

# Reporting Motives & Leniency of Internal control evaluation

## The role of organisational identification & Auditor type



### Research approach

**method:** experiment\*  
**country:** United States  
**year:** 2020?  
**participants:** 41 In-house-Internal Auditors (IIA), Outsourced Internal Auditors (OIA), 45 External Auditors (EA)



### underlying theory - Organizational Identity Theory (OID)



An individual's OID:  
*strengthens* when they observe altruistic actions  
*weakens* when they observe self-serving actions

degree to which an *individual's* OID is affected by behavior  
 → depends on whether those actors are primary OID conduit  
 manner in which a stronger *OID translates to action*  
 → depends on individual's protective orientation\* towards organization



\*two orientations of primary protective concern:

- *affiliative*: focus on sustained relationship with the organization
- *organizational-welfare*: focus on overall welfare of the organization

### assignment

testing entity level control

- control deficiency
- significant deficiency
- material weakness

### Experiment



### manipulation

management motive relating to aggressive accrual estimate

- bonus motive
- debt covenant motive

## Findings

### Impact of management motives on decision?

external auditor EA



internal auditor IA\*

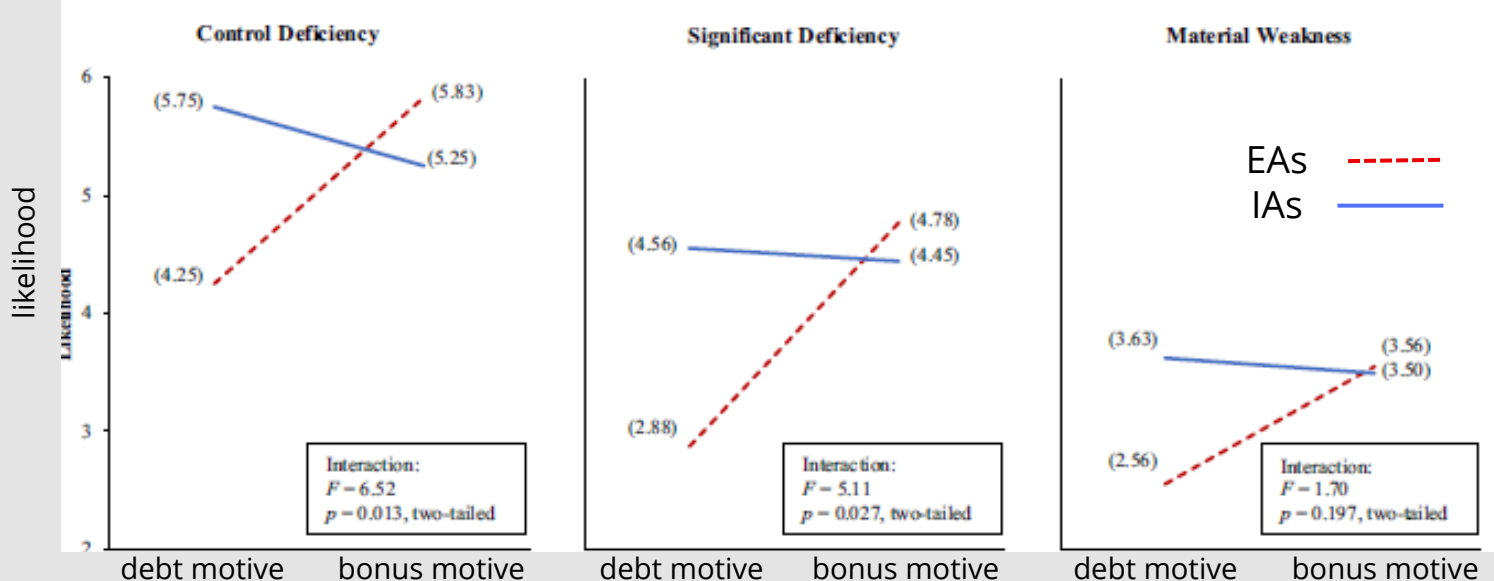


\*outsourced internal auditors tend to be more lenient in their evaluations compared to in-house internal auditors.

EA: management is primary conduit for OID & affiliative orientation

IA: various actors are primary conduit OID & organizational welfare orientation

### EAs' and IAs' Mean Internal Control Evaluations, by Evaluation Severity (Means)



### Key insight

Greater distance from the organization (external auditors vs. in-house internal auditors) does not necessarily result in a more critical evaluation of reporting choices

