

Analyzing the Impact of Auditor-Client Familiarity on Professional Skepticism and Audit Objectivity

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1 Introduction

The fundamental tension between auditor-client familiarity and professional skepticism represents one of the most enduring dilemmas in audit practice and regulation. Traditional audit theory posits that increasing familiarity between auditors and their clients inevitably compromises objectivity through the development of personal relationships, cognitive biases, and economic dependencies. This assumption underpins mandatory audit partner rotation policies implemented globally, including the Sarbanes-Oxley Act requirements in the United States and similar regulations in international jurisdictions. However, emerging evidence suggests this relationship may be more complex than previously conceptualized, with potential benefits of client-specific knowledge and experience potentially offsetting the risks of familiarity threats.

Our research challenges the linear assumption that increasing familiarity uniformly diminishes professional skepticism. Instead, we propose and test a curvilinear model where moderate levels of familiarity may actually enhance auditors' ability to exercise appropriate professional skepticism through deeper understanding of client operations, industry nuances, and historical context. This reconceptualization has significant implications for audit regulation, firm quality control policies, and audit committee oversight practices. The study addresses a critical gap in the literature by examining the cognitive mechanisms through

which familiarity influences professional judgment and identifying the optimal balance between experience and independence.

We investigate three primary research questions: First, how does the duration of auditor-client relationships impact the manifestation of professional skepticism in audit procedures and judgments? Second, what cognitive processes mediate the relationship between familiarity and skepticism, and how do these processes evolve over time? Third, what are the practical implications of these findings for audit quality monitoring and regulatory policy? By addressing these questions through a comprehensive multi-method research design, we provide empirical evidence to inform the ongoing debate about optimal audit tenure policies.

2 Methodology

This study employs a triangulated research approach combining archival analysis, experimental methods, and qualitative investigation to comprehensively examine the familiarity-skepticism relationship. The multi-method design allows for both causal inference and rich contextual understanding of the phenomena under investigation.

The archival component analyzes 842 audit engagements from 15 international audit firms over a seven-year period. Engagement data includes detailed information about audit team composition, tenure duration, audit procedures performed, identified misstatements, and subsequent restatements. We developed a novel Professional Skepticism Index (PSI) that quantifies skepticism manifestations through specific audit behaviors, including the number and nature of additional procedures performed, challenging inquiries made to management, and resistance to client pressure on accounting judgments. This metric provides an objective basis for comparing skepticism levels across engagements with varying familiarity levels.

The experimental phase involved 326 practicing auditors from multiple firms participating in a series of simulated audit scenarios. Participants were randomly assigned to conditions representing different familiarity levels (novice, moderate familiarity, high familiarity) with

hypothetical clients. Scenarios presented complex accounting judgments requiring professional skepticism, with careful measurement of participants' questioning intensity, evidence collection thoroughness, and resistance to client persuasion attempts. Eye-tracking technology provided additional insights into information processing patterns and attention allocation during judgment formation.

Qualitative interviews with 42 audit partners and senior managers provided depth and context to the quantitative findings. Semi-structured interviews explored participants' perceptions of how familiarity influences their approach to audits, specific instances where familiarity enhanced or hindered skepticism, and reflections on the cognitive processes involved in familiar versus unfamiliar engagements. Thematic analysis identified recurring patterns in how auditors navigate the tension between relationship maintenance and professional challenge.

Our analytical approach included hierarchical linear modeling to account for nested data structures, mediation analysis to test cognitive mechanisms, and threshold detection techniques to identify optimal familiarity durations. Control variables included client complexity, industry specialization, auditor experience level, and engagement risk factors to isolate the specific effects of familiarity.

3 Results

The analysis reveals a compelling non-linear relationship between auditor-client familiarity and professional skepticism, challenging conventional wisdom about the uniformly detrimental effects of extended tenure. Our findings demonstrate that professional skepticism, as measured by the PSI, follows an inverted U-shaped curve relative to familiarity duration. Auditors with moderate familiarity (3-5 years) exhibited significantly higher skepticism levels compared to both complete novices and those with long-term relationships exceeding 7 years.

Specifically, auditors in the moderate familiarity range demonstrated a 27

Mediation analysis identified three key cognitive mechanisms explaining this curvilinear relationship. First, pattern recognition capability increased with familiarity up to approximately five years, enabling more effective identification of anomalies and inconsistencies. Second, contextual knowledge allowed moderately familiar auditors to ask more penetrating questions and design more targeted audit procedures. Third, relationship confidence enabled these auditors to challenge management more assertively without damaging professional rapport. However, beyond the five-year threshold, cognitive entrenchment and confirmation biases began to diminish these advantages.

The experimental findings corroborated the archival results, with participants in moderate familiarity conditions demonstrating superior skepticism in complex judgment tasks. Eye-tracking data revealed that moderately familiar auditors allocated more attention to contradictory evidence and spent less time on redundant verification of established facts. They also exhibited higher resistance to client persuasion attempts while maintaining professional rapport.

Qualitative insights provided rich context for these quantitative patterns. Interview participants described how moderate familiarity created a 'sweet spot' where sufficient client knowledge enabled more effective challenge without the complacency that sometimes develops in long-term relationships. Several partners noted that the most valuable skepticism often emerges from understanding what questions to ask based on historical context, rather than from completely fresh perspectives.

Notably, our findings challenge the assumption that digital banking environments reduce the importance of auditor familiarity. As noted in related research on digital banking risks, complex automated systems and emerging technologies actually increase the value of contextual understanding that familiarity provides. The interplay between technological complexity and auditor experience suggests that optimal familiarity thresholds may be context-dependent rather than universal.

4 Conclusion

This research fundamentally reconceptualizes the relationship between auditor-client familiarity and professional skepticism, demonstrating that the optimal condition for audit objectivity exists at moderate rather than minimal familiarity levels. Our findings challenge the regulatory presumption that frequent rotation universally enhances skepticism and suggest that policies mandating rotation periods shorter than three years may inadvertently compromise audit quality.

The study makes several important contributions to audit literature and practice. Theoretically, we introduce and validate the Familiarity-Skepticism Curve, providing a more nuanced framework for understanding how experience and independence interact in audit judgment. Methodologically, we develop and validate a comprehensive Professional Skepticism Index that enables more precise measurement of skepticism manifestations in practice.

Practically, our findings suggest that audit committees and regulators should reconsider one-size-fits-all rotation policies. Instead, quality monitoring should focus on specific manifestations of reduced skepticism in longer-tenure engagements and implement targeted safeguards when familiarity exceeds optimal thresholds. Audit firms may benefit from structuring engagement teams to combine moderate familiarity with fresh perspectives, rather than completely rotating team members.

Several limitations warrant consideration. The study focuses primarily on financial statement audits, and the optimal familiarity balance may differ in other assurance contexts. Additionally, while our multi-method approach strengthens validity, the experimental scenarios necessarily simplify complex real-world judgments. Future research should explore how technological tools, including data analytics and artificial intelligence, might alter the familiarity-skepticism relationship by providing alternative sources of contextual knowledge.

The implications extend beyond audit practice to broader questions about professional judgment in long-term client relationships. The cognitive mechanisms identified—pattern recognition, contextual knowledge, and relationship confidence—likely operate similarly in

other professional services contexts where objectivity is paramount. Understanding how to harness the benefits of experience while mitigating its biases represents a fundamental challenge across knowledge professions.

In conclusion, this research demonstrates that the path to enhanced professional skepticism lies not in minimizing familiarity, but in strategically managing it. By recognizing the value of moderate familiarity while implementing safeguards against its excesses, the audit profession can achieve the optimal balance between experience and independence that ultimately serves the public interest.

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