

# Hierarchical Differences In Auditors' Perceptions Of Lowballing: A Study Of Current Attitudes

Presha E. Neidermeyer, (E-mail: neidermp@union.edu), Union College  
Tracy L. Tuten, (E-mail: ttuten@rmc.edu), Randolph-Macon College  
Adolph A. Neidermeyer, (E-mail: neid@be.wvu.edu), West Virginia University

## Abstract

*Auditors are in the business of providing to their clients the value of their attestation services for financial reporting. Auditors (and other accountants) have a strict Code of Professional Conduct which is enforced by the American Institute of Certified Public Accountants (AICPA). According to this Code of Professional Conduct (AICPA 1988), the AICPA sets forth the requirement that all auditors comply with generally accepted auditing standards (GAAS) in all audit engagements. These rules are a necessary part of the audit process helping to ensure a quality result for the stakeholders of the organization. Lowballing, the practice of bidding under or at cost for an audit in order to attract new clients, may violate the independence in appearance clause of the Code of Professional Conduct. Researchers and regulatory authorities appear to differ on their treatment of this issue. Differences in opinion (AICPA 1978 compared to DeAngelo 1981) appear to center around the interpretation of independence in the Code of Professional Conduct. This study evaluates current attitudes towards lowballing for all levels of professional auditors within four public accounting firms and specifically addresses the question of whether lowballing is a violation of the independence in appearance section of the Code. The study also questions auditors as to their beliefs about the Code of Professional Conduct's potential for change to accommodate the practice of lowballing.*

## Introduction

In public accounting, there are many national, regional, and local firms competing for client audit engagements. In competing for these engagements, the phenomenon of lowballing has been documented. Simon and Francis (1988) conducted a study to determine the magnitude of lowballing in the

auditing profession during the period 1979-1984. Their study indicated that lowballing was prevalent in the firms studied with an average reduction in the first year fees of an audit engagement of 24% over those firms with continuing auditors. Pong and Whittington (1994) also found significant instances of lowballing during the 1981-1988 time period, suggesting significant differences between higher fees charged by incumbents compared to fees of newly appointed

---

*Readers with comments or questions are encouraged to contact the authors via e-mail.*

auditors. The next section will discuss the implications of lowballing in light of the Code of Professional Conduct.

#### *Lowballing and Its Potential Impairment of Independence*

An auditor must maintain not only actual independence (independence in fact) from the client, but must also *appear* to be independent (independence in appearance) from a third party's perspective (Preston, Cooper, Scarborough, and Chilton 1995; Schlosser, Arnold, Notarius, and Shick 1969). A breach in either of these areas will compromise independence.

#### *Independence in Fact*

Magee and Tseng (1990) investigated the situations necessary for an auditor's independence to be impaired in a situation in which the auditor has engaged in lowballing. The authors suggested that a disagreement between potential auditors' judgments over an audit situation must prevail in order to have an impairment of the auditors' independence. Schatzberg (1994) used an experimental economics approach to document when lowballing would occur. Findings indicated that lowballing will occur only when certain economic circumstances prevail and may even occur even in situations when independence (in fact) is maintained. He suggested that independence is impaired only in circumstances when the cost of litigation is less than the cost of continuing the audit. DeAngelo (1981) found that lowballing in itself did not impair auditor independence (in fact). DeAngelo (1981) suggested instead that lowballing is merely the means by which auditors compete to earn the technical advantage in later years of incumbency.

Unquestionably, independence is the backbone of the auditing process as it supports the attest function. Given this finding, it is not surprising that, while accounting research has maintained that an auditor's independence is not impaired in situations in which the auditor or audit firm has engaged in lowballing, regulatory

authorities have taken a different view. This practice of fee reduction on an initial engagement is of concern to the AICPA (1978) due to its belief that the underpricing of audit services will impair an auditor's independence (AICPA 1978). The AICPA (1978) suggested that the appearance of a lack of independence may result from the acceptance of an audit engagement with the expectation of offsetting early losses or lower revenues with fees to be charged in future years. A comparison can be drawn between a lowball audit engagement and an impairment of independence from a continuing-audit engagement resulting from an unpaid prior audit fee. An unpaid audit fee would give the auditor a financial stake in the client, thus giving them potential incentive to ensure that the client would continue operations into the future in order that the auditor as creditors would be paid (Ethics Ruling 52, Furke 1987). The unpaid audit fee is similar to a lowball audit engagement, where fees are reduced in the first years of the audit engagement in an attempt to entice the new audit client to accept another auditor. The reduction in audit fees may then be recaptured in the following years, when the auditor has the potential to recapture quasi rents from the client firm (DeAngelo 1981).

Ethics Rulings (Rule 101) suggest that an auditor may not hold a direct financial interest in a client for whom attest services are performed. Although not a direct financial interest, an indirect financial interest may be seen in situations in which lowballing has occurred. This indirect financial interest could result in an auditor's desire to recapture a first year's reduction in fees in the latter years of an audit engagement. A lack of independence would transpire if a client exacted undue influence by threatening to replace the auditor unless the auditor agreed to the client's demands. Therefore, the auditors could be seen as having a vested interest in their continuation as auditors of the firm and in the firm's continued success. Thus, the perspective of the regulatory authorities differs significantly when compared to those of accounting researchers as to whether there is a violation of independence in fact when an auditor engages in lowballing behavior.

### *Independence in Appearance*

Independence in fact has dominated the researchers' perspective in determining whether impairments would transpire in a lowball audit situation. No known research has documented independence in appearance or has addressed the question of whether independence in appearance may be broken since outsiders may not believe that an auditor's lowballing behavior and subsequent reduction in first year's audit fees represents a sunk cost. This reduction should be viewed as a sunk cost, because these costs can never be recovered and should not be considered in making continuing judgments. However, the concept of sunk costs is sometimes misinterpreted by many outside users (DeAngelo 1981, Conlon and Garland 1993). The focus of this paper will be to document auditors' perspective of lowballing as a breach of the independence in appearance clause of the Code.

### *Potential Effects of Lowballing in the Professional Culture*

In accounting's professional culture, the Code of Professional Conduct is the primary guide for work behavior. It is considered a part of the norms and accepted values in the professional culture; so that, individual attitudes towards lowballing may affect the profession's view of it. Deviants that break the norms of the culture will either be constrained by the group, or may over time change the culture of the group as a whole, or may leave the group (turnover). New members to the profession are expected to adopt the dominant cultural value system and to engage in appropriate behavior (Bloor and Dawson 1994: 278). In situations where there is the long-term perpetuation of a dominant culture, individuals serve as carriers of the existing culture, rather than active participants in the culture's formal development.

However, potential for cultural change still exists in that professionals do not enter a profession with a clean slate, but rather, bring with them pre-existing attitudes, expectations, and beliefs from past experiences and affiliations

with other institutions (Louis 1980). Thus, individuals may have pre-conceived internalized guidelines for competing and opposing behavior. Such groups of individuals may form sub-cultures within the primary culture system (Bloor and Dawson 1994). In the case of lowballing, auditors with differing levels of experience may have different beliefs with regard to the acceptability of lowballing. This study addressed the question of whether professional auditors believe that independence in either fact or appearance is violated as a result of a lowball audit engagement, and what impact they believe lowballing may have on the maintenance of the Code. We then discuss the potential impacts lowballing may have on accounting's professional culture.

### **Methods**

This study employed a survey approach to the investigation of lowballing and its acceptability as viewed by the profession of accounting. A questionnaire was developed to test auditor's reactions to two distinct issues: 1) whether lowballing constitutes a breach of the independence clause of the Code of Professional Conduct, and; 2) whether the Code of Professional Conduct would be changed to account for lowballing behavior currently being exercised in the practice of accounting. Additional demographic questions were asked in order to investigate hierarchical and other possible differences in auditors' beliefs in about lowballing.

Because attitudes towards lowballing in an ethical context represent a new line of research, previously developed scales were unavailable. Thus, the measures were developed following generally accepted guidelines for scale development (DeVellis 1991; Fowler 1995; Neuman 1997). Scales were developed following a deductive approach and incorporated the use of multiple items for each scale. The item selection stage was a two-part process which included: 1) distribution of the initial measures to accounting professionals for comments and suggestions, and; 2) pre-testing of the measures at two universities using MBA students. Cronbach's Alphas reported below confirmed the re-

liability and acceptability of each scale.

### *Subjects and Measures*

Surveys captured both attitudinal and demographic responses. Six questions identified participants' position in their firm, gender, age, income, length of time in profession, and race.

Data were obtained from surveys administered during national training sessions in three of the "Big Six"<sup>1</sup> accounting firms in a major northeast city. In addition, one firm's human resource manager directly mailed the survey to a random sample of employees with a letter from one of the researchers. All mail responses were returned directly to the researchers. All respondents answered anonymously and the firms were ensured confidentiality by the researchers. Over 90 percent of the questionnaires in all firms were returned for a total of 152 usable responses. Table 1 presents demographic characteristics of the survey respondents. Position ranks of staff, manager, and partner were reported. Seventy-six percent of respondents noted a staff position; 15 percent were managers, and 5 percent were partners. More than 90 percent were Caucasian. The mean income was between \$30,000 and \$45,000. Fifty-five percent were male and 45 percent were female. Fi-

nally, length of time in profession ranged from less than one year to twenty-five years with a mean length of time of four years and four months.

The two attitudinal scales designed to determine attitude towards lowballing were categorized as: 1) acceptance of lowballing as a business practice, and; 2) lowballing as a violation of the Code of Professional Conduct. The participants marked their responses on a 5-point Likert scale (1 = Strongly Disagree; 2 = Disagree; 3 = Neither Agree nor Disagree; 4 = Agree; 5 = Strongly Agree). Table 1 contains the individual measures for each of the scaled variables. Scaled measures represent an average of the individual measures. Prior to using the scaled measures in multiple regression and Analysis of Variance statistical procedures, the reliability of the scales was assessed using Cronbach's Alpha. Both scales showed strong and acceptable levels of reliability (See Table 1). In addition, several individual variables were used in frequency counts and cross-tabulations with Chi-square statistic. A brief description of the variables follows.

The "Acceptance of lowballing as a business practice" was made up of a three-item scale (Cronbach's Alpha of .92). The scale

**TABLE 1**  
**Attitudinal Measures and Cronbach's Alpha**

*Acceptance of Lowballing as a business practice .92*

- 1) Lowballing is an acceptable practice in accounting firms.
- 2) Independence in fact and appearance is an unrealistic goal for accounting firms.
- 3) I believe the code of ethics should be changed to account for lowballing as an acceptable practice.

*Lowballing as a violation of the Code of Professional Conduct .96*

- 1) Lowballing "breaks" the Code of Professional Conduct.
- 2) Lowballing is a violation of the "independence in fact and appearance" clause of the Code of Professional Conduct.
- 3) The Code of Professional Conduct prohibits Lowballing as an unethical practice.

*Single Item Measures*

- 1) We really strive to follow the profession's Code of Conduct.
- 2) It is likely that the Code of Conduct will be revised based on the current practice of lowballing among accounting firms.

sought to uncover attitudes towards the use of lowballing as a business practice. The statements were: 1) lowballing is an acceptable practice in accounting firms; 2) Independence in fact and appearance is an unrealistic goal for accounting firms; and 3) I believe the code of ethics should be changed to account for lowballing as an acceptable practice.

The “Lowballing as a violation of the Code of Professional Conduct” scale (Cronbach’s Alpha = .96) measured accountant’s perceptions of the relationship between lowballing and the code of ethics. The statements were: 1) Lowballing “breaks” the Code of Professional Conduct; 2) Lowballing is a violation of the independence in fact and appearance clause of the Code of Professional Conduct; and 3) The Code of Professional Conduct prohibits lowballing as an unethical practice.

**Results**

Analysis of variance (ANOVA) was

performed for each survey item and scale to determine whether significant differences existed by position with firm, age, and income.<sup>1</sup> Significance levels were reported at the .05 level or above. Where statistically significant differences were indicated by ANOVAs, multiple group comparisons were performed using Scheffe’s procedure to further determine where those differences existed. These analyses were complemented by the use of cross-tabulations and Chi-square statistics. Survey responses reported by all levels of auditors in four of the “Big Six” firms were analyzed and showed results in the following three categories: 1) general attitudes towards lowballing; 2) whether lowballing is a violation of the Code of Professional Conduct; and 3) factors that help to explain attitudes towards lowballing.

*Attitudes towards Lowballing*

The acceptability of low-balling as a practice was analyzed using both the scaled measure described above and individual measures.

Frequencies and descriptive statistics (presented in Table 3) of the individual measures showed an interesting division among the respondents in their view of the acceptability of lowballing. Specifically, 51 percent of the sample disagreed with the practice of lowballing, 22 percent held a neutral position, and the remaining 27 per-cent agreed that it was indeed an acceptable practice.

Similarly, in response to the statement “Lowballing is a violation of the independence clause of the Code of Professional Conduct,” 32 percent disagreed, 34 percent agreed, and 34 percent held a neutral stance. Likewise, an alternate measure of whether the Code of Professional Conduct prohibits lowballing showed that 27 percent disagreed, 42 percent were neutral, and 31 percent agreed that the Code prohibits the practice. Members appear to be divided in

**TABLE 2**  
**Demographic Characteristics of the Survey Respondents**

<u>Firm Affiliation<sup>1</sup></u>	<u>Gender</u>	<u>Age</u>
1	53	Male 55%
2	26	Female 45%
3	28	31-45 18%
4	45	45-Over 2%

  

<u>Income<sup>2</sup></u>	<u>Type of Position Within the Firm</u>
below \$30,000 3.9%	Staff 76% (51% female)
\$30,001-45,000 67.1%	Manager 15% (22% female)
\$45,001-60,000 11.1%	Partner 5% (38% female)
Over \$60,000 13.9%	Unreported 4%

<sup>1</sup> A one-way analysis of variance on all variables showed no differences between firm affiliation or methods of survey administration. Therefore, results were aggregated for the four firms.  
<sup>2</sup> Both demographic variables, age and income, showed differences with regard to attributes towards lowballing. However, because the variable position within the firm correlates positively with age and income, it accounts for their explanatory power. Therefore, no additional results are reported for age or income variables.

**TABLE 3**  
**Frequency Distributions detailing responses**  
**to Attitudinal Measures<sup>1</sup>**

Value Label	% Response Statement 1 <sup>2</sup>	% Response Statement 2 <sup>3</sup>
Strongly disagree	25%	10%
Disagree	26%	22%
Neutral	22%	34%
Agree	22%	28%
Strongly agree	5%	6%
Mean response	2.56	2.97

1. Attitudinal measures include the statements: 1) Lowballing is an acceptable practice, and; 2) Lowballing is a violation of the independence section of the Code of Professional Conduct.
2. A response of, "I strongly disagree," states that the auditor believes that lowballing is an UNACCEPTABLE business practice.
3. A response of, "I strongly disagree," states that the auditor believes lowballing is a violation of the Code of Professional Conduct.

terms of attitudes towards the practice of lowballing. It is interesting to note that while 51 percent of the sample indicated that lowballing was not an acceptable practice, the percentage that reported lowballing to be a violation of the Code was much lower (34 percent). Additionally, the strong neutral stance may indicate ambiguity concerning interpretation of the Code, indifference to the practice of lowballing, or hesitation to commit to a stand on the issue. It appears that while some accountants may perceive lowballing to be a bad practice within accounting, they may not agree with or understand the AICPA's concerns that lowballing impairs independence, and thereby, breaks the Code of Professional Conduct.

One-Way Analyses of Variance (ANOVA) were used to determine whether significant differences existed in the attitudes towards lowballing among the variables: position within the firm, age, and income. Scheffe's procedure was then used to examine where differences existed. An initial examination showed significant differences in the mean score of part-

ners and the mean scores of both managers and staff members. For the normed scale of "Lowballing as a violation of the Code of Professional Conduct," partners scored a mean of 2.00, managers scored a mean of 3.07, and staff scored a mean of 3.30. Scheffe's procedure indicated no significant differences between the mean scores of staff and managers, but significant differences between the mean scores of partners and, both, the staff and manager scores.

A deeper investigation into the mean responses using a cross-tabulation and chi-square test broken out by position within the accounting firm showed that, rather than a neutral response as indicated by the mean scores, participants had strong attitudes towards lowballing as a violation of the code in either

positive or negative directions. Thus, the mean response was truly an average, and not an accurate representation of the respondent's attitudes. Table 4 illustrates these scores.

For the normed scale, "Acceptance of lowballing as a business practice," Analysis of Variance showed no significant differences among the mean scores of partners, managers, and staff members. However, a cross-tabulation showed a significant Chi-square statistic indicating significant differences among the individual frequency scores on the question "Lowballing is an acceptable practice in accounting firms." Specifically, 63 percent of partners and 46 percent of managers agree that lowballing is acceptable; yet, only 20 percent of staff members believe lowballing is acceptable.<sup>2</sup>

*Lowballing and Potential for Change in the Code of Professional Conduct*

An analysis of frequencies and means of the normed scales was used to assess the potential for change in the Code of Professional Con-

duct. The statement, "we really strive to follow the profession's Code of Conduct" showed the profession's commitment to adhering to the current code. Eighty-eight percent of survey respondents agreed with statement. Further, 58 percent of the respondents stated that there are few conflicts with regard to interpretation of the code, indicating that respondents believe the code is either written clearly or that there are no complications within their practices. However, 31 percent reported a neutral stance on this issue. This may indicate an inability or unwillingness to address the question.

To the statement, "It is likely that the Code of Conduct will be revised based on the current practice of lowballing among accounting firms," 44.6 percent disagreed, and 45.9 percent neither agreed nor disagreed. Only 9.5 percent felt that the code was likely to be revised to account for lowballing as a practice. The mean response to the question was 1.67, indicating their beliefs that the Code of Professional Conduct will remain relatively static in the foreseeable future. A cross-tabulation and Chi-square statistic investigating position within the firm and level of agreement to this statement confirmed a significant weighting towards disagreement, but not a significant differentiation in the individual attitudes reported by auditors between position levels (see Table 6).

## **Discussion**

This study examined attitudes towards the practice of lowballing and perceptions of its relationship to the Code of Professional Conduct. This discussion will center on three topics: 1) lack of consensus; 2) differences based on position within the firm, and; 3) implications for the professional culture of accounting.

First, there appears to be a lack of consensus on whether lowballing is acceptable within the practice of accounting. Results, discussed above, indicated that position level is significantly related to participant's attitudes as to whether lowballing is an acceptable practice within the field of accounting. Specifically,

partners strongly agreed that lowballing was acceptable as a business practice. This finding may be attributed to the fact that since partners are responsible for making the bids to audit clients, they may engage in lowballing in order to attract new clients. Theoretically, partners who are or who have considered engaging in the practice of lowballing may justify lowballing within their own minds to prevent a state of cognitive dissonance. Additionally, partners who are not or who have not considered engaging in lowballing may believe it to be unacceptable. There were no partners who were neutral on this issue.

Second, a lack of hierarchical consensus also exists with regard to the statement, "Lowballing is a violation of the independence clause of the Code of Professional Conduct." Results indicated that position level is significantly related to the participants' attitudes. Over three-fourths of partners disagreed with this statement that lowballing is a violation of the Code of Professional Conduct. Less than 15 percent agreed with the statement and no partners indicated strong agreement. Interestingly, while the AICPA believes that lowballing may be an impairment of an auditor's independence, the partners surveyed clearly do not agree. These results lend support to the theoretical interpretation that partners desire to maintain consistency between their practices within the field of accounting and their views of their own professional conduct. Restated, auditors who engage in lowballing would maintain its efficacy in order to avoid potential consequences of breaking this code.

While the responses of both staff and managers to the questions above showed no significant differences at the mean level, cross-tabulations showed significant differentiation within the groups. Specifically, in response to the statement, "Lowballing is an acceptable practice in accounting firms," over half of staff members and one-third of managers disagreed; only 20 percent of staff and 46 percent of managers agreed; and 23 percent of staff and 18 percent of managers neither agreed nor disagreed. This finding is interesting in that it suggests the

**TABLE 4**  
**Cross Tabulation and Chi Square Test within Position of the Auditor in the Firm and Their Beliefs Lowballing Violating the Code of Ethics**

Level	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Row Total
Staff	.07	.21	.38	.29	.05	.78
Manager	.23	.18	.09	.36	.14	.16
Partner	.38	.38	.12	.12	0	.06
Total	.11	.29	.32	.29	.07	1.0
Chi-Square Value	.023					

**TABLE 5**  
**Hierarchical Attitudinal Differences in Auditor's Beliefs about Lowballing**

Attitudinal Measure: Lowballing is a violation of the Code of Professional Conduct.

Scheffe's Procedure	Mean
Staff	3.23*
Managers	3.07*
Partners	2.00

\* Significant at the .05 level

Cross-Tabulation and Chi-Square Test within Position of Auditor in the Firm and Their Beliefs about the Acceptability of Lowballing within the Practice of Accounting

Level	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Row Total
Staff	.26	.31	.23	.23	.02	.78
Manager	.18	.18	.18	.18	.18	.16
Partner	.12	.25	0	0	.5	.06
Total	.24	.28	.21	.22	.05	1.0
Chi-Square Value	.011					

**TABLE 6**  
**Auditors Beliefs about the Code of Professional Conduct's Propensity to Change**

Level	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Row Total
Staff	.17	.28	.45	.10	0	.78
Manager	.23	.27	.45	.05	0	.16
Partner	.12	.38	.5	0	0	.06
Total	.18	.28	.45	.09	0	1.0
Chi-Square Value	.00875					



potential either for turnover among individuals with different attitudes than those of partners or for conversion in the attitudes of the lower levels within the accounting practice prior to final promotion to partner. Alternatively, if conversion to the dominant culture and turnover does not occur, then attitudes towards the acceptability of lowballing will change as promotion ensues.

Cross-tabulations showed significant differentiation within the groups for the statement, "Lowballing is a violation of the independence in fact and appearance clause of the Code of Professional Conduct." Only 28 percent of staff and 41 percent of managers disagreed; 34 percent of staff and 50 percent of managers agreed; 38 percent of the staff and 9 percent of managers were neutral towards this statement. This finding supports the supposition above that individuals will either leave public accounting prior to promotion or will conform to the existing culture. Alternatively, should turnover or conversion fail to occur, there may be a significant change in beliefs among future partners. Since these individuals do not currently engage in the practice of lowballing due to their position rank, it is unlikely that they would be influenced by the cognitive dissonance that may affect partners' attitudes.

Third, responses to the statement, "It is likely that the Code of Professional Conduct will be revised based on current common practice, specifically lowballing among accounting firms," showed no significant differences in the means between groups (See Endnote 1). The mean responses of all auditors surveyed indicate that they believe the dominant culture will not change. In other words, regardless of their beliefs about both: 1) the acceptability of lowballing in the practice of accounting, and; 2) whether lowballing is a violation of the professional code, auditors report it is unlikely that the stated norms will change.

In conclusion, much variance exists among auditors' attitudes towards lowballing and its relationship to the Code of Professional Conduct. Part of this variance is explained by posi-

tion in the firm such that partners feel that lowballing is acceptable and is not in violation of the Code of Professional Conduct. Staff members and managers hold varying opinions and beliefs with regard to the practice; yet, all groups believe that the professional code is unlikely to change.

#### *Implications for the Future*

Due to partners' ability to set policies for the firm, it is likely that lowballing within the accounting profession will continue into the future. Since the majority of partners believe lowballing to be an acceptable practice that does not violate the Code of Professional Conduct, they will be unlikely to change their current stance of either facilitating or engaging in this practice. The future of the practice of lowballing remains somewhat in question due to the varying views of staff and managers with regard to the practice and acceptability of lowballing. Future conduct within the profession will depend upon whether future partners assimilate to the current culture by adopting the current views of partners or whether an alternate culture will prevail, thus changing either the punishment or acceptance of lowballing.

#### **Suggestions For Future Research**

The current research study could be expanded using a longitudinal research approach. This type of study would benefit the profession as it would document whether attitudes toward lowballing change as one continues in the career of public accounting or whether there is merely attrition of those with divergent attitudes. Findings of attrition of those with divergent values would have interesting ramifications for those within the profession, who proclaim that they desire diversity in beliefs in the workplace. □

---

*The authors would like to thank Professor Richard Bernardi of the State University of New York at Plattsburgh, Professor Donald Arnold of Union College and two anonymous reviewers for their helpful comments with this manuscript.*

## Endnotes

1. The "Big Six" accounting firms are Arthur Andersen, Coopers & Lybrand, Deloitte & Touche, Ernst & Young, KPMG Peat Marwick, and Price Waterhouse.

## References

1. AICPA., *Commission on Auditors' Responsibilities: Report, Conclusions and Recommendation*, New York: American Institute of Certified Public Accountants, 1978.
2. AICPA., *Code of Professional Conduct*. New York: American Institute of Certified Public Accountants, 1988.
3. Barley, S. "Semiotics and the Study of Occupational and Organizational Cultures," *Administrative Science Quarterly*, vol. 28, pp. 393-413, 1983.
4. Bloor, G. and P. Dawson, "Understanding Professional Culture in Organizational Context" *Organizational Studies*, vol. 15, pp. 275-95, 1994.
5. Broadfoot, L. E., "The Dimensions of Survey Instruments Used in the Measurement of Organizational Culture: An analysis and exploratory test" *Unpublished Honours Thesis, Department of Commerce*, The University of Queensland: Brisbane, Queensland, Australia, 1993.
6. Broadfoot, L. E. and N. Ashkanasy, "A Survey of Organizational Culture Measurement Instruments," *Working Paper*, 1994.
7. Conlon D. and H. Garlan, "The Role of Project Completion Information in Resource Allocation Decisions," *Academy of Management Journal*, vol. 36: pp. 402-13, 1993.
8. DeAngelo, L., "Auditor Independence, "Lowballing", and Disclosure Regulation," *Journal of Accounting and Economics*, vol. 3, pp. 113-27, 1981.
9. DeVellis, R., "Scale Development: Theory and Applications," Newbury Park, CA: Sage Publications, 1991.
10. DiTomaso, N., "Symbolic media and social solidarity: the foundations of corporate culture," *Research in the Sociology of Organizations*, vol. 5, pp. 105-34, 1987.
11. Fowler, F., "Improving Survey Questions: Design and Evaluation," Thousand Oaks, CA: Sage Publications, 1995.
12. Furke, G., "Ethics Feature: Independence," *Journal of Accountancy*, vol. 164, pp. 112-16, 1987.
13. Louis, M., "Surprise and Sense Making: What Newcomers Experience in Entering Unfamiliar Organizational Settings," *Administrative Science Quarterly*, vol. 25, pp. 226-51, 1980.
14. Magee, R. and M. Tseng, "Audit Pricing and Independence," *Accounting Review*, vol. 65, pp. 315-36, 1990.
15. Neuman, W., *Social Research Methods: Qualitative and Quantitative Approaches*, 3<sup>rd</sup> edition. Boston: Allyn and Bacon, 1997.
16. Pong, C. and G. Whittington., "The Determination of Audit Fees : Some Empirical Models," *Journal of Business Finance and Accounting*, vol. 21, pp. 1071-95, 1994.
17. Preston, A., Cooper, D., Scarbrough, D., and R. Chilton, "Changes in the Code of Ethics of the US Accounting Profession, 1917 and 1988: The Continual Quest for Legitimization," *Accounting, Organizations and Society*, vol. 20: pp. 507-46, 1995.
18. Schatzenberg, J., "A New Examination of Auditor "Lowball" Pricing: Theoretical Model and Experimental Evidence," *Auditing: A Journal of Practice and Theory*, vol. 13: pp. 33-55, 1994.
19. Schein, E., *Organizational Culture and Leadership*. San Francisco: Jossey-Bass, 1985.
20. Schlosser, R., D. Arnold, B. Notarius, and R. Shick, "An Historical Approach to the Concept of Independence," *The CPA Journal*, 1969.
21. Simon, D. and J. Francis, "The Effects of Auditor Change on Audit Fees: Tests of Price Cutting and Price Recovery," *Accounting Review*, vol. 63, 255-69, 1988.

## **Appendix A: Generally Accepted Auditing Standards**

### *General Standards*

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.

### *Standards of Field Work*

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
3. Sufficient, competent, evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

### *Standards of Reporting*

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. Information disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an asser-

tion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear cut indication of the character of the auditor's examination, if any, and the degree of responsibility he or she is taking.

