

# Auditors As Advocates For Their Clients: Perceptions Of The Auditor-Client Relationship

J. Gregory Jenkins, (E-mail: greg\_jenkins@ncsu.edu), North Carolina State University  
D. Jordan Lowe, (E-mail: dlowe@nevada.edu), University of Nevada, Las Vegas

## Abstract

*Recently, auditors have come under increasing criticism for appearing to act as advocates on behalf of their audit clients. Such criticisms strike at the very heart of the public accounting profession – the public’s trust of the auditors. Given the considerable importance of this issue we conducted a survey of one national accounting firm’s auditing managers and senior managers to ascertain their attitudes regarding such advocacy. Results suggest that some members of the firm view their role somewhat differently than the traditional “watchdog” role commonly ascribed to them. Implications of our study as well as suggestions for future research are discussed.*

## Introduction

Independence has long been regarded as the cornerstone of the public accounting profession. Indeed, the value of auditing and other attestation services rests largely upon the perceived independence of the auditor or attestor. To maintain the unique position granted to its members, the profession continually seeks to ensure that the public interest is served and to preserve its image as a trusted and independent attestor to management’s financial information. Notwithstanding attempts to maintain its reputation (e.g., the creation of the Independence Standards Board – see Mednick 1997), the profession has come under increasing scrutiny and criticism. Moreover, as the auditing profession has matured, the competitive environment has become more intense contributing to concerns about auditor independence and auditor’ behav-

ior as client advocates (Crenshaw and Fromson 1998; Vershoor 1998). In this article, we report the results of a survey of one firm’s auditing managers and senior managers regarding the issue of advocacy as it relates to audit clients and auditors’ perceptions of business relationships with their clients.

## Independence Issues

Many believe that today’s business pressures are redefining the audit function; substantially altering the relationships between accounting firms and their clients. It is now commonplace for firms to provide their audit clients a myriad of services that extend far beyond the scope of the traditional audit (Scott 1997; Vershoor 1998). For instance, firms are active with their clients in investment banking, strategic management planning, human resource planning, computer hardware and software installation and

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implementation, and internal audit outsourcing services (AICPA 1997a; Berton 1995). Additionally, the American Institute of Certified Public Accountants' (AICPA) Special Committee on Assurance Services has identified several new assurance services such as risk assessment, business performance management, information systems reliability, electronic commerce, and health care performance measurement which offer firms substantial revenue opportunities (Elliott and Pallais 1997; Telborg 1996).

Growing business ties between firms and their audit clients along with the relative declining importance of the audit function has raised new questions regarding the nature of the auditor-client relationship. Mike Sutton, former chief accountant of the Securities and Exchange Commission (SEC), observes that a troubling question facing the SEC is assessing how close the auditor-client relationship can become before a "mutuality of interests" is created (in fact or appearance) which could conceivably impair the auditor's independence (Sutton 1997). That is, at what point do auditors become so involved in the interests of their audit client – in their capacity as consultants or business advisors – that the interests of the client are put ahead of investors and creditors. In other words, Sutton's concern is that auditors may become so economically interested in the success of a client that they actually become *advocates* for the client as opposed to independent attestors of client-prepared information.

A similar concern was shared by the AICPA's Special Committee on Assurance Services and led to the development of an independence model for new assurance services which was based upon the independence principles underlying financial statement audits. In developing this model, the Committee explicitly recognized that a CPA's independence represents a real competitive advantage over non-CPAs and as such should be fostered and protected.

Public accounting firms have acknowl-

edged that competitive pressures exist and that non-audit services have increased at a remarkable rate as compared to traditional audit services. However, firms maintain that they have adequate safeguards to ensure the integrity and independence of the audit function in spite of such economic pressures. These safeguards include the screening of potential clients that might be more apt to apply unnecessary pressure on the auditors and home office review procedures designed to detect problems and provide support for partners under pressure. Above all, the firms contend that integrity is still the underlying safeguard of the profession and to preserve their integrity (and independence) they would give up their largest client rather than compromise their standards (AICPA 1997a).

### **The Survey**

Prior studies have examined the *public's* perception of auditor independence and the impact of non-audit services on that perception (e.g., Lowe and Pany 1995; McKinley et al. 1985; Pany and Reckers 1984; Parkash and Venable 1993). These studies often survey the public's expectations of the audit function and find significant differences with respect to implied behavior of auditors as specified by generally accepted auditing standards (GAAS). The purpose of this current study is to assess the perceptions of the *auditors* themselves. That is, it was our objective to determine how experienced auditors perceive their responsibilities to their audit clients (*vis-à-vis* investors and creditors) as well as examining their perceptions regarding how and to what extent they would support and be an advocate for their clients' positions regarding accounting matters.

We mailed 100 questionnaires to practicing auditors employed by one national accounting firm; 58 questionnaires were completed and returned. The respondents, all of whom were either managers or senior managers, reported an average of nine and a half years of public accounting experience. Table 1 reports

descriptive data (means and standard deviations), the proportion of auditors agreeing and disagreeing with the various statements, and the *t*-statistics used to assess whether the responses of those agreeing and disagreeing with the statements were significantly different. All responses were obtained using an 11-point scale anchored at "Very Strongly Disagree" (-5) and "Very Strongly Agree" (+5). An example of this scale is shown at the bottom of Table 1.

### Auditor Advocacy

Auditors were asked to indicate their level of agreement or disagreement with two statements, each of which asserted a different position regarding advocacy relative to audit clients. Responses to these statements reveal considerable disagreement among auditors. The first statement asserted that an auditor's primary responsibility is to behave as a client advocate. As expected, a majority of respondents (67.2 %) disagreed with this assertion. However, a surprising number of respondents (32.8 %) agreed with such advocacy. Furthermore, the average responses (i.e., 2.63 for those agreeing as opposed to -3.54 for those disagreeing) were quite divergent and were significantly different as well ( $t = -24.80, p < .0001$ ).

An equally disparate pattern of attitudes was revealed for the statement which asserted that the auditor's primary responsibility is to safeguard investors' and creditors' interests. Although a majority of the respondents (58.6 %) agreed with this assertion, a substantial number of the respondents (41.4%) disagreed. Once more the divergence in the average responses (i.e., 3.44 for those agreeing versus -3.11 for those disagreeing) was substantial and significantly different ( $t = -20.15, p < .0001$ ).

### Auditor-Client Relationships

Three statements were used to assess auditors' attitudes regarding their relationships with their clients. The results reflect a wide

variation in auditors' attitudes. For example, responses to the first statement indicate that most auditors (65.5%) are generally supportive of their client's accounting decisions. Conversely, more than one-third (34.5%) of the respondents disagreed with this assertion. Again, auditors' average responses were significantly different from one another ( $t = -19.84, p < .0001$ ). Such divergent attitudes may stem from the auditors' general propensity to agree or disagree with their clients. In other words, these differences may simply reflect differing levels of professional skepticism among the auditors. Alternatively, the observed attitudes may be due to the auditors' past experiences with clients and may indicate that support of the client's position is a function of engagement characteristics such as management integrity or engagement risk.

Responses to the final two statements suggest that auditors are sensitive to the economic reality of their business relationships. This is evidenced by the fact that the majority of the respondents (63.8 %) agreed that the potential loss of a client is an important consideration in deciding *how far* to press a disagreement over an accounting matter. On the other hand, those who disagreed with this assertion held opinions that were substantially different (i.e., 2.51 for those agreeing versus -3.74 for those disagreeing). Again, the auditors' attitudes were significantly different ( $t = -21.17, p < .0001$ ). Finally, more than half of the respondents (58.6 %) felt that disagreements with the client would *not* likely result in negative economic consequences (i.e., the disagreement would not lead to the loss of the client). However, a substantial proportion of the respondents (41.4 %) believed that such disagreements *would* likely lead to negative consequences. Again, auditors' attitudes were quite polarized ( $t = -21.90, p < .0001$ ).

### Discussion and Conclusion

Generally accepted auditing standards direct auditors to maintain an attitude of "judicial

**Table 1**  
**Auditors' Attitudes Toward Advocacy and the Auditor-Client Relationship**

		%	%	Agreeing	Disagreeing	T statistic, p-value
		of Respondents Who Agreed	of Respondents Who Disagreed	Responses Mean (Std dev)	Responses Mean (Std dev)	
<b>Advocacy</b>						
An auditor's primary responsibility is to act as an advocate for his/her client.	32.8 %	67.2 %	2.63 (0.719)	-3.54 (1.072)	-24.80, <i>p</i> < .0001	
An auditor's primary responsibility is to safeguard investors' and creditors' interests.	58.6 %	41.4 %	3.44 (0.912)	-3.11 (1.230)	-20.15, <i>p</i> < .0001	
<b>Auditor-Client Relationships</b>						
Auditors generally support their clients' positions in accounting matters.	65.5 %	34.5 %	2.40 (0.855)	-2.92 (0.793)	-19.84, <i>p</i> < .0001	
The potential loss of a client is an important factor and must be considered when deciding "how far" to press a disagreement over an accounting matter with the client.	63.8 %	36.2 %	2.51 (1.150)	-3.74 (0.991)	-21.17, <i>p</i> < .0001	
Auditors who disagree with a client's position are likely to lose that client.	41.4 %	58.6 %	2.30 (0.926)	-3.00 (0.853)	-21.90, <i>p</i> < .0001	

  

Very Strongly	Strongly	Moderately	Weakly	Very Weakly	Very Weakly	Weakly	Moderately	Strongly	Very Strongly	
- 5	- 4	- 3	- 2	- 1	0	+ 1	+ 2	+ 3	+ 4	+ 5
← Disagree					← Agree →					

impartiality" (i.e., AU § 220, AICPA 1997b). According to GAAS, such an attitude recognizes a responsibility not only to a company's management, but also to investors and creditors. One significant way in which this responsibility has traditionally manifested itself is in a "watchdog" role. In the recent past, members of the public accounting profession have come under increasing criticism for their alleged inability to fulfill their responsibilities (e.g., Scheutze 1994; Sporkin 1993). The results reported in this article suggest that some auditors may view their role as somewhat different than the watchdog role traditionally ascribed to them. This is evidenced by the attitudes of those auditors who believe that their primary responsibility is to advocate a client's position – a finding that is somewhat disconcerting.

Although the attitudes reported in this article may not necessarily be representative of those of the entire profession, they may provide a glimpse of a shift in the attitudes of certain members of the profession. One needs only to reflect on the profession's changing business environment to see one possible cause for such a shift. For example, consider that in 1995, auditing and accounting revenues of the nation's 100 largest public accounting firms increased at a rate of one percent, while tax revenues increased by seven percent. By contrast, revenues from consulting increased by 36 percent (Hock 1996). During this past year, these firms reported *for the first time* that collectively they earned more revenue from consulting than from any other practice area (Telborg 1997). Should this trend continue, accounting firms will almost certainly divert substantial resources to their consulting activities, while devoting fewer resources to the audit function. Moreover, as firms' economic dependence becomes increasingly tied to consulting revenues, the audit function may become less important to the firm's economic well-being an issue which has been the subject of considerable concern at the SEC (Public Accounting Report 1994).

While we do not wish to suggest that auditors ignore the consulting opportunities afforded them by virtue of their performing audit services, we do want to encourage them to be ever diligent in their efforts to maintain the highest level of integrity and independence. After all, it is the profession's integrity and independence that allow it to serve in such a unique and important capacity in our nation's economy.

### **Suggestions for Future Research**

Our results suggest that some in the public accounting profession may view their role somewhat differently than the watchdog role traditionally ascribed to them. However, our results may not generalize as our survey included auditors from only one national accounting firm. Furthermore, we did not survey auditors all of the various levels in the firm, such as staff accountants, seniors, or partners. Future research may wish to consider the attitudes of these individuals as well. Additionally, future research may also seek to determine whether auditors' willingness to behave as an advocate differs across types of accounting issues, across levels of materiality, and across levels of engagement risk. □

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