THE EFFECTS OF AUDITORS’ ATTENTION DURING EVIDENCE EVALUATION ON AUDITORS’ RESPONSES TO FRAUD RISK

by

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ABSTRACT

Auditors must remain alert for fraud during the evidence evaluation stages of the audit because evidence could contain information relevant to fraud that was unknown to the audit team during planning and that necessitates modifying the planned audit procedures in order to effectively respond to fraud risks. However, regulators note instances in which auditors do not sufficiently consider fraud during evidence evaluation. I experimentally examine whether auditors’ attention to fraud while performing the planned audit procedures differs due to audit conditions that prompt auditors to perceive the task of considering fraud as more or less important, and whether an intervention that I develop based on psychology theory can increase auditors’ attention. I find that auditors devote less attention to fraud when audit conditions prompt lower rather than higher perceived task importance. I also find that my intervention increases this attention under lower perceived task importance conditions. Importantly, I also find that these attention effects subsequently affect auditors’ responses to fraud risks. Thus, my study identifies and investigates a new factor affecting auditors’ judgments and decisions about fraud – auditors’ attention to fraud during evidence evaluation. Additionally, my study introduces
prospective memory theory to the audit literature, highlighting the fact that auditors’ task of considering fraud necessarily changes from a primary task during planning to a secondary or prospective memory task during evidence evaluation.

INDEX WORDS: Fraud risk, Auditor attention, Evidence evaluation, Prospective memory
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DEDICATION

To my best friend and husband Drew, for believing in me and putting us first.
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CHAPTER 1

INTRODUCTION

Detecting financial reporting fraud continues to be among the highest priorities for the accounting profession (PCAOB 2014a; SEC 2013). Auditing standards require auditors to design and perform audit procedures in response to risks of material misstatement due to fraud (“fraud risks”) – a process that begins during the planning stage and continues throughout the evidence evaluation stages of the audit (PCAOB 2010a; 2010b). Auditors must remain alert for fraud during evidence evaluation because the evidence could contain information or cues relevant to the assessment of fraud risks (“fraud cues”) that were unknown to the audit team during planning and that necessitate modifying the planned audit procedures in order to effectively respond to fraud risks. However, the Public Company Accounting Oversight Board (PCAOB) notes instances in which auditors do not sufficiently consider fraud during evidence evaluation (PCAOB 2007; 2009; 2010c; 2014b; 2015). Indeed, PCAOB Inspection Staff note that “in some audits, it appeared that engagement teams viewed the testing of journal entries as a routine audit procedure and as such they did not perform a critical assessment of the specific risks of fraud presented by the journal entries” (PCAOB 2015, 23-24).

Remaining alert for fraud during evidence evaluation can be difficult when auditors are busy executing the planned audit procedures, but if auditors overlook the fraud risk implications of information within the audit evidence, fraud may go undetected.
In this study, I examine whether auditors’ attention to fraud while performing the planned audit procedures differs due to audit conditions that prompt auditors to perceive the task of considering fraud during evidence evaluation as more or less important ("perceived task importance"), and whether an intervention that I develop based on psychology theory can increase auditors’ attention to fraud when auditors perceive lower rather than higher task importance. Further, I test a model that examines how these attention effects subsequently affect auditors’ judgments and decisions; specifically, whether auditors both recognize fraud cues within the audit evidence and respond effectively by collecting additional evidence that targets the associated fraud risk ("effective fraud risk responses"). It is important to research auditors’ attention to fraud because while fraud occurs infrequently, it is extremely costly (Beasley, Carcello, Hermanson, and Neal 2010). Additionally, even when fraud is absent, fraud risks still exist at clients and, in accordance with auditing standards, regulators hold auditors accountable for effectively identifying, assessing, and responding to fraud risks on every audit engagement.

During evidence evaluation, auditors likely consider performing the planned audit procedures as their primary task and the consideration of fraud as a secondary goal. Factors within the audit context encourage this task hierarchy, including auditors’ busy schedules and workload demands, the rarity of fraud, and the lack of documentation requirements related to fraud during evidence evaluation. Indeed, the PCAOB expresses concern “that some auditors may view the consideration of fraud as an isolated, mechanical process rather than an integral part of the audit” (PCAOB 2008, 7). Thus, during evidence evaluation auditors focus on their primary task of executing the planned
audit procedures, but they must also remain alert for fraud cues within the audit evidence. Recognizing these cues can be difficult for auditors because information with fraud risk implications can blend in with the other information auditors examine while performing the planned audit procedures (that are not focused on detecting fraud). When individuals must remain alert for cues while performing an ongoing task, and the cues are difficult to recognize, they devote attentional resources to strategic monitoring of the environment for cues and increases in these attentional resources increase the likelihood of recognizing cues (McDaniel and Einstein 2000). Therefore, to remain alert for fraud, auditors must devote attentional resources to monitoring the audit evidence for the presence of fraud cues while they perform the planned audit procedures.

Regulators note instances in which auditors seemed to pay insufficient attention to fraud during evidence evaluation (PCAOB 2007; 2009; 2010c; 2014b; 2015), and I expect that one factor affecting auditors’ attention to fraud is perceived task importance. Various aspects of audit engagements (e.g., the audit team’s planning stage fraud judgments, supervisors’ preferences, budget constraints, prior interactions with the client) likely prompt auditors to view the task of considering fraud during evidence evaluation as more or less important at a certain point in time. Based on prospective memory theory (McDaniel and Einstein 2000), I predict that when audit conditions prompt auditors to perceive lower rather than higher task importance, they will devote less attention to monitoring for fraud cues while performing the planned audit procedures. This lack of attention can cause auditors to overlook fraud cues within the audit evidence, and, without this critical information, auditors are unlikely to respond effectively to fraud risks on the engagement. Thus, I also predict that when audit conditions prompt auditors to
perceive lower rather than higher task importance, auditors are less likely to respond effectively to fraud risks. Additionally, I predict that auditors’ attention to monitoring for fraud cues mediates this effect.

To increase auditors’ attention to fraud under lower perceived task importance conditions, I design a theory-driven intervention that encourages auditors to have implementation intentions about their goal of considering fraud during evidence evaluation. Implementation intentions specify when and how people plan to take actions to attain their goals (Gollwitzer 1993; 1999). Having implementation intentions can increase the attentional resources individuals devote to monitoring for cues, when those cues are difficult to recognize within the ongoing task (Meeks and Marsh 2010; Smith, Rogers, McVay, Lopez, and Loft 2014). Thus, I predict that encouraging auditors to have implementation intentions about fraud will cause them to devote more attention to monitoring for fraud cues while they perform the planned audit procedures, but only when audit conditions would otherwise (i.e., absent any intervention) cause auditors to perceive lower rather than higher task importance. Under higher perceived task importance conditions, auditors’ attention to fraud is already heightened such that I do not expect implementation intentions about fraud to have an incremental effect on attention. I also expect implementation intentions about fraud to affect auditors’ judgments and decisions about fraud. Indeed, I predict that auditors with implementation intentions about fraud will be more likely to respond effectively to fraud risks than auditors without implementation intentions about fraud, but only when audit conditions prompt lower rather than higher perceived task importance. Finally, I predict that auditors’ attention to monitoring for fraud cues mediates this effect.
I experimentally test my hypotheses by manipulating perceived task importance (higher and lower) and implementation intentions about fraud (control and implementation intentions). Eighty-nine senior auditors from a Big Four firm completed an evidence evaluation task requiring them to follow-up on three open items on a substantive audit procedure. Adapted from Carpenter (2007), the case included a revenue recognition fraud, with fraud cues seeded within the evidence provided for one open item. Before beginning to work on the audit procedure, auditors in the higher (lower) perceived task importance condition read that the audit team did (did not) identify a fraud risk during planning in the specific audit area in which they would be working. In the implementation intentions condition, auditors received implementation intentions instructions about considering fraud before working on the audit procedure. Auditors in the control condition did not receive these instructions, simulating current practice. My main dependent measures are auditors’ attention to monitoring for fraud cues and auditors’ effective fraud risk responses.

As expected, I find that, absent any intervention, auditors devote less attention to monitoring for fraud cues under lower rather than higher perceived task importance conditions. I also find that implementation intentions about fraud increase auditors’ attention to monitoring for fraud cues under these lower perceived task importance conditions, but not under higher perceived task importance conditions, as expected. Additionally, I find that these effects on attention subsequently affect auditors’ judgments.

1 Auditing Standard No. 12 requires auditors to presume a fraud risk involving improper revenue recognition, but it also requires auditors to evaluate during planning which types of revenue, revenue transactions, or assertions give rise to such risks. Thus, not all specific audit areas within revenue are presumed to include a fraud risk. Due to a lack of information or judgment errors during planning, audit teams may fail to identify a fraud risk in a specific audit area that does in fact contain a fraud risk (as in my lower perceived task importance condition).
and decisions about fraud. Specifically, I find that increases in attention make auditors more likely to both recognize fraud cues within the audit evidence and to respond effectively with additional evidence requests that target the associated fraud risk. Overall, these results highlight the importance of auditors’ attention to fraud while they perform the planned audit procedures, as decreases in auditors’ attention to fraud can cause them to overlook critical information relevant to fraud within the audit evidence and allow fraud to go undetected.

My study contributes to the audit literature by identifying and investigating a new factor affecting auditors’ judgments and decisions about fraud – auditors’ attention to fraud during evidence evaluation. Most of the prior fraud literature focuses on auditors’ judgments and decisions about fraud during planning (e.g., Zimbelman 1997; Asare and Wright 2004; Hoffman and Zimbelman 2009; Hammersley, Johnstone, and Kadous 2011). These planning activities are important, but auditors must remain alert for fraud throughout the audit because evidence examined later in the audit could contain fraud cues that, if recognized, provide information that allows auditors to develop more specific fraud hypotheses than during planning and collect additional evidence that targets a specific fraud scheme. However, the PCAOB notes deficiencies with respect to auditors’ professional skepticism in this area, and PCAOB Chief Auditor Marty Baumann notes that “it is the responsibility of each individual auditor to have a questioning mind throughout the audit. That means to be mindful of the risks of fraud… and critically evaluate all evidence” (Baumann 2012, emphasis added). Thus, it is important to extend the fraud literature to consider later stages of the audit. My study introduces prospective memory theory to the audit literature, highlighting the fact that auditors’ attention to
fraud necessarily changes between planning (when auditors set aside specific time to give their full attention to fraud) and evidence evaluation (when auditors can only devote partial attention to fraud because they must execute the planned audit procedures). Indeed, I find that auditors’ attention to fraud during evidence evaluation varies based on audit conditions and decreases in this attention reduce the likelihood that auditors recognize and effectively respond to fraud cues within the audit evidence.

I also contribute to the auditing literature and practice by demonstrating how implementation intentions, a concept from psychology, can increase auditors’ attention to fraud during evidence evaluation. My study shows that when audit conditions would otherwise cause auditors to pay relatively less attention to fraud, encouraging auditors to have implementation intentions about fraud can increase this attention. Audit firms can use these findings to improve auditors’ responses to fraud risks.

Finally, I contribute to the psychology literature by showing that perceived task importance can affect whether implementation intentions about a prospective memory task improve prospective memory task performance. Additionally, I demonstrate that the multiprocess theory of prospective memory (McDaniel and Einstein 2000) holds for professional auditors; the tenets of this theory have previously been demonstrated only on non-professional participants in simple judgment tasks.
CHAPTER 2
THEORY AND HYPOTHESES DEVELOPMENT

Background

During the planning stage, auditors must identify and assess fraud risks, including determining the audit areas (i.e., groups of related accounts and disclosures) related to each fraud risk (PCAOB 2010b). Then, auditors must examine their audit plan to ensure that the planned audit procedures address the fraud risks identified in each audit area, making modifications as necessary (PCAOB 2010c). To accomplish these planning stage tasks, auditors gather information about fraud risks and conduct a discussion among the key engagement team members about the potential for material misstatement due to fraud (i.e., the fraud brainstorming session) (PCAOB 2010b). Thus, the consideration of fraud receives auditors’ full attention at some point during the planning stage when auditors take time to identify and assess fraud risks and ensure that the planned audit procedures address the fraud risks identified during planning.

Even if auditors identify and respond to fraud risks optimally during planning, auditors’ limited information set at planning may lack the specific information about fraud that is necessary to generate well-developed fraud hypotheses and plan audit procedures that adequately address fraud risks (Hammersley 2011). Information relevant to fraud can be general in nature, reflecting “red flags” related to the client’s general...
pressures, opportunities, and attitudes (e.g., a competitive industry, a management team with inappropriate ethical values) or specific in nature, relating to situational cues that provide more detailed information about how fraud is possibly being committed (e.g., evidence of revenue-increasing renegotiations of lease contract terms) (Hammersley 2011). While red flags suggest whether the conditions are more or less right for fraud, they do little to help auditors develop specific hypotheses about how fraud is being committed (Hammersley 2011). More specific information relevant to fraud can function as cues that allow auditors to develop specific hypotheses about a potential fraud scheme and then respond by collecting audit evidence that effectively targets that fraud scheme. At planning, auditors make decisions using only the initial set of audit evidence which could include more general red flags and lack the pieces of specific information that auditors need to plan audit procedures that effectively respond to the fraud risks present at the client.

As auditors move past planning and start performing the planned audit procedures, they must remain alert for information relevant to the assessment of fraud risks, or fraud cues (PCAOB 2010b). During evidence evaluation, auditors examine new audit evidence that may include fraud cues containing specific information relevant to fraud that was unknown during planning. When combined with auditors’ information set at planning, these cues could allow auditors to generate a new or more-refined fraud hypothesis and to respond during evidence evaluation with additional audit procedures.

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3 My references to auditors performing the planned audit procedures refer to auditors conducting control and substantive testing subsequent to planning. At this point, auditors are executing the audit procedures determined during planning, which are generally designed for purposes not directly related to finding fraud (i.e., testing a control or verifying an account balance). These procedures involve time-consuming tasks such as verifying mathematical accuracy, agreeing details from one report to another, and reperforming account reconciliations. As auditors perform these procedures, they need to continue to be alert for fraud cues.
focused on the hypothesized fraud scheme. However, auditors must recognize the fraud cues in order for the cues to be useful. Recognition of fraud cues refers to auditors noticing the fraud risk implications of information. Auditors could fail to recognize fraud cues while performing the planned audit procedures in various ways. For example, fraud cues could be present within the evidence auditors examine, but go unnoticed because they are tangential to the completion of the specific audit procedure steps. Alternatively, auditors could interpret audit procedure results as indicating an immaterial error, when in fact the results contain fraud cues if one considers management’s intent. Thus, auditors must consider the audit evidence more broadly for fraud risk implications while performing the planned audit procedures or they may fail to recognize fraud cues and thus, fail to respond effectively to fraud risks at the client. Importantly, unlike planning where the audit team works as a group to identify and respond to fraud risks, during evidence evaluation the process relies more on individuals. If fraud cues are present within evidence, there might be only one member of the audit team who examines that evidence. If that individual fails to recognize that the information in the audit evidence has implications for the assessment of fraud risks, then fraud may go undetected.

The Consideration of Fraud as a Prospective Memory Task

During evidence evaluation auditors must be alert for fraud, but this task likely represents a secondary goal, as auditors are more focused on their primary task of performing the planned audit procedures. Several factors within the audit context contribute to auditors viewing considering fraud during evidence evaluation as secondary to performing the planned audit procedures. First, auditors are often extremely busy during evidence evaluation due to tight client deadlines and heavy workloads. This can
cause the execution of the planned audit procedures to become their immediate, salient concern, at the expense of their attention to other goals. Indeed, the PCAOB cautions that pressures from scheduling and workload demands can impede the appropriate application of professional skepticism (PCAOB 2012).

Second, fraud is so rare that auditors do not expect to encounter it. Indeed, the estimated chance of working on an audit engagement when fraud is present is less than one percent (Carpenter and Austin 2014). The rarity of fraud means lapses in auditors’ consideration of fraud often have little consequence. Auditors are more likely to be penalized for lapses in performing the planned audit procedures, causing them to place priority on performing the planned audit procedures (that are not focused on detecting fraud).

Third, whereas there are significant documentation requirements in the auditing standards about considering fraud during planning, there are fewer documentation requirements pertinent to the evidence evaluation stages. For example, during planning auditors must document details about the fraud brainstorming session, how they identified and assessed fraud risks, and the linkages of those fraud risks to the planned audit procedures – this requires extensive documentation during planning on every audit. During evidence evaluation, auditors must document the results of the procedures performed to address fraud risks identified during planning, any other conditions that prompted additional procedures, and auditors’ communication about fraud to the audit committee – this requires extensive documentation during evidence evaluation only for
audits on which auditors detected fraud or fraud cues during evidence evaluation. Thus, the auditing standards prompt auditors to always consider fraud during planning, but only sometimes during evidence evaluation.

It becomes difficult for auditors to pursue their secondary goal of considering fraud while performing the planned audit procedures because it requires prospective memory. Prospective memory involves “identifying or recognizing cues as telltale signs of previously formed plans and intentions when they (the cues) occur as part of ongoing thoughts, actions, or situations” (Graf and Uttl 2001, 442). For example, remembering to ask a colleague to cover your class for you next week (the previously planned intention) whenever you see them next (the cue) refers to prospective memory while simply remembering what you covered during last week’s class refers to retrospective memory. With prospective memory, individuals are engaged in an ongoing task (e.g., working on research) at the same time that they need to remember to be alert for a certain cue occurring (e.g., the colleague you need to talk to walks by your office). Thus, considering fraud during evidence evaluation requires prospective memory because auditors must remember to be alert for information relevant to the assessment of fraud risks within the

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4 Within AU Section 316 Consideration of Fraud in a Financial Statement Audit, paragraph 83 titled “Documenting the Auditor’s Consideration of Fraud” lists seven items that the auditor should document: (1) details about the fraud brainstorming session, (2) the procedures performed to obtain information to identify and assess fraud risks, (3) the fraud risks identified and linkage of those risks to auditor’s planned responses, (4) reasons for not identifying revenue recognition as a fraud risk, if applicable, (5) the results of the procedures performed to address the assessed fraud risks, (6) any other conditions that caused the auditor to believe additional auditing procedures or other responses were required, and (7) the nature of the communications about fraud made to management, the audit committee, and others (PCAOB 2010d). Items 1-3 are documented on all audits during the planning stage and require extensive documentation. Item 4 is also documented during planning when applicable. Subsequent to planning, Item 5 is documented on all audits, but with little documentation required if no exceptions were noted while performing the procedures. Item 6 relates to evidence evaluation, but is only required when certain conditions arise. Item 7 is documented on all audits during the final completion stages of the audit, with considerably greater documentation when fraud is detected or suspected.
evidence (*the cue*) that indicates that they need to respond effectively (*the previously planned intention*) while performing the planned audit procedures (*the ongoing task*).

In auditing, recognizing fraud cues can be difficult because fraud usually involves deliberate concealment, causing the fraud cues to blend in with the other information in the evidence (PCAOB 2007). Additionally, because fraud rarely occurs, auditors have little experience with it, making it difficult for them to acquire fraud knowledge (Hammersley 2011). Deficiencies in fraud knowledge would also make it difficult for auditors to recognize fraud cues within audit evidence. According to the multiprocess theory of prospective memory, when prospective memory cues are difficult to recognize within the ongoing task, individuals devote attentional resources to strategic monitoring of the environment for cues, and increases in these resources increase the likelihood of recognizing cues (McDaniel and Einstein 2000). Thus, recognizing fraud cues requires that auditors devote attentional resources to monitoring the audit evidence for fraud cues while performing the planned audit procedures.

**The Effects of Perceived Task Importance on Attention**

From regulator reports, it appears that some auditors do not continue to think critically about fraud past the planning stage (PCAOB 2007; 2009; 2010c; 2014b; 2015). Indeed, the PCAOB passed new risk assessment standards in 2010 and PCAOB Chief Auditor Marty Baumann discussed that one goal of the standards was to encourage auditors to “integrate fraud considerations throughout the audit” because PCAOB “inspections have noted that fraud brainstorming is often done as an isolated event, not integrated into the audit” (Baumann 2010). I expect that auditors’ attention to fraud differs in practice depending on how important auditors perceive their secondary task of
considering fraud during evidence evaluation. Indeed, I expect that this perception is not static; rather, it is dynamic and a product of the current conditions on an audit engagement. Various aspects of the engagement (e.g., the audit team’s planning stage fraud judgments, supervisors’ preferences, budget constraints, prior interactions with the client) likely prompt auditors performing an audit procedure to perceive their secondary task of considering fraud as more or less important while performing that audit procedure.

According to the multiprocess theory of prospective memory, increases in the perceived importance of the prospective memory task encourage greater use of attentional resources for monitoring (McDaniel and Einstein 2000; Einstein, McDaniel, Thomas, Mayfield, Shank, Morrise, and Breneiser 2005). Therefore, when audit conditions prompt higher (lower) perceived task importance, I expect auditors to devote more (less) attentional resources to monitoring for fraud cues. Increases in auditors’ attention to monitoring for fraud cues will make them more likely to recognize the fraud cues. As discussed earlier, if auditors recognize fraud cues present in the evidence, this additional information relevant to fraud allows them to develop specific fraud hypotheses, improving the likelihood that they effectively respond to fraud risks. Thus, I also expect that when audit conditions prompt higher (lower) perceived task importance, auditors are more (less) likely to respond effectively to fraud risks. Stated formally:

**H1:** Absent any intervention, auditors will devote more (less) attention to monitoring for fraud cues while evaluating evidence when audit conditions prompt higher (lower) perceived task importance.

**H2:** Absent any intervention, auditors are more (less) likely to respond effectively to fraud risks when audit conditions prompt higher (lower) perceived task importance.
Using Implementation Intentions to Increase Attention

If audit conditions can decrease auditors’ perceptions of task importance and thus, their attention to monitoring for fraud cues, it is important to develop ways to increase this attention. Finding effective interventions in this area can be challenging. Indeed, Hammersley, Bamber, and Carpenter (2010) manipulate whether auditors are instructed to list the important fraud risks identified during planning before they evaluate evidence, which prompts these auditors to revisit the audit team’s planning stage fraud risk documentation. They find that the success of this intervention depends on the specificity of this documentation. That is, the intervention improved auditors’ fraud risk assessments and general evidence evaluation decisions when the documentation included only a summary of the general sources of fraud risk, but the intervention actually had a negative effect on auditors’ fraud risk assessments and general evidence evaluation decisions when the documentation included a summary of the general sources of fraud risk as well as the eight specific fraud risks the team discussed during planning.

Building on psychology theory on goal attainment and prospective memory, I expect that auditors with implementation intentions about their secondary goal of considering fraud will devote greater attention to monitoring for fraud cues during evidence evaluation. Psychology theory distinguishes goal intentions that specify desired outcomes from implementation intentions that specify when and how people plan to take actions to attain desired outcomes (Gollwitzer 1993; 1999). Goal intentions have the structure of “I intend to reach Z” where Z represents the intended goal or desired outcome (Gollwitzer 1999). Implementation intentions have the structure of “When situation X arises, I will perform response Y” which specifies the when (X) and how (Y) of planned
actions to attain the goal specified in the goal intention (Z) (Gollwitzer 1999). For example, “I intend to eat healthy” represents an individual’s goal intention while an implementation intention about that goal may consist of “When I see a healthy option on a menu, I will order that option.” Thus, by defining an anticipated situation as a cue and committing oneself to responding to the cue in a specific manner, implementation intentions establish or strengthen individuals’ plan for goal attainment.

Individuals with implementation intentions about prospective memory tasks are more likely to recognize prospective memory cues while engaged in an ongoing task than individuals without implementation intentions (Cohen and Gollwitzer 2008; McDaniel, Howard, and Butler 2008; Zimmerman and Meier 2010). Implementation intentions can facilitate prospective memory performance even when the prospective memory cue is a general category of cues that are unspecified before the task, making the cues themselves difficult to recognize.5 When cues are difficult to recognize, psychology researchers believe that implementation intentions improve prospective memory performance because the implementation intentions increase the attentional resources devoted to the prospective memory task (Meeks and Marsh 2010; Smith et al. 2014).

Building on this theory in psychology, I expect that implementation intentions about auditors’ goal of considering fraud during evidence evaluation (“implementation intentions about fraud”) can increase auditors’ attention to monitoring for fraud cues. Auditors likely realize that they should consider fraud during evidence evaluation, but given the lower priority of this task, they may not have a strong plan for when and how

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5 For example, Zimmerman and Meier (2010) find that when the prospective memory task is to press the 1-key when any animal word (i.e., bird, fox) appears during an ongoing task, participants with implementation intentions about the prospective memory task (i.e., “When I see an animal word, I will press the 1-key”) perform better on the prospective memory task than participants without implementation intentions.
they will accomplish this goal, especially when audit conditions prompt auditors to perceive lower task importance. Thus, establishing or strengthening auditors’ implementation intentions about fraud should cause them to devote greater attentional resources to monitoring for fraud cues while performing the planned audit procedures, but only under lower rather than higher task importance conditions. Under higher task importance conditions, I expect that auditors’ attention to monitoring for fraud cues is already heightened, such that implementation intentions about fraud will have no incremental effect. As discussed earlier, greater attention to monitoring for fraud cues should make auditors more likely to recognize and respond effectively to this information. Thus, I predict ordinal interactions such that auditors’ attention to monitoring for fraud cues and the likelihood that they respond effectively to fraud risks increases when they have implementation intentions about fraud, but only under lower rather than higher perceived task importance conditions. Stated formally:

**H3:** Auditors will devote greater attention to monitoring for fraud cues when they have implementation intentions about fraud, but only when audit conditions would otherwise cause them to perceive lower rather than higher task importance.

**H4:** Auditors are more likely to respond effectively to fraud risks when they have implementation intentions about fraud, but only when audit conditions would otherwise cause them to perceive lower rather than higher task importance.

**Attention as a Mediator of the Effects on Fraud Risk Responses**

Based on my theory, and as shown in Figure 1, I expect that auditors’ attention to monitoring for fraud cues mediates the previously predicted effects of perceived task importance and implementation intentions about fraud on auditors’ effective fraud risk responses. Thus, I expect that perceived task importance has a positive effect on auditors’ attention without any intervention but the effect will become insignificant with the
intervention (Link 1), and increases in auditors’ attention to monitoring for fraud cues make auditors more likely to respond effectively to fraud risks (Link 2). Stated formally:

**H5:** Absent any intervention, auditors’ attention to monitoring for fraud cues mediates the effect of perceived task importance on auditors’ effective fraud risk responses.

**H6:** Auditors’ attention to monitoring for fraud cues mediates the interactive effect of perceived task importance and implementation intentions about fraud on auditors’ effective fraud risk responses.
CHAPTER 3
EXPERIMENTAL DESIGN AND METHOD

Participants

I test my hypotheses using a 2 x 2 between-subjects experiment in which I manipulate perceived task importance (higher and lower) and implementation intentions about fraud (control and implementation intentions). Audit seniors from a Big Four firm completed my experiment during firm training sessions. I obtained eighty-nine usable responses. Participants’ average experience is 46 months and 82% are CPAs. Seniors are appropriate participants because they often evaluate evidence and thus, the audit team’s recognition of fraud cues and effective fraud risk responses rely on their judgments and decisions while evaluating evidence.

Experimental Procedure

Auditors completed an evidence evaluation task with a seeded fraud related to revenue recognition (thus, the presence of fraud was held constant across all conditions). Auditors began by reading background information on the client. Then, they received the revenue audit program, which highlighted the one remaining substantive audit procedure for auditors to complete. The procedure involved testing lease contract terms (that are important in the client’s revenue calculations) by agreeing terms per the client’s system.

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6 I received 95 complete instruments. I eliminated six participants who did not demonstrate adequate effort or attention to the instrument (based on missing responses to dependent measures and evidence of clicking quickly through important screens). Retaining these observations would not change any inferences reported in the paper.
7 I adapted the case from Carpenter (2007), thus it was based on a company for which the SEC detected and reported several instances of fraudulent financial reporting in an Accounting and Auditing Enforcement Release. To develop the case, I consulted with senior managers from a Big Four firm and conducted pilot testing with senior auditors from a Big Four firm.
to the actual lease contracts. Next auditors received information on the accounting standards for lessor revenue recognition. Then auditors received the detailed workpaper for the audit procedure, which showed that an audit staff associate already performed most of the procedure, but there were three open items to complete.

To complete the open items, participants were asked to examine the provided evidence (lease documents, emails from the client, emails from customers, etc.) and to document the results. The evidence provided for each of these open items adequately resolved the specific open issue on the audit procedure. So if auditors focused only on performing the planned audit procedures, they would complete the audit procedure without noting any exceptions or concerns. However, for one open item, the provided evidence also contained fraud cues. The seeded fraud scheme involved the Controller pressuring customers to renegotiate their existing lease terms (i.e., higher payments, longer durations), and the company fraudulently treated this additional revenue like revenue from new leases, recognizing it immediately rather than over the remaining life of the lease. The audit team was previously unaware of any lease renegotiations, so the planned audit procedures did not consider revenue recognition on renegotiated leases. The seeded fraud cues included: employees outside the accounting department and a customer made references to renegotiations of leases, documents from outside the

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8 Specifically, after viewing each set of evidence, auditors were asked to document the audit evidence obtained, the status of the open issue, and any other important notes. Auditors had all of this documentation available for their reference when they later decided whether to conclude or perform more work.
9 The order of the presentation of the three open items for follow-up was randomized to control for any order effects related to whether participants examined the open item with the seeded fraud risk first, second, or third.
10 According to accounting standards (ASC 840 – Accounting for Leases), on new (i.e., not renegotiated) lease contracts, companies can immediately recognize the present value of the minimum lease payments as revenue on the lease start date. However, if the terms of an existing lease are renegotiated, accounting standards require that any additional revenue resulting from renegotiation of lease terms be recognized over the remaining life of the lease. All auditors received this information in the summary of the accounting standards for lessor revenue recognition.
accounting department contradicted the Controller’s explanation of the open item, the Controller acted reluctant to provide the auditors with supporting documents, and a customer indicated that the Controller was initiating the renegotiations (rather than the customer). These fraud cues, if recognized, enabled auditors to develop a fraud hypothesis and respond effectively to the associated fraud risk by collecting additional evidence targeting the seeded fraud scheme.

After auditors examined and documented the provided evidence for the three open items, they had the option to (1) conclude and sign off on the audit procedure, noting no misstatements in the revenue cycle or (2) collect additional audit evidence relevant to the revenue cycle. If they selected option (2), I asked them to document any issues they were concerned about, the evidence they wanted to collect to resolve the issues, and the audit procedures they wanted to perform to collect the evidence. Finally, before ending the experiment, all participants completed a post-experimental questionnaire.

**Independent Variables**

I manipulated perceived task importance at two levels: higher and lower. All participants received the same company background information, which included general information relevant to fraud risks at the client. While this background information did not mention fraud specifically, it provided auditors with information indicating that management had the opportunity, pressure, and attitude to commit fraud.11 This information indicating that the conditions were potentially right for fraud was consistent

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11 Specifically, the background information discussed that the company’s lease arrangements required revenue allocation across the various elements of the lease (equipment, financing, and service) and revenue recognition at different points in time for the various elements. It also discussed that significant product and price competition from overseas rivals and a fast-changing industry presented “business risks” for the company. Additionally, the background information discussed that management faced earnings pressure and that management had previously implemented accounting policies that they knew did not follow GAAP (and the audit team required policy changes).
in all conditions. All participants also received the same revenue audit program, which highlighted the audit procedure auditors must complete. While viewing the audit program, auditors in the higher (lower) perceived task importance condition read the following information:

The procedure you will work on involves testing revenue recognition on new bundled lease arrangements. The audit team did (did not) identify a fraud risk during planning in this audit area.

If the audit team did (did not) identify a fraud risk during planning in that audit area, this signals to auditors that based on the information available to the audit team at planning, the audit team thought material misstatements due to fraud were more (less) likely in that audit area. The manipulation referenced one procedure in a specific audit area within the greater revenue audit program. When auditors learn that the audit team did (did not) identify a fraud risk during planning in the audit area they are about to start working in, they likely perceive the task of considering fraud during evidence evaluation as more (less) important.

I also manipulated auditors’ implementation intentions about fraud at two levels: control and implementation intentions. For auditors in the implementation intentions condition, after receiving the accounting standards information but before receiving the detailed workpaper, they read the following instructions:

When I see information that indicates fraud risk while performing the audit procedure, I will respond by acquiring additional evidence.

Directly below this text, they were asked to follow these instructions as they worked and, similar to psychology studies using implementation intentions, to retype the instructions. The manipulation follows the “when” and “how” implementation intentions structure from psychology (“When situation X arises, I will perform response Y”). I designed the
intervention to apply to all audits, so I use the most specific descriptions of “when” and “how” auditors should plan to take actions to attain their goal of considering fraud during evidence evaluation, while still applying to all audits.\textsuperscript{12} Participants in the control condition did not receive these instructions, simulating current practice.

\textbf{Dependent Variables}

To measure auditors’ attention to monitoring for fraud cues, I directly follow psychology studies on prospective memory (e.g., Einstein et al. 2005, Zimmerman and Meier 2010). On prospective memory tasks, individuals must devote attentional resources to both performing the ongoing task and monitoring for prospective memory cues, and increases in attention to monitoring will slow down the ultimate completion of the ongoing task, even when cues are absent. Thus, these studies analyze the total time individuals take to complete ongoing task items when prospective memory cues are absent and then consider differences in these times across conditions to represent differences in the attentional resources devoted to monitoring. In psychology studies, time spent on ongoing task trials when cues are present is not included because this would add significant noise to the measure, since this time would also include attention spent responding to the cue (if recognized). Thus, for the attention to monitoring for fraud cues variable, I directly follow these studies and measure the total time auditors spent completing the two open items that did not contain fraud cues (“non-fraud open items”)

\footnote{\textsuperscript{12}Specifically, I based the language on Auditing Standard No. 12 paragraph 53, which states that while evaluating evidence, “if information or other conditions indicate that a material misstatement due to fraud might have occurred,” auditors need to “acquire additional evidence” (PCAOB 2010a).}
and consider differences across conditions to represent differences in the attentional resources devoted to monitoring for fraud cues.\textsuperscript{13}

My second dependent variable, auditors’ effective fraud risk responses, reflects a binary measure of whether or not auditors both (a) recognized the seeded fraud cues and (b) decided to collect additional audit evidence that effectively targeted the seeded fraud risk. First, to determine whether auditors recognized the fraud cues, their written responses about what issues they were concerned about were coded as to whether or not they demonstrated recognition of the seeded fraud cues.\textsuperscript{14} Note that this measure reflects auditors’ development of a fraud hypothesis rather than a general assessment of the risk of fraud.\textsuperscript{15} Second, to determine whether auditors decided to collect additional audit evidence that effectively targeted the seeded fraud risk, I use their written responses about what evidence they wanted to collect and what procedures they wanted to perform. These responses were coded as to whether or not auditors indicated that they wanted to request additional evidence that would effectively target the seeded fraud risk in this

\textsuperscript{13} An important assumption with this measure is that the experimental manipulations do not cause differences in the attentional resources devoted to performing the ongoing task (so that I can attribute any differences across conditions to monitoring). Therefore, I designed my two non-fraud open items such that they were simple issues to resolve and the provided evidence cleanly resolved the open item. Thus, performing these tasks was fairly mechanical for audit seniors and I do not have reason to believe that my experimental manipulations would affect the attentional resources auditors devoted to performing these tasks.

\textsuperscript{14} As discussed previously, after examining the provided audit evidence for the three open items, auditors chose whether to conclude or perform more work. If they decided to conclude, I interpreted this as a lack of concern and coded these auditors as not recognizing the fraud cues.

\textsuperscript{15} For responses to be coded as demonstrating recognition of the seeded fraud cues, they could not simply indicate general concerns about revenue, rather they had to indicate concern about a potential material misstatement caused by improper revenue recognition on renegotiated leases and/or explicitly mention a suspicion of fraud. For example, one participant wrote, “When contracts are renegotiated, the recognition of revenue over the renegotiated contract must be treated differently. Instead of being recognized immediately, it must be recognized over the remaining life of the lease” which was coded as recognizing the seeded fraud cues, but another participant’s response of “revenue recognition on lease agreements” was coded as not recognizing the seeded fraud cues.
To create the effective fraud risk responses measure, I consider whether or not auditors both (a) recognized the seeded fraud cues and (b) decided to collect additional audit evidence that effectively targeted the seeded fraud risk. If auditors were coded as meeting both of these requirements, then they were coded as effectively responding to fraud risks; if auditors met only one requirement or neither, they were coded as not effectively responding to fraud risks.

The coding for this project was performed independently by the author who was blind to condition and a research assistant who was blind to condition and hypotheses. The coders’ initial agreement rate on parts (a) and (b) was 87.6 percent and 94.4 percent, respectively, and Cohen’s Kappa is 0.73 (p < 0.01) and 0.88 (p < 0.01), respectively. The coders discussed all of the items on which they disagreed and came to an agreement on the final coding and I use the final coding in my analyses.

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16 Auditors’ evidence requests were considered to effectively target the seeded fraud risk in this case if auditors requested: evidence about the revenue calculation and recognition for the renegotiated lease or all renegotiated leases, evidence from performing additional testing of leases that targets renegotiated leases, evidence related to determining the severity of the renegotiated leases revenue recognition problem, or evidence from directly contacting the customer about the renegotiated lease.
CHAPTER 4
RESULTS

Reading and Manipulation Checks

I included questions within the experiment to verify that participants attended to my manipulations. First, after auditors viewed the revenue audit program with the perceived task importance manipulation, I asked them if the audit team identified a fraud risk during planning in the relevant audit area. Auditors responded yes or no with 88.8% (79/89) answering correctly based on their condition. Second, the implementation intentions manipulation instructed auditors to retype the instructions. All auditors in the implementation intentions condition retyped the instructions, showing attention to the manipulation.

To ensure I successfully manipulated perceived task importance, I investigate auditors’ perceptions about the importance of their task of considering fraud during evidence evaluation. Within the post-experimental questionnaire, auditors answered, “While working on audit procedure REV-1, how important was it to you that you considered fraud?” using a 0 (Not At All Important) to 10 ( Extremely Important) sliding scale. In untabulated analysis I find that, absent any intervention, auditors perceived considering fraud as more important in the higher (mean = 7.90) rather than the lower task importance condition (mean = 6.77, F1,85 = 2.99, p = 0.044). These results suggest a successful manipulation of my perceived task importance construct.

17 Unless otherwise noted in the paper, I report one-tailed tests reflecting my theory-based directional predictions.
**Effects of Perceived Task Importance**

*Hypothesis 1*

Hypothesis 1 examines whether, absent any intervention, auditors devote more (less) attention to monitoring for fraud cues when audit conditions elevate (reduce) perceived task importance. Table 1 provides descriptive statistics (panel A), an ANOVA model (panel B), and contrast testing (panel C) for attention to monitoring for fraud cues. Recall that I measure attention to monitoring for fraud cues using the total time auditors spent working on the two non-fraud open items. Following psychology, increases in this time across conditions signals greater attentional resources devoted to monitoring the audit evidence for fraud cues. Panel C shows that perceived task importance significantly influences attention to monitoring for fraud cues, with auditors in the lower task importance condition devoting less attention to monitoring for fraud cues than auditors in the higher task importance condition ($F_{1, 85} = 2.63, p = 0.054$). Thus, audit conditions can affect how much attention auditors devote to monitoring for fraud cues while performing the planned audit procedures, with auditors paying more attention when they perceive the task of considering fraud during evidence evaluation as more important. These results support Hypothesis 1.

I conducted additional analysis to support my measure of auditors’ attention to monitoring for fraud cues. Within the post-experimental questionnaire auditors responded to the question, “While working on audit procedure REV-1, what percentage of your total attention was devoted to completing the REV-1 audit procedure steps versus considering fraud?” Participants responded using two sliding 0 to 100 scales: one scale for “attention to completing the REV-1 audit procedure steps” and another for “attention to considering
fraud” (the two responses had to total to 100). In untabulated analysis, I find that, absent any intervention, perceived task importance significantly influences auditors’ self-reported attention to considering fraud (F1, 85 = 2.49, p = 0.059). Higher task importance auditors indicated a greater proportion of their attention was devoted to considering fraud (mean = 41.75) than lower task importance auditors (mean = 33.50). This analysis provides additional support for Hypothesis 1.

**Hypothesis 2**

Hypothesis 2 investigates whether, absent any intervention, auditors are more (less) likely to respond effectively to fraud risks when audit conditions elevate (reduce) perceived task importance. Table 2 provides descriptive statistics (panel A), a binary logistic regression (panel B), and contrast testing (panel C) for the effective fraud risk responses variable. As shown in panel C, I find that perceived task importance significantly affects auditors’ effective fraud risk responses ($\chi_1^2 = 2.63, p = 0.052$). Auditors in the higher task importance condition were more likely to respond effectively to the seeded fraud risk (45.83%) than auditors in the lower task importance condition (22.73%). Interestingly, panel B shows that fraud experience is significant in the model (two-tailed p = 0.020) such that auditors who report previous experience with fraud (13.5% of my sample) are more likely to respond effectively to fraud risks. Overall, these results show that when fraud cues are present in the audit evidence that auditors

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18 Despite random assignment of participants to condition, I have significant differences across experimental conditions in the proportion of participants who have experience with fraud on an audit. Consequently, I include fraud experience in my analyses when it is significantly correlated with the dependent variable. Fraud experience is auditors’ response (Yes or No) to “Have you ever worked on an audit engagement when financial statement fraud (an intentional act that results in a material misstatement in the financial statements) was detected?”

19 Twelve participants indicated prior experience with fraud on an audit (12/89 or 13.5%), so even though the results suggest that fraud experience can help auditors respond effectively to fraud risks, experience with fraud is relatively rare so auditors are generally unlikely to have prior experience with fraud.
evaluate while performing the planned audit procedures, whether or not auditors recognize the fraud risk implications of this information depends on whether current audit conditions prompt auditors to perceive the task of considering fraud as more or less important. These results support Hypothesis 2.

**Effects of Perceived Task Importance and Implementation Intentions**

*Hypothesis 3*

Hypothesis 3 examines whether implementation intentions about fraud can increase auditors’ attention to monitoring for fraud cues when audit conditions would otherwise cause auditors to perceive lower task importance. Panel C of Table 1 shows that auditors in the lower task importance-control condition devoted less attention to monitoring for fraud cues than all other conditions ($F_{1, 85} = 2.50, p = 0.059$). Contrasts of partial effects indicate that within lower task importance, the difference in attention between the control and implementation intentions conditions is marginally significant ($F_{1, 85} = 2.23, p = 0.069$). Thus, when audit conditions would otherwise cause auditors to perceive lower rather than higher task importance, establishing/strengthening auditors’ implementation intentions about fraud increases auditors’ attention to monitoring for fraud cues. Overall, these results support Hypothesis 3.

*Hypothesis 4*

Hypothesis 4 investigates whether implementation intentions about fraud can make auditors more likely to respond effectively to fraud risks when audit conditions would otherwise cause them to perceive lower task importance. Panel C of Table 2 shows

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20Additionally, I conducted untabulated analyses using the “self-reported attention to considering fraud” measure discussed with the H1 results. Using this measure, lower task importance-control condition auditors devoted less attention to monitoring for fraud cues than all other conditions ($F_{1, 85} = 3.43, p = 0.034$). This provides additional support for Hypothesis 3.
that auditors in the lower task importance-control condition are less likely to respond effectively to fraud risks than auditors in all other conditions ($\chi^2_1 = 3.58, p = 0.029$). Contrasts of partial effects indicate that within lower task importance, the smaller proportion of auditors who responded effectively to fraud risks in the control condition (22.73%) compared to the implementation intentions condition (40.00%) was marginally significant ($\chi^2_1 = 2.36, p = 0.062$). These results suggest that, as expected, when audit conditions would otherwise cause auditors to perceive lower rather than higher task importance, implementation intentions about fraud improve auditors’ fraud risk responses. These results support Hypothesis 4.

**Attention as a Mediator of the Effects on Fraud Risk Responses**

**Hypotheses 5 and 6**

Hypotheses 5 and 6 predict that the effects of perceived task importance and implementation intentions about fraud on auditors’ effective fraud risk responses are mediated by auditors’ attention to monitoring for fraud cues. Overall, I expect that whether or not auditors have implementation intentions about fraud moderates the effect of perceived task importance on auditors’ effective fraud risk responses, and auditors’ attention to monitoring for fraud cues mediates this effect. Given my expectations of mediated moderation, I test H5 and H6 using a two-group path analysis approach where I simultaneously test my predicted model for two groups, or for the two levels of my moderating independent variable – implementation intentions about fraud. This approach estimates separate regression coefficients for the two implementation intentions groups (control and implementation intentions), and considers the fit of my model to the data.
collectively (i.e., for both groups). As shown in Figure 1, for Link 1 I expect a positive relationship between perceived task importance and attention to monitoring for fraud cues, but only when auditors do not have implementation intentions about fraud. Thus, the model allows the coefficient on Link 1 to vary by implementation intentions groups. I then expect a positive relationship between attention to monitoring for fraud cues and auditors’ effective fraud risk responses (Link 2). Fraud experience is included in the model as a covariate (Link 3). The coefficients on Links 2 and 3 are constrained to be equal across groups given that I have no theoretical reason to expect differences in these effects across groups. For Hypothesis 5, I expect a positive indirect effect of perceived task importance on auditors’ effective fraud risk responses, absent any intervention (i.e., for the control group). For Hypothesis 6, I expect implementation intentions about fraud to moderate the indirect effect of perceived task importance on auditors’ effective fraud risk responses such that this indirect effect will be positive and significant for the control group (as tested in Hypothesis 5), but insignificant for the implementation intentions group. I expect the indirect effect to become insignificant in the implementation intentions group because when auditors have implementation intentions about fraud, perceived task importance no longer affects their attention to monitoring for fraud cues (because their attention is heightened regardless of the level of perceived task importance).

Several researchers advocate using path analysis for tests of mediated moderation instead of the simple regression approach in Baron and Kenny (1986) (e.g., Muller, Judd, and Yzerbyt 2005; Iacobucci, Saldanha, and Deng 2007; Iacobucci 2009; 2010). Multicollinearity, however, is a potential concern when interaction terms are included in the model (Rigdon, Schumacker, and Wothke 1998). To address this concern, Rigdon et al. (1998) and Muller et al. (2005) suggest using a two-group path analysis approach, particularly when the interacting variables are categorical. I adopt this approach for my hypothesis tests.
As shown in Figure 2, the model fits the data well.\(^{22}\) Consistent with Hypothesis 1, absent any intervention, when audit conditions prompt higher perceived task importance, this increases auditors’ attention to monitoring for fraud cues (Link 1 for control group: 1.306, \(p = 0.036\)). As expected, when auditors have implementation intentions about fraud, differences in perceived task importance no longer affect attention (Link 1 for implementation intentions group: -0.386, \(p = 0.321\)).\(^{23}\) Thus, the effect of perceived task importance on attention to monitoring for fraud cues is moderated by implementation intentions about fraud. As expected, attention to monitoring for fraud cues is positively related to auditors’ effective fraud risk responses (Link 2: 0.194, \(p < 0.001\)).

To test the indirect effects predicted in Hypotheses 5 and 6 I rely on the bias-corrected bootstrapping method (Preacher and Hayes 2008). Using this method, the 90% bias-corrected confidence interval for the indirect path from perceived task importance to effective fraud risk responses is positive and significant at the 0.05 level of significance for the control group (CI = 0.014, 0.598), supporting the positive indirect effect predicted in Hypothesis 5.\(^{24}\) For the implementation intentions group, as expected, this indirect path is not significant (CI = -0.400, 0.219).\(^{25}\) The indirect path becomes insignificant when auditors have implementation intentions about fraud because perceived task importance no longer affects their attention to monitoring for fraud cues (their attention is

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\(^{22}\) The Comparative Fit Index (CFI) is above the generally accepted minimum value of 0.95 (Hu and Bentler 1999) and the Root Mean Square Error of Approximation (RMSEA) is below the 0.05 rule of thumb indicating a good fit (MacCallum, Browne, and Sugawara 1996).

\(^{23}\) A Wald test provides additional support that the estimates on Link 1 are significantly different across the two groups (\(W_1 = 2.378, p = 0.062\)).

\(^{24}\) Since the 90% confidence interval is within a positive range (i.e., does not contain zero), and I have directional predictions, I can conclude the predicted positive indirect effect is significant at the \(p = 0.05\) level of significance.

\(^{25}\) A Wald test provides some additional support that the indirect effects are significantly different across the two groups (\(W_1 = 1.992, p = 0.079\)).
heightened regardless of the level of perceived task importance). These results support Hypothesis 6.
Based on psychology theory and the auditing context, I develop this model of auditors’ consideration of fraud during evidence evaluation. I expect that when audit conditions prompt auditors to perceive their task of considering fraud during evidence evaluation as more important, auditors will devote greater attention to monitoring for fraud cues, absent any intervention (i.e., in the control group). I also expect implementation intentions about fraud to increase auditors’ attention to monitoring for fraud cues, but only under lower rather than higher perceived task importance conditions. Finally, I expect that greater attention to monitoring for fraud cues results in higher likelihoods that auditors effectively respond to fraud risks. Taken together, I expect that perceived task importance will have a positive indirect effect on auditors’ effective fraud risk responses absent any intervention, but that this indirect effect will become insignificant when auditors are encouraged to have implementation intentions about fraud.
This figure shows a model depicting the indirect effects of perceived task importance on auditors’ effective fraud risk responses through auditors’ attention to monitoring for fraud cues for the control and implementation intentions groups. Following theoretical expectations, the coefficient on Link 1 is allowed to vary by group, but the model constrains the other coefficients to be equal across groups. As shown, the model fits the data well and the indirect effect of perceived task importance on effective fraud risk responses is significantly positive for the control group, but this indirect effect is insignificant for the implementation intentions group, as expected. All p-values are one-tailed, reflecting directional predictions, except for Link 3 that represents a covariate that was not predicted, so I report a two-tailed p-value on Link 3.
TABLE 1
Attention to Monitoring for Fraud Cues

Panel A: LS Means (SE) [n]

<table>
<thead>
<tr>
<th></th>
<th>Control</th>
<th>Implementation Intentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Perceived Task Importance</td>
<td>3.85 (0.48) [22]</td>
<td>4.88 (0.50) [20]</td>
</tr>
<tr>
<td>A</td>
<td>3.85 (0.48) [22]</td>
<td>4.88 (0.50) [20]</td>
</tr>
<tr>
<td>Higher Perceived Task Importance</td>
<td>4.92 (0.46) [24]</td>
<td>4.35 (0.47) [23]</td>
</tr>
<tr>
<td>C</td>
<td>4.92 (0.46) [24]</td>
<td>4.35 (0.47) [23]</td>
</tr>
<tr>
<td>D</td>
<td>4.92 (0.46) [24]</td>
<td>4.35 (0.47) [23]</td>
</tr>
</tbody>
</table>

Panel B: ANOVA Table

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Task Importance</td>
<td>1</td>
<td>1.63</td>
<td>0.33</td>
<td>0.569</td>
</tr>
<tr>
<td>Implementation Intentions</td>
<td>1</td>
<td>1.30</td>
<td>0.24</td>
<td>0.624</td>
</tr>
<tr>
<td>Perceived Task Importance x Implementation Intentions</td>
<td>1</td>
<td>14.06</td>
<td>2.82</td>
<td>0.097</td>
</tr>
<tr>
<td>Error</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Panel C: Planned Contrasts based on ANOVA

<table>
<thead>
<tr>
<th>Test</th>
<th>F_{1, 85}</th>
<th>one-tailed p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test of H1: A &lt; C</td>
<td>2.63</td>
<td>0.054</td>
</tr>
<tr>
<td>Test of H3: A &lt; (B + C + D) / 3</td>
<td>2.50</td>
<td>0.059</td>
</tr>
<tr>
<td>Partial effect: A &lt; B</td>
<td>2.23</td>
<td>0.069</td>
</tr>
<tr>
<td>Partial effect: A &lt; C (same as H1 test)</td>
<td>2.63</td>
<td>0.054</td>
</tr>
<tr>
<td>Partial effect: A &lt; D</td>
<td>0.58</td>
<td>0.226</td>
</tr>
</tbody>
</table>

Perceived task importance was manipulated at two levels: lower and higher task importance. Auditors in the higher (lower) task importance condition read that the audit team did (did not) identify a fraud risk during planning in the relevant audit area before they started working on the audit procedure.

Implementation intentions was manipulated at two levels: control and implementation intentions. Auditors in the implementation intentions condition received instructions prompting them to have implementation intentions about their goal of considering fraud during evidence evaluation.

Attention to monitoring for fraud cues is the total time (in minutes) that auditors spent examining and documenting the provided evidence for the two non-fraud open items. Differences in this measure represent additional attentional resources that auditors devoted to monitoring the environment for fraud cues while performing the audit procedure.
TABLE 2
Effective Fraud Risk Responses

Panel A: Frequency by condition

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>df</th>
<th>(\chi^2)</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Task Importance</td>
<td>1</td>
<td>1.71</td>
<td>0.191</td>
</tr>
<tr>
<td>Implementation Intentions</td>
<td>1</td>
<td>1.61</td>
<td>0.204</td>
</tr>
<tr>
<td>Perceived Task Importance x Implementation Intentions</td>
<td>1</td>
<td>1.22</td>
<td>0.269</td>
</tr>
<tr>
<td>Fraud Experience</td>
<td>1</td>
<td>5.46</td>
<td>0.020</td>
</tr>
</tbody>
</table>

Panel C: Planned Contrasts from Binary Logistic Regression

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>df</th>
<th>(\chi^2)</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test of H2: A &lt; C</td>
<td>1</td>
<td>2.63</td>
<td>0.052</td>
</tr>
<tr>
<td>Test of H4: A &lt; (B + C + D) / 3</td>
<td>1</td>
<td>3.58</td>
<td>0.029</td>
</tr>
<tr>
<td>Partial effect: A &lt; B</td>
<td>1</td>
<td>2.36</td>
<td>0.062</td>
</tr>
<tr>
<td>Partial effect: A &lt; C (same as H2 test)</td>
<td>1</td>
<td>2.63</td>
<td>0.052</td>
</tr>
<tr>
<td>Partial effect: A &lt; D</td>
<td>1</td>
<td>2.96</td>
<td>0.043</td>
</tr>
</tbody>
</table>

See Table 1 for descriptions of the perceived task importance and implementation intentions.

Effective Fraud Risk Responses is a coded binary variable based on whether or not auditors indicated in their written response that they both (a) recognized the seeded fraud cues and (b) decided to collect additional audit evidence that effectively targeted the seeded fraud risk. Fraud experience is auditors’ response (yes or no) to “Have you ever worked on an audit engagement when financial statement fraud (an intentional act that results in a material misstatement in the financial statements) was detected?”
CHAPTER 5

CONCLUSION

To provide high audit quality, auditors must remain alert for fraud while they are busy executing the planned audit procedures. If they encounter information relevant to fraud while working, then they must interrupt their work to respond to the associated fraud risk by acquiring additional evidence. In light of PCAOB inspections noting several deficiencies in auditors’ responses to fraud risks, the PCAOB recently suggested that a potential root cause for these deficiencies could be that auditors “may not devote sufficient attention to the performance of risk assessment procedures” (PCAOB 2015). My study confirms regulators’ concerns by demonstrating that auditors’ attention to monitoring for fraud cues affects whether they recognize and effectively respond to fraud risk information present in evidence. Relying on prospective memory theory, I predict and find that when audit conditions prompt auditors to perceive the task of considering fraud during evidence evaluation as less important, auditors devote fewer attentional resources to monitoring the audit evidence for cues indicating fraud risk. To improve auditors’ attention under these lower perceived task importance conditions, I design a theory-driven intervention that encourages auditors to have implementation intentions about their goal of considering fraud. I find that auditors with implementation intentions about fraud devote more attention to monitoring for fraud cues during evidence evaluation, but only when the audit conditions would otherwise cause them to perceive lower rather than higher task importance. These effects on attention flow through to
affect whether auditors respond effectively to fraud risks. Overall, these results show that auditors’ attention to fraud during evidence evaluation is an important factor affecting auditors’ responses to fraud risks.

My study makes several important contributions. First, I contribute to the audit literature by identifying and investigating a new factor affecting auditors’ judgments and decisions about fraud – auditors’ attention to fraud during evidence evaluation. I find that when audit conditions prompt auditors to devote less attention to broadly considering the evidence for fraud risk implications, they are less likely to recognize fraud cues and effectively respond to fraud risks. While the prior fraud literature focuses on the planning stage when auditors set aside specific time to give their full attention to considering fraud (e.g., the fraud brainstorming session), my study focuses on the evidence evaluation stage when auditors must execute the planned audit procedures while also trying to remain alert for fraud. Future research can continue to investigate the determinants and effects of auditors’ attention to fraud during evidence evaluation.

Second, I design a theory-driven intervention that uses implementation intentions, a concept from psychology, to increase auditors’ attention to monitoring for fraud cues. My study identifies a problem in auditors’ attention during evidence evaluation, but I also develop an intervention that helps increase this attention. Audit firms can use these findings to help them determine how implementation intentions about fraud can effectively and efficiently improve auditors’ fraud risk responses.

Finally, the intersection of the prospective memory and implementation intentions literatures is a relatively new and growing area in psychology. I contribute to this literature by providing new insights about the interactive effects of perceived task
importance and implementation intentions. Additionally, since prior studies used nonprofessional participants making simple judgments, I demonstrate that the multiprocess theory of prospective memory (McDaniel and Einstein 2000) holds for professional auditors making more complex judgments.
REFERENCES


APPENDIX A

Consent Form Given to Participants
Informed Consent to Participate in an Experimental Study

Title: Auditing Revenue

Investigators
Tina D. Carpenter        Ashley A. Austin
J.M. Tull School of Accounting        J.M. Tull School of Accounting
230 Brooks Hall        G-2 Brooks Hall
The University of Georgia        The University of Georgia
(706) 542-3619        (706) 542-3742

Purpose
You have been invited to participate in a research study of judgment and decision making. The purpose of the study is to increase our understanding of how auditors make judgments and decisions within the normal audit environment, including risk assessments made during planning in various audit areas, evaluations of audit evidence, interactions with clients, and performance of audit procedures. Our interest includes how auditors’ intentions affect their goal achievement. Provision of any information is completely voluntary.

Discomforts, Stresses, Risks, and Benefits
No psychological, social, legal, economic, or physical risks are expected if you choose to participate in this study. The main risk is loss of confidentiality, which we will minimize by collecting all experimental data according to standard confidentiality procedures. Taking part in the study is not expected to benefit you personally, but researchers will learn new things about decision making in accounting and auditing.

Procedures
This study involves a case study about auditing the revenue cycle. If you choose to participate, you will be asked to complete the case, which should take less than one hour. There are no costs associated with helping us with the study.

Confidentiality
Your name will not be associated with any of the responses you give today. The results of the research study may be published, but your name or any identifying information will not be used. In fact, the published results will be presented in summary form only. Internet communications are insecure and there is a limit to the confidentiality that can be guaranteed due to the technology itself. However, once the materials are received by the researcher, standard confidentiality procedures will be employed.

Right to Refuse Participation or Withdraw
You do not have to take part in this study. If you start the study and decide that you do not want to finish, you may do so at any time. Refusing to participate or withdrawing at any time will not result in penalty or loss of benefits to which you are otherwise entitled, nor will it affect your standing at work.

Further Questions
The researchers will answer any further questions about the research and can be reached via the contact information above. Additional questions or problems regarding your rights as a research participant should be addressed to The Chairperson, Institutional Review Board, University of Georgia, 629 Boyd GRSC, Athens, Georgia 30602-7411; Telephone (706) 542-3199; E-Mail Address IRB@uga.edu.

Statement of Consent
By proceeding to the next page, you are indicating that you understand the above information and you are agreeing to participate in the above described research project.
APPENDIX B

Experimental Materials
Screen 1

Thank you for agreeing to help with my study! I used to work at a Big Four firm, so I know how busy you are and I really appreciate your time today. You will work at your own pace to complete the study which should take about 45 minutes.

You will complete an audit case where you are responsible for completing the substantive audit procedures in the revenue cycle. As you proceed through the case, pay careful attention to the instructions on each screen so that you do not miss any information that is important for completing the case.

Your audit firm has made a commitment to support research studies like this one because they help firms improve their practices, so it is important that you try your best.

Thank you!

Ashley Austin
University of Georgia
Informed Consent to Participate in an Experimental Study
Title: Auditing Revenue

Investigators
Tina D. Carpenter  Ashley A. Austin
J.M. Tull School of Accounting  J.M. Tull School of Accounting
230 Brooks Hall  G-2 Brooks Hall
The University of Georgia  The University of Georgia
(706) 542-3619  (706) 542-3742

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Statement of Consent
By proceeding to the next page, you are indicating that you understand the above information and you are agreeing to participate in the above described research project.
Your assignment is to complete substantive audit procedures in the revenue cycle for the Calico Corporation audit engagement.

To do this, you will perform the following steps:

1. Read Background Information that includes:
   - Information on Calico Corporation
   - Revenues Audit Program for the Calico Engagement
   - Excerpts from the Accounting Standards on Lessor Revenue Recognition
   - REV-1 Audit Procedure Workpaper (incomplete)

2. Follow-up on the Open Items on the REV-1 Audit Procedure by:
   - Reading emails from the client and customers
   - Examining documents
   - Listening to the audit team’s inquiry with the client

3. Conclude on the REV-1 Audit Procedure

As you work, please read the information on each screen carefully because you will not be able to return to previous screens. **DO NOT** hit your browser back button during the task.
Background Information on Calico Corporation

CALICO CORPORATION

- Calico Corporation is a U.S. public company that manufactures, sells and leases document imaging products (multifunction printers, copiers, scanners, etc.) and services.

- Calico often enters into long-term bundled lease agreements in which customers pay a single negotiated annual fee in return for the equipment, service, and financing. Revenue must be allocated across each deliverable element and recognized at different points in time for the various elements.

BUSINESS RISKS

- **Significant competition**: While Calico has been known as a leading technological innovator, the company has recently faced significant product and price competition from its overseas rivals.

- **Fast-changing industry**: The process of developing new high technology products and solutions is inherently complex and uncertain, requiring accurate anticipation of customers’ changing needs and emerging technological trends.

OBSERVATIONS FROM PAST AUDITS

- **Earnings pressure**: During prior engagements, the audit team has noted the importance that Calico management places on achieving earnings targets, likely due to the company's analyst coverage and incentive compensation plans. The company has generally met or exceeded external (analysts') earnings targets and internal earnings targets over the last couple of years.

- **Prior departures from GAAP**: In the past, management has implemented policies that do not exactly follow the applicable accounting standards. Management defends their choices as more closely representing the complex economic transactions at Calico. The audit team has sometimes agreed with their choices (with appropriate disclosure to financial statement users) and has sometimes required policy changes.

Proceed to the next screen when ready.
Screen 5

(See APPENDIX C for Manipulations)
Screen 6

Before you proceed with your audit work, please answer:

Did the audit team identify a fraud risk during planning in the audit area that you will be working on?

- Yes
- No
Accounting Standards on Lessor Revenue Recognition

Procedure REV-1 that you will work on involves testing revenue recognition on new bundled lease agreements. Calico Corporation generates the majority of its revenue through bundled lease arrangements in which customers pay a single negotiated annual fee in return for the equipment, services, and financing. These leases qualify for sales-type lease treatment. “Sales-type” leases qualify as capital rather than operating leases.

Before you start work on procedure REV-1, make sure you are familiar with the applicable accounting standards for revenue recognition on sales-type lease agreements shown below.

Standards on Lessor Revenue Recognition

To assist with testing revenue recognition on bundled leases, here are excerpts from the applicable accounting standard, ASC 840 - Accounting for Leases.

Revenue recognition on new leases:

Sales-type lease accounting results in immediate recognition of equipment sales revenue in the quarter in which the equipment is delivered while revenues from financing and services are recognized over the term of the lease.

- Equipment sales revenue is calculated as the present value of the minimum lease payments, which takes into account the interest rate implicit in the lease, the lease term, and lease payment amounts.
- Revenues from financing are calculated using the interest rate implicit in the lease.
- Revenues from services are calculated using their normal selling price.

Renegotiated Lease Terms

If the lease terms of an existing lease are renegotiated, the standards require additional revenues realized from the renegotiation of existing leases to be recognized over the remaining life of the lease. Thus, if an existing lease is renegotiated with a longer lease term and/or greater lease payment amounts, the increased equipment sales revenue from this renegotiation is not recognized immediately like equipment sales revenue from new sales-type leases.
Screen 8

(See APPENDIX D for Manipulations)
REV-1 Audit Procedure

As shown on the revenues audit program, audit procedure REV-1 is currently incomplete. Your staff already completed most of the REV-1 audit procedure, but she had to roll-off the Calico engagement to work on a different client. Now you are responsible for finishing the open items and concluding on the procedure.

In the audit workpaper for procedure REV-1 below, your staff marked the work she already completed (see ✓ tickmarks). There are three open items that require your attention.

Read the REV-1 audit workpaper and your staff's notes below to understand the detailed procedures and the open items.

<table>
<thead>
<tr>
<th>ID</th>
<th>Procedure</th>
<th>Account(s) affected</th>
<th>Audit evidence obtained?</th>
</tr>
</thead>
</table>
| REV-1 | For a sample of new bundled lease agreements, agree lease contract terms in system detail file to signed lease agreements. | Equipment sales – leases  
Service, outsourcing and rentals  
Finance income | |

**NOTE:** The firm notes that audit procedures testing management’s allocation of revenue on bundled leases are performed at REV-2. The work performed here at REV-1 provides critical support for the REV-2 audit procedure by ensuring that the lease contract terms used in management’s allocation of revenue on bundled leases agree to original lease agreements.

**Procedures:**

1. Obtained a system detail file of the **Equipment sales—leases** revenue account which tied to the general ledger (Total: $10,059,239,461) and rolls up into the **Equipment sales** line item on the income statement.

   a. The audit team obtained a detailed listing of all Equipment sales—leases revenue transactions booked in the system from 6/1/14 through 5/31/15. Each transaction should represent the **immediate recognition of equipment sales revenue on a new lease** (i.e., a lease originating during the current fiscal year).
b. The detailed listing was at the individual lease level and included specific information about each lease that is used in the equipment sales revenue calculation (annual payment amount, lease term, lease start date, equipment type).

c. The audit team noted the total Equipment sales—leases revenue amount per the system detail file agreed to the general ledger within an immaterial amount.

2. Selected an appropriate sample size using the firm’s sampling guidance.

3. For the selected sample, obtained copies of the signed lease agreements from the client.

4. For all of the sample items, the audit team agreed the contract terms (lease number, annual payment amount, lease term, lease start date, equipment type) per the system detail file to the lease agreement (see detail below).

<table>
<thead>
<tr>
<th>Sample #</th>
<th>Lease Number</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A498566</td>
<td>Workstation 4200</td>
<td>$200,000</td>
<td>4 years</td>
<td>7/1/14</td>
</tr>
<tr>
<td>2</td>
<td>A498612</td>
<td>Workstation 4200</td>
<td>$210,000</td>
<td>5 years</td>
<td>12/1/14</td>
</tr>
<tr>
<td>3</td>
<td>A498701</td>
<td>Workstation 4200</td>
<td>$310,000</td>
<td>3 years</td>
<td>1/1/15</td>
</tr>
<tr>
<td>4</td>
<td>A498727</td>
<td>Workstation 4200</td>
<td>$245,000</td>
<td>3 years</td>
<td>10/1/14</td>
</tr>
<tr>
<td>5</td>
<td>C202285</td>
<td>ColorJet 55</td>
<td>$150,000</td>
<td>4 years</td>
<td>9/1/14</td>
</tr>
<tr>
<td>6</td>
<td>C202373</td>
<td>ColorJet 55</td>
<td>$90,000</td>
<td>5 years</td>
<td>10/1/14</td>
</tr>
<tr>
<td>7</td>
<td>C202489</td>
<td>ColorJet 60</td>
<td>$160,000</td>
<td>4 years</td>
<td>12/1/14</td>
</tr>
<tr>
<td>8</td>
<td>C202492</td>
<td>ColorJet 60</td>
<td>$160,000</td>
<td>4 years</td>
<td>1/1/15</td>
</tr>
<tr>
<td>9</td>
<td>C202507</td>
<td>ColorJet 60</td>
<td>$150,000</td>
<td>5 years</td>
<td>3/1/15</td>
</tr>
<tr>
<td>10</td>
<td>C202511</td>
<td>ColorJet 60</td>
<td>$120,000</td>
<td>4 years</td>
<td>4/1/15</td>
</tr>
<tr>
<td>11</td>
<td>C202535</td>
<td>ColorJet 60</td>
<td>$165,000</td>
<td>4 years</td>
<td>5/1/15</td>
</tr>
<tr>
<td>12</td>
<td>F365519</td>
<td>DocuGenius 600X</td>
<td>$200,000</td>
<td>4 years</td>
<td>7/1/14</td>
</tr>
<tr>
<td>13</td>
<td>F365533</td>
<td>DocuGenius 600X</td>
<td>$230,000</td>
<td>3 years</td>
<td>9/1/14</td>
</tr>
<tr>
<td>14</td>
<td>F365590</td>
<td>DocuGenius 600X</td>
<td>$250,000</td>
<td>3 years</td>
<td>11/1/14</td>
</tr>
<tr>
<td>15</td>
<td>F365645</td>
<td>DocuGenius 700X</td>
<td>$300,000</td>
<td>3 years</td>
<td>1/1/15</td>
</tr>
<tr>
<td>16</td>
<td>F365653</td>
<td>DocuGenius 700X</td>
<td>$280,000</td>
<td>3 years</td>
<td>2/1/15</td>
</tr>
<tr>
<td>17</td>
<td>F365703</td>
<td>DocuGenius 700X</td>
<td>$300,000</td>
<td>4 years</td>
<td>5/1/15</td>
</tr>
<tr>
<td>18</td>
<td>P564006</td>
<td>PrintPlex 9</td>
<td>$215,000</td>
<td>4 years</td>
<td>8/1/14</td>
</tr>
<tr>
<td>19</td>
<td>P564092</td>
<td>PrintPlex 9</td>
<td>$230,000</td>
<td>4 years</td>
<td>10/1/14</td>
</tr>
<tr>
<td>20</td>
<td>P564157</td>
<td>PrintPlex 9</td>
<td>$240,000</td>
<td>3 years</td>
<td>3/1/15</td>
</tr>
<tr>
<td>21</td>
<td>P564256</td>
<td>PrintPlex 10</td>
<td>$280,000</td>
<td>4 years</td>
<td>5/1/15</td>
</tr>
<tr>
<td>22</td>
<td>W207473</td>
<td>WorkWeb 850</td>
<td>$85,000</td>
<td>5 years</td>
<td>10/1/14</td>
</tr>
<tr>
<td>23</td>
<td>W207666</td>
<td>WorkWeb 850</td>
<td>$105,000</td>
<td>4 years</td>
<td>11/1/14</td>
</tr>
<tr>
<td>24</td>
<td>W20823</td>
<td>WorkWeb 860</td>
<td>$140,000</td>
<td>3 years</td>
<td>2/1/15</td>
</tr>
<tr>
<td>25</td>
<td>W220887</td>
<td>WorkWeb 860</td>
<td>$110,000</td>
<td>4 years</td>
<td>5/1/15</td>
</tr>
</tbody>
</table>

✓ Audit procedures performed without exception
Conclusion for Audit Procedure REV-1:
Has an audit misstatement been identified?  □ Yes  □ No

Sign Off Status:

<table>
<thead>
<tr>
<th>Sign-off History</th>
<th>Audit Team Member Name</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared by (senior):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviewed by (manager):</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**STAFF'S NOTES ON OPEN ITEMS**

<table>
<thead>
<tr>
<th>Sample #</th>
<th>Lease Number</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
<th>AUDIT STAFF'S NOTES ABOUT OPEN ITEMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>C202285</td>
<td>ColorJet 55</td>
<td>$150,000</td>
<td>4 years</td>
<td>9/1/14</td>
<td>Open Item - The lease agreement initially received from the client was for lease #C202285 rather than #C202285. Requested correct lease agreement from client.</td>
</tr>
<tr>
<td>12</td>
<td>F365519</td>
<td>DocuGenius 600X</td>
<td>$200,000</td>
<td>4 years</td>
<td>7/1/14</td>
<td>Open Item - The lease agreement initially received from the client was not signed by both parties. Requested final version of lease agreement that was signed by both parties. Also contacted customer to inquire about existence of lease and contract terms.</td>
</tr>
<tr>
<td>19</td>
<td>P564092</td>
<td>PrintPlex 9</td>
<td>$230,000</td>
<td>4 years</td>
<td>10/1/14</td>
<td>Open Item - The lease agreement initially received from the client lists a lower annual payment and shorter lease term than what is listed in the system detail file. Setup meeting with the Controller to follow-up on this discrepancy.</td>
</tr>
</tbody>
</table>

Proceed to the next screen when ready.
Screen 10

Follow-up on REV-1 Open Items

Your task is to follow-up on each of the three open items on audit procedure REV-1 and then conclude on the audit procedure.

Proceed to the next screen to being working on the open items.
Screen 11

Note: Screens 11, 12, and 13 were presented in random order to participants.

To follow-up on the open item shown above, read this email received from the Calico Corporation Leases Manager, Barbara Collins:

Audit Team,

We apologize for accidentally sending the wrong lease agreement in response to your initial request (I think our intern mixed-up the lease numbers when he was locating the files to send to you). I've attached the fully executed lease agreement for the correct lease (Lease C202285). Please let me know if you need anything else to complete your testwork.

Thanks,
Barbara Collins
Leases Manager

Click the radio button below to view the summary page from the fully executed lease agreement that was attached to the email.

View summary page from the full lease agreement received from the Leases Manager
SUMMARY OF LEASE TERMS

This page provides a summary of all the important lease terms within the full lease agreement.

Lease Number: C202285
Lessee: Tower Bridge, Inc.
Lessor: Calico Corporation

Current Lease Terms:
- Lease Term: 4 years
- Annual Payment: $150,000
- Equipment Type: ColorJet 55
- Effective Date: 9/1/14

Nancy Simpson 8/21/14
Nancy Simpson
Chief Financial Officer
Tower Bridge, Inc.

Gregory Williams 8/21/14
Gregory Williams
Chief Financial Officer
Calico Corporation

In the box below, please document:

- The audit evidence obtained
- The current status of the open issue
- Any other important notes

>>
Follow-up on REV-1 Open Items

<table>
<thead>
<tr>
<th>Sample #</th>
<th>Lease Number</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>P564092</td>
<td>PrintPlex 9</td>
<td>$230,000</td>
<td>4 years</td>
<td>10/1/14</td>
</tr>
</tbody>
</table>

**AUDIT STAFF’S NOTES ABOUT OPEN ITEMS**

Open Item - The lease agreement initially received from the client lists a lower annual payment and shorter lease term than what is listed in the system detail file. Setup meeting with the Controller to follow-up on this discrepancy.

Regarding the open item above, your staff noted this specific discrepancy:

<table>
<thead>
<tr>
<th>Per system detail</th>
<th>Lease #</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P564092</td>
<td>PrintPlex 9</td>
<td>$230,000</td>
<td>4 years</td>
<td>10/1/14</td>
</tr>
<tr>
<td>Per lease agreement</td>
<td>P564092</td>
<td>PrintPlex 9</td>
<td><strong>$150,000</strong></td>
<td>2 years</td>
<td>10/1/13</td>
</tr>
</tbody>
</table>

- **62**
(Screen 12 continued)

To follow-up on the discrepancy, you met with the **Calico Corporation Controller, Jack Miller**.

Press play to watch the video of the meeting.

![Interview with Controller](image)

After the meeting, you contacted the Controller to receive the updated lease agreement he referenced during the meeting, but he kept giving you reasons why he couldn't send it to you.

You then contacted the **Calico Corporation Leases Manager, Barbara Collins**, and obtained the updated lease agreement. Click the radio button below to view the summary page from the fully executed lease agreement that you received from the Leases Manager.

---

NOTE: The video can be accessed at this link:

https://www.youtube.com/watch?v=MVCVQWjCCZE
**SUMMARY OF LEASE TERMS**

This page provides a summary of all of the important lease terms within the full lease agreement.

**Lease Number:** P564092  
**Lessee:** XYZ Publishing Company  
**Lessor:** Calico Corporation

**Current Lease Terms:**
- **Lease Term:** 4 years  
- **Annual Payment:** $230,000  
- **Equipment Type:** PrintPlex 9  
- **Effective Date:** 10/1/14

![Signature]

David Thompson  
Chief Financial Officer  
XYZ Publishing Company

![Signature]

Gregory Williams  
Chief Financial Officer  
Calico Corporation

**NOTE:** After the lease started on 10/1/13, Calico Corporation requested a renegotiation of the existing lease contract terms. The original lease terms are below:

**Old Lease Terms:**
- **Lease Term:** 2 years  
- **Annual Payment:** $150,000  
- **Equipment Type:** PrintPlex 9  
- **Lease Start Date:** 10/1/13
As additional evidence, you directly contacted the customer about this lease agreement. The customer's email response is below:

Audit Team,

Yes, we currently have a lease agreement with Calico Corporation for PrintPlex 9 equipment (Lease P564092). We attached the lease agreement so you can see the current lease terms.

Please note that the current lease terms reflect renegotiations that the Calico Controller requested on an existing lease that had already started in Fall 2013. Renegotiations were completed in Fall 2014, resulting in the longer lease term and greater lease payments shown on the attached lease agreement.

Thanks,

David Thompson
Chief Financial Officer
XYZ Publishing Company

Click the radio button below to view the summary page from the fully executed lease agreement that you received from the customer:

- View summary page from the full lease agreement received from the customer
SUMMARY OF LEASE TERMS

This page provides a summary of all the important lease terms within the full lease agreement.

Lease Number: P564092
Lessee: XYZ Publishing Company
Lessor: Calico Corporation

Current Lease Terms:
Lease Term: 4 years
Annual Payment: $230,000
Equipment Type: PrintPlex 9
Effective Date: 10/1/14

David Thompson 4/30/14
David Thompson
Chief Financial Officer
XYZ Publishing Company

Greg Williams 8/30/14
Gregory Williams
Chief Financial Officer
Calico Corporation

NOTE: After the lease started on 10/1/13, Calico Corporation requested a renegotiation of the existing lease contract terms. The original lease terms are below:

Old Lease Terms:
Lease Term: 2 years
Annual Payment: $150,000
Equipment Type: PrintPlex 9
Lease Start Date: 10/1/13
(Screen 12 continued)

In the box below, please document:

- The audit evidence obtained
- The current status of the open issue
- Any other important notes
### Follow-up on REV-1 Open Items

<table>
<thead>
<tr>
<th>Sample #</th>
<th>Lease Number</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
<th>Audit Staff's Notes about Open Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>F365519</td>
<td>DocoGenius 600X</td>
<td>$200,000</td>
<td>4 years</td>
<td>7/1/14</td>
<td>Open Item - The lease agreement initially received from the client was not signed by both parties. Requested final version of lease agreement that was signed by both parties. Also contacted customer to inquire about existence of lease and contract terms.</td>
</tr>
</tbody>
</table>

To follow-up on the open item shown above, read this email received from the Calico Corporation Leases Manager, Barbara Collins:

Audit Team,

Thank you for bringing to our attention that we didn't send you the final version of this lease agreement in response to your initial request. It appears the version we sent you was the copy that had been signed by us, but not the customer yet. While leases are going through the signing process we end up with several iterations saved in our electronic files. From time to time, the earlier drafts are not deleted promptly. I've attached the fully executed lease agreement that is signed by both parties (Lease F365519). Let us know if there's anything else we can do to help.

Thanks,

Barbara Collins
Leases Manager

[Click the radio button below to view the summary page from the fully executed lease agreement that was attached to the email.]
View summary page from the full lease agreement received from the Leases Manager

SUMMARY OF LEASE TERMS

This page provides a summary of all of the important lease terms within the full lease agreement.

Lease Number: F365519
Lessee: Duke & Randolph LLP
Lessor: Calico Corporation

Current Lease Terms:
Lease Term: 4 years
Annual Payment: $200,000
Equipment Type: DocuGenius 600X
Effective Date: 7/1/14

Bill McMillan 6/24/14
William F. McMillan
Chief Financial Officer
Duke & Randolph LLP

Greg Williams 6/20/14
Gregory Williams
Chief Financial Officer
Calico Corporation

As extra support, your staff also inquired with the customer on this lease agreement to verify its existence and confirm the contract terms. Here is the customer's email response:

Audit Team,

Yes, we currently have a lease with Calico Corporation for DocuGenius 600X equipment. We attached our copy of the fully executed lease agreement.

Thanks,
Duke and Randolph LLP

Click the radio button below to view the summary page from the fully executed lease agreement that was attached to the email.

View summary page from the full lease agreement received from the customer
(Screen 13 continued)

SUMMARY OF LEASE TERMS

This page provides a summary of all of the important lease terms within the full lease agreement.

Lease Number: F365519
Lessee: Duke & Randolph LLP
Lessor: Calico Corporation

Current Lease Terms:
Lease Term: 4 years
Annual Payment: $200,000
Equipment Type: DocuGenius 600X
Effective Date: 7/1/14

Bill McMillan 6/30/14
William F. McMillan
Chief Financial Officer
Duke & Randolph LLP

Gregory Williams 6/30/14
Chief Financial Officer
Calico Corporation

In the box below, please document:

- The audit evidence obtained
- The current status of the open issue
- Any other important notes
Screen 14

Note: If the participant clicked the radio button for “Conclude and sign-off” then Screen 14.1 appeared within Screen 14 (see next page). If the participant clicked the radio button for “Perform more work” and then clicked the arrows at the bottom to continue, then Screen 15 appeared.

![Next Action](image)

As the senior on the Calico engagement that is responsible for completing the substantive audit procedures in the revenue cycle, **what would you like to do next?**

- **Conclude and sign-off.** You want to add the final tickmarks (✓) to all open items on the REV-1 workpaper, noting no exceptions. **Substantive audit procedures in the revenue cycle are complete.** No misstatements were identified.

- **Perform more work.** You want to perform more work related to Procedure REV-1 and/or you want to perform additional procedures within the revenue cycle. **Substantive audit procedures in the revenue cycle are not complete.**
Screen 14.1

Note: If the participant clicked the radio button for “Conclude and sign-off” then Screen 14.1 appeared (additional content appeared on the same Screen 14). Here the participant had the chance to confirm that they were ready to conclude. If they were not ready, they could still click the “Perform more work” radio button instead and proceed. If they were ready to conclude, they confirmed by writing “Audit senior” and then continued by clicking arrows at the bottom of the page. The next screen for these participants was Screen 16.

As the senior on the Callco engagement that is responsible for completing the substantive audit procedures in the revenue cycle, what would you like to do next?

- **Conclude and sign-off.** You want to add the final tickmarks (✓) to all open items on the REV-1 workpaper, noting no exceptions. Substantive audit procedures in the revenue cycle are complete. No misstatements were identified.

- **Perform more work.** You want to perform more work related to Procedure REV-1 and/or you want to perform additional procedures within the revenue cycle. Substantive audit procedures in the revenue cycle are not complete.

You selected "Conclude and sign-off. You want to add the final tickmarks (✓) to all open items on the REV-1 workpaper, noting no exceptions. Substantive audit procedures in the revenue cycle are complete. No misstatements were identified.”

An excerpt from workpaper REV-1 is shown below:

Confirm that you are ready to conclude and sign-off on this workpaper by writing "Audit Senior" in the space below. If you are not ready, you may change your selection above.
Note: Only participants who selected “Perform more work” at Screen 14 completed this screen. When finished with this screen, they skipped Screen 16 and went straight to Screen 17.

Next Steps
You decided to perform more work related to Procedure REV-1 and/or you want to perform additional procedures within the revenue cycle.

Please take time to answer the following questions (if you want to reference your notes and/or information from prior screens, see options at the bottom of this screen).

1. At this point, what issues in the revenue cycle are you concerned with?

2. What evidence would you want to collect to resolve the issues?
3. What audit procedures would you perform to collect the evidence discussed above?

NOTE: If you want to reference your notes and/or information from prior screens, select the item below and the information will appear on this page:

- Background Information on Calico Corporation
- Revenues Audit Program
- Accounting Standards on Lessor Revenue Recognition
- Audit Procedure REV-1 workpaper with staff's notes on Open Items
- Your Notes on the Open Items
- Follow-up Information on all Open Items
Screen 16

Note: Only participants who selected “Conclude and sign off” at Screen 14/14.1 completed this screen. When finished with this screen, they continued to Screen 17.

**Conclusion**

You decided to conclude and sign-off on procedure REV-1, noting no exceptions. Please answer a few questions about this decision below.

1. How did you determine that the open items noted by your staff on the REV-1 audit procedure were resolved?

2. Are there any additional notes that you would've added to the REV-1 workpaper documentation when you were signing off and concluding?
Based on the information you have considered so far, **what is your judgment of the following risks relevant to this client?**

**Client Business Risk**

Risk that the entity’s business objectives will not be attained as a result of the external and internal factors, pressures, and forces brought to bear on the entity and, ultimately, the risk associated with the entity’s survival and profitability.

---

**Fraud Risk – Revenue Cycle**

Risk that financial statement fraud (an intentional act that results in a material misstatement in the financial statements) is present in the accounts related to revenue.
Please answer the following:

<table>
<thead>
<tr>
<th>Not At All Worried</th>
<th>Very Worried</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

How worried are you that revenue is materially misstated due to error?

How worried are you that revenue is materially misstated due to fraud?
GENERAL QUESTIONS

You are almost finished! Please answer some general questions (should take about 5 minutes).

Please write down the information that was important to your decisions about the open items on procedure REV-1.
While working on audit procedure REV-1, how important was it to you that you considered fraud?

Importance of considering fraud
While working on audit procedure REV-1, what percentage of your total attention was devoted to completing the REV-1 audit procedure steps versus considering fraud? (responses must total to 100%)

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>10</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
<th>60</th>
<th>70</th>
<th>80</th>
<th>90</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attention to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>completing the</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>REV-1 audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>procedure steps</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>0</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Attention to</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>considering fraud</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
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<td></td>
<td>0</td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td></td>
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<td>0</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>
Almost done! You should be finished in less than 5 minutes.

BEFORE you started working on audit procedure REV-1, please describe your plan for when and how you would consider fraud while working on audit procedure REV-1 (if you did not have a plan write "None").
How strongly do you agree with the following statements about the task you performed today:

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Neither Agree or Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5</td>
<td>-4</td>
<td>-3</td>
</tr>
<tr>
<td></td>
<td>-2</td>
<td>-1</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

-5

If I saw information that indicated fraud risk while performing the audit procedure, I responded by acquiring additional evidence.

The revenues audit program was designed such that performing the listed audit procedures would detect fraud related to revenue recognition on bundled leases.

-5
Earlier your task was to follow-up on the open items on the REV-1 audit procedure in order to complete substantive audit procedures in the revenue cycle.

One of the open items you worked on earlier is repeated below. Please re-examine the information, but now your only task is to consider fraud.

### Follow-up on REV-1 Open Items

<table>
<thead>
<tr>
<th>Sample #</th>
<th>Lease Number</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>P564092</td>
<td>PrintPlex 9</td>
<td>$230,000</td>
<td>4 years</td>
<td>10/1/14</td>
</tr>
</tbody>
</table>

**AUDIT STAFF’S NOTES ABOUT OPEN ITEMS**

Open Item - The lease agreement initially received from the client lists a lower annual payment and shorter lease term than what is listed in the system detail file. Setup meeting with the Controller to follow-up on this discrepancy.

Regarding the open item above, your staff noted this specific discrepancy:

<table>
<thead>
<tr>
<th>Lease #</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>P564092</td>
<td>PrintPlex 9</td>
<td>$230,000</td>
<td>4 years</td>
<td>10/1/14</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lease #</th>
<th>Equipment Type</th>
<th>Annual Payment</th>
<th>Lease Term</th>
<th>Lease Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>P564092</td>
<td>PrintPlex 9</td>
<td>$150,000</td>
<td>2 years</td>
<td>10/1/13</td>
</tr>
</tbody>
</table>
(Screen 24 continued)

To follow-up on the discrepancy, you met with the **Calico Corporation Controller, Jack Miller**.

Press play to watch the video of the meeting:

![Interview with Controller](image)

After the meeting, you contacted the Controller to receive the updated lease agreement he referenced during the meeting, but he kept giving you reasons why he couldn’t send it to you.

You then contacted the **Calico Corporation Leases Manager, Barbara Collins**, and obtained the updated lease agreement. Click the radio button below to view the summary page from the fully executed lease agreement that you received from the Leases Manager:

Note: This is the same video as the video shown on Screen 12.
### SUMMARY OF LEASE TERMS

This page provides a summary of all of the important lease terms within the full lease agreement.

**Lease Number:** P564092  
**Lessee:** XYZ Publishing Company  
**Lessor:** Calico Corporation

**Current Lease Terms:**  
- **Lease Term:** 4 years  
- **Annual Payment:** $230,000  
- **Equipment Type:** PrintPlex 9  
- **Effective Date:** 10/1/14

*David Thompson*  
David Thompson  
Chief Financial Officer  
XYZ Publishing Company

*Gregory Williams*  
Gregory Williams  
Chief Financial Officer  
Calico Corporation

**NOTE:** After the lease started on 10/1/13, Calico Corporation requested a renegotiation of the existing lease contract terms. The original lease terms are below:

**Old Lease Terms:**  
- **Lease Term:** 2 years  
- **Annual Payment:** $150,000  
- **Equipment Type:** PrintPlex 9  
- **Lease Start Date:** 10/1/13
As additional evidence, you directly contacted the customer about this lease agreement. The customer's email response is below:

Audit Team,

Yes, we currently have a lease agreement with Calico Corporation for PrintPlex 9 equipment (Lease P564092). We attached the lease agreement so you can see the current lease terms.

Please note that the current lease terms reflect renegotiations that the Calico Controller requested on an existing lease that had already started in Fall 2013. Renegotiations were completed in Fall 2014, resulting in the longer lease term and greater lease payments shown on the attached lease agreement.

Thanks,

David Thompson
Chief Financial Officer
XYZ Publishing Company

Click the radio button below to view the summary page from the fully executed lease agreement that you received from the customer.
In the box below, please document:

- Your consideration of fraud related to this open item
According to accounting standards (that you read earlier), if the lease terms of an existing lease are renegotiated, additional revenues realized from the renegotiation of the existing lease are recognized:

- Immediately, in the quarter that the renegotiated terms begin.
- Over the remaining life of the lease.
- I don't know/remember.
Last page of questions!

What is your current position or rank in the firm?
- Staff
- Senior
- Manager
- Partner
- Other—please explain

How many months of audit experience do you have?

Audit experience (**in months**) 

In what industry(ies) are most of your clients?

How hard did you work on the task today?

Not At All
Hard
0 1 2 3 4 5 6 7 8 9 10

Have you ever worked on an audit engagement when financial statement fraud (an intentional act that results in a material misstatement in the financial statements) was detected?
- Yes
- No

Have you ever taken a fraud or forensic accounting course at a college/university?
- Yes
- No
(Screen 26 continued)

On how many audits have you worked on audit procedures related to leases?

What certifications have you earned? (check all that apply)

- CPA
- CMA
- CFA
- Other:

>>
You have reached the end of the study. Thank you for participating!
APPENDIX C

Documentation of Perceived Task Importance Manipulations
Screen 5a – The manipulation of Perceived Task Importance occurred on Screen 5 (within the blue text shown below). Auditors in the Higher condition viewed Screen 5a (with “did” rather than “did not” language). Auditors in the Lower condition viewed Screen 5b shown on subsequent pages.

Revenues Audit Program

Regarding the substantive audit procedures in the revenue cycle, most procedures have already been completed and reviewed by other members of your audit team. As shown in the revenues audit program below, there is one procedure (procedure REV-1) which is incomplete and it is your responsibility to complete this procedure.

The procedure you will work on involves testing revenue recognition on new bundled lease arrangements. The audit team did identify a fraud risk during planning in this audit area.
(Screen 5a continued)

**Substantive Analytical Procedures**

<table>
<thead>
<tr>
<th>ID</th>
<th>Procedure</th>
<th>Account(s) affected</th>
<th>Audit evidence obtained?</th>
</tr>
</thead>
<tbody>
<tr>
<td>REV-A</td>
<td>Finance income (for existing leases) analytical</td>
<td>Finance income</td>
<td>YES</td>
</tr>
<tr>
<td>REV-B</td>
<td>Service, outsourcing and rentals (for existing leases) analytical</td>
<td>Service, outsourcing and rentals</td>
<td>YES</td>
</tr>
</tbody>
</table>

**Tests of Details**

<table>
<thead>
<tr>
<th>ID</th>
<th>Procedure</th>
<th>Account(s) affected</th>
<th>Audit evidence obtained?</th>
</tr>
</thead>
<tbody>
<tr>
<td>REV-1</td>
<td>For a sample of new bundled lease agreements, agree lease contract terms in system detail file to signed lease agreements.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td></td>
</tr>
<tr>
<td>REV-2</td>
<td>Interview management about the process of allocating revenue on bundled leases and for a sample of new leases recalculate the revenue allocation calculation.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td>YES</td>
</tr>
<tr>
<td>REV-3</td>
<td>For a sample of new leases, review lease contract terms to confirm sales-type (capital) lease treatment of lease arrangements.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td>YES</td>
</tr>
<tr>
<td>REV-4</td>
<td>For a sample of sales transactions occurring around year-end, ensure proper cutoff of sales.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td>YES</td>
</tr>
<tr>
<td>REV-5</td>
<td>For a sample of equipment returns and lease cancellations, ensure proper accounting treatment of transaction.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td>YES</td>
</tr>
</tbody>
</table>
Procedures Performed in Related Accounts

<table>
<thead>
<tr>
<th>ID</th>
<th>Procedure</th>
<th>Account</th>
<th>Audit evidence obtained?</th>
</tr>
</thead>
<tbody>
<tr>
<td>C-1</td>
<td>Send bank account confirmations, follow-up on responses, and reperform bank account reconciliations.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td>YES</td>
</tr>
<tr>
<td>AR-1</td>
<td>Send A/R balance confirmations, follow-up on responses, and evaluate the adequacy of the allowance for doubtful accounts.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td>YES</td>
</tr>
<tr>
<td>JE-1</td>
<td>Review journal entries for unusual or suspicious transactions.</td>
<td>Equipment sales – leases, Service, outsourcing and rentals, Finance income</td>
<td>YES</td>
</tr>
</tbody>
</table>

Overall Materiality:
Based on an analysis of Calico’s current and historical performance, overall materiality was set at $10 million during planning.

Assertions addressed by the above testwork:

- **Existence/Occurrence**: Sales and related events that have been recorded occurred. Accounts receivable exist.
- **Completeness**: All sales, receivables, and related transactions that should have been recorded are recorded.
- **Valuation**: Sales and receivable amounts and the related data have been recorded at the proper amounts in the correct accounting period, with appropriate allowances for returns and bad debts.
- **Rights and Obligations**: The company has rights to the sales and receivables.

Proceed to the next screen when ready.
Screen 5b – Auditors in the Lower condition viewed the same screen as Screen 5a except for the manipulation shown here in the blue text (“did not” rather than “did”).

Note: For potential control group purposes, I also collected data on a third condition which did not include any of the sentence shown in blue below. This data has not been analyzed completely, and is not currently included in my dissertation.
APPENDIX D

Documentation of Implementation Intentions Manipulations
Screen 8 – The manipulation of Implementation Intentions occurred on Screen 8. Auditors in the Implementation Intentions condition viewed this screen. Auditors in the Control condition did not view this screen (they went directly from Screen 7 to Screen 9).

"When I see information that indicates fraud risk while performing the audit procedure, I will respond by acquiring additional evidence."

Follow the instructions above as you work. Please retype the instructions word-for-word in the box below: