

Summary of Paper: [Auditor Evaluation of Manager's Competence After a Failure in Internal Control](#)

What is this Study About?

The study examines how auditors assess managerial competence following an internal control failure, investigates “omission bias” in assessments, and suggests ways to lessen its impact.

What are the major findings of the study?

This study explores how auditors evaluate managerial ability regarding internal controls over financial reporting after an internal control failure. It underscores that auditors conduct competence evaluations in line with the Internal Controls over Financial Reporting, as guided by audit standards. However, instances of internal control failures may result in an “omission bias,” which makes these assessments inconsistent. The findings are based on experiments involving 313 audit and accounting professionals and reveal that auditors are prone to view managers who did not proactively prevent a control failure as more competent than those who attempted to intervene. This perception, however, shifts when auditors had previously communicated their concerns about potential control issues to the manager—diminishing the bias.

Why is the study important?

This study is pivotal because it unveils how auditors' perceptions of managerial competence following an internal control failure can be influenced by prior actions and communications, highlighting the biases at play in audit evaluations. It provides crucial insights into enhancing audit quality and the reliability of financial reporting by identifying the omission bias in auditor judgments. The findings also emphasize the need for clear and proactive communication between auditors and management to prevent misjudgments about managerial competence, thereby contributing to more accurate evaluations of internal controls and audit standards adherence.