Auditor Consideration of Tone-at-the-top in Audit Planning:
An Experimental Investigation

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Abstract

This paper reports the results of an experiment that investigates the manner in which auditors integrate the client’s tone-at-the-top—an important element of the internal control system—with other information during audit planning. Four factors relevant to planning an audit are examined: (1) the client’s tone-at-the-top, (2) the results of tests of controls, (3) the results of planning-phase analytical procedures, and (4) stability of the client company. Results of the experiment reveal a significant three-way interaction among the client’s tone-at-the-top, the auditor’s planning-phase analytical procedures, and tests of controls.

This study extends prior audit planning research by examining the main and interactive effects of tone-at-the-top on audit planning decisions. This study also extends prior research by including a greater number of constructs relevant to audit planning decisions, allowing investigation of the interactive relationships among the constructs, as well as the generality of prior results in a more complex context that enables examination of previously unexplored interactions.

Key Words: Tone-at-the-top, control environment, audit planning, fraud risk, auditor judgment and decision making.

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