting. The size of each Big4 firm office providing these services, according to their website, is as follows: 1) PwC Indonesia has more than 2,200 employees with 66 partners and advisors, whereas PwC Ghana has more than 300 employees with 13 partners and directors; 2) KPMG Indonesia has more than 700 employees with 70 partners and directors, whereas KPMG Ghana has about 400 employees with 12 partners; 3) Deloitte Indonesia has over 1,000 staff with about 70 partners and directors; whereas Deloitte Ghana has about 250 employees; 4) Ernst & Young Indonesia has 1,900 staff with about 30 partners (audit and assurance only) whereas Ernst & Young Ghana has about 200 staff and 10 partners. As such, the number of available participants is smaller than would be available in most developed countries.

[18] In the anonymity mode, SurveyXact cannot track the number of questionnaires sent to respondents so we cannot calculate the response rate.

partners and managers having an average of 14.8 and 8.4 years, respectively. The majority of participants experience potential fraud in at least one audit client every year (64%). Several of them experience potential fraud more frequently.

Table 1. Demographic Information for Participants

Audit experience[a]	Partner[b] (n = 14, 20%)	Manager[c] (n = 57, 80%)	Total (n = 71)
0-9 years	0 (0%)	39 (68%)	39 (55%)
10-14 years	11 (79%)	16 (28%)	27 (38%)
15-19 years	1 (7%)	1 (2%)	2 (3%)
> 20 years	2 (14%)	1 (2%)	3 (4%)
Total	14 (100%)	57 (100%)	71 (100%)
Fraud experience[d]	Partner	Manager	Total
Very rare	1 (7%)	1 (2%)	2 (3%)
At least one client	10 (72%)	36 (63%)	46 (64%)
2-3 clients	1 (7%)	14 (24%)	15 (21%)
3-4 clients	0 (0%)	4 (7%)	4 (6%)
More than 5 clients	2 (14%)	2 (4%)	4 (6%)
Total	14 (100%)	57 (100%)	71 (100%)

[a]Mean = 9.7 years. [b]Mean = 14.8 years. [c]Mean = 8.4 years. [d]We asked participants how often they usually experience potential fraud issues in their audit clients every year.

3.2 Conceptual Framework and Measurement

Figure 1 depicts this study's conceptual framework, which examines how auditors identify, investigate, and resolve potential fraud throughout the audit process. To examine potential fraud resolution, we adopt the negotiation process model from Gibbins et al. (2001) and Brown and Wright (2008). Specifically, we examine whether auditors use a contending negotiation strategy (*CONTEND*), where they require the client to record potential fraud-related audit adjustments, or a conceding strategy (*CONCEDE*), where they waive the adjustments. Because the negotiation strategy variable is a latent construct, we measure it using the measurement in Gibbins et al. (2010) with some necessary modifications. We operationalize the negotiation outcome as whether the client accepted all audit adjustments proposed by the auditor (*AUDADJ*).

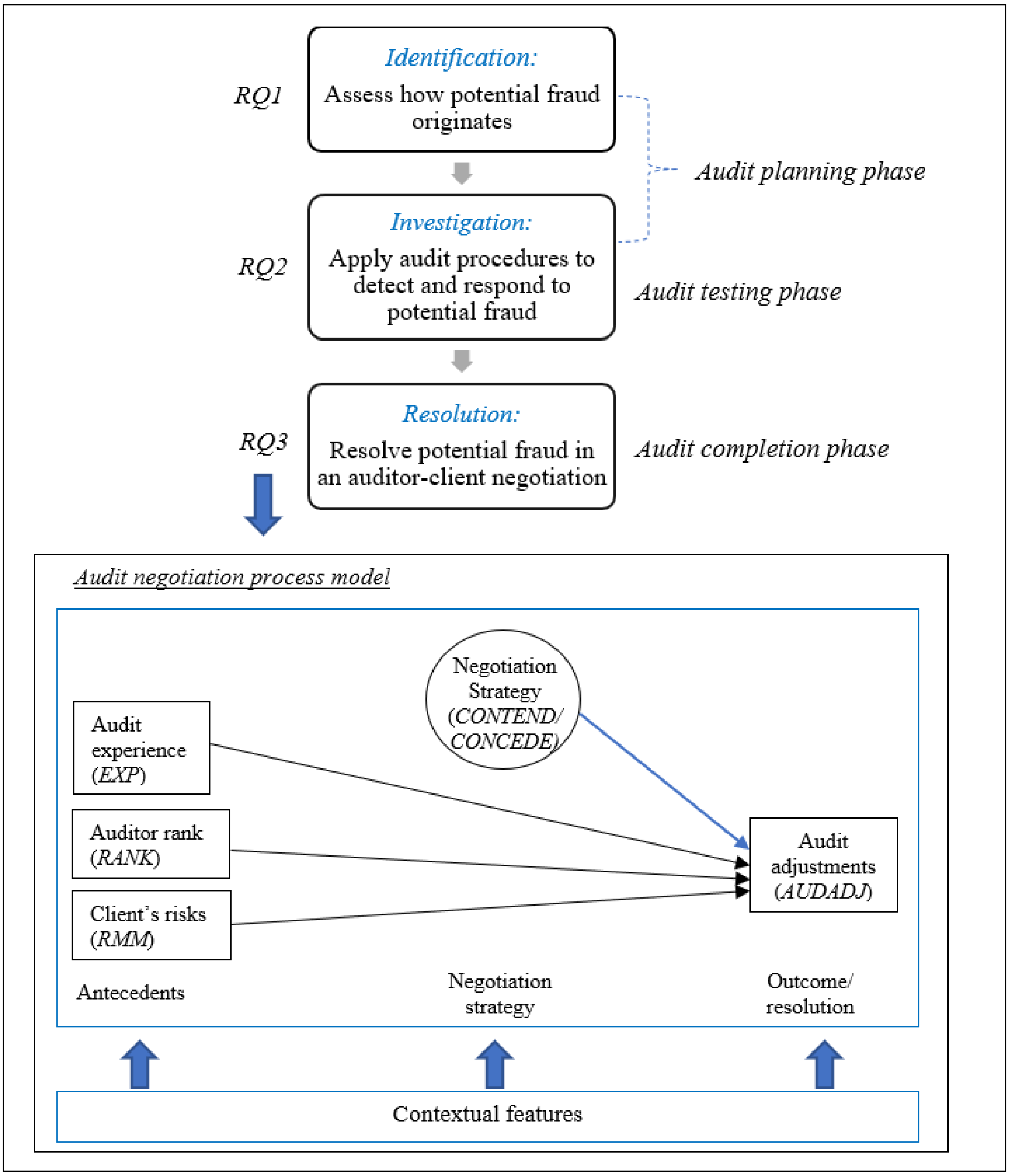

Figure 1. Conceptual Framework of Identification, Investigation, and Resolution of Potential Fraud

We include audit experience (*EXP*) and rank (*RANK*) to control for alternative explanations (Kulset and Stuart 2018; McCracken et al. 2011; Trotman, A. Wright, and S. Wright 2009). We control for the client's risk of material misstatement (*RMM*) (Kleinman et al. 2014; Sahnoun and Zarai 2009) following the auditing standards' requirement to assess *RMM* and adjust the detection risk to perform appropriate audit procedures (IAASB 2018c, 2019). We also include other contextual features as control variables. These include potential fraud types (e.g., fraudulent financial reporting and misappropriation of assets) (*FRAUD*), the auditor's perceived relationship with the client (*REL*), and precision of accounting regulations (*REG*) (Gibbins et al. 2010; Gibbins, McCracken, and Salterio 2005; Kulset and Stuart 2018; McCracken et al. 2008).[19]

4 Results

4.1 Descriptive Statistics

Table 2 reports descriptive statistics about the audit clients as reported by our participants. Participants recalled a potential fraud from a recent audit, primarily in manufacturing companies (38%) and retail, trading, and service organizations (23.9%).[20] The most common potential fraud issues include 1) revenue and receivables recognition (43.7%), 2) cash and inventory theft (21.1%), and 3) unrecorded liabilities (15.5%), suggesting the vulnerability of these areas to fraud. Most of our participants' potential fraud cases come from audit clients that are private-owned (45.1%), followed by multinational companies (28.2%), and then listed or regulated firms (16.9%).[21]

4.2 Results and Discussions

RQ1 How do auditors in Indonesia and Ghana apply ISA 240 to identify potential fraud issues?

Accounting fraud literature indicates that fraud can be committed by management or lower-level employees (Hassink et al. 2010; IAASB 2018c). Table 3 provides information about who originates fraud and what type of fraud occurs based on

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[19] Gibbins et al. (2005) argue that both audit partners and chief financial officers consider the auditor-client relationship an important accounting negotiation aspect. Additionally, Gibbins et al. (2010) find a positive relation between the quality of this relationship and the use of a conceding strategy by audit partners. Similarly, Kulset and Stuart (2018) assert that audit partners are likely to use a contending strategy when they perceive a less positive auditor-client relationship.

[20] Prior studies in developed countries find that most fraud instances are in manufacturing and merchandising companies (Kulset and Stuart 2018; Loebbecke, Eining, and Willingham 1989). We do a Pearson's chi-squared test to examine whether there are discrepancies in industry composition for fraudulent audit clients between Indonesia and Ghana (Craig and Diga 1998; GSE 2021; Rusmin and Evans 2017). We find no significant differences across industries, except for manufacturing, where Indonesia is higher than Ghana ($p < 0.05$, untabulated).

[21] We conduct Pearson's chi-squared and Fisher's exact tests for types of company ownership and find that listed/regulated companies are involved at a significantly higher rate in financial reporting fraud than in asset misappropriation fraud ($p < 0.05$, untabulated).

participants' recent fraud experiences. It also shows how the fraud was identified. Participants identify more financial reporting fraud (77%) than asset misappropriation fraud (23%). Upper management (90% versus 10%) and senior managers (75% versus 25%) commit significantly more financial reporting fraud than asset misappropriation fraud ($p < 0.05$, see Table 3). Middle managers participate in fraudulent financial reporting at a higher rate than asset misappropriation fraud (68% versus 32%), whereas lower-level employees commit fraudulent reporting at the same rate as asset misappropriation.

Table 2. Information about Audit Clients in the Sample

Industry classification	Responses (% of 71)	Ownership	Responses (% of 71)
Manufacturing	27 (38.0)	Private	32 (45.1)
Retail, trading, and service	17 (23.9)	Multinationals	20 (28.2)
Financing sector	8 (11.3)	Listed/regulated	12 (16.9)
Food and agriculture	7 (09.9)	Non-traded	4 (05.6)
Mining, utilities, and construction	6 (08.5)	State-owned enterprises	3 (04.2)
Information technology	4 (05.6)	Total	71 (100.0)
Others	2 (02.8)		
Total	71 (100.0)		

Type of potential fraud issues in the sample	Responses (% of 71)
Revenue and receivables recognition	31 (43.7)
Cash and inventory thefts	15 (21.1)
Unrecorded liabilities	11 (15.5)
Asset impairment and estimation	3 (04.2)
Overstated expenses	2 (02.8)
Inventory valuations	2 (02.8)
Taxation	2 (02.8)
Others	5 (07.1)
Total	71 (100.0)

In aggregate, participants identify top and senior management employees as fraud originators at 44% and 51%, respectively. ISA 240 acknowledges that management fraud is more difficult to detect than employee fraud, especially when the fraud involves collusion (IAASB 2018c). We find that some potential frauds, whether fraudulent financial reporting or misappropriation of assets, reported by the participants involve collusion across employment levels (28%). Of those involving collusion, participants report that fraudulent financial reporting requires more cooperation across employment levels than asset misappropriation fraud (65% versus 35%, $p < 0.1$). In addition, participants mainly discovered the fraud issue in the testing phase of the audit instead of in the planning stage (79% versus 21%, $p < 0.05$).

Prior research in developed countries finds that top management is often involved in financial reporting fraud (Albrecht et al. 2018; Hassink et al. 2010). Most of the fraud research focuses on this type of fraud because of its severe impact on the financial statements. Our participants report a similar experience for the originators of fraudulent financial reporting (top and senior management levels at 51% and 49%, respectively). A small number of potential financial reporting frauds involve lower-level personnel (11%). Among these, only one participant reports that the potential fraudulent financial reporting involving lower-level personnel also involved senior-level management, suggesting the role of coercive power in the commission of few frauds. This instance, therefore, provides field evidence from participants' firsthand experience supporting previous research in which collectivist and high-power distance cultures increase the likelihood of managers encouraging subordinates to collude in manipulating accounting information (Cieslewicz 2015).

Table 3. Type of Potential Fraud

	FFR[a]	MOA[b]	Total
Fraud type	77%*	23%	100%
Suspected fraud personnel			
% of fraud personnel			
Top management	90%*	10%	100%
Senior manager	75%*	25%	100%
Middle manager	68%	32%	100%
Lower-level staff	50%	50%	100%
% of fraud type[c]			
Top management	51%	19%	44%
Senior manager	49%	56%	51%
Middle manager	24%	38%	27%
Lower-level staff	11%	38%	17%
Involving collusion across managerial levels[d]			
% of collusion			
Collusion	65%	35%	100%
Alone	82%*	18%	100%
% of fraud type			
Collusion	24%	44%	28%
Alone	76%*	56%	72%
Total	100%	100%	100%

	FFR[a]	MOA[b]	Total
Audit stage of potential fraud identification			
% of audit stage			
Fieldwork	84%*	16%	100%
Planning	62.5%	37.5%	100%
% fraud type			
Fieldwork	82%*	60%	79%*
Planning	18%	40%	21%
Total	100%	100%	100%
Audit procedures to detect potential fraud for the first time			
% of audit procedures			
Substantive tests	82%*	18%	100%
Client inquiries	59%	41%	100%
Analytical procedures	80%*	20%	100%
Review of manual journal	100%	0%	100%
Internal control assessments	100%	0%	100%
Results from IT analysis	0%	0%	0%
% of fraud type			
Substantive tests	49%	37%	46%
Client inquiries	18%	44%	24%
Analytical procedures	22%	19%	21%
Review of manual journal	7%	0%	6%
Internal control assessments	4%	0%	3%
Results from IT analysis	0%	0%	0%
Total	100%	100%	100%

[a]FFR: Fraudulent financial reporting. [b]MOA: Misappropriation of assets. [c]Participants can select more than one option from the alternatives. We report the results as a percentage of the total number of responses for each fraud type. [d]We classify a potential fraud involves collusion if participants identified more than one level of employment that involved collusion; otherwise, we code it as "alone." *two-sample t-test $p < 0.05$.

Despite the association between asset misappropriation and lower-level employees suggested by previous researchers in developed countries (Albrecht et al. 2018; Hassink et al. 2010; IAASB 2018c), participants report different experience. The majority of asset misappropriation involves senior managers and middle managers (56% and 38%, respectively) instead of lower-level staff. Managers in higher-level positions mainly commit cash and inventory theft in their companies through various transactions (e.g., cash receivables collection larceny, miscellaneous expenses billing, and reimbursement schemes), and sometimes, even involve top management in the fraud. For instance, one participant reports that top-level, senior-level, and middle-level managers at an audit client cooperated in cash larceny of tax overpayment refunds from the government. The refunds were not returned to the company but were divided amongst the various managers involved in the fraud. This asset misappropriation could not occur if senior management lacked the ability to override internal controls. In addition to this, participants with more fraud experience (at least two fraudulent audit clients or more every year) report senior managers as fraud perpetrators more than participants with fewer fraud experiences ($p < 0.1$, untabulated). Together, our findings suggest that asset misappropriation involving senior management should receive attention from standard-setters and the auditing profession because of senior management's ability to override internal control. In this sense, our participants can better identify fraud involving higher executive positions due to richer fraud knowledge from prior fraud experiences.

RQ2 How do auditors in Indonesia and Ghana apply ISA 240 to investigate potential fraud issues?

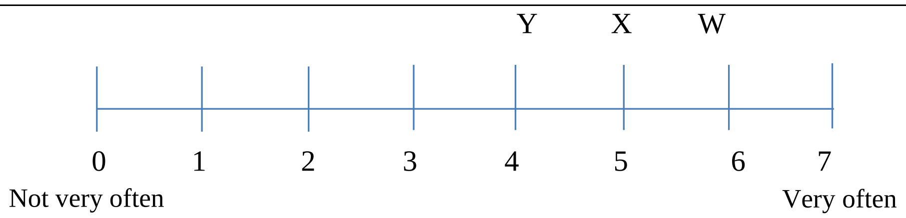
Table 3 shows a significant difference ($p < 0.05$) between fraud detection procedures (e.g., substantive tests, analytical procedures) and fraud type reported by our participants in their recent audits. Column (1) of Table 4 Panel A reports that the majority of participants discover potential fraud *for the first time* by performing substantive tests (46.5%), followed by client inquiries (24%) and analytical procedures (21.1%). Participants apply substantive tests and analytical procedures more frequently to detect financial reporting fraud than asset misappropriation fraud ($p < 0.05$). In contrast, participants report that client inquiries are used equally to detect both types of fraud.

Table 4. Audit Procedures to Detect Potential Fraud

Panel A: Actual responses, planned responses, and means differences

Audit procedure for detecting potential fraud	(1) Actual Responses (% of 71)[a]	(2) Planned Responses Mean (SD)[b]	(3) One-sample t-test[c]	(4) Significant difference[d]
(1) Results from substantive tests	33 (46.5)	5.08 (1.63)	8.02***	W
(2) Inquiry with clients	17 (24.0)	3.70 (1.78)	0.96	Y
(3) Unusual or unexpected relationship from analytical procedures	15 (21.1)	4.20 (1.70)	3.45***	X
(4) Evidence from a review of manual journal entries	4 (5.6)	4.54 (1.82)	4.79***	X
(5) Results from assessing client's internal control	2 (2.8)	4.20 (1.63)	3.61***	X
(6) Results from IT analysis	0 (0.0)	3.52 (1.88)	0.09	Y
Total	71 (100.0)			

Panel B: Illustration of difference on the scale in Column (4) Panel A[e]



[a]We asked participants to indicate how they became aware of the potential fraud issue *for the first time*. They were required to choose one option from the alternatives. We report the results in the number of responses and as a percentage of the total number of responses.

[b]We also asked participants to rate how they *usually* become aware of potential fraud issues on an eight-point Likert scale from 0 (not very often) to 7 (very often).

[c]We determine whether the sample mean is significantly above or below the mid-point value of the scale (3.5 on a 0-7 scale) using a one-sample t-test. *** indicates $p < 0.01$.

[d]A difference in a letter between two rows in Column (4) Panel A shows a significant difference between that row's mean audit procedure likelihood of use and the audit procedure in the row immediately below it. The significant difference is $p < 0.05$.

[e]Each letter on the scale corresponds to the audit procedure denoted by the letter in Column (4) Panel A. The scale corresponds to the question: "How do you usually become aware of potential fraud issues?"

We then asked our participants how they *usually* become aware of potential fraud issues. The results presented in Column (2) of Table 4 Panel A are participants' likelihood to use specific fraud detection procedures (in descending order based on the mean value): substantive tests, manual journal entry tests, internal control assessment and analytical procedures ($p < 0.05$ above midpoint, see Column (3)). Surprisingly, participants state that inquiries of client management are the fraud detection procedure they are least likely to use, despite reporting that fraud inquiries are predominantly used to detect fraud in their recent audits. Although an inquiry itself is insufficient audit evidence and provides the least assurance to corroborate management assertions (IAASB 2018a), our findings indicate that fraud inquiries should not be overlooked and are pivotal contributors to the likelihood of fraud discovery. Together, these findings are similar to those in developed countries (Brasel et al. 2019; Commerford, Hermanson, Houston, and Peters 2016; Kaplan, Pope, and Samuels 2011; Rose, Rose, Suh, and Thibodeau 2019), where fraud detection benefits from substantive tests, analytical procedures, and client inquiries.

ISA 240 mandates that auditors assess fraud risks by obtaining "an understanding of the entity and its environment, including the entity's internal control" (IAASB 2018c, 160, para. 16). The effectiveness of internal control is a dominant theme in the literature on fraud detection in developed countries (Donelson et al. 2017; IAASB 2018c) because weak internal controls are an issue in high-profile fraud scandals in the developed world. Through the Sarbanes-Oxley Act of 2002, which affects global auditing practices, regulators in developed countries require auditors to evaluate internal controls, and specifically, U.S. regulators require auditors to issue an audit opinion on the effectiveness of internal controls over financial reporting (Knechel 2015; U.S. House of Representatives 2002). Although ISAs do not require the auditor to issue an opinion on the effectiveness of internal controls, the importance of internal controls is also part of the international auditing standards. Participants agree with the importance of internal controls and report that their theoretical assessment of clients' internal control is likely to inform them about fraud ($p < 0.05$ above midpoint; see Column (3) of Table 4 Panel A). Nevertheless, Column (1) shows that participants state that internal control assessments not an effective procedure to detect potential frauds for the first time in their recent audits. Very few participants (2.8%) report a benefit from internal control assessment in detecting fraud, and this benefit applies only to fraudulent financial reporting, not misappropriation of assets (see Table 3 and Table 4).[22] There is a longstanding debate about whether effective

[22] In addition, very few actual responses are related to the benefits of reviewing manual journal entries that inform participants about potential fraud (5.6%, Column (1) of Table 4 Panel A). However, similar to the theoretical importance of conducting internal control assessment, participants are likely to agree that the review of manual journal entries as required by the fraud standard (IAASB 2018c) helps them detect fraud ($p < 0.05$ above midpoint; Column (3)).

internal controls can lessen the incidence of fraud (Chang, Chen, Cheng, and Chi 2021; Donelson et al. 2017; Hogan, Rezaee, Riley Jr., and Velury 2008; Kinney Jr. 2005; Smith, Tiras, and Vichitlekarn 2000). We find support for the idea that internal controls are not as effective as some researchers have suggested because management can override controls. In addition, participants experience fewer benefits from internal control assessment and respond to weak controls by relying more on substantive tests.

Assessing clients' internal controls include assessing manual and automated IT control systems (IAASB 2018c, 2019). Despite the recent development of IT for fraud detection in developed countries (Halbouni et al. 2016; Lowe et al. 2018; Tang and Karim 2019) and global fraud detection methodologies used by internationally-affiliated audit firms (Barrett et al. 2005; Bik and Hooghiemstra 2018), none of our participants use IT for fraud detection (see Table 3 and Table 4 Panel A). Using IT for fraud detection would require that the client has an adequate automated control environment. If clients are more likely to rely on manual controls, benefits from IT-related fraud detection might be lacking, and traditional approaches (e.g., substantive tests, analytical procedures) might be more effective. Although this may change because businesses worldwide are rapidly developing extensive and innovative IT systems, present evidence from Indonesia and Ghana indicates that IT fraud detection cannot be used in these developing countries, due to the lack of automated accounting systems in their clients. This is one important way in which developing countries differs from fraud detection in developed countries.

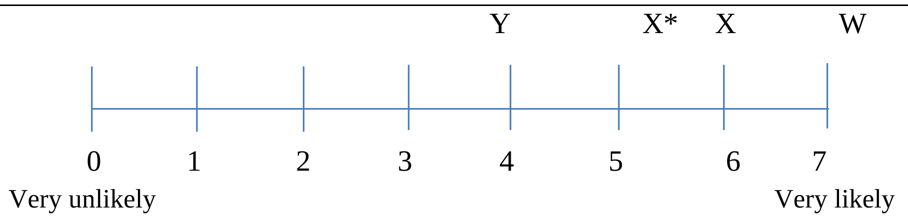
Once potential fraud is detected, ISA 240 requires auditors to respond appropriately. We present auditors' responses to fraud symptoms in Column (1) of Table 5 Panel A. Most of our participants gather more evidence (87.3%), communicate the potential fraud to top management (66.2%), and most importantly, modify the audit program to control the risk of material misstatement due to fraud (45.1%). Prior research in developed countries often finds that auditors fail to modify their audit programs when potential fraud is identified (Asare and Wright 2004; Glover et al. 2003; Hammersley et al. 2011). However, our field evidence suggests that auditors modify their audit programs to respond to the heightened fraud risk.

Table 5. Audit Procedures to Respond to Potential Fraud

Panel A: Responses, means, and means differences

Audit procedures for responding to potential fraud	(1) Responses (% of 71)[a]	(2) Mean (SD)	(3) One-sample t-test[b]	(4) Significant difference[c]
(1) Gather more evidence	62 (87.3)	6.24 (1.24)	18.68***	W
(2) Communicate with top management	47 (66.2)	5.46 (1.61)	10.22***	X
(3) Modify the audit program	32 (45.1)	5.46 (1.72)	9.61***	X
(4) Communicate with the audit committee	25 (35.2)	5.21 (1.78)	8.10***	X
(5) Consult with risk management and legal division of audit firm	25 (35.2)	4.87 (2.02)	5.73***	X*
(6) Consult with forensic specialists	8 (11.3)	3.35 (2.02)	-0.62	Y
(7) Communicate with regulatory and enforcement authorities	8 (11.3)	3.08 (2.07)	-1.69	Y

Panel B: Illustration of difference on the scale in Column (4) Panel A[d]



[a]We asked participants to indicate their actions to investigate the potential fraud issue. They are able to select more than one option from the alternatives. We report the results in the number of responses and as a percentage of the total number of responses.

[b]We asked participants to rate how they usually become aware of potential fraud issues on an eight-point Likert scale from 0 (very unlikely) to 7 (very likely). We determine whether the sample mean is significantly above or below the mid-point value of the scale (3.5 on a 0-7 scale) using a one-sample t-test. *** indicates $p < 0.01$.

[c]A difference in a letter between two rows in Column (4) Panel A shows a significant difference between that row's mean audit procedure likelihood of use and the audit procedure in the row immediately below it. The significant difference is $p < 0.05$.

[d]Each letter on the scale corresponds to the audit procedure denoted by the letter in Column (4) Panel A. The scale corresponds to the question: "What actions do you usually take to investigate potential fraud issues?"

Additionally, participants state that they respond to potential fraud by communicating with the audit committee and consulting with the audit firm's risk management and legal division when necessary (35.2% each, Table 5 Panel A), indicating that they conform to the provisions of the fraud standards. In contrast, communicating with higher enforcement authorities and consulting with forensic specialists are procedures that participants seldom used to detect fraud (11.3% each). Despite the increased reliance on forensic specialists in the developed world

(Asare and Wright 2004; Boritz et al. 2020; Jenkins et al. 2018), participants do not benefit from using these experts. Prior research shows that using forensic experts to detect fraud is not more effective than modifying the audit program to respond to increased risk of fraud (Boritz et al. 2015), assuming that auditors modify audit plans as needed. Participants report that modifying audit programs to respond to heightened fraud risks is one of the first steps they take when potential fraud is identified. This suggests they may receive lower benefits from using forensic specialists.

RQ3 What is the negotiation strategy used by auditors in Indonesia and Ghana when negotiating potential fraud issues, and how does this negotiation strategy impact the outcome of the audit?

At the end of the audit, the auditor negotiates with the client about recording the proposed fraud-related audit adjustments. Although auditors may detect fraud effectively, this last step is critical because it determines the audit outcome (Antle and Nalebuff 1991; Gibbins et al. 2001). Table 6 Panel A lists the ten statements related to contending and conceding negotiation strategies in descending order of the mean values of the participants' scores. The means of *CONTEND* and *CONCEDE* are 5.07 and 1.72, respectively (Panel B). The difference between the strategies is 3.35 ($p < 0.001$), suggesting that our participants used significantly more of the contending negotiation strategy than the conceding strategy to resolve the audit adjustments associated with the potential fraud.

To understand how the preferred negotiation strategy for resolving potential fraud, *CONTEND*, leads to the negotiation outcome (*AUDADJ*), we use logistic regression. Table 7 presents operational definitions and descriptive statistics for the variables in Equation (1).

$$AUDADJ = \alpha + \beta_1 CONTEND + \beta_2 EXP + \beta_3 RANK + \beta_4 RMM + \beta_5 FRAUD + \beta_6 REL + \beta_7 REG + \varepsilon \quad (1)$$

Table 6. Negotiation Strategies Used by Audit Partners and Managers

Panel A Statements[a]	N	Min.	Max.	Mean	*SD*	Strategy
I was firm in pursuing my position to adjust the financial statements. (S9)	71	0	7	5.61	1.63	Contending
I used my authority to convince the client to correct the material misstatements. (S2)	71	0	7	5.13	1.96	Contending
I argued with the client to show them the benefit of correcting the material misstatements. (S3)	71	0	7	5.11	1.70	Contending
I used my expertise in accounting to influence the adjustments of the material misstatements. (S7)	71	0	7	4.76	2.17	Contending
I used my influence to get my position that the misstatements should be corrected to be accepted by the client. (S5)	71	0	7	4.73	1.85	Contending
I made concessions from my position to adjust the financial statements. (S8)	71	0	7	3.54	2.21	Conceding
I tried to satisfy the needs of the client. (S6)	71	0	7	1.96	2.17	Conceding
I gave into the wishes of the client. (S10)	71	0	6	1.11	1.55	Conceding
I attempted to accommodate the wishes of the client. (S4)	71	0	6	1.08	1.61	Conceding
I tried to satisfy the expectations of the client to avoid adjustments to the financial statements. (S1)	71	0	5	0.90	1.41	Conceding

[a]We asked the participants to rate their level of agreement with ten statements presented in random order (the same order was used in all the questionnaires). We used an eight-point scale from 0 (very unlikely with the statement) to 7 (very likely with the statement).

Panel B[b]	Mean	Diff	*SD*	t-stat
CONTEND	5.067	3.349***	0.179	18.7
CONCEDE	1.718			

[b]two-sample t-test, *** $p < 0.001$, n = 71.

Because *CONTEND* is a latent construct, we use confirmatory factor analysis. Accordingly, the contending scale is unidimensional, with Cronbach's Alpha of 0.7022, untabulated (Cronbach 1951; Hair, Black, Babin, and Anderson 2010). This supports the reliability of the measure. After establishing the *CONTEND* construct, we predict the factor score and use it in our logistic regression. We begin our analysis by including *CONTEND* as our independent variable of interest and we include *EXP, RANK,* and *RMM* because they are usually included in similar models to control for alternative explanations for the negotiation outcome. Results are presented in Table 8 Column A. We find that *CONTEND* is negatively related to *AUDADJ* (b = -1.16, SE = 0.52, z = -2.24, p = 0.025). We then sequentially add additional contextual features (*FRAUD, REL,* and *REG*) as control variables. Column D reports the results after including all control variables (Pseudo $R^2 = 0.214$, $p < 0.05$, reported as a two-tailed test). Based on the full model, we find a significant and negative association between *CONTEND* and *AUDADJ* ($b = -1.19$, $SE = 0.53$, $z = -2.23$, $p = 0.026$). Contrary to prior research in developed countries, where the use of a contending negotiation strategy leads to auditors' preferred negotiation outcome (Kulset and Stuart 2018), our logistic regression shows that even when participants use the contending strategy to negotiate potential fraud issues, the client does not record all of the proposed audit adjustments.

Table 7. Definitions of Variables and Descriptive Statistics

Variables	Descriptions	N	Min.	Max.	Mean	*SD*
CONTEND	A factor score of a latent variable of contending negotiation strategy, see Table 6.	71	-1.96	1.58	0.00	0.87
AUDADJ	Potential fraud resolution, coded 1 if the client accepted all of the proposed audit adjustments from the auditor, 0 otherwise.	70	0	1	0.79	0.41
EXP	Years of audit experience.	71	4	22	9.67	4.08
RANK	Current auditors' position; coded 1 if partner, 0 if manager.	71	0	1	0.20	0.40
RMM	Participants rate their client's risks of material misstatements relative to the rest of their clients, using an eight-point scale from 0 (very low) to 7 (very high).	71	1	7	4.58	1.41
FRAUD	A fraud type dummy variable to control systematic differences, coded 1 if the potential fraud is fraudulent financial reporting, 0 if asset misappropriation.	71	0	1	0.76	0.43
REL	Participants rate their perceived relationship with the client relative to the rest of their clients, using an eight-point scale from 0 (the worst) to 7 (the best).	71	0	7	4.37	1.10
REG	Proxy for accounting regulation accuracy, coded 1 if the audit client is a listed or a regulated company, 0 otherwise.	71	0	1	0.17	0.38

We asked participants how the potential fraud negotiation ended. Specifically, the client (1) accepted all of the proposed adjustments, (2) accepted the majority of the adjustments, (3) accepted less than half of the proposed adjustments, or (4) rejected all of the adjustments. Table 9 Panel A presents descriptive statistics for the negotiation resolution. Most participants report that the client accepted all of the proposed potential fraud adjustments (78.57%). 15.71 percent of participants report that the client accepted the majority of the adjustments, and 2.86 percent of participants report that the client accepted less than half of the adjustments or rejected all of the proposed adjustments.

Table 8. Hierarchical Logistic Regression Result in Equation (1): Dependent Variable *AUDADJ*

	Column A *AUDADJ* Coeff. (z-stat)	Column B *AUDADJ* Coeff. (z-stat)	Column C *AUDADJ* Coeff. (z-stat)	Column D *AUDADJ* Full Model Coeff. (z-stat)
Constant	-0.514 (-0.28)	-0.447 (-0.24)	-0.269 (-0.11)	-0.235 (-0.09)
CONTEND	-1.155** (-2.24)	-1.172** (-2.24)	-1.177** (-2.23)	-1.187** (-2.23)
EXP	0.364** (2.37)	0.367** (2.38)	0.369** (2.38)	0.366** (2.35)
RANK	-3.106** (-2.46)	-3.092** (-2.45)	-3.117** (-2.43)	-3.135** (-2.42)
RMM	-0.124 (-0.43)	-0.119 (-0.42)	-0.119 (-0.41)	-0.122 (-0.42)
FRAUD		-0.157 (-0.20)	-0.188 (-0.23)	-0.154 (-0.18)
REL			-0.039 (-0.11)	-0.037 (-0.14)
REG				-0.147 (-0.14)
Pseudo R^2	0.2129	0.2135	0.2136	0.2139
Observations	70	70	70	70
Prob > chi^2	0.0038	0.0083	0.0164	0.0295

*, **, *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively. Variable definitions are in Table 7.

We then conduct a one-way ANOVA to determine whether auditors' contending strategy differs between these four possible negotiation outcomes. Our analysis shows a statistically significant difference ($F = 3.65$, $p = 0.017$, $R^2 = 0.14$, Panel B). Pairwise comparisons of means using a post-hoc test reveal that the use of the contending negotiation strategy by auditors is significantly lower in the group where the client accepted all of the proposed potential fraud adjustments than in the group where the client accepted the majority of adjustments ($\Delta M_{\text{all-major}} = -0.690$, $SD = 0.275$, $t = -2.51$, $p = 0.014$). We further examine the future audit firm-client relationship by classifying whether participants were appointed as the auditor in the next engagement. Panel C reveals that the majority were reappointed for the next engagement (80.28%, n = 57), although six participants (8.45%) report not being reappointed, five participants (7.04%) resigned, and three participants (4.23%) did not continue due to mandatory rotation.

Table 9. Negotiation Outcome

Panel A: Descriptive Statistics

Resolution[a]	n	%
Accepted all	55	78.57
Majority	11	15.71
Less than 50%	2	2.86
Rejected all	2	2.86
Total	70	100.00

[a]Participants report one of four resolution conditions related to potential fraud issues, either the client (1) accepted all of the proposed audit adjustments, (2) accepted the majority of the adjustments, (3) accepted less than 50% of the proposed adjustments, or (4) rejected all of the adjustments.

Panel B: One-way ANOVA – Dependent Variable: *CONTEND*

Source	*df*	*MS*	F	*p*-value
Resolution[b]	3	2.519	3.65	0.0170

[b]R^2 = 0.1422.

Pairwise comparisons of "the client accepted all of the proposed potential adjustments" and "the client accepted the majority of adjustments" groups have a mean difference of -0.690, *SD* = 0.275, *t* = -2.51, *p* = 0.014.

Panel C: Audit Firm-Clients Future Relationship

Future relationship[c]	n	%
Reappointed	57	80.28
Not reappointed	6	8.45
Resigned	5	7.04
Mandatory rotation	3	4.23
Total	71	100.00

[c]We examine audit firms-clients future relationship by classifying whether the audit firm was *reappointed* as the auditor of the client for the next engagement, the audit firm was *not reappointed* by the client for the next engagement, the audit firm did not accept (was *resigned* from) the next engagement, or the audit firm did not continue to the next engagement due to *mandatory rotation*.

Results from prior research in developed countries show that auditors apply a contending negotiation strategy in accounting dispute resolution to ensure the client agrees to make the proposed adjustments to their financial statements (Beattie et al. 2004; Gibbins et al. 2010; Kulset and Stuart 2018). Our results extend prior research by providing a more rigorous understanding of to what extent the contending negotiation strategy leads to preferred auditors' negotiation outcomes, particularly in developing countries like Indonesia and Ghana. Although auditors in our setting are likely to use a contending strategy to resolve potential fraud issues with their clients, this strategy does not necessarily lead to a resolution where the client accepts all of the proposed adjustments. Applying a contending approach can be problematic in a collectivist-with-high-power-distance culture (Cai et al. 2006). Auditors' contending strategy can have unfavorable effects such as audit delays, client dissatisfaction, and attenuating future relationships (Kleinman et al. 2014; Perreault and Kida 2011), and research suggests that auditors are concerned with maintaining client relationships in an audit negotiation (Gibbins et al. 2010; Goodwin 2002; McCracken et al. 2008). We argue that this concern is more prominent in our setting, especially when resolving delicate issues such as potential fraud. Our post-hoc test reveals that when auditors apply a more contending strategy in negotiating potential fraud adjustments, the client accepts only the majority of adjustments. However, using a less contending approach can lead to a more favorable outcome because the client agrees to accept all of the proposed adjustments.

In addition to the cultural aspects, our results suggest that auditors in our setting have incentives to maintain future audit firm-client relationships. The termination of an audit firm-client relationship may be more critical in this setting because audit clients cannot be replaced as easily (Adafula et al. 2014; Situmorang, Fitriany, and Indriani 2020) as in developed countries. Therefore, our results provide practical implications in that auditors can benefit from finding a balance between using a contending negotiation strategy and a conceding negotiation strategy because this can lead to the resolution of potential fraud issues as well as the maintenance of future auditor-client relationships.

5 Conclusion

This study provides empirical evidence from two developing countries, Indonesia and Ghana, regarding how auditors identify, investigate, and resolve potential fraud issues with their audit clients. The fraud standards issued by international standard-setters are required in both developed and developing countries (IFAC 2019) but we know little about how this happens in developing countries. This study is a first step in providing this information. In addition, it informs policymakers about fraud standard implementation in developing countries, where fraud may not be as rare as in developed countries.

Our results suggest that there are some differences in how the fraud standards are applied by our participants. Following the framework of effective fraud detection in Asare et al. (2015), these differences can be attributed to auditors' fraud experience and auditor incentives. First, participants identify that senior-level management originates most asset misappropriation fraud. Second, participants use more traditional fraud detection approaches (e.g., substantive tests, fraud inquiries, and analytical procedures) to adjust to clients' internal control environments. This differs from developed countries, where IT fraud detection procedures can be used by auditors because their clients have appropriate accounting systems to permit IT investigation. Although prior research in developed countries indicates that auditors often fail to modify their audit programs when potential fraud is identified, we do not find that result. Auditors in our setting modify their audit programs, supporting the notion that auditors respond appropriately to increased fraud risk when they experience fraud more often and have experience in investigating potential fraud. Finally, although auditors apply a contending strategy when negotiating potential fraud adjustments with their clients, we find that this strategy does not result in the adoption of all proposed fraud adjustments. Further analysis reveals that auditors can benefit from finding a balance between using a contending negotiation strategy and a conceding negotiation strategy to lead to the resolution of potential fraud issues as well as maintaining future auditor-client relationships.

Although our participants have a high level of experience, the sample size is relatively small. Therefore, any generalization of the results should be made with care. Furthermore, due to the sample limitations, we cannot draw inferences to all developing countries. Future research can investigate fraud detection in other developing countries.

Appendix

We asked our participants to describe a potential fraud issue at an audit client in a recent audit. The fraud issue should fall under the definition in ISA 240. Based on their description, we coded the issue as fraudulent financial reporting or misappropriation of assets. Below are several samples of how we coded the potential fraud issues.

Participant A:

"*There was [an] indication of the accounting manager of [the] client, [which he] tried to smooth the profit and loss amount. He would like to avoid any high volatility in their [profit and loss] PL, so he tried to minimize some expenses by not booking a proper accrual amount. [The reason was] the accounting manager [was] very cautious with the PL performance. He tried to manage the PL as normal as possible. Any high fluctuation would raise any further question from his bosses or would keep his number varied from the budget*."

We coded this issue as potential fraudulent financial reporting.

Participant B:

"[There were] long outstanding trade receivables. One of [the] top management had a close relationship with one of [the] customers, which in the end, made the receivables related to that customer uncollectible. There was collusion between one of top management and [the] customer to use the inventory sold to this customer for their interest."

We coded this issue as potential fraudulent financial reporting.

Participant C:

"*Unexplainable movement out of petty cash which mostly related with the claim of advance payment from [the] driver (trucking company). The claim of advance payment was not supported with sufficient supporting documents*."

We coded this issue as potential misappropriation of assets.

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