



An exploratory study of the pressures and ethical dilemmas in the audit conflict

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ABSTRACT

The present study analyzes the pressures perceived by auditors in their professional activity. Furthermore, it explores the ethical acceptability of questionable practices and the way auditors resolve the conflicts of interest with which they are confronted. This paper also studies the influence of the size of the audit firm and the experience of the auditors on the perception of pressures, their ethical judgment, and the way of resolving conflicts of interest.

Data were collected through a questionnaire administered to auditors from small and medium-sized audit firms in Spain, members of REA (Registro de Economistas Auditores).

This study contributes to the international academic literature on auditing behavior, as it provides new empirical data on the pressures perceived, not only those from the audit client, which have been extensively studied in the academic literature, but in addition, it highlights pressures arising from the audit firm itself that could also have a detrimental effect on the audit quality. It also contributes to the understanding of the effect of these pressures on the behavior of auditors.

The results of this study are also of particular relevance for the legal and professional Spanish auditing regulators as they face, at this moment, the challenge of developing a set of ethical standards that should improve the ethical judgment and behavior of accounting professionals.

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Un estudio exploratorio de las presiones y dilemas éticos en el conflicto de auditoría

RESUMEN

El presente estudio analiza las presiones percibidas por los auditores en el ejercicio de su actividad profesional. Así mismo, explora la aceptabilidad ética de ciertas prácticas cuestionables y la forma en que los auditores resuelven los conflictos de interés a los que se enfrentan. Este trabajo estudia además la influencia del tamaño de la firma de auditoría y de experiencia de los auditores en la percepción de presiones, su juicio ético y la forma de resolver los conflictos de interés.

Para llevar a cabo este objetivo, se ha realizado una encuesta a los miembros del Registro de Economistas Auditores (REA).

Este estudio contribuye a la literatura académica internacional sobre el comportamiento en la auditoría, ya que proporciona nuevos datos empíricos sobre las presiones percibidas, no sólo las provenientes del cliente de auditoría, que han sido ampliamente estudiadas por la literatura, sino que además, pone de relieve las presiones procedentes de la propia firma de auditoría, y su efecto perjudicial para la calidad de la auditoría. Además, avanza en la comprensión del efecto de estas presiones en el comportamiento final de auditor.

Los resultados de este trabajo son de especial relevancia para la regulación legal y profesional de la auditoría en España que se enfrenta al reto de desarrollar unas normas de ética que guíen el comportamiento de los auditores.

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1. Introduction

Audit firms are subject to the market rules, and therefore, their profitability depends on the relationship between audit fees and the cost of performing the audit engagement (IAASB, 2014). In pursuit of profitability, audit firms will try to minimize the costs of the services provided. However, in order to fulfill their attest function, auditors must perform high quality audits, which could increase the cost of the audit engagement.

Some authors argue that audit firms' culture has changed in last years, so that, increasingly, they prioritize business goals (Wyatt, 2004), although firms, still, formally display the idea of the public interest in the exercise of their activity (Davenport & Dellaportas, 2009).

The audit market has become increasingly competitive in the last decades and, even more so in the wake of the current economic crisis. This environment has led to more power on the part of audit clients and, therefore, the pressures they put on audit firms have been sharpened. These pressures are evidenced both in the negotiation of the audit engagement fee as well as in clients' power to influence auditors' judgment regarding certain accounting practices (Boyd, 2004).

The decisions of the audit firm on how to manage this conflict between cost and quality (McNair, 1991) or, what some authors have called a conflict between commercial and professional goals (Gendron, Suddaby, & Lam, 2006; Hanlon, 1994; Picard, Durocher, & Gendron, 2014; Sweeney & McGarry, 2011) will affect the audit quality. Audit quality is defined as the market-assessed probability that an auditor will detect errors and irregularities (technical skills) and report them (independence) (DeAngelo, 1981). In this sense, the knowledge and experience of the auditors of the engagement, the time devoted to the engagement and the auditors' ethical values and attitudes would be shown both on the detection of errors and irregularities, and on the disclosure of them, once detected (IAASB, 2014) and, accordingly, will directly affect the audit quality. Therefore, in this context, auditors will suffer pressures from the audit client and from the audit firm as well.

The behavioral accounting literature has expressed concern about how pressures can affect professional accountants' attitudes and performance (DeZoort & Lord, 1997; Lord & DeZoort, 2001), however, it has focused mainly in the pressures from audit clients. There is a need for further research on the pressures from within the audit firm that arise due to the inherent conflict between cost and quality.

The existence of pressures will involve a reduction in the quality of the audit services, to the extent that the auditor succumbs to these pressures. In this regard, the behavior of auditors will depend on the ethical acceptability of the situations that they are confronted with, and also, on the reference groups and factors that auditors consider when resolving the conflicts of interest faced.

The aim of this study is to explore the specific pressures faced by Spanish auditors both from the audit firm and from the audit client, to analyze the auditor's ethical judgment of several questionable practices as well as to determine the way auditors resolve conflict of interests. In addition, this paper studies the influence of the size of the audit firm and auditors' experience on the issues under study.

This paper contributes to the very scarce literature on the effect of pressures on the final behavior of auditors. Further, it progresses in the analysis of the influence that ethical judgment and the way of resolving ethical conflicts have in auditors' capacity to withstand client's and audit firm's pressures. Moreover, by providing evidence of the actual pressures that Spanish auditors face this paper extends prior research regarding the organizational context in which the audit work takes place.

The study contributes also to the knowledge of the particularities of small and medium-sized audit firms, which, despite

the important volume they represent in Europe, have been so far neglected in the audit literature (Azkue, 2012; Serrano Madrid, Ruiz Barbadillo, & Martínez Conesa, 2013).

In addition, most studies in this field have been conducted in Anglo-Saxon environments, where the profession has a long tradition, and with the legal system based on the common law or non legalistic approach. Therefore, understanding the pressures and how auditors resolve the conflicts of interest in a socio-politically different context to the commonly studied countries, contributes to the academic literature on the behavior of auditors and its influence on the auditing quality in the global context of financial markets.

Further, the results of the study are fully timely and relevant for the audit regulation in Spain, and particularly, for the current development of the ethical standards. These standards should take into consideration the pressures faced by professionals in their activity and the factors taken into account for their resolution in order to issue useful and contextually adapted ethical standards.

The paper is structured as follows: after this introduction, we present the theoretical framework and the research questions focusing on the pressures faced by auditors, their ethical judgment and the conflict of interest's resolution. We then introduce the methodology used in the research. In Section 4, we present the results obtained and finally, the conclusions, limitations and future research lines are put forward.

2. Literature review and research questions

2.1. Pressures perceived by auditors in their professional activity

The conflict between commercial and professional goals will affect the auditor employee at the firm, as he or she will suffer pressures that will affect the search for errors and irregularities, as well as the pressures related to the disclosure of the same, once discovered.

In order to cope with the increasing price competition, audit firms will seek to minimize the costs of the audit engagement to obtain the maximum profitability of the service. An audit budget reduction will more likely imply that fewer resources are devoted to the search for errors and irregularities, which ultimately would threaten the audit quality.

One of the most effective cost control in audit engagement is through the control of time (Otley & Pierce, 1996). However, too tight time budgets cause undesirable behaviors (Alderman & Deitrick, 1982; Lightner, Leisenring, & Winters, 1983; Otley & Pierce, 1996; Pierce & Sweeney, 2004; Svanberg & Öhman, 2013). If the auditor employee believes that the budgeted hours by his or her firm are not sufficient to achieve the desired result, he or she can behave meeting the budget or working more hours than those budgeted. In the first case, the quality will be difficult to achieve, as the auditor may not be able to obtain the necessary evidence, or do not properly document the work done or do not find, due to lack of time, important information on the audited company. If the auditor chooses the second option, this is, to spend more hours than those budgeted, he or she can report the actual hours or understate the hours worked. Prior studies show that underreporting of time is a common practice among auditors, however, this practice leads to unintended consequences such as misleading staff evaluations, lost revenue for the audit firm, unrealistic future budgets and audit quality reduction acts on future audits (Otley & Pierce, 1996; Svanberg & Öhman, 2013; Sweeney & Pierce, 2006).

Another alternative for the audit firms to reduce the audit cost is to select less experienced personnel for the engagement team. This might have as a consequence a less competent engagement team and, therefore, will pose a serious threat for audit quality (DeZoort & Lord, 1997). If the audit team lacks the necessary technical

competence, the likelihood that errors and irregularities are detected will be reduced.

Once the errors and irregularities have been detected, the auditor could suffer pressures from the client to not reveal the same in the audit report. These pressures may affect the auditor's judgment, leading the auditors to look for the evidence that supports the preferred alternative of the company (Hatfield, Jackson, & Vandervelde, 2011; Nelson, 2006).

In addition, auditors may also suffer pressures from superiors to change conclusions/opinions in order to satisfy client's desires. DeZoort and Lord (1997) state that subordinate auditors are subject to obedience pressures, which refer to the pressures to submit to the directions of authority.

Taking into account the current audit work environment we wonder whether auditors in Spanish small and medium sized firms perceive the existence of pressures both from the audit firm itself and from the client. Accordingly, we present the following research question:

RQ1: Do Spanish auditors perceive the existence of pressures from the firm as well as from the audit client?

Academic literature suggests that pressures on auditors are likely to vary according to the size of the firm (DeZoort & Lord, 1997; Herrbach, 2001; Pierce & Sweeney, 2010).

In this regard, previous studies show (Calderon & Ofobike, 2008; Hudaib & Cooke, 2005; López Iturriaga & Zarza Herranz, 2010) that clients of the non Big-four audit firms change more often the audit firm, which increases competition in this market segment. This higher competition hinders client retention for audit firms, which ultimately can lead to increased client pressures, not only to not reveal the errors and irregularities discovered during the engagement, but also, pressures to reduce audit prices. Moreover, as the number of clients in small audit firms is lower, the economic dependence these firm have on the client is higher (DeAngelo, 1981). Therefore, in this situation clients' opportunity to exert pressure on small audit firms might be greater. Regarding the pressures derived from audit budgets, Paino, Smith, and Ismail (2012) revealed that audit budget related pressures were even more problematic for the smaller firms. The economies of scale that occur in the large firms enable these firms to operate at lower costs (Carrera, Gutiérrez, & Carmona, 2005; García Benau, Ruiz Barbadillo, & Vico Martínez, 2000). Conversely, other studies put forward that the competitive culture of the bigger firms puts auditors in these firms under greater pressure. In this regard, McNamara and Liyanarachchi (2008) found that auditors in non Big-four firms perceived time budgets as easier to attain than auditors in the biggest firms.

The same path of thinking could be applied for the differences among small and medium sized audit firms, consequently, the study analyzes if the perception of pressures differs between small and medium sized audit firms of our sample.

RQ2: How does audit firm's size affect auditors' perception of pressures?

As auditors advance their professional career, the frequency as well as the source of the pressures they face might be different. In the audit career, the length of experience and the position in the firm are closely related, as their promotion depends largely in their seniority. Accordingly, to review the academic literature regarding the evolution in the auditors' perception we will use the length of experience and the rank in the firm interchangeably.

Shapeero, Koh, and Killough (2003) suggest that the pressures are lower as auditors gain experience. These authors attribute this decrease in the pressures to the fact that, with experience, auditors become more confident in their job. Auditors at lower ranks might be under greater pressure to prove their competence and skills

for performing quality audits (McNamara & Liyanarachchi, 2008). Therefore, subordinate auditors, such as assistant and seniors, will presumably face more pressures relating to time constraint and also related to the competence necessary to perform the audit job. Moreover, several studies report that seniors are the audit personnel subject to the greatest time pressure (Raghunathan, 1991) and that the perception of the time budget pressure lessens as auditors advance in the firm (Alderman & Deitrick, 1982; Cook & Kelley, 1988).

Also, within the audit firm the pressures from superiors to modify the opinion might be very powerful for auditors in lower positions due to the hierarchical structure of the firms and the system of evaluation and promotion of individuals.

However, the differences among the more and the less experienced auditors relating to client pressure cannot be anticipated. Some empirical studies have found that the pressure to support the client preference when assessing accounting practices is higher at lower ranked auditors as they are more influenced by the potential for additional business opportunities than higher ranked auditors (Moreno & Bhattacharjee, 2003). However, findings in other studies (Koch, Weber, & Wüstemann, 2012) show that clients can exert more pressure on auditors in higher ranks. The compensation and evaluation of these high rank auditors are more linked to the fee they generate and therefore are more sensitive to client retention incentives.

Therefore, to test how the perception of pressures differs with the experience we present the following research question.

RQ3: How does length of experience affect auditors' perception of pressures?

2.2. Ethical judgment of questionable practices

Moral psychology seeks to find an answer to the ethical thinking and actions of individuals. This approach to morality is focused on judgment, on studying problem-solving methods and on how the system of values of each individual dictates the way in which he/she solves day-to-day conflicts.

Moral psychologist Rest (1986) developed the Four Component Model which tries to explain the elements of ethical action. He concluded that ethical action is the product of these psychological processes: moral sensitivity (recognition); moral judgment or reasoning; moral motivation; and moral character.

Moral judgment refers to the ethical judgments individuals make about the courses of action identified previously. According to this ethical decision model the ethical evaluation of the action influences the behavior. Prior research on ethical decision making in accounting has found that the ethical evaluation of questionable practices impacts the intention to engage in these practices as well as their commission (Lightner et al., 1983; Sweeney, Arnold, & Pierce, 2010).

Taken into account Rest's model of ethical action, we suggest that the ethical judgment of questionable behavior could reveal the possibility of acting in such a way. Therefore, additional research on the ethical acceptability of certain practices auditors might engage in is necessary to prevent dysfunctional behavior. Our fourth research question is stated as follows.

RQ4: Which is the ethical judgment of the auditors regarding certain questionable practices?

Prior studies have revealed the influence of auditors' firm size on the ethical decision process. The different work environment of large and small firms might impact the moral reasoning abilities of auditors (Eynon, Hill, & Stevens, 1997; Sweeney et al., 2010). As Eynon et al. (1997) suggested auditors in small firms may have less organizational support mechanism than those in larger firms

when ethical dilemmas arise. In this respect, these authors reported lower levels of moral reasoning abilities for auditors in smaller firms than for auditor in Big 4 firms. [Pierce and Sweeney \(2010\)](#) found that auditors from medium-sized firms had lower ethical judgment than those working at smaller firms and Big 4 audit firms. These authors suggested that medium-sized firms face the same pressures derived from cost versus quality conflict that Big 4 audit firms do. However, as they are much less in the public eye than Big 4 firms they pay less explicit attention to the ethical decision making ([Pierce & Sweeney, 2010](#)). [Sweeney et al. \(2010\)](#), overall, did not observe that the size of the audit firm influenced individuals' ethical evaluation and neither did other previous studies ([Clarke, Hill, & Stevens, 1996](#); [Sweeney & Roberts, 1997](#)). As prior studies seem inconclusive we present the following research question.

RQ5: How does audit firm's size affect auditors' ethical judgment?

One of the most important findings of research into moral psychology is that chronological age and formal education are forerunners of moral development ([Rest, 1986](#)).

According to the Theory of Cognitive Moral Development by [Kohlberg \(1984\)](#), age is a variable that may significantly influence the development of levels of moral reasoning among individuals. Numerous papers have taken this theory as a jumping-off point for analysing the influence of age and/or experience on ethical decision making. However, the findings are inconclusive. In a review of the literature conducted by [O'Fallon and Butterfield \(2005\)](#) the authors conclude that the length of work experience is positively related to ethical decision-making. However, specifically in the accounting literature, [Jones, Massey, and Thorne \(2003\)](#) report mixed results regarding this relationship. [Lin and Zhang \(2011\)](#) show, in analyses of the ethical sensitivity of accountants, that as the work experience of the subjects studied increases, so does their standard of ethical behavior. Also [Sierra Molina and Orta Pérez \(2005\)](#) found a positive relationship between auditors experience and ethical values. By contrast, other studies on auditors and financial managers have concluded that experience ([Ponemon, 1992](#)) has a significant but negative impact on the level of ethical reasoning and also that older auditors showed lower levels of moral reasoning than younger ones ([Eynon et al., 1997](#)). Finally, other studies did not report any significant correlation between experience and the ethical judgment's of accountants ([Shafer, Morris, & Ketchand, 2001](#); [Sweeney et al., 2010](#)). In order to advance in our research question and due to the fact that in the audit context, age is highly related to experience, we present our research question as follows:

RQ6: How does length of experience affect auditors' ethical judgment?

2.3. Resolution of conflicts of interest

The response auditors give to the pressures received may depend on which their reference groups are in ethical conflict resolution. The way to resolve this conflict between commercial and professional goals will mark the culture of the organization, will determine the ethical level of the firm and will be transmitted, either explicitly or implicitly, to all members in the organization ([Davenport & Dellaportas, 2009](#); [Sweeney & McGarry, 2011](#)).

The importance of the way of resolving conflicts of interest in auditor's context has been highlighted by the Code of Ethics for professional accountants in its new edition ([IESBA, 2013](#)). The International Ethics Standard Board of Accountants (IESBA) has recently revised the Code of Ethics in order to establish more specific requirements and provide more comprehensive guidance to support professional accountants in identifying, evaluating, and managing conflicts of interest.

If the auditor is highly socialized in the audit firm, when facing ethical conflicts, he will try to make the decisions coincide as much as possible with the policies of the firm, i.e. with the behavior expected by the firm. As [Lord and DeZoort \(2001, p. 216\)](#) state: "Even if auditors clearly understand their professional responsibilities, they may choose to act unethically to ensure a positive performance evaluation or to simply be viewed as a team player".

Conversely, if the auditor is more committed to the professional values, he or she will more likely withstand the pressures from the firm or from the client, maintaining the professional values above the business goals of the audit firm.

Therefore, in this context, we can presume that the way auditors resolve their conflicts in their professional activity may significantly affect the quality of the audit.

In a context characterized by legalistic approach, the way of resolving ethical conflicts might be strongly influenced by legal requirements governing the matter. This is the case of Spain where the ethical guidelines in auditing have been largely stated in the legal regulation and limited mainly to the provisions and incompatibilities regulated by law to preserve the auditor independence. Moreover, with the goal of increasing audit quality and recovering investors' confidence, the audit reforms initiated under the Spanish Financial Act 44/2002 focused on the strengthening of the audit supervisory and disciplinary system ([De las Heras, Cañibano, & Moreira, 2012](#)). Although in Spain there are two professional bodies that represent the audit profession² and that provide some ethical guidance, the Spanish professional organizations have never acquired the autonomy and power that accounting organizations in other countries hold ([Gonzalo Angulo, 1995](#)). This situation has led, as a consequence, to a lack of professional leadership and, also, to the absence of firmly established professional code of conduct to guide the actions of the Spanish auditors.

The regulation of the ethical aspects of auditing in Spain is now in a change process. In this regard, the Spanish Audit Law, approved by Legislative Royal Decree 1/2011, of 1 July, introduces, for the first time, among the legal sources that must be considered in performing the audit, the ethical standards. The development of these standards is still in progress. In addition, the adoption of the International Auditing Standards by the Spanish auditing legislation has also widened the ethical guidance.

Although, as we have stated, a new perspective with respect to ethical regulation in Spain is beginning, by the time the study was carried out, these new guidelines were not adopted. With this in mind, we present our next research question in the following terms:

RQ 7: What factors do Spanish auditors take into account in the resolution of their conflicts of interest? Is the importance granted to the different factors affected by audit firm's size or length of experience?

Finally, this paper explores if the perception of pressures on the part of the auditors is affected by auditors' ethical judgment and the way of resolving conflicts of interests. This analysis provides insights into the factors that may increase the capacity of auditors to withstand pressures in the audit conflict. In this regard, we present the last research question as follows:

² By the time the questionnaire was distributed in October 2012 there were three professional organizations; Instituto de Censores Jurados de Cuentas de España (ICJCE), Registro de Economistas Auditores del Consejo General de Colegios de Economistas de España (REA) and Consejo Superior de Colegios Oficiales Titulados Mercantiles de España (REGA). In 2013, as a result of the unification of the professional bodies REA and REGA, REA+REGA Auditores del Consejo General de Economistas was created. Accordingly, there are now two professional organizations that represent Spanish auditors.

RQ8: Which is the influence of ethical judgment and the way of resolving the conflicts of interest on auditors' perception of pressures?

3. Methodology

3.1. Sample and data collection

In order to give response to the research questions stated above, we used a survey as the research methodology. A survey was distributed in October 2012 among the Spanish auditors members of one of the professional body REA (Registro de Economistas Auditores). This professional organization is comprised mainly by small and medium-sized audit firms which are a considerable segment of the audit market in Spain (98% of the Spanish audit firms are in this market segment, and represent over a thirty percent of the total turnover, ICAC, 2012).

The participation in the study was voluntary and respondents were assured that the information would be used solely for the purpose of this study and that this data collection process ensured the anonymity.

The questionnaire was sent to the auditors twice. In the first request, 117 responses were received and in the second request 83 additional responses were received. 74 questionnaires were eliminated from the final sample due to a missing response. Therefore, the sample size for the present study was reduced to 126.

In order to test for a non-response bias, we compared the data of the respondents who answered in the first request with the data of those who responded to the survey in the second one. Late respondents are considered as a surrogate of non-respondents. No statistically significant differences were found between the responses of early and late respondents. Therefore, no problems of non-response bias were found.

3.2. Questionnaire

A questionnaire was developed by the authors in order to explore the pressures faced by auditors, gather the ethical acceptability of certain practices and analyze the way auditors solve the conflicts of interest they face when performing their professional activity. The measures used in this questionnaire draw on instruments employed in the previous literature on behavioral accounting and ethics in auditing (e.g. DeZoort & Lord, 1997; Otley & Pierce, 1996; Sweeney et al., 2010).

Before distributing the questionnaire among auditors, a pilot test was carried out in a medium-sized audit firm and the same did not reveal any comprehension difficulties.

3.3. Data analysis

In order to test for the dimensionality of the scales employed in the questionnaire principal component factor analyses were conducted. The differences regarding the size of the audit firm and the length of experience were tested using univariate tests (one-way ANOVA tests and Chi-square tests). Finally, to analyze the relationship between the variables under study multiple and logistic regressions were conducted.

4. Results

4.1. Demographic characteristics

Demographic information about the respondents is summarized in Table 1. The audit firm size has been divided into three categories. The first category is comprised by sole practitioners. The second

Table 1
Demographic data.

	No.	%
<i>Practicing auditor</i>		
Yes	110	87%
No	13	10%
Undisclosed	3	3%
<i>Firm size</i>		
Sole practitioner	29	23%
Small firm	62	49%
Medium-sized firm	18	14%
Not practicing	12	10%
Undisclosed	5	4%
<i>Experience as auditor</i>		
Up to 10 years	22	17%
More than 10 years	89	71%
Not practicing	12	10%
Undisclosed	3	2%
<i>Rank in the firm</i>		
Partner	77	61%
Other	29	23%
Not practicing	12	10%
Undisclosed	8	6%
Total sample	126	

category refers to small firms, where firms with up to five partners were considered. Finally firms with more than five partners but that are not the Big-four firms are categorized as medium-sized firms. Most of the respondents are practicing auditors belonging primarily to small firms (49%). The rest of the sample is composed by sole practitioners (23%) and, to a lesser extent, by auditors who belong to medium-sized audit firms (14%). 61% of the sample are partners and their experience in auditing is over 10 years, in most cases (71%).

4.2. Pressures perceived by auditors in their professional activity

The first research question analyses the perception of several pressures by the auditors. To this end respondents were asked about the frequency of several pressures, usually shown in the literature about auditing context. The frequency was introduced as a five-point Likert scale, where 1 is never and 5 is almost always. Table 2 shows the nature and frequency of the pressures perceived as well as the mean score in each of the pressures. The responses were then ranked according to the mean from highest to lowest.

The results reveal that, in general, the mean frequency with which auditors perceive any of these pressures is less than three. Therefore, the results show that they do not perceive the pressures very often. Nevertheless, the results suggest that, in general, the auditors in the sample recognize that they receive every pressure in a lesser or greater degree.

The pressure most clearly felt among auditors is the one received from the client to modify its conclusions/opinions/report. In this case, the majority of the respondents (62%) perceived these pressures with some frequency (sometimes, often or nearly always). Then, the second most frequently perceived pressure is to perform the audit engagement in less time than what is required to carry out a quality work, followed by the pressure to under-report time. Both of these pressures are related to the conflict between the commercial and professional goals described above. This result seems to support the thesis defended by different authors (Davenport & Dellaportas, 2009; Lord & DeZoort, 2001) on the tendency of firms, in recent years, to prioritize business objectives to the detriment of professional goals.

Next, the pressures from their superiors to change their conclusions/opinions are ranked in fourth place, which reveals that this pressure is not very often felt. This could reflect the non existence of this type of pressures or the lack of its perception in the Spanish

Table 2

Frequency and mean of the pressures perceived in the exercise of their activity.

	Never	Rarely	Sometimes	Often	Nearly always	Mean
1. Pressures from the client to change your conclusions/opinions/audit report	18%	20%	50%	10%	2%	2.59
2. Pressures to perform the audit work in less time than you would need to carry out a work with enough quality	44%	17%	25%	11%	3%	2.12
3. Pressures to under reporting of time	64%	20%	8%	4%	4%	1.65
4. Pressures from superiors to change your conclusions/opinions	65%	16%	12%	4%	3%	1.62
5. Pressures to perform an audit job without having the necessary competence	79%	9%	9%	2%	1%	1.35

context. If this is the case, the possible explanation could be found in the characteristics of the sample where most of them are partners, but also the cultural characteristics of Spanish context. Spain is characterized in Hofstede's (1980) Countries Cultural Index by a high power distance, which explains the acceptability of superiors' opinion as a common practice.

Finally, with less than 1.5 mean, the pressure to perform an audit work without having the necessary competence to carry it out, is found.

4.3. Influence of audit firm's size and length of experience on auditors' perception of pressures

The frequency with which auditors perceive these pressures may be conditioned by the type of firm and the experience of the auditors. Thus, in order to give answer to research questions 2 and 3, we compared the perception of pressures by the firm size of the respondents and by their length of experience. The incidence of the pressures considering them as a whole was measured by the combined responses of the five pressures listed in Table 2. The Cronbach's alpha score for this variable is 0.82, therefore indicating a high degree of reliability. Factor analysis confirmed that this variable was comprised of only one factor.

For the additional analyses presented below 12 individuals were not considered due to the fact that they were not auditing practitioners by the time the responses were collected.

One-way ANOVA tests were carried out to analyze if the differences regarding size and experience were statistically significant. Results are shown in Table 3.

ANOVA results show that the responses to the perception of pressures are statistically different among the auditors in the different firms. Tukey's pairwise comparison was used to determine which firm categories are statistically different from each other. The result of the test (Table 3) show that auditors in medium-sized audit firms present a significantly higher ($p < 0.05$) perception of the pressures compared to the auditors in small firms and the sole practitioners. Although, previous studies (DeAngelo, 1981; Paine et al., 2012) revealed that auditors in no Big-four firms perceived greater pressures than auditors in the Big-four firms, when comparing medium and small firms this study suggests that the auditors in medium-sized firms (the biggest in our sample) are the ones that perceive the pressures to a greater extent.

Further, results show (Table 3) statistical differences on the perception of pressures among the more and the less experienced auditors. The mean scores for both categories show that auditors with less experience in auditing perceive the existence of pressures to a greater extent.

Additionally, in order to obtain more conclusive results we have considered the pressures that arise within the company and the pressures from the client separately. The variable *Pressures from the firm* has been obtained from combining the responses of the frequency with which the auditors have perceived (i) Pressures

to perform the audit work in less time than you would need to carry out a work with enough quality, (ii) Pressures from superiors to change your conclusions/opinions, (iii) Pressures to perform an audit job without having the necessary competence and (iv) Pressures to underreport time. Cronbach's alpha for this variable is 0.84. To test the differences between groups regarding the variable *Pressures from the client*, a Chi-square test was conducted. The frequency with which the auditors have perceived Pressures from the client to change your conclusions/opinions/audit report, measured in a five-point scale, was reduced to two categories. Individuals who responded that they perceive the pressures never or rarely (one or two) were compared to those who responded they perceive the pressures sometimes, often or nearly always (three, four or five for each pressure).

ANOVA results for the differences in the perception of *Pressures from the firm* and the Chi-square tests for differences in the perception of *Pressures from the client* are presented in Table 4.

ANOVA results show that the responses to the perception of *Pressures from the firm* are statistically different among the auditors in the different firms. The result of the Tukey's test show that auditors in medium-sized audit firms present a significantly higher ($p < 0.05$) perception of the pressures compared to the auditors in small firms and the sole practitioners. The results of the present study are in line with other studies that highlight the cost versus quality pressures that arise in medium sized audit firms (Pierce & Sweeney, 2010). Pierce and Sweeney (2010) found that auditors from medium-sized firms perceived the highest pressure to engage in unethical behavior. These authors attributed this result to the fact that medium-sized audit firms may lack the support structures of Big 4 for decision-making processes, and may also lack the individual attention that characterizes small firms.

Further, results show (Table 4) statistical differences on the perception of *Pressures from the firm* between the more and the less experienced auditors, being the auditors with less experience the ones that perceive the existence of pressures to a greater extent.

Regarding *Pressures from the client*, results from Table 3 reveal that the auditors in medium-sized audit firms feel the pressures more often and this difference is statistically different at the 0.1 level. Unlike other studies (Koch et al., 2012; Moreno & Bhattacharjee, 2003) no statistical differences were found in the perception of pressures from clients to change the auditor's conclusions according to their experience in auditing.

4.4. Ethical judgment of questionable practices

The second part of the questionnaire refers to the acceptability, from an ethical point of view, of some questionable practices. Respondents had to indicate the extent to which they would regard nine questionable practices as ethical on a five-point Likert scale, where 1 is unethical and 5 is ethical.

Table 5 shows the responses obtained and the mean in each of the practices, ranked from lowest to highest.

Table 3
Mean responses and ANOVA results for Pressures.

	Firm size				Length of experience		
	Sole practitioner (n = 29) Mean	Small firm (n = 62) Mean	Medium-sized firm (n = 18) Mean	F-stat (p-value)	1–10 years (n = 22) Mean	More than 10 years (n = 89) Mean	F-stat (p-value)
Pressures	1.60	1.78	2.32	5.924 (0.004 ^{***})	2.17	1.74	6.394 (0.013 ^{**})

^{**} Significant at 0.05 level.

^{***} Significant at 0.01 level.

Table 4

Panel A: Mean responses and ANOVA results for Pressures from the firm								
	Firm size				Length of experience			
	Sole practitioner (<i>n</i> = 29)	Small firm (<i>n</i> = 62)	Medium-sized firm (<i>n</i> = 18)	<i>F</i> -stat	1–10 years (<i>n</i> = 22)	More than 10 years (<i>n</i> = 89)	<i>F</i> -stat	
	Mean	Mean	Mean	(<i>p</i> -value)	Mean	Mean	(<i>p</i> -value)	
<i>Pressures from the firm</i>	1.43	1.57	2.16	5.556 (0.005 ^{***})	2.11	1.51	10.961 (0.001 ^{***})	
Panel B: Chi-square tests for Pressures from the client								
	Responses	Firm size				Length of experience		
		Sole practitioner (<i>n</i> = 29)	Small (<i>n</i> = 62)	Medium (<i>n</i> = 18)	<i>X</i>	<10 (<i>n</i> = 22)	>10 (<i>n</i> = 89)	<i>X</i>
					(sig.)			(sig.)
<i>Pressures from the client</i>	1 or 2	55%	35%	22%	5.773	45%	36%	0.616
	3, 4 or 5	45%	65%	78%	(0.056 [*])	55%	64%	(0.432)

^{*} Significant at 0.1 level.

^{***} Significant at 0.01 level.

As can be seen in Table 5, auditors consider all the exposed situations unethical. However, we found noteworthy differences between the issues involved. First, it should be noted that, among respondents, the less ethically acceptable practice is accepting clients' pressures to change their opinion. Then, the second and third place, in terms of the less ethical practices, are performing an audit in a circumstance of lack of independence and lack of technical expertise. Next, setting your own interest above the public interest in carrying out your work and let your decisions to be influenced by the familiarity with the audit client, are placed in fourth and fifth places. Almost all respondents (above 90%) considered these practices as unethical.

Following these practices, the table shows a number of practices that, although they are considered unethical, are less rejected among auditors. These practices are related to accepting the pressures from your superiors to change your conclusions, performing an audit work in less time than necessary to do it with enough quality, letting your decisions be influenced, excessively, by the confidence in the work carried out by others and finally, under reporting of time. Clearly, this last is the practice that generates less concern among respondents. Previous studies (Sweeney et al.,

2010) agree that the auditors do not recognize the ethical implications of underreporting of time, as they do not perceive negative consequences of this practice.

The results suggest that Spanish auditors consider less acceptable from an ethical standpoint those practices that are explicitly stated in the legislation.

4.5. Influence of audit firm's size and length of experience on auditors' ethical judgment

Additional analyses were performed in order to address the differences regarding the size of the audit firm (RQ 5) and the length of experience of the auditors in the sample (RQ 6).

Principal component factor analysis was used to test the dimensionality of this scale. As we presume that the factors may be correlated, an oblique rotation (Promax rotation) was employed. The results reveal 2 factors with eigenvalues greater than one. All items loaded above 0.5 in each factor and there were no cross-loadings greater than 0.4. These two factors explain the 51% of the variance. The first factor includes the practices related to the allocation of resources for the engagement (statements 2, 3, 7 and 9 in

Table 5
Frequency and mean of the ethical acceptability of questionable practices.

	1 Unethical	2	3	4	5 Ethical	Mean
1. Accept pressures of the client company to change your conclusions/opinions/audit report	75%	23%	2%	0%	0%	1.26
2. Perform an audit in a circumstance of lack of independence	73%	23%	2%	1%	1%	1.34
3. Perform an audit without having the necessary technical competence	68%	28%	4%	0%	0%	1.36
4. Set your own interests above the public interest in carrying out your work	60%	34%	4%	1%	1%	1.48
5. Let your decisions on audit work be influenced by familiarity with the client company	56%	41%	3%	0%	0%	1.48
6. Accept pressures from superiors to change your conclusions/opinions	56%	33%	10%	1%	0%	1.55
7. Perform the audit work in less time than needed to carry out a work with enough quality	34%	53%	10%	1%	2%	1.83
8. Let your decisions on audit work be influenced, excessively, by confidence in the work done by others.	24%	53%	22%	1%	0%	1.99
9. Not report the real hours worked	16%	35%	45%	2%	2%	2.38

Table 6). Therefore we named this factor *Ethical Judgment on Cost Constraints Practices*. This factor explained the 38% of the variance and the internal reliability measured by Cronbach alpha coefficient is 0.77, indicating high degree of reliability. The second factor includes the items that are related to an independent and reliable audit opinion (1, 4, 5, 6 and 8). We named this factor *Ethical Judgment on Audit Opinion Practices*. This factor explained the 12% of the variance and the internal reliability measured by Cronbach alpha coefficient is 0.60.

ANOVA tests were carried out to analyze the influence of audit firm's size and the experience on the ethical judgment of questionable practices. Results did not reveal significant differences between the categories.

4.6. Resolution of conflicts of interest

Finally, in order to determine how auditors resolve the ethical conflicts faced in the exercise of their professional activity, respondents were asked about the importance they attach to a number of factors that could be taken into consideration in the resolution of ethical conflicts. The respondents had to rate them in a five-point Likert scale (where 1 is unimportant and 5 is very important).

Firstly, principal component factor was used to test the dimensionality of this scale. The factor solution with Promax rotation revealed 4 factors with eigenvalues greater than one (Table 6). All items loaded above 0.5 in each factor and there were no cross-loadings greater than 0.4. These four factors explain 73% of the variance. The first factor includes the items that reflect the importance attached to the professional code of ethics and different elements from within the organization, such as the ethics code, ethics committee or superiors and peers. We named this factor *Organizational/Professional regulation*. The second factor, *Reputation*, includes the items that reflect the importance auditors attach to the loss of reputation of the firm, profession and the auditors themselves when they face an ethical conflict. The third factor, named *Legal Regulation*, reflects the importance attached to the legal norms as well as the importance attached to being discovered committing an unethical act. Finally, two items loaded in factor four, named *Family/Religion*. These items are the importance attached to family and friends and the importance attached to religion.

Table 6 shows descriptive statistics for the four factors obtained and the mean responses for the individual variables considered in each factor. The factors are ordered from the highest to the lowest importance given by respondents.

Pairwise *t*-tests revealed that the mean scores for the four factors are statistically different between them.

The results (Table 6) confirm the importance that auditors grant to the support mechanism of the firm itself when ethical decision making. In fact, the results show that, the code of conduct of the firm is the main factor for the resolution of ethical conflicts and in addition, the respondents granted quite a lot of importance to the ethics committee (2nd), the opinions of peers (5th) and superiors (6th). These results are consistent with the thesis put forward by Lord and DeZoort (2001) that highlighted how auditors are susceptible to pressure from their superiors as, in their decision making, they prioritize their superiors' favorable assessment even knowing that the decision is not ethically correct. The results also show the influence that peers have on auditor decisions. Previous studies (McNair, 1991; Ponemon, 1992) have referred to the influence that members of the same rank have on the behavior of auditors.

The Professional Code of Ethics loaded in this same factor and results reveal that respondents consider it a relevant factor when ethical decision making. However, as it can be observed by the mean responses, auditors place more importance to the ethical guidelines of the firm than to those of the profession.

Loss of reputation is the second factor considered by respondents. Accordingly, results suggest that auditors are aware of the value of reputation for auditing and recognize the impact that unethical behavior would have on it. This finding is in line with prior research that revealed that Spanish auditors considered that promoting ethical behavior within the firm was a crucial factor for audit firms' reputation (Martínez-León & Olmedo-Cifuentes, 2012). Mean responses in Table 6 reveal that the concern for the loss of reputation for the professional or for the firm is greater than the concern for the loss of reputation for the profession. These results may suggest a stronger socialization within the firm than within the profession.

Next the factor considered by the auditors when resolving ethical conflicts is the one referring to legal regulation. Respondents consider legal standards of most importance for the resolution of ethical conflicts. These legal standards are at the same hierarchy level as the code of ethics of the firm (mean response 4.03). Auditors in the Spanish context are highly influenced by the legal regulation in the resolution of ethical conflicts as this has been basically the only source of ethical guidelines in the professional activity. Also, this result could be explained by the fact that the scarce education on ethics that auditors receive in Spain has always referred to the law without stressing the ethical reasoning or the core principles that underlie those legal standards (Espinosa-Pike, 2001). Although auditors are highly influenced by the legal regulation in the resolution of ethical conflicts the relatively low importance attached by auditors to the possibility of being punished or discovered results in this factor being less influential than the firm and loss of reputation. An explanation for the relatively low importance attached to being punished or discovered may be found in the low litigation risk perceived by the Spanish audit market (Cano Rodríguez, 2007; Carmona Ibáñez & Momparler Pechuán, 2011; García Blandón & Argilés Bosch, 2013; Ruiz Barbadillo, Gómez Aguilar, & Biedma López, 2005).

Finally, the last factor in terms of importance in the resolution of ethical conflicts is the one named Family/Religion, which refers to religious values and the opinion of family and friends. These variables are clearly influential in personal ethical decisions non related to the workplace. However, these factors lose their importance when the decisions are related to professional or work context (Bommer, Gratto, Gravander, & Tuttle, 1987).

Additionally, in order to analyze the different responses regarding the firm size and the experience one-way ANOVA tests were carried out on each of the ethical acceptability factors. ANOVA test results did not reveal significant differences in the ethical acceptability of the practices by the size of the firm or by the length of experience.

4.7. Influence of ethical judgment and the way of resolving the conflicts of interest on auditors' perception of pressures

Finally, regression models have been used to test for the combined effect of firm size and experience, as well as to test the influence of ethical acceptability and the factors considered when ethical decision making on the perception of pressures. In this regard, pressures from the firm and pressures from the client have been analyzed separately. A multiple regression model has been carried out considering the dependent variable *Pressures from the firm*. The model (Table 7) includes as independent variables the size of the firm, auditor's experience and also the effect of the ethical acceptability of the practices and the factors considered in ethical decision making.

The multiple regression model, which is significant at the 0.05 level and has an explanatory power of 0.211, confirms previous results. The results show that audit firm size is a significant variable ($p < 0.05$) for the case of medium sized audit firms, indicating

Table 6
Factors that affect ethical decision making.

Factors	Variables	Mean (item)	Rank	Mean (factor)	SD	% variance	Cronbach alpha
Organizational/professional regulation	Code of ethics of your firm	4.03	1	3.81	0.77	27%	0.83
	The recommendations of the Ethics Committee of your firm	3.85	2				
	Professional Code of Ethics	3.84	3				
	The opinion of your peers in your same professional category	3.61	5				
	The opinion or recommendations of your superiors	3.6	6				
Reputation	The loss of reputation for the professional, in the case of being caught and/or punished	3.69	4	3.43	1.20	24%	0.90
	The loss of reputation for the firm where you work, in the case of being caught and/or punished	3.52	7				
	The loss of reputation that would generate for the profession in general, in the case of being caught and/or punished	3.1	8				
	Legal Standards	4.03	1				
Legal regulation	The possibility of being sanctioned	2.93	9	3.16	1.01	12%	0.72
	The possibility of being discovered	2.47	10				
Family/religion	The opinion of friends and family	2.16	11	2.15	1.02	10%	0.56
	Religious values	2.14	12				
Total variance explained						73%	

Table 7
Multiple regression results for the model with dependent variable *Pressures from the firm*.

Independent variable	β	SE	Sig.
Individual	−1080	0.682	0.116
Medium-sized firm	1944	0.802	0.017**
Experience	−1869	0.736	0.013**
Ethical judgment on cost constraints practices	0.238	0.140	0.092*
Ethical judgment on audit opinion practices	0.007	0.166	0.968
Organizational/professional regulation	−0.674	0.364	0.067*
Reputation	−0.044	0.265	0.868
Legal regulation	0.221	0.327	0.501
Family/religion	0.760	0.289	0.010**
Constant	8.045	2.637	0.166
F		4.157	
p value		0.000***	
Adj. R ²		0.211	

* Significant at the 0.1 level.

** Significant at 0.05 level.

*** Significant at 0.01 level.

that auditors in medium sized firms perceive the pressures from the firm to a greater extent. Experience is also a significant variable ($p < 0.05$), being the less experienced auditors those who perceive the pressures more often. Ethical acceptability of the practices are not significant at the 0.05 level explaining the perception of pressures. With respect to the factors auditors consider when ethical decision making, regression results show that those auditors who grant more importance to family, friends and religious values perceive the existence of pressures to a greater extent.

The variable *Pressures from the client* was tested employing a logistic regression considering as the dependent variable the frequency with which the respondents have perceived pressures from the client to change the conclusions/opinions/audit report.

Regarding the logistic regression model proposed, with the dependent variable *Pressures from the firm* is not significant explaining the perception of pressures from the client ($X^2 = 10.479$; $p\text{-value} = 0.313$).

5. Conclusions

The present study analyzes the pressures perceived by auditors in their professional activity. Further, it explores the ethical acceptability of questionable practices and the way auditors resolve the conflict of interest they are confronted with. In addition, this paper studies the influence of the size of the audit firm and auditors' experience on the issues under study.

The results of this exploratory study reveal that auditors perceive the existence of pressures in the exercise of their professional activity. Although the pressures coming from the audit client are the most frequently perceived, the results also show the existence of other pressures acknowledged in the international literature but that had not been displayed explicitly in the Spanish context. We refer to those that come from the audit firm and that arise from the conflict between cost and quality.

Another interesting result of the study is the influence of auditors' length of experience and audit firm's size on the perception of pressures that arise within the audit firm. In this sense, less experienced auditors and those working in medium sized audit firms are the ones that perceive the pressures to a greater extent. The results highlight the threats for dysfunctional behavior that arise particularly in medium sized audit firms due to the pressures related to the cost versus quality conflict. The influence of auditors' experience on the perception of pressures reveals the need to provide enough support to the less experienced auditors to withstand pressures.

The response auditors give to the pressures received may depend on the ethical acceptability of practices involved as well as on the reference groups taken into account in the ethical conflict resolution.

The results reveal the strong influence of the firm itself and the legal regulation on the way of resolving the ethical conflicts. These findings seem to reflect a strong socialization within firms.

This study contributes to the international academic literature on auditing behavior as it provides new empirical data about a broader set of pressures than the previously studied that could also have a detrimental effect for the audit quality.

The current audit regulation at national as well as international level has focused mainly on the development of guidance for auditors to withstand pressures from clients, and conversely, has granted less attention to the pressures auditors face from within the audit firm. The new insights provided by this study about the pressures and the conflicts of interests faced by auditors in their professional activity enables public and professional regulators to develop effective measures to improve audit quality.

Moreover, as auditors in the sample consider more ethically acceptable yielding to the pressures from the firm than to the pressures from the client, and given that auditors' acceptability of these questionable practices might contribute to a higher commission of the same, increasing the awareness of a broader set of conflicts of interest will help prevent the possibility of committing these questionable practices.

Further, as suggested by the study, the auditors are highly socialized within the audits firms and therefore the likelihood that these pressures will affect auditors' behavior is greater. The problem is further exacerbated if the firm's ethical culture is not in line with that demanded by society. In this sense, as long as the questionable practices are not regulated by law, auditors will resolve the conflict prioritizing the interest of the firm above public interest. Therefore, as the organizational environment is a highly influential factor in auditors' behavior, we should consider the benefits that strengthening the ethical culture in the audit firms may involve for the audit quality.

The results reveal also important implications for the Spanish auditing professional organizations. The weak influence of the profession on auditors' behavior invites reflection, as the implementation and strengthening of the ethical standards will require of the leadership that only an influential professional body can carry out.

One of the strengths of this study is that it has been conducted among experienced Spanish auditors, as this is generally a population difficult to access. Moreover, by providing evidence of the actual pressures that Spanish auditors face, this paper extends prior research regarding the organizational context in which the audit work takes place.

Furthermore, in the Spanish context the results obtained in this work are timely and relevant for the design of the ethical standards that are currently in development. For these rules to be useful in ensuring the ethical behavior of auditors, they need to take into account the pressures perceived by auditors and take into consideration the way in which they face conflicts of interests and resolve them.

6. Limitations and future research

While the sample under analysis presents research opportunities in Spain, the pressures undergoing auditors may be conditioned by the type of firm. The questionnaire was sent only to auditors members of REA (Registro de Economistas Auditores) leaving aside auditors of the other professional associations in Spain. Therefore, the fact that this professional corporation is mainly comprised by sole practitioners, small and medium sized audit firms can influence the results of the present study.

Another limitation of this study is that, although several measures were taken to mitigate social desirability problem (i.e. ensuring anonymity and on-line survey addressed directly to the authors) auditors may have answered in a socially desirable way and the results might be affected by this bias.

In addition, future research should consider the possibility of extending the test sample including professionals in all positions in the audit firms as well as professionals in large audit firms. Besides, this exploratory study raises new research questions, such

as the influence of country's cultural values in the auditor's ethical acceptability of questionable practices and in the way of resolving conflicts of interests. This study has also highlighted the need for further research on the complex organizational context of audit firms. In this regard, additional research on the consequences of the cost/quality conflict within the audit firms as well as on the auditors' behavioral patterns to cope with this conflict should be considered.

Conflict of interest

The authors declare no conflict of interest.

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