Fraud-risk Factors and Audit Planning:  
The Effects of Auditor Rank

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ABSTRACT

This research examines the association between external auditors’ position in their firm (rank) and their consideration of fraud risk factors when planning an audit. Included in this examination is a study of the relationship between rank and judgmental agreement among auditors concerning the effects of risk factors on the extent of substantive testing.

Results reveal that, when planning the extent of testing, audit managers place greater relative importance on tone-at-the-top than do senior auditors, who give it greater importance than auditing students. Results also reveal a significant relationship between auditor rank and inter-auditor judgmental agreement in audit planning in the early stages of auditors’ careers. In contrast, however, rank above the senior level is associated with decreased levels of judgmental agreement when planning the audit. An analysis of auditor rank and sources of judgmental agreement among auditors at different ranks in their firm reveals significant relationships between rank and factor-weighting agreement among auditors, but does not find significant relationships between rank and judgmental consistency or agreement on the appropriate degree of configural factor processing. Finally, results reveal that pair-wise mean absolute differences between participants’ judgments are a more sensitive measure of inter-auditor judgmental agreement than the traditional measure of consensus—the product-moment correlation coefficient.

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

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