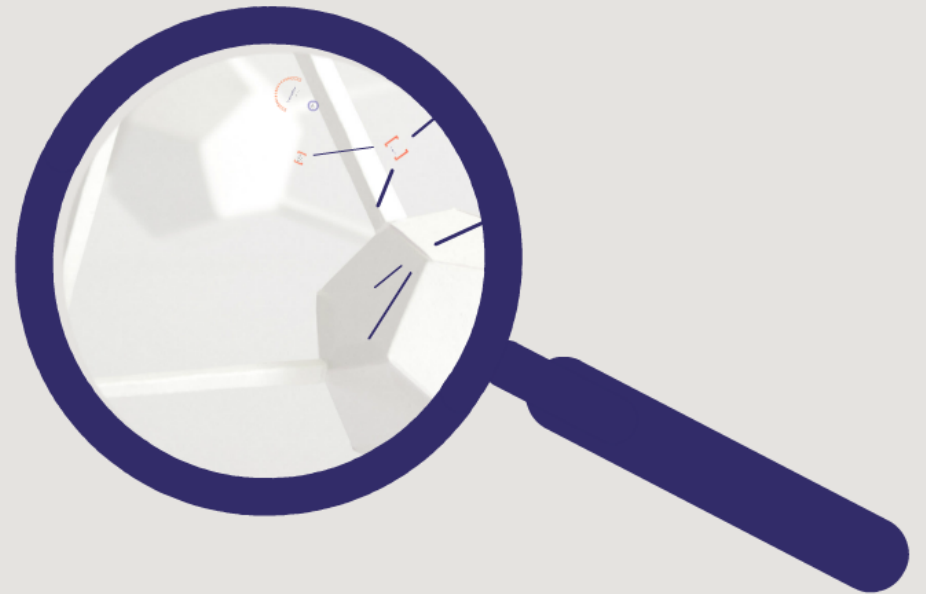


S. J. Lawson, Inc.-A Performance Measurement Behavioral Audit



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Research Framework

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Introduction

- Data: working paper
- 60 clients of a U.S Big 4 auditing firm
- To examine the relationship between management integrity (MI) and risk of material misstatement (RMM), audit planning, audit outcomes.

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Three hypothesis

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Whether the auditor's assessment of management integrity (MI) influences

- 1. auditor assessed risk of material misstatement(RMM)
- 2. audit planning: the persuasiveness, timing, and extent of planned audit procedures
- 3. misstatement detection
- **Independent variable** → MI
- **Dependent variable** → RMM, persuasiveness, timing, extent, misstatement detection.

Importance of MI

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- MI is a key determinant of the client's risk structure, providing the foundation of internal control.
- The auditors evaluate MI to assess source credibility relating to client-supplied evidence.
- The requirement in Sarbanes-Oxley Act will make more information available in making planning decisions.

Hypotheses

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- Audit risk model
 - Assessment of management integrity to RMM
 - persuasiveness, timing, extent of audit procedures.
 - Impact of management integrity on the reliability
 - of management-supplied evidence.

Effect on audit planning beyond RMM

- Whether the management integrity assessment is associated with the magnitude of audit differences discovered

ent Integrity and Risk Assessments

de (reporting, controls, external audit)

ation

al control (“management integrity at the top”)

r management integrity, lower inherent risk (IR) & control risk(CR)

gement integrity provides a measure of attitude toward fraud risk.

auditor’ assessment of management integrity is inversely related to the RMM assessr

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Audit Planning

Audit risk (AR) = RMM * Detection risk (DR)

RMM = IR * CR

- Given an assessed RMM and a target AR, the auditor plans to achieve the necessary DR.
- Higher RMM, require more persuasive evidence and direct observation.
- RMM_↑, needs more evidence to reduce DR, to reach a specified level of AR

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