

How do lead auditor instructions influence component auditors' evidence collection decisions? The joint influence of construal interpretations and responsibility

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Abstract

Regulators have raised concerns about the quality of component auditors' work. Of particular concern is that component auditors often do not adequately perform procedures and gather enough quality evidence. This failure is likely caused by component auditors' different interpretations of lead auditor instructions and by their lack of responsibility. Our interview findings suggest that component auditors tend to interpret lead auditor instructions concretely because they often receive detailed instructions from lead auditors. We propose that a responsibility prompt reminding component auditors to be aware of their obligations to the group audit engagement can improve their evidence collection. In two experiments, we find that our proposed responsibility prompt can effectively improve component auditors' evidence collection decisions and that this finding holds across different cultural settings. Our third experiment provides evidence that a responsibility prompt improves component auditors' evidence collection when provided to auditors who receive instructions that prime low-level (but not high-level) construals. Overall, our findings suggest that prompting component auditors to internalize the responsibility of a group audit engagement is a viable way to improve the quality of group audits.

KEYWORDS

audit instructions, audit judgments, evidence collection, group audit, regulatory fit

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Comment les directives du responsable de l'audit influencent-elles les décisions des auditeurs d'une composante en matière de collecte de données? L'influence combinée des interprétations et de la responsabilité

Résumé

Les autorités de réglementation ont exprimé des inquiétudes sur la qualité du travail des auditeurs d'une composante. Le fait que les auditeurs d'une composante n'effectuent souvent pas les procédures de manière adéquate et ne recueillent pas suffisamment de données de qualité est particulièrement préoccupant. Ce manquement est sans doute dû aux différentes interprétations des directives du responsable de l'audit par les auditeurs d'une composante et à leur manque de responsabilité. Les résultats des entretiens menés par les auteurs montrent que les auditeurs d'une composante ont tendance à interpréter les directives du responsable de l'audit de manière concrète, car ils reçoivent souvent des directives détaillées de la part des responsables de l'audit. Les auteurs suggèrent une incitation à la responsabilité pour rappeler aux auditeurs d'une composante de prendre conscience de leurs obligations envers la mission de l'audit de groupe pour améliorer leur collecte de données. Dans deux expériences, ils constatent que l'incitation à la responsabilité peut effectivement améliorer les décisions des auditeurs d'une composante en matière de collecte de données et que ce résultat est valable dans différents contextes culturels. La troisième expérience fournit des données indiquant qu'une incitation à la responsabilité améliore la collecte de données des auditeurs d'une composante lorsqu'elle est donnée aux auditeurs qui reçoivent des directives facilitant les interprétations de bas niveau (mais pas de haut niveau). Dans l'ensemble, les résultats suggèrent que le fait d'inciter les auditeurs d'une composante à s'attribuer la responsabilité liée à la mission de l'audit de groupe est un moyen viable d'augmenter la qualité des audits de groupe.

MOTS-CLÉS

audit de groupe, collecte de données, congruence régulatrice, directives relatives à l'audit, jugements d'audit

1 | INTRODUCTION

Regulators have frequently identified deficiencies in group audit work performed by component auditors. In this paper, “component auditor” is an auditor who performs audit work related to a component for the purposes of a group audit (IAASB, 2022a). “Lead auditor” refers to an auditor who issues the group auditor’s report on the consolidated financial statements (PCAOB, 2022a). Of particular concern is that component auditors fail to gather sufficient and appropriate evidence (Australian Securities & Investments Commission [ASIC], 2019; Financial Reporting Council

[FRC], 2020; IAASB, 2012, 2015, 2020a, 2022b; International Forum of Independent Audit Regulators [IFIAR], 2017; PCAOB, 2020). Factors said to cause these audit deficiencies include (1) poor guidance provided by the lead auditors, (2) differences in interpretation of lead auditor instructions by component auditors, (3) poor lead auditor oversight, (4) a perceived lack of care or responsibility by the component auditors in gathering sufficient and appropriate evidence, and (5) conflicts between lead and component auditors (Barrett et al., 2005; Downey & Westermann, 2021; IAASB, 2020a; Sunderland & Trompeter, 2017).

When communicating with component auditors, lead auditors commonly provide detailed instructions. Such instructions tend to be tailored, specific, and/or step-by-step and are aimed at reducing ambiguity and assisting component auditors in performing quality group audit work (Downey et al., 2019; Downey & Westermann, 2021). However, the use of detailed inter-office instructions could have detrimental effects on group audit quality. First, as global group audits become increasingly complex and large, relying solely on detailed instructions could prove counterproductive. Such audits require component auditors to carefully consider the group-level risks of material misstatement (Downey & Bedard, 2019). Second, since component audit firms are legally separate and relatively autonomous entities, prior research suggests that detailed instructions may demotivate component auditors who value their autonomy (Downey & Bedard, 2019; Puranam & Srikanth, 2007). Component auditors are required to gain a thorough understanding of the lead auditor's plans (Downey & Bedard, 2019), yet communication barriers can significantly impede their ability to do so. Collectively, these factors underlie concerns that component auditors' inability to follow detailed instructions leads to deficiencies in group audits.

Given the above concerns, we propose a way to enhance the judgment quality of component auditors when they receive detailed instructions. Our solution is a prevention-focused responsibility prompt that reminds component auditors of their duties and obligations in the group audit engagement. We expect that this responsibility prompt can mitigate the negative effects of detailed instructions on the judgment quality of component auditors. Recently, audit regulators have required lead auditors to document their communication with component auditors about their responsibilities in group audit engagements (IAASB, 2022c; PCAOB, 2022a). Practitioners urge greater involvement by component auditors, asserting that this helps them identify and assess risks and obtain sufficient and appropriate audit evidence (KPMG, 2020; PricewaterhouseCoopers [PwC], 2020). In response to these calls from standard setters and practitioners, we investigate whether implementing a responsibility prompt that gives component auditors a little "heat" can assist component auditors in improving the quality of group audits.¹ In this study, we examine the joint influence of construals (interpretations) of lead auditor instructions and the presence of a responsibility prompt on component auditors' evidence collection decisions.²

We draw upon psychology theory on the fit between construal level and regulatory focus to guide our predictions and research design. According to regulatory fit theory (Higgins, 1997, 2000), the persuasive impact of a message featuring either a high- or low-level construal is contingent on an individual's regulatory focus orientation. When people receive low-level construal instructions, they tend to have a lower level of psychological engagement in processing information and are more likely to respond positively to a prevention focus message (Lee & Aaker, 2004; Wang & Lee, 2006). Conversely, when people receive high-level construal instructions, they already have a higher level of psychological engagement in processing information

¹Adding some metaphorical heat was suggested by a partner quoted in Downey and Westermann (2021), who stated, "I hope the PCAOB starts inspecting overseas more. Giving the component auditors a little 'heat' would be a good thing; make them feel the regulator" (p. 1423). The PCAOB's chairman, Erica Williams, similarly noted—after the PCAOB had detected "many deficiencies (in work performed by component auditors in China)"—"now we can go about the work of holding firms accountable and driving audit quality and that's what we're going to do" (Maurer, 2023).

²Construals refer to the manner in which people interpret information that affects their predictions, preferences, and evaluations (Trope & Liberman, 2010). Construals can be categorized as instructions that contain low-level interpretations (great detail, high concreteness, feasibility) or instructions that contain high-level interpretations (great coherence, high abstractness, desirability) (Trope & Liberman, 2010).

through reasoned action, and a prevention focus message is unlikely to have a significant impact on their judgment (Förster & Higgins, 2005; Lee et al., 2010; Mogilner et al., 2008). In the context of an audit, we anticipate that when low-level construals are activated through the use of detailed instructions, component auditors will exhibit higher quality evidence collection when they are provided with a responsibility prompt, compared to when such a prompt is absent.³ However, when high-level construals are activated, we do not anticipate any significant difference in the evidence collection quality of component auditors, regardless of whether a responsibility prompt is present or absent.

Our research is structured as follows. First, we conduct semi-structured interviews to learn about the group audit process from the perspective of component auditors. Our interviewees confirm that component auditors commonly receive detailed instructions from lead auditors and tend to interpret these instructions in a concrete manner. Building on these insights, Experiments 1 and 2 investigate whether the inclusion of our proposed responsibility prompt enhances component auditors' evidence collection decisions in a setting where they receive detailed instructions. Last, Experiment 3 examines whether the impact of the responsibility prompt varies with whether the instructions more generally prime high-level (i.e., abstract) or low-level (i.e., concrete) construals.

We conduct Experiment 1 with component auditors in China who receive instructions that resemble detailed group audit instructions in practice. We perform a 1×2 between-subjects experiment with *Responsibility Prompt* (absent or present) as the manipulated variable to test whether the prompt improves component auditors' evidence collection decisions. Even though the documentation instructions do not specifically prime a certain level of construal, we find that component auditors tend to adopt a low-level construal interpretation when detailed instructions are provided, which, in turn, lowers their evidence collection quality, and our prompt improves their decisions. To validate these results cross-culturally, we conduct Experiment 2 using the same design as Experiment 1 but with component auditors in Australia. We find that the responsibility prompt remains effective in this setting and so is not significantly influenced by cross-cultural differences.

Experiment 3 examines the ameliorating effects of the responsibility prompt for instructions that specifically prime high- and low-level construals. Experiment 3 employs a 2 (*Construal Interpretation*—high- or low-level) \times 2 (*Responsibility Prompt*—absent or present) between-subjects design. Consistent with regulatory fit theory, we find that when low-level construals are activated, the presence of a responsibility prompt enhances the evidence collection quality of component auditors. Conversely, we find that when high-level construals are activated, component auditors' evidence collection quality is already enhanced and is uninfluenced by the presence of a responsibility prompt.

Our study makes several contributions. Previous research on group audits has primarily focused on lead auditors in the United States (e.g., Backof et al., 2020; Downey & Bedard, 2019; Downey & Westermann, 2021). By comparison, little attention has been paid to component auditors' judgments and interventions that could enhance their decision-making in collecting evidence. We demonstrate the importance for component auditors to consider the responsibility of a group audit opinion, even when it is not evoked by their setting. Our study fills a void by focusing on component auditors' evidence collection and testing the efficacy of a proposed intervention for improving it.

We build on previous studies that examine the influence of construals on auditor judgment quality. Backof et al. (2016) and Rasso (2015) find that instructions promoting high-level, abstract interpretations can enhance professional skepticism among auditors. Conversely, Backof et al. (2018) find that low-level, concrete thinking aids auditors in considering inconsistent evidence found in the details, leading to greater skepticism. In the context of global group audits, where

³We posit that our proposed responsibility prompt can induce a prevention focus. Regulatory fit theory supports the notion that regulatory penalties can prompt individuals to adopt a prevention focus (Shah et al., 1998). In the context of auditing, regulators impose sanctions on auditors for audit deficiencies (Peecher et al., 2013). Anticipating inspections, potential lawsuits, or the issuance of audit opinions can remind auditors of their duties, potentially leading them to adopt a prevention focus.

component auditors do not sign audit opinions, the need for integrative thinking and broad consideration of client information may not be a primary focus for component auditors (Downey & Westermann, 2021). While research suggests that component auditors may be unwilling to follow documentation instructions or may misinterpret them (Downey & Westermann, 2021; Sunderland & Trompeter, 2017), we provide evidence from interviews and experiments indicating that component auditors comprehend lead auditor instructions and adhere to them. The deficiencies in group audit quality may not stem from component auditors' unwillingness to follow lead auditor instructions but rather from their tendency to interpret the instructions concretely, potentially leading to lower audit quality. Our findings suggest that, in practice, lead auditor instructions may too often elicit low-level construal thinking in component auditors.

We also extend the work of Saiewitz and Wang (2020), who explore the impact of cultural differences on auditor judgment quality by demonstrating that Chinese component auditors tend to use concrete mental processing when evaluating audit evidence in the global group audit setting. Saiewitz and Wang (2020) find that, compared to their US counterparts, Chinese auditors tend to adopt a more holistic approach, which leads to their having less skeptical judgments. While Saiewitz and Wang (2020) focus on the influence of cultural factors on auditors' skepticism in assessing disconfirming evidence, we focus on the component auditor setting, where component auditors must adapt to the practical constraints they face, such as following a list of risk points provided in detailed lead auditor instructions. Our findings indicate that an emphasis on following instructions step-by-step may disincline component auditors from prioritizing the broader "why" purpose of group engagements.

Finally, our research carries an important implication for standard setters and audit firms. Our results do not imply that lead auditors should alter the detailed instructions they routinely provide to component auditors but rather should make component auditors' interpretation of those instructions more of a discretionary process than an automated procedure. Lead auditors might thus consider incorporating an aide-mémoire within the audit program that arouses component auditors' regard for regulatory concerns and their responsibilities associated with the group audit opinion.

2 | THEORY AND HYPOTHESIS

2.1 | Background on global group audits

Prior research highlights the importance of communication and coordination in a group audit setting (Barrett et al., 2005; Downey et al., 2019; Downey & Bedard, 2019; Downey & Westermann, 2021; Sunderland & Trompeter, 2017). Lead auditors often provide highly detailed instructions to avoid confusion and ensure the work is completed by component auditors (Sunderland & Trompeter, 2017).⁴ Downey et al. (2019) find that component auditors perceive audit quality to increase significantly with the use of detailed instructions. Other research indicates, however, that this may not always be the case. Specifically, component auditors may interpret instructions differently (Barrett et al., 2005) or may be resistant, unwilling, or unable to follow detailed instructions. Downey and Bedard (2019) find that detailed instructions might help audit teams only when clients are small/non-public; these instructions could be counterproductive for large, public clients. Furthermore, Downey and Westermann (2021) observe that lead auditors routinely identify faults with their component auditor counterparts and perceive that the work they

⁴For example, Sunderland and Trompeter (2017, p. 167) note that "the engagement team will typically ask the component auditor to complete a 'reporting package' that provides information from the audit work performed. It can be problematic if packages are not prepared correctly and completely as indicated by the following excerpt from a PCAOB inspection finding: 'In this audit, a foreign auditor performed an audit of the issuer's operating subsidiaries. . . . The firm's workpapers included a standard audit program for accounts receivable and sales with some steps initialed with a notation that the firm would rely on the foreign auditor. The copies of audit programs for certain other accounts that were included in the workpapers were not completed and were left blank.'"

performed and documentation they provided are insufficient, not appropriate, or not communicated in a timely manner to comply with US reporting standards. In summary, prior research indicates that detailed instructions are prevalent in group audits, yet both lead and component auditors seem to question their effectiveness, and component auditors may vary in how they interpret the instructions. However, prior research has yet to explore the constructs that relate to such different interpretations of instructions between lead and component auditors.

A few studies examine auditors' judgment and decision-making in the group audit context. Backof et al. (2020) report that, compared with a holistic approach, an unpacked approach (i.e., separately considering quantitative and qualitative risk factors) can help lead auditors categorize qualitative risk components as significant in audit planning and then perform more substantive tests, thereby improving audit effectiveness. Asare et al. (2020) demonstrate that a prompt to take the group auditor's perspective can increase the effectiveness of testing strategies for unaffiliated component auditors and decrease the effectiveness for affiliated network component auditors.

Our research extends the literature on group audits by providing interview and experimental findings from the perspective of component auditors and by proposing an easy-to-implement intervention that permits component auditors to continue using detailed instructions yet internalize group audit responsibilities, rather than fundamentally change the instructions component auditors receive or how they interpret them.

2.2 | Interpretation of lead auditor instructions

Different interpretations of lead auditor instructions may be a main antecedent of the underperformance in component audit engagements. The issue is pronounced for component auditors when group audit instructions are interpreted differently (Barrett et al., 2005; Downey & Westermann, 2021; Sunderland & Trompeter, 2017). Group audit instructions are considered standard protocols for organizing and disseminating audit information. Component auditors act in collaborative roles to ensure detailed correspondence and discussion between offices. Quality judgment at the component audit engagement level often translates operationally into effective evidence collection. Some lead auditors write detailed instructions that promote low-level construal; others may permit considerable autonomy in the documentation instructions, in that the lead auditors provide little guidance regarding the details (Downey & Westermann, 2021). Thus, understanding how different documentation instructions affect component auditors' evidence collection decisions is essential.

It is not clear how component auditors are likely to interpret lead auditor instructions. On the one hand, prior audit research suggests that Chinese auditors are more likely to use a holistic approach in multinational audits because their culture encourages them to focus on the interrelationships of objects and their environment (Saiewitz & Wang, 2020). Group auditors tend to use a holistic approach to perform risk assessment procedures unless they follow an unpacked approach that separately considers qualitative and quantitative risks (Backof et al., 2020). Psychology research shows that high-level construal representations are more likely to occur when an object or event is spatially distant (Fujita et al., 2006; Liberman et al., 2002). The psychological distance created among auditors can distance auditors from client preferences, while moving them toward core values and global concerns (Backof et al., 2016). Thus, this stream of research suggests that group auditors are likely to interpret instructions with high-level construals. Conversely, recent group audit research demonstrates that lead auditors routinely provide component auditors with detailed instructions to minimize miscommunication risks (Downey & Westermann, 2021; Sunderland & Trompeter, 2017), which may prompt component auditors to engage in specific, low-level interpretation. In addition, psychology research indicates that when instructions become detailed, readily available, and contextualized, people are likely to follow instructions step-by-step and interpret instructions with low-level construals (Trope et al., 2007).

The tendency to construe with high or low levels can be situationally primed (Freitas & Higgins, 2002; Smith & Branscombe, 1987). Component auditors are in situations in which they are not ultimately liable for the group audit opinion. They typically face time and resource competition from their local audits that contribute more to revenue (Carson et al., 2022). Advisors and deciders differ in their mental perspectives when making decisions; auditors in decider roles tend to deliberate less than auditors in advisor roles (Bauer et al., 2020). Component auditors may similarly engage in low levels of deliberation when deciding for themselves how to carry out lead auditor instructions. Lead auditors' detailed instructions make it cognitively convenient for component auditors simply to follow lead auditors' instructions step-by-step without having to consider why the group audit procedures should be performed. When lead auditors, rather than component auditors, are ultimately responsible for the quality of global group audits, we expect that component auditors will interpret lead auditor instructions specifically with low-level construals. If this is the case, the detailed instructions that prime low-level construals could potentially jeopardize evidence collection quality, contributing to a less-effective group audit outcome.

2.3 | The joint effect of construal interpretations and a responsibility prompt

We draw on regulatory fit theory to predict the joint effect of construal interpretations of a lead auditor's instructions and a responsibility prompt on component auditors' evidence collection decisions. In general, "regulatory fit" is defined as the enhanced motivational intensity that occurs when a match exists between an individual's goal orientation and the individual's means to sustain the goal orientation (Aaker & Lee, 2006).⁵ In our context, it refers to the fit between component auditors' goal orientation (e.g., a prevention focus to sustain obligation and responsibility) and the manner in which component auditors pursue the goal orientation (e.g., instructions that prime low-level construals; Förster & Higgins, 2005; Lee et al., 2010; Mogilner et al., 2008).

Regulatory fit has been observed to have a positive effect on judgment (Higgins, 1998), such that those who experience better fit ("feeling right") have a high level of psychological engagement and tend to be more motivated (Berson & Halevy, 2014). Psychology studies suggest that people who experience a fit between low-level construals and a prevention focus can process information more fluently. Thus, they demonstrate more favorable attitudes and enhanced task performance (Avnet & Higgins, 2006; Idson et al., 2004; Lee et al., 2010). This is because those who are prompted to be more responsible are better oriented toward safety and security. Hence, they tend to adopt a vigilance strategy that is manifested in their inclination to guard against errors of commission to limit losses and avoid mistakes (Levine et al., 2000; Liberman et al., 1999; Liberman et al., 2002). Although prior psychology research suggests that regulatory fit has a positive effect on judgments, there are conditions under which a positive effect on judgments may not be observed (Leikas et al., 2009). One of the boundary conditions involves the salience of motivations (Idson & Higgins, 2000; Lee & Aaker, 2004; Wang & Lee, 2006). For example, Wang and Lee (2006) indicate that people selectively seek and spend greater time processing information that fits their regulatory focus only when they have low motivation to process the information. The effect of regulatory fit disappears when people are already motivated to process information.

In our group audit context, we argue that component auditors with low-level construals are initially less motivated to expend cognitive efforts in completing group audit engagements and will experience regulatory fit upon receiving a responsibility prompt (Wang & Lee, 2006). That is, component auditors are less motivated to process information from the lead auditor's

⁵Regulatory fit theory distinguishes two types of regulatory orientation: promotion and prevention focus (Cesario et al., 2008). Prior research suggests that low-level construal is compatible with a prevention focus, and that high-level construal is compatible with a promotion focus (Lee et al., 2010). A heightened promotion focus for high-level construals might initiate action and encourage enthusiasm without becoming "bogged down in details." We also include a discussion of the rationale for use of the prevention construct, compared with the promotion construct, through our interview evidence.

low-level construal instructions because their primary duty is to serve and remain accountable to their own local clients instead of being accountable to the lead auditor (Carson et al., 2022). Given the proposed performance-improvement effects of regulatory fit, we expect that when component auditors receive instructions that prime low-level construals, the presence (versus absence) of a responsibility prompt will enhance evidence collection decisions.

Conversely, prior psychology research suggests that high-level construal interpretation heightens motivation and increases people's motivation to pursue a goal (Davis et al., 2016), and those induced to high-level construals relative to low-level construals become more motivated to assimilate negative feedback and report greater motivation to change behavior (Belding et al., 2015). When component auditors are primed to the "why" thinking and use high-level interpretation of instructions, the regulatory fit effect is likely to disappear. This is presumably because component auditors in the high-level construal condition are already motivated to process information by way of reasoned action, and the prevention focus experience of a responsibility prompt has less effect on their judgment.

In sum, drawing on the regulatory fit literature, we expect that component auditors will perform better in the collection of evidence when a prevention focus responsibility prompt is provided versus not, if they receive lead auditor instructions that promote low-level construals but not if they receive lead auditor instructions that promote high-level construals. Figure 1 graphically presents the predicted pattern of results.

Hypothesis. When low-level construals are activated, component auditors will have higher quality evidence collection when a responsibility prompt is present versus absent; but when high-level construals are activated, component auditors' evidence collection quality will not differ with the presence or absence of a prompt.

3 | SEMI-STRUCTURED INTERVIEWS

We conducted 14 semi-structured interviews with Big 4 component auditors in China, comprising 8 seniors and 6 managers.⁶ We selected seniors and managers as our interviewees because they frequently interact with lead auditors, and we wanted to understand their views on the group audit instructions provided by lead auditors.⁷ We chose interviewees in China because China is a major component audit site, and its lack of documentation and transparency in global group audits has drawn the attention of US audit firms and regulators (Bloomberg, 2023; PCAOB, 2022b; SEC, 2018). See Appendix 1 for interviewee demographics. We conducted the interviews via video-conferencing and phone, following predetermined interview questions but allowing for open discussion. Interviewees confirmed their understanding of granting informed consent.⁸

For the first question, we asked the interviewees what types of instructions they normally receive from lead auditors and how component auditors carry them out. Our interviewees told us that component auditors tend to complete tasks by following lead auditors' instructions step-by-step and in

⁶We decided we had reached the point of saturation (e.g., Dai et al., 2019; Dodgson et al., 2020; Morse, 1995; Power & Gendron, 2015) with the last five interviews; by that point we were no longer gathering new inputs or opinions.

⁷We obtained approval from an institutional review board for our interviews and three experiments. We carried out the 2 × 2 experiment (Experiment 3) in September and October 2020 and the two 1 × 2 experiments (Experiments 1 and 2) in April 2022; we conducted the interviews in May 2022.

⁸On average, each interview lasted 1 h. We developed a coding scheme for each question based on common themes and agreed on the final coding scheme. To facilitate the analysis of interview data, 1 member of the research team and 2 independent research assistants translated and coded the responses independently from the 14 interview transcripts and notes. We used NVivo and reviewed the interview scripts to identify the common themes emerging from the open-ended responses. We did not have a prediction for what we could find, and we let the data reveal the generation of recurring themes (Dodgson & Trotman, 2022; Power & Gendron, 2015). The coders' inter-rater agreement was 87%, and Cohen's kappa was 0.82 ($p < 0.01$).

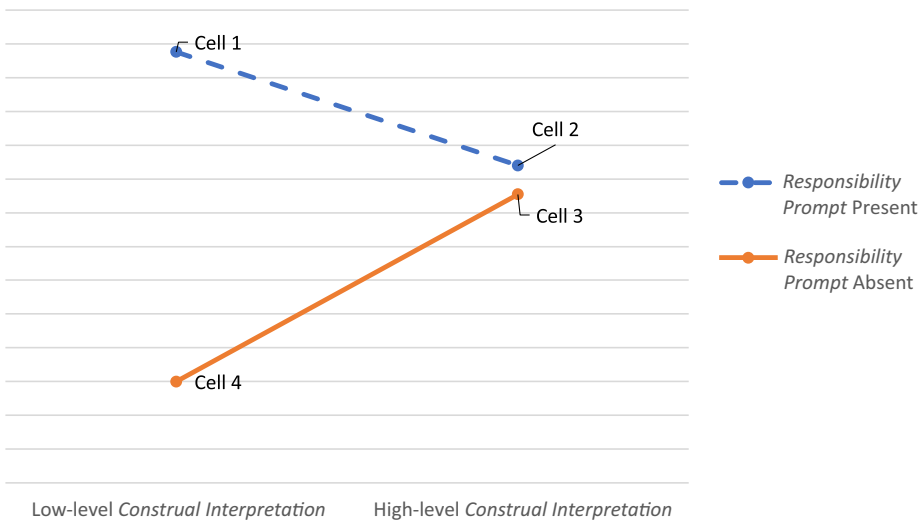


FIGURE 1 Predicted interaction of construal instructions and responsibility prompt on component auditors' evidence collection decision. *Evidence Collection Decision* is measured by the total number of quality evidence items listed and the total number of quality tests of controls listed. *Construal Interpretation* is manipulated as either lead auditor instructions primed with high construals or lead auditor instructions primed with low construals. *Responsibility Prompt* is manipulated as either the absence or presence of a prevention focus responsibility prompt.

great detail. The majority noted the importance of strictly following detailed instructions for control points, sample size, and report formats, as illustrated by the following quotes.⁹

The control points and subsidiary-related risk control lists provided by the lead auditors are very useful. Relying on the control points in lead auditors' instructions, we [component auditors] focus on the specific operations of subsidiaries. Some groups tend to be more sophisticated and diversified than others, so the lead auditors usually list more control points. In addition to paying attention to the risks of the entire group (e.g., the macroeconomic impacts caused by COVID-19), we also pay close attention to the extra risks suggested by the lead auditors. Given the growing attention from regulators on global group audits, it is very critical for us to strictly follow the instructions step-by-step in great detail. (S2)

We usually receive tips on major risk points, group risk reminder, audit plan, audit strategy, audit procedures, materiality level of components, resource planning, reports format, procedures to mitigate regulatory inspection risk, areas requiring special consideration, and expected delivery dates. We need to submit the final audit results in strict accordance with the instructions to facilitate group audit report consolidation. So, it is beneficial to strictly follow them to reduce our own audit risk. (M6)

⁹We followed Dodgson et al. (2020) and Westermann et al. (2015) in having quantified ranges behind our generalizations about interview results. That is, we use the terms *most*, *many*, and *a majority of* to refer to a percentage of interview responses larger than 60% and the terms *about half* for between 41% and 60%, *some* for between 21% and 40%, and *few* for fewer than 20% (Westermann et al., 2015, p. 870). For example, the majority of (14/14) interviewees shared the importance of following instructions in great detail. Some (4/14) interviewees noted how contextual factors sometimes alter interpretations of lead auditor instructions.

Some of the interviewees reported that lead auditor instructions are usually followed dutifully but that component auditors' varying work preferences could affect their execution of instructions. Some interviewees explained that contextual factors (e.g., different business practices, preferred audit methodologies, and time pressure) do not facilitate the execution of lead auditor instructions:

Lead auditors always deliver heaps of instructions and require us to comply in great detail. They do provide professional guidance. But each component has different sizes; US principals would require us to test in great detail even for a small subsidiary. Sometimes it is painful because a substantial amount of Chinese accounting workpapers are paper-based. Can you imagine we need to manually sample from dozens of invoices (each with 100 pages)? It can take an associate several afternoons just to take out samples. If it's our local engagement, we don't take out so many samples. We look at the substance rather than the documentation more. Still, we mostly follow these instructions step-by-step. (M5)

Generally, we follow instructions step-by-step in great detail . . . tests of controls are the headache issues. We are asked by the lead auditors loads of questions on [tests of controls]. But Chinese companies do not work with control procedures dogmatically. Management bypass controls to improve efficiency. We don't think lack of a signature is a big deal. The key is to find where the real risks are. On the premise of not knowing enough about the business situation of the subsidiary company, the lead auditors can provide instructions that are hard to follow step-by-step. But still, we try our best to get roughly what the lead auditors want. Most times what they want is fair. (M3)

Mostly, I try my best to follow instructions step-by-step. However, there are times when I am under stringent deadlines. Then I just follow lead auditor instructions generally because I also have other local engagements to follow up with. (S5)

We then asked interviewees about their views on the importance of following lead auditor instructions. Most emphasized the importance of interpreting group instructions and consider it important to think about how to complete tasks in accordance with lead auditor instructions:

It is important to follow the instructions because the lead auditors will consider whether their own participation is sufficient to act as lead auditors. In considering the instructions received from lead auditors, I think about how to finish these tasks. I follow the instructions step-by-step in great detail. (M1)

As a leader, I provide reasonable assurance for the financial data at component level. We are doing important work because lead auditors rely on our findings. Although I am mostly regulated by my local auditing standards, we [component auditors] are jointly responsible for the group audit work. I think about how to follow lead auditors, unless the requirements and tasks proposed by the lead auditors deviate from my actual situation. (M6)

Participating in and completing the group audits help me to develop my own audit expertise, which can bring a sense of accomplishment. Following step-by-step instructions and doing well in group audits help me to strengthen a more macroscopic understanding of clients. Looking at and solving problems with a broader, group perspective is more conducive to the improvement of one's own ability and professional competence. (M2)

We also asked interviewees about their main objectives when completing global group audit engagements. A majority of them acknowledged that the purpose of component audit work is to follow the lead auditors' instructions in order to minimize potential negative outcomes of audit failures.¹⁰ Many expressed concern that a potential inspection of global group audit engagements could disrupt their auditing career. These comments are consistent with global group audit research suggesting that "heat" from regulators could lead to a shift in motivation toward a focus on audit quality (Downey & Westermann, 2021). For example, two interviewees explained that a prevention focus is a more important construct than a promotion focus in global group audits:

Compared with promotions, I am more concerned about whether the global group audits that I participate in will be caught by regulators in inspections. I could always keep improving if I don't do well in terms of promotion opportunities, but problems identified by regulators in global group audits would play a much more detrimental role in my auditor career. (S4)

I do feel worried about our work quality. If we don't do well, and if our audit conclusions cause some problems which draw regulator's attention, it will negatively impact my career. Regulatory risk is the highest risk in my performance rating. Lead auditor feedback or salary increases come later. That's also why we stick to the instructions. The lead auditors provide very clear, detailed instructions. Sometimes they even provide us with templates for specific cases. I always ask my staff to follow them strictly to mitigate our inspection risks. (M4)

Overall, our interview findings corroborate our assertion that component auditors usually receive detailed instructions from lead auditors that evoke low-level construals. Our interview findings are also consistent with our rationale for exploring a prevention focus rather than a promotion focus in the global group audit context. When component auditors are concerned about the quality of component audit work, they are more likely to be driven by prevention regulatory goals than by promotion goals.

The interviews validate that lead auditors provide detailed instructions to component auditors and these instructions seem to be in a prevention mode because they tend to be driven by prevention regulatory goals. The presence of a prevention mode may hinder component auditors' ability to accept a prompt and improve performance in their evidence collection decisions. Alternatively, the responsibility prompt may help component auditors to internalize the responsibility related to a prevention focus, which, in turn, increases component auditors' incentives to garner quality evidence. Following the tension described above, it is unclear whether component auditors will perform better regardless of the presence of a

¹⁰Only S5 was not concerned about any potential penalty or threat for not performing well in component audit work, explaining, "There are always instructions from lead auditors. I can always rely on the guidance notes for any technical questions and refer to the internal quality framework. Component auditors are regulated by local standards of auditing only."

responsibility prompt. We next explore whether detailed instructions provoke low-level construals, and whether a responsibility prompt is effective at negating the effect of these construals.

4 | EXPERIMENT 1

We conduct Experiment 1 for two reasons. First, we examine whether component auditors tend to interpret typical global group audit instructions concretely (i.e., with low construal). Second, in a situation where no documentation instructions that prime levels of construals are provided, we test the effectiveness of adding a responsibility prompt to the instructions.

4.1 | Participants

We recruited 59 senior auditors at Big 4 firms and a mid-tier firm in China that frequently, and largely, participate in global group audits.¹¹ Auditors with experience in global group audits received an email from senior personnel at their firm inviting them to participate in our online experiment. Auditors were asked to complete the task and forward a link to the task to colleagues. Each auditor was provided with one link. Every auditor who participated was given a gift voucher worth CNY 200 (approximately USD 30) as a token of our appreciation for participating.

On average, participants had performed 4.92 global group audit engagements and spent an average of 11 months on them; 21 had worked as both a component and a lead auditor; and 34 (4) auditors had worked solely as a component (lead) auditor. All participants completed the questionnaire in Mandarin and took an average of 37.63 minutes to finish. Their responses were translated by a doctoral student who is bilingual in English and Mandarin and reviewed by another bilingual researcher. Following prior accounting studies with Chinese participants (e.g., Abernethy & Vagnoni, 2004; O'Connor et al., 2011; Sun et al., 2015), we combined translation with back-translation. A PhD student whose first language is Mandarin designed the preliminary questionnaire and translated the instruments from English into Mandarin. Another bilingual PhD student, whose first language was Mandarin and who had zero knowledge about the research design, back-translated from Chinese to English to ensure the original meaning was captured.

4.2 | Experimental task

We employ a 1×2 between-subjects experimental design with *Responsibility Prompt* (absent or present) as a manipulated variable in which participants made judgments on evidence collection for an internal control task.¹² Our experimental task focused on internal control because evidence collection for tests of internal controls is complex and requires component auditors to think globally and abstractly about the client's information. The assessment of internal controls includes consideration of strategic, operational, and compliance risks, in addition to financial reporting risks (Deumes & Knechel, 2008).

Our experimental case, adapted from Bierstaker et al. (2009), instructed participants to assume they were the senior in-charge component auditor.¹³ They worked for a hypothetical affiliated network named US Carty LLP. New England Hardware China's branch has three control procedures (cash receipts, sales, and bank deposits) designed for accounts receivable

¹¹The reported results did not change when we controlled for firm size (Big 4 vs. mid-tier firms).

¹²Internal-control-related evidence is a key issue where regulators and researchers frequently find under-documentation in global group audit engagements (Downey & Westermann, 2021; PCAOB, 2019).

¹³We designed our case to be easily understood by component auditors in China who routinely perform cash, revenue, accounts receivable, and manufacturing industry audits.

and revenue accounts. The background information provided sufficient detail about the sales and accounts receivables collection process for participants to assess the internal control design.

Prior to conducting our experiment, we contacted several senior Chinese auditors from different firms and asked them to provide input on the details of our instrument. We also solicited feedback from research faculty colleagues and doctoral students; we then fine-tuned the instrument as a result. Two independent researchers, both fluent in Mandarin and English, reviewed the Mandarin and English versions.¹⁴

The case informed participants that they were planning the audit of the “Sales and Accounts Receivable Collection” cycle for the New England Hardware China subsidiary. Their task was to obtain an understanding of the internal control structure of this cycle such that they could determine the nature, extent, and timing of tests to be performed. After reviewing the case, participants identified the tests of controls and evidence to collect and then completed a post-test questionnaire.

In both experimental conditions, we included lead auditor instructions covering compliance with ethical and auditing standards, matters to be completed on the internal control assessment, and acknowledgment of receipt of instructions by the component auditor. In addition, we also listed some control points in a worksheet (e.g., control issues, risk of material misstatements, and risk rating). We used the same case for Experiments 2 and 3, and the wording of the responsibility prompt and dependent variables was similar across experiments.

4.3 | Responsibility prompt manipulation

We adapted the responsibility prompt from Freitas and Higgins (2002) and operationalized it in our instructions as follows:

Please think about something you think you ought to do for the group audit report. In other words, please think about a duty or obligation that you currently have regarding the group audit opinion. Please list the duty or obligation in the space below. In fulfilling this duty or obligation, please list one strategy from an evidence collection perspective.

In the absence of a responsibility prompt, participants only received instructions from a lead auditor asking them to complete the tests of controls procedures.

4.4 | Dependent variables

The main dependent variable in our hypothesis—auditor *Evidence Collection Decision*—is measured by (1) the number of quality evidence items that the participants suggested be gathered and (2) the number of quality tests of controls they suggested be performed.¹⁵ A higher number of quality evidence items and tests of controls indicates more effective evidence collection.

¹⁴We obtained the documentation instructions distributed to component auditors from one of the audit firms. This information was pilot-tested with 10 senior and manager auditors from Big 4 firms and a mid-tier firm in China. Two managers reviewed the case materials specifically for realism and accuracy. The instrument was refined on the basis of the comments and feedback received.

¹⁵The point of measuring component auditors' evidence collection decisions is to test our practical solution to the deficiency of evidence quality in global group audits. Lead auditors demand that component auditors perform additional procedures if they conclude that component auditors failed to obtain sufficient appropriate audit evidence on which to base the group audit opinion (IAASB, 2020a). There is no consensus view on measuring audit quality, so we relied on two generalizations: that “more evidence is assumed to be better than less evidence” (Knechel et al., 2013, p. 388). That is, collecting more (less) correct evidence implies a higher (lower) quality of audit evidence. We sought to capture this through the identification of correct and non-error evidence items, whereby we assumed that quality increased with the number of correct evidence items that participants suggested.

Some typical better-quality responses for evidence items to be collected were “a flow chart of control processes” and “internal control narrative notes.” Answers also commonly included three-way matching of evidence (e.g., sales contracts, invoices, and shipping notes/inventory outbound orders), board meeting minutes, client sales credit policy, and bank reconciliation records. In responses where multiple evidence strands reflect the same item (e.g., cash and bank statements), we counted only one evidence item to avoid duplications. For the tests of controls, typical better-quality responses included walkthrough tests on the existence, effectiveness, and continuity of sales processes; observations that pay attention to situations in which management may override controls; inquiries to chief financial officers regarding the key control points of daily operations; a selection of a sample of sales transactions to verify appropriate authorization and tracing of shipping files; reviews of the evidence of accounting control for credit sales approvals; a selection of a sample of the accounts receivable ledger and review evidence that matched specific sales history and remittance advices; and inspections for overdue payments.

We did not count responses that focus on substantive audit procedures as correct tests of controls procedures.¹⁶ Appendix 2 shows examples of the audit evidence collection coding, and Appendix 3 provides examples of tests of controls coding.

4.5 | Results

To assess the effectiveness of our manipulation of *Responsibility Prompt*, we required participants to indicate their level of agreement with these statements: “The study asked me to think of New England Hardware China’s internal controls from a duty, responsibility, and obligation perspective” and “I feel a personal sense of responsibility to the New England Hardware group audit report” on an 11-point scale, with endpoints 1 = *strongly disagree* and 11 = *strongly agree*. We averaged these two ratings. The mean aggregated rating in the responsibility prompt Present condition ($M = 8.72$) is significantly greater than that in the Absent condition ($M = 4.58$, $t_{57} = 6.18$, $p < 0.01$, one-tailed), suggesting that our manipulation of *Responsibility Prompt* was successful.

We expect that when low-level construals are activated, component auditors will have higher quality evidence collection when a responsibility prompt is present versus absent. As reported in Panel A of Table 1, the one-way ANOVA results show that, when component auditors were (vs. were not) given a responsibility prompt, they collected more quality evidence items ($M = 5.21$ vs. 3.23, $F_{1,57} = 8.47$, $p < 0.01$, two-tailed) and performed more quality tests of controls ($M = 3.61$ vs. 2.38, $F_{1,57} = 4.51$, $p < 0.01$, two-tailed). The findings suggest that our proposed responsibility prompt improves component auditors’ evidence collection decisions when they interpret instructions with low-level construals. Our findings also suggest that, despite component auditors having an awareness of their responsibility and obligation to the lead auditors, component auditors do not appear to internalize this responsibility unless prompted to do so.

We also assess whether typical group audit instructions without a responsibility prompt (versus with the prompt) activate individuals’ low-level (high-level) construal processing. We administered the behavior identification form questionnaire (Vallacher & Wegner, 1989).¹⁷ In this questionnaire, participants choose one of two alternatives that better reflect their view on activities. Following prior research (Liberman & Trope, 1998), we assigned one and zero for each high- and low-level construal response and then summed the scores to measure

¹⁶Two coders independently coded these evidence items and control procedures as either valid or invalid. The coders’ inter-rater agreement was 92%, and Cohen’s kappa was 0.82 ($p < 0.01$). The coders reconciled items about which they disagreed and reached a joint decision about the final category to which items belonged.

¹⁷The behavior identification form contains 25 activities represented by 2 alternatives, one indicating a low-level description of the action (i.e., a detailed meaning of an action) and another indicating a high-level description of it (i.e., a broad meaning of an action) (Vallacher & Wegner, 1989). For example, “cleaning the house” is characterized as either “showing one’s cleanliness” (the high-level alternative) or “vacuuming the floor” (the low-level alternative).

TABLE 1 Experiment 1.

Panel A: Means (standard deviations) (n = number of observations)					
	<i>Responsibility Prompt</i>				
	Present		Absent		
Number of quality evidence items	5.21 (3.09) ($n = 33$)		3.23 (1.77) ($n = 26$)		
Number of quality tests of controls	3.61 (2.47) ($n = 33$)		2.38 (1.77) ($n = 26$)		
Panel B: ANOVA					
	SS	df	Mean square	F	p -value
Number of quality evidence items					
<i>Responsibility Prompt</i>	57.09	1	57.09	8.47	<0.01
Error	384.13	57	6.74		
Number of quality tests of controls					
<i>Responsibility Prompt</i>	21.70	1	57.09	4.51	0.01
Error	274.03	57	4.81		

Note: The number of quality evidence items is measured by the total number of correct audit evidence items listed. The number of quality evidence items is a measure of responses to the following question: “Please indicate the audit evidence that you intend to collect.” We coded the evidence items based on the quality of evidence items that participants suggested to be collected. The number of quality tests of controls is measured by the number of correct tests of controls procedures listed. We coded the number of tests of controls based on the quality of tests of controls procedures that the participants suggested to be performed. *Responsibility Prompt* is manipulated as either the absence or presence of a prevention focus responsibility prompt. All p -values are based on two-tailed tests.

participants’ tendency to construe information at a higher versus lower level. A greater value represents a higher-level construal. Results show that auditors construed at a higher level when a responsibility prompt is present versus absent (15.12 vs. 11.08, $t_{57} = 3.82$, $p < 0.01$, one-tailed, untabulated).¹⁸ The results provide further evidence that component auditors tend to interpret typical group audit instructions concretely and adopt low-level construal thinking, but to a greater extent in the absence of a responsibility prompt.

4.5.1 | Analyses of alternative psychological mechanisms

Theory predicts that those with a stronger prevention focus are more likely to have self-regulatory concerns regarding protection and safety through fulfilling their responsibilities and requirements (Crowe & Higgins, 1997; Higgins & Silberman, 2009; Higgins & Spiegel, 2004) and, therefore, are more vigilant and tend to perform more procedures. We asked participants two questions regarding their concerns: “To what extent do you feel concerned about potential penalties imposed by regulators?” and “To what extent do you feel concerned about being selected for external inspection(s) by regulators?” (where 1 = *not at all* and 11 = *to a great extent*). We averaged the two response scores to obtain the regulatory concern measure. A confirmatory factor analysis indicated that this factor is distinct and that the scale has acceptable reliability (Cronbach’s alpha = 0.94). Auditors exposed to a responsibility prompt reported greater regulatory concern compared with those not exposed ($M = 6.62$ vs. 4.13, $F_{1,57} = 12.92$, $p < 0.01$, two-tailed; Table 2, Panels A and B). A bootstrapping mediation analysis framed

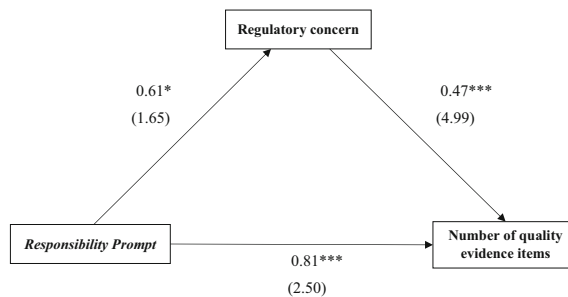
¹⁸We also classified *Construal Level* as an independent variable based on the mean scores for the behavior identification form and included this variable in conjunction with *Responsibility Prompt* in a 2 (absent or present) \times 2 (*Construal Level* scores—low or high) ANOVA analysis. This score is not significant as a main or interaction effect together with *Responsibility Prompt* in the 2 \times 2 ANOVA (untabulated).

TABLE 2 Mediation effect of regulatory concern (Experiment 1).

Panel A: Means (standard deviations) and (<i>n</i> = number of observations)		
	<i>Responsibility Prompt</i>	
	Present	Absent
Regulatory concern	6.62 (2.97) (<i>n</i> = 33)	4.13 (2.12) (<i>n</i> = 26)

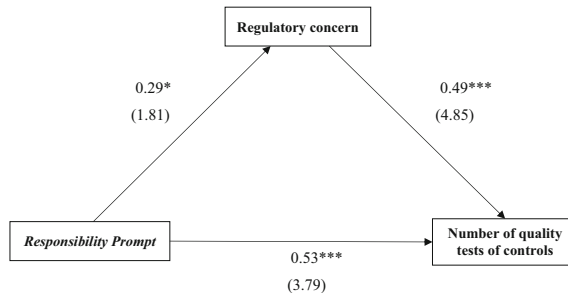
Panel B: ANOVA—Regulatory concern					
	SS	df	Mean square	<i>F</i>	<i>p</i> -value
<i>Responsibility Prompt</i>	89.92	1	89.92	12.92	<0.01
Error	396.79	57	6.96		

Panel C: Mediation analyses—Number of quality evidence items	
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Indirect effect (X on Y through M) = 0.03*, SE = 0.06, Lower Limit Confidence Interval (LLCI) = 0.07, Upper Limit Confidence Interval (ULCI) = 0.13.

Panel D: Mediation analyses—number of quality tests of controls



Indirect effect (X on Y through M) = 0.03*, SE = 0.05, LLCI = 0.06, ULCI = 0.12.

Note: The number of quality evidence items is measured by the total number of correct audit evidence items listed. The number of quality evidence items is a measure of responses to the following question: "Please indicate the audit evidence that you intend to collect." We coded the number of quality evidence items based on the quality of evidence items that the participants suggested to be collected. The number of quality tests of controls is measured by the number of correct tests of controls procedures listed. We coded the number of quality tests of controls based on the quality of tests of controls procedures that the participants suggested to be performed. The number of quality tests of controls is a measure of responses to the following question: "On the space below, please list what tests of controls procedures you would perform specifically for this client." *Responsibility Prompt* is manipulated as either the absence or presence of a prevention focus responsibility prompt. Regulatory concern is measured by asking participants to rate their concerns about "To what extent did you feel concerned about potential penalty imposed by regulators" and "To what extent did you feel concerned about being selected for external inspection(s) by regulators" (where 1 = *not at all* and 11 = *to a great extent*), and the response scores are averaged to get the regulatory concern measure. All *p*-values are based on two-tailed tests. Path coefficients (*t*-values) reported.

*, **, and *** denote *p*-value two-tailed significance at the 1%, 5%, and 10% levels, respectively.

around Hayes's (2018) PROCESS Model 4 shows that regulatory concern mediates the effects of *Responsibility Prompt* on the number of quality evidence items (indirect effect = 0.03, SE = 0.06, 90% CI [0.07, 0.13]; Table 2, Panel C) and the number of quality tests of controls (indirect effect = 0.03, SE = 0.05, 90% CI [0.06, 0.12]; Table 2, Panel D), which is consistent with our expectation that a responsibility prompt increases auditors' regulatory concerns and results in an improvement in component auditors' evidence collection decisions.¹⁹

5 | EXPERIMENT 2

We next investigate whether our results might vary across cultures because prior research has indicated that cross-cultural differences can influence auditors' judgments (Nolder & Riley, 2014; Saiewitz & Wang, 2020). We thus recruited auditors from a culturally Western country to rerun the first experiment in Experiment 2.

Experiment 2 followed the same procedures as Experiment 1. We recruited 42 senior auditors at Big 4 firms and a mid-tier firm in Australia.²⁰ Untabulated results are inferentially identical for the Australian component auditors. That is, when Australian component auditors were (versus were not) given a responsibility prompt, they (1) collected more quality evidence items ($M = 4.62$ vs. 2.33, $F_{1,40} = 26.24$, $p < 0.01$, two-tailed); (2) performed more quality tests of controls ($M = 2.86$ vs. 1.52, $F_{1,40} = 9.13$, $p < 0.01$, two-tailed); (3) acknowledged, via our aggregated measure, a higher level of responsibility ($M = 8.67$ vs. 4.74, $t_{40} = 4.76$, $p < 0.01$, one-tailed); and (4) construed instructions at a higher level ($M = 16.33$ vs. 10.43, $t_{40} = 3.42$, $p < 0.01$, one-tailed). Thus, Experiment 2 shows that the effects of a responsibility prompt on component auditors' evidence collection quality does not differ across different component auditor cultures or locations.

6 | EXPERIMENT 3

Experiment 3 employs a 2×2 between-subjects design where we manipulate *Construal Interpretation* (low or high) and *Responsibility Prompt* (absent or present) to examine the joint effects on auditors' evidence collection decisions. While Experiments 1 and 2 use an externally valid set of detailed component auditor instructions that induce a low-level construal mindset, Experiment 3 shifts to an internally valid manipulation of low- and high-level construals that helps us triangulate our findings.

6.1 | Participants

A total of 94 senior auditors, at Big 4 firms and a mid-tier firm in China, who frequently and largely participate in global group audits completed Experiment 3.²¹ All participants had spent at least one "busy" season as a senior member in a global group audit engagement (experience ranged from 24 to 100 months, with an average of 36 months). Some 77% of participants had an accounting-related certificate; among the certificates, the China CPA (41%) and United Kingdom ACCA (21%) were the most common.

On average, participants reported that they had participated in 3.71 group audit engagements and spent 10.41 months in group audits. Some 85% of participants had worked as

¹⁹As a supplementary analysis, we analyzed whether a responsibility prompt also affected evidence collection decisions via participants' perceived accountability and professional identity. Untabulated results indicate no significant mediation effects of these variables.

²⁰On average, these participants had taken part in 5.57 global group audit engagements and spent an average of 14 months in global group audit engagements; 24 had worked as both a component and a lead auditor, and 15 (1) had worked solely as a component (lead) auditor.

²¹The reported results do not change when we control for firm size (i.e., Big 4 or mid-tier firms).

a component auditor, with 35 having worked as both a component and a lead auditor, and 45 (7) having worked solely as a component (lead) auditor. Some 97% of participants had internal control testing experience and accounts receivable and revenue audit experience. Specifically, these participants had worked on 7.20 (5.39) engagements that included internal control testing (accounts receivable and revenue testing). The inclusion of demographic factors as covariates in the analysis did not alter any inferences reported in the results section.

6.2 | Construal interpretation manipulation

Participants were asked to read instructions from affiliated lead auditors in the United States. Specifically, participants in the low-level construal interpretation condition read the instructions: “Please think specifically about each control procedure, list a few reasons how New England Hardware China’s internal controls on sales and cash could be inadequately designed and operated.” In contrast, participants in the high-level condition read the instructions: “Please think broadly about all of the control procedures collectively, list a few reasons why New England Hardware China’s internal controls on sales and cash could be inadequately designed and operated.” This manipulation combines the “why” and “how” approach in Backof et al. (2018) and the verbal illustrations approach of “think broadly” and “think specifically” in Rasso (2015).

6.3 | Results

6.3.1 | Manipulation checks

For the manipulation check on *Construal Interpretation*, we followed Rasso (2015) by coding each participant’s documentation on their strategy. To ensure that participants were able to engage with high- or low-level construal interpretation, we followed prior research by examining the efficacy of construal-level manipulations by construal ratings (Fujita et al., 2006; Yan & Sengupta, 2011). We coded each group of responses as either +1 if responses appeared to be high-level construal interpretation or –1 if responses appeared to be low-level construal interpretation.²² Participants in the High-level condition averaged a response of +0.35, indicating that, on average, their responses were consistent with processing evidence with high-level construal interpretation. In contrast, participants in the Low-level condition averaged a response of –0.25. There is a significant difference in construal interpretation levels between the two groups ($p < 0.01$).²³

6.3.2 | Test of hypothesis

Our hypothesis states that when low-level construals are activated, component auditors will have higher quality evidence collection when a responsibility prompt is present versus absent; but when high-level construals are activated, component auditors’ evidence collection quality will not differ with the presence or absence of a prompt. As displayed in Panel B of Table 3, the interaction between *Construal Interpretation* and *Responsibility Prompt* is significant for the number of quality

²²Two coders independently coded participants’ responses. Both coders were blind to the experimental conditions, and the nonauthor coder was also blind to the hypothesis. The coders worked out any differences in coding and resolved the disagreement in the final coding set. The majority of responses coded as low-level construals were related to the sufficiency and weaknesses of control procedures. The majority of responses coded as high-level construals were related to control risks, fraud risks, control environment weaknesses, and inappropriate supervision. Seven participants were coded as +1 in the low-level condition and four participants were coded as –1 in the high-level condition. There were no significant changes in inferences after removing those failing this manipulation check.

²³Participants passed the manipulation check on *Responsibility Prompt*. The mean aggregated rating in the Present condition ($M = 6.50$) is significantly greater than that in the Absent condition ($M = 4.21$, $t_{92} = 4.82$, $p < 0.01$, one-tailed).

TABLE 3 Number of quality evidence items (Experiment 3).

Panel A: Means (standard deviations) (n = number of observations)				
Responsibility Prompt	Construal Interpretation		Combined	
	High-level	Low-level		
Present	[1]	[2]		
	5.58 (2.98) $N = 24$	6.88 (2.85) $N = 25$	6.24 (2.96) $N = 49$	
	[3]	[4]		
Absent	5.22 (2.78) $N = 23$	3.27 (1.45) $N = 22$	4.27 (2.42) $N = 45$	
	5.40 (2.86) $N = 47$	5.19 (2.92) $N = 47$		
Panel B: ANOVA				
Source	df	Mean square	F-value	p-value
Construal Interpretation	1	2.46	0.36	0.55
Responsibility Prompt	1	92.54	13.59	<0.01
Construal Interpretation \times Responsibility Prompt	1	61.58	9.05	<0.01
Error	90	6.81		
Panel C: Simple effect comparisons				
Source		t-test	p-value	
Simple effect comparison of				
High-level/Low-level Construal Interpretation, Responsibility Prompt Present [1] – [2]		$t_{47} = 1.56$	0.13	
High-level/Low-level Construal Interpretation, Responsibility Prompt Absent [3] – [4]		$t_{43} = 2.92$	<0.01	
High-level Construal Interpretation, Responsibility Prompt Present/Absent [1] – [3]		$t_{45} = 0.44$	0.67	
Low-level Construal Interpretation, Responsibility Prompt Present/Absent [2] – [4]		$t_{45} = 5.35$	<0.01	

Note: The number of quality evidence items is measured by the total number of correct audit evidence items listed. The number of quality evidence items is a measure of responses to the following question: "Please indicate the audit evidence that you intend to collect." We coded the evidence items based on the quality of evidence items that the participants suggested to be collected. *Construal Interpretation* is manipulated as either lead auditor instructions primed with high construals or lead auditor instructions primed with low construals. *Responsibility Prompt* is manipulated as either the absence or presence of a prevention focus responsibility prompt. All p -values are based on two-tailed tests.

evidence items that participants suggested should be collected ($F_{1,90} = 9.05$, $p < 0.01$, two-tailed). As shown in Panel C of Table 3, there is a significant simple effect of *Responsibility Prompt* on the number of quality evidence items for auditors with documentation instructions that prime low-level construal interpretation ($M = 6.88$ vs. 3.27 ; $t_{45} = 5.35$, $p < 0.01$, two-tailed) but not for auditors with documentation instructions that prime high-level construal interpretation ($M = 5.58$ vs. 5.22 , $t_{45} = 0.44$, $p = 0.67$, two-tailed). Figure 2 graphically presents the observed pattern of results, which is consistent with the predicted pattern of results.

Significant interaction effects of *Construal Interpretation* and *Responsibility Prompt* are consistently found in the number of quality tests of controls to be performed ($F_{1,90} = 8.25$, $p < 0.01$, two-tailed). As observed in Panels A and C of Table 4, there is a significant simple effect of *Responsibility Prompt* on the number of quality tests of controls for auditors with documentation instructions that prime low-level *Construal Interpretation* ($M = 4.64$ vs. 2.32 ; $t_{45} = 3.76$, $p < 0.01$, two-tailed) but not for auditors with documentation instructions that prime high-level *Construal Interpretation* ($M = 4.00$ vs. 3.87 ; $t_{45} = 0.29$, $p = 0.77$, two-

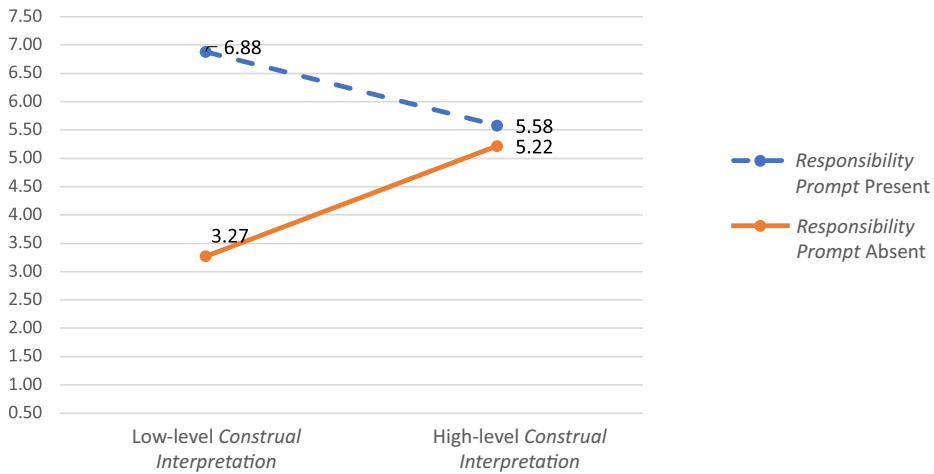


FIGURE 2 Actual interaction between lead auditor instructions and the responsibility prompt on the number of quality evidence items listed (Experiment 3). The number of quality evidence items is a measure of responses to the following question: “Please indicate the audit evidence that you intend to collect.” We coded the number of quality evidence items based on the quality of evidence items that the participants suggested to be collected.

tailed). Figure 3 graphically presents the observed pattern of results. Overall, our hypothesis is supported.²⁴ The findings suggest that the enhancement of auditors’ collection of evidence quality owing to a responsibility prompt is greater when component auditors follow lead auditors’ documentation instructions that prime low-level construals than when they follow such instructions that prime high-level construals.

7 | DISCUSSION AND CONCLUSION

Group audits present new challenges to auditors distributed across different work locations. Regulators have identified deficiencies in more than one-third of the work performed by component auditors (PCAOB, 2019), with IFIAR (2019) reporting that almost 10% of audits have at least one deficiency. We link this problem to different interpretations of lead auditors’ instructions and to component auditors’ lack of responsibility due to the communication and coordination challenges faced by component and lead auditors. We experimentally examine whether and how priming component auditors with a responsibility prompt and low-construal documentation instructions can jointly benefit auditors in evidence collection.

Consistent with our theory, the results of our first two experiments support our argument that the group audit task encourages component auditors to interpret typically detailed instructions concretely and that they demonstrate lower judgment quality unless they receive a responsibility prompt. These findings hold across different cultural settings. The use of a responsibility prompt demonstrates a mechanism that can be used in conjunction with group audit instructions to enhance auditors’ evidence collection decisions, by elevating their regulatory concerns. Our third experiment validates our finding that a responsibility prompt enhances judgment quality for auditors who approach group audit instructions with a low level of construal and

²⁴Unlike prior research (e.g., Hong & Lee, 2008), we do not find that regulatory non-fit impairs component auditors’ performance. The results for *Responsibility Prompt* show that regulatory non-fit does not lead to performance deterioration in our setting. Specifically, participants in the condition with *Responsibility Prompt* present and high-level *Construal Interpretation* suggested just as many quality evidence items and quality tests of controls as participants in the condition with *Responsibility Prompt* absent and high-level *Construal Interpretation*.

TABLE 4 Number of quality tests of controls (Experiment 3).

Panel A: Means (standard deviations) (n = number of observations)				
Responsibility Prompt	Construal Interpretation		Combined	
	High-level	Low-level		
Present	[1]	[2]		
	4.00 (1.53) $N = 24$	4.64 (2.64) $N = 25$	4.33 (2.17) $N = 49$	
	[3]	[4]		
Absent	3.87 (1.55) $N = 23$	2.32 (1.25) $N = 22$	3.11 (1.60) $N = 45$	
	Combined	3.94 (1.52) $N = 47$	3.55 (2.39) $N = 47$	

Panel B: ANOVA results				
Source	df	Mean square	F-value	p-value
Construal Interpretation	1	4.87	1.43	0.24
Responsibility Prompt	1	35.25	10.33	<0.01
Construal Interpretation \times Responsibility Prompt	1	28.15	8.25	<0.01
Error	90	3.41		

Panel C: Simple effect comparisons		
Source	t-test	p-value
Simple effect comparison of		
High-level/Low-level <i>Construal Interpretation</i> , <i>Responsibility Prompt</i> Present [1] – [2]	$t_{47} = 1.03$	0.31
High-level/Low-level <i>Construal Interpretation</i> , <i>Responsibility Prompt</i> Absent [3] – [4]	$t_{43} = 3.69$	<0.01
High-level <i>Construal Interpretation</i> , <i>Responsibility Prompt</i> Present/Absent [1] – [3]	$t_{45} = 0.29$	0.77
Low-level <i>Construal Interpretation</i> , <i>Responsibility Prompt</i> Present/Absent [2] – [4]	$t_{45} = 3.76$	<0.01

Note: The number of quality tests of controls is measured by the number of correct tests of controls procedures listed. *Construal Interpretation* is manipulated as either lead auditors' documentation instructions primed with high construals or lead auditors' group instructions primed with low construals. *Responsibility Prompt* is manipulated as either the absence or presence of a prevention focus responsibility prompt. All p -values are based on two-tailed tests.

shows that such a prompt is not necessary to enhance judgment quality for auditors who approach group audit instructions with a high level of construal, as their judgment quality is already higher without a prompt.

Our study contributes to prior literature on regulatory fit. A distinction between ours and previous research on regulatory fit is that we tailor the prevention focus to the low-responsibility feature of component auditors. This prevention focus intervention speaks to the prevention focus literature (Cremer et al., 2009; Freitas et al., 2002; Higgins et al., 1997) by demonstrating that prevention focus can be situationally induced, thereby evoking component auditors' group audit responsibility. We operationalize these specifically in our audit context because variables validated in one setting may not be equally valid in another (Asay et al., 2022; Flake et al., 2017). Our proposed prevention focus intervention is more salient in the group audit setting because component auditors do not bear the ultimate group audit responsibility and are less engaged in group audit engagements. Moreover, the tasks studied in prior regulatory fit research (e.g., writing an essay, dating games, solving puzzles, and evaluating product brand names) are much simpler than the tasks that auditors perform (Förster &

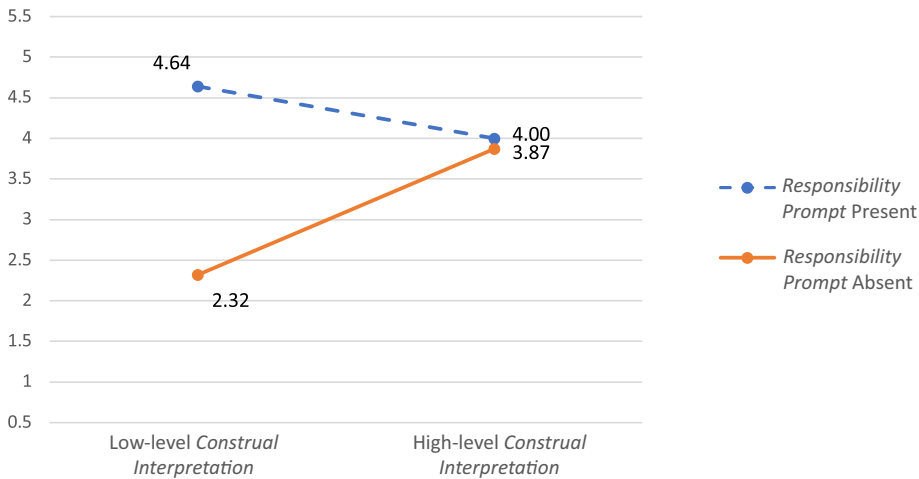


FIGURE 3 Actual interaction between lead auditor instructions and the responsibility prompt on the number of quality tests of controls (Experiment 3). The number of quality tests of controls is a measure of responses to the following question: “Assume that the CFO is very involved in the daily operations of the business and owns approximately 90% of the company. This fact, along with the outstanding integrity of your client, has led the partner to conclude that you should assess control risk above the minimum. On the space below, please list what tests of controls procedures you would perform specifically for this client.” We coded the number of quality tests of controls based on the quality of tests of controls procedures that the participants listed.

Higgins, 2005; Higgins et al., 2003; Lee et al., 2010).²⁵ Therefore, the results of these studies do not readily map onto group audit tasks.

Our findings are important to standard setters for several reasons. Our research can inform standard setters who have encouraged firms to comply with the revised auditing standard for group audits and quality management standards (IAASB, 2020b, 2020c, 2022a, 2022c). Archival studies report that greater involvement by component auditors results in lower audit quality (Burke et al., 2020; Carson et al., 2022). Similarly, standard setters identify such concerns (IAASB, 2020b; PCAOB, 2016). Standard setters attempt to address the group audit quality issue by enhancing the responsibilities in group audits (IAASB, 2022c; IAASB, 2022a). The International Standard on Auditing (ISA) 600 (revised) requires lead auditors to bear the ultimate group audit responsibility but also to communicate such responsibility to component auditors (IAASB, 2022a, 2022c). The US equivalent allows lead auditors to divide responsibility with component auditors (Mao et al., 2020; PCAOB, 2016). Regardless of the absence or sharing of group audit responsibility, component auditors are required to perform part of group audits (IAASB, 2020a; PCAOB, 2016). As multinational enterprises further expand their businesses internationally, lead auditors will demand greater use of component auditors due to resource constraints or to legal, language, or cultural barriers (Carson et al., 2022). Thus, we believe that our efforts to examine component auditors’ evidence collection decisions have resulted in timely and useful findings.

Our findings inform audit standard setters of the importance of collaboration between lead auditors and component auditors, and of enhancements to component auditors’ responsibilities. Our findings suggest that the IAASB’s revised auditing standard on group audits should assign

²⁵The majority of regulatory fit studies involve students as participants and use simple tasks, such as writing a short essay on evolving personal standards over time (Freitas & Higgins, 2002), participating in a dating game, performing a financial duty activity (Bianco et al., 2003), solving a word puzzle (Brodscholl et al., 2007), rating attitudes toward a juice brand (Lee & Aaker, 2004), and rating the price for a mug/pen (Higgins et al., 2003). In contrast, our audit task—audit evidence collection on tests of controls—is complex. Our task demands component auditors who have sufficient expertise, along with the requisite industry experience and group audit experience to think globally and abstractly about the client’s information.

appropriate responsibility to the local office engagement team to work collaboratively with lead auditors toward a common goal of group audit quality.

Our findings have practical implications for firms. The increasing importance of high engagement quality poses a challenge to the current work arrangement of delegating tasks to component auditors. Our findings are beneficial to audit firms' work to demonstrate compliance with ISA 600 (revised), ISA 220 (revised), and ISQM 1: Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service Engagements. Audit firms are required to implement the quality management standard for group audits and evaluate the system of quality management at least annually (IAASB, 2020b, 2020c, 2021). We introduce a practical intervention that audit firms can adapt to address quality risks in the continuous design and improvement of the system of quality management (IAASB, 2020b, 2021).

We see many possibilities for future research in the same vein as our study. Similar to our cross-cultural comparison of component auditors from China and Australia, future research could investigate evidence collection decisions for a greater variety of tasks with component auditors from other countries, such as India, Brazil, and Germany. It is possible that national, cultural, and institutional factors may influence component auditors' judgment quality. Furthermore, factors such as feasibility and desirability likely play important roles in explaining variation in the regulatory fit theoretical constructs relating to auditors' judgment and decision-making (Bauer et al., 2020; Griffith et al., 2015). We leave it to future researchers to examine whether an implemental mindset and a prevention focus can jointly affect auditors' judgment and decision-making. Finally, other group audit contextual factors may undermine evidence collection quality. For example, prior research indicates that network structure makes component auditors legally separate and autonomous firms that do not share a common budget or profit pool with lead auditors (Carson et al., 2022; Downey & Westermann, 2021). Future research could consider how the network structure of lead auditor firms can influence audit quality.

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APPENDIX 1: INTERVIEW PARTICIPANTS' DESCRIPTIONS

Number	Firm type	Position	Audit experience (years)	Global group audit engagements	Global group audit experience	Gender	Certification
M1	Big 4	Manager	6	4	Lead and Component	Male	ACCA (UK)
M2	Big 4	Manager	6	2	Lead and Component	Female	Chinese CPA
M3	Big 4	Manager	5	27	Lead and Component	Male	Chinese CPA
M4	Big 4	Manager	8	4	Component	Female	ACCA (UK)
M5	Big 4	Manager	6	8	Component	Male	Chinese CPA
M6	Big 4	Manager	5	6	Component	Male	Chinese CPA
S1	Big 4	Senior Associate	4	10	Component	Female	ACCA (UK)
S2	Big 4	Senior Associate	3	4	Lead and Component	Female	ACCA (UK)
S3	Big 4	Senior Associate	3	2	Lead and Component	Male	Chinese CPA
S4	Big 4	Senior Associate	3	3	Component	Female	Chinese CPA
S5	Big 4	Senior Associate	2	3	Component	Female	ACCA (UK)
S6	Big 4	Senior Associate	3	5	Component	Female	Chinese CPA
S7	Big 4	Senior Associate	13	3	Lead and Component	Female	Chinese CPA
S8	Big 4	Senior Associate	2	3	Component	Male	Chinese CPA

APPENDIX 2: EXAMPLES OF CODING OF NUMBER OF QUALITY EVIDENCE ITEMS PARTICIPANTS SUGGESTED TO BE COLLECTED

Examples of the quality audit evidence items that the participants suggested to be collected:

“Recordings, audios, or texts of interviews with the internal personnel.”

“The communication history between the accounting supervisor and the sales supervisor, screenshots, etc.”

“Sales revenue corresponding to the control walkthrough test.”

“Consultation record on the issue of disconnected sequential invoices.”

“The latest credit list.”

“Cash income and breakdowns.”

“Monthly end inventory counting table.”

“Internal control documents between the subsidiaries and the group.”

“The China golden tax system invoicing details.”

“The evidence on management authority and the scope of CFO.”

“A flow chart of key control processes.”

“Evidence on the monitoring of controls, how the client staff monitors internal controls, and the effectiveness of segregation of duties.”

Examples of repetitively stated audit evidence items suggested to be excluded from analyses:

“Shipping orders,” “shipping vouchers.”

“Cash,” “bank statements”.

“Sales ledger,” “accounts receivable ledger.”

Examples of incorrect audit evidence items suggested to be excluded from analyses:

“Accounting voucher,” “accounting books.”

- “Various detailed item lists.”
- “Reports.”
- “Letters.”
- “Finished goods.”
- “Relevant original vouchers.”

APPENDIX 3: EXAMPLES OF THE CODING OF THE NUMBER OF QUALITY TESTS OF CONTROLS

Examples of the quality tests of controls that the participants suggested to be performed:

“Select samples from the sales screenshots transactions, check for appropriate authorization, approval, and signatures and trace to shipping documents file.”

“Walkthrough tests on the existence, effectiveness, and continuity of sales processes.”

“Observations to pay attention to the situations that management may override controls, for example, observe whether the CFO has some special permissions in daily business activities.”

“Inquiries to CFOs regarding the key control points of daily operations.”

“Check the delivery notes and related sales invoices, operating income details and accounts receivable entries, and review the bank adjustment table.”

“Inspect the evidence of accounts receivable logs and related invoices in the daily sales summary, accounting managers reviews/approval of remittance advice.”

“Conduct a control test on the circulation of currency funds. The key control points can be considered and evaluated whether the payment is approved in accordance with the regulations.”

“Inspect the approvals for write-offs and uncollectable amounts.”

“Inspect the company’s approved documents to confirm whether the approval authority of relevant personnel is consistent with the group’s internal control documents.”

“Reperform the bank reconciliation in full in accordance with the client’s business procedures to verify whether the established control measures were implemented.”

“Test data techniques to test the integrity and completeness of accounts payable cycle controls.”

“Review each of the major processes in the business’ production, inventory management, accounts receivable, accounts payable, bank reconciliation, and any other processes where it may be possible to perpetrate a fraud by theft or concealment.”

“Perform a three-way match (sales order, invoices, and goods delivery note) before each credit sale can be recorded on accounts receivable.”

Examples of incorrect tests of controls suggested to be excluded from analyses:

“The internal control is effectively implemented, the control risk is evaluated as low, and the plan only conducts limited substantive tests on various account balances and transactions.”

“Determine the time, scope, and procedures of substantive testing for the defects of internal control. Through the compliance test, the auditors, based on the specific deficiencies and deficiencies they have mastered, formulate the next substantive audit plan, the scope of which should cover the internal control content with defects found in the preliminary evaluation and compliance testing.”

“Because it is a medium-sized company, use substantive analytical procedures to assess its transactions, such as substitute tests of transactions.”