



Emerging Consequences in Auditor Dyad Formation

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DESCRIPTION

The elements that influence and are affected by the creation of dyads at the top level of audit teams, specifically dyads between concurring and lead auditors. Designers use the sociological theory of homophily, which refers to the innate desire for similar others, to create hierarchically structured auditor dyads. Their model studies reveal that sharing the same gender and ethnicity, as defined by dialect, boosts the likelihood of dyad formation above what would be expected based on the available auditor pool's features. They also observe that forming auditor dyads of the same age is avoided, showing that the necessity to establish a genuine hierarchical relationship *via* social distinction is a border condition for homophily.

When designers use an instrumental variable method to explore the repercussions of auditor dyad formation, they uncover that auditor dyads that speak the same dialect provide lower audit quality. Homophily is significant in the development of auditor dyads, with possibly negative consequences for audit quality.

Using a mixed-methods analysis methodology, this study investigates the elements that contribute to the formation of dyads between concurring and lead auditors at the top of audit teams, as well as the consequences for audit quality. The concurring and lead auditor pairs, like all reviewer-reviewee dyads within audit teams, are organised hierarchically. Lead auditors are responsible for planning, carrying out, and supervising the audit on-site, while concurring auditors evaluate lead auditors' performance. Study on behavioural auditing has already studied how the design of the review process influences the outcome.

However, neither the formation nor the impact of auditor dyads are examined. Previous archive auditing research has largely overlooked potential factors influencing the formation and efficacy of auditor dyads, instead focusing on the impact of individual auditor characteristics on audit outcomes. They use archival and interview data to investigate the evolution and cooperation of concurring and lead auditors as the first phase in their investigation into auditor dyads.

They follow the German custom of having both the lead and concurring auditors sign the audit opinion. Choice-based and induced homophily build social networks based on attribute similarity, such as ethnicity, age, religion, education, occupation, and gender. When individuals have the opportunity to get to know one another in a social environment, such as when they live in the same neighbourhood or work for the same organisation, homophily-based relationships can form.

Auditing provides a good institutional setting for studying the role of homophily in pair formation. To begin, sociology usually focuses on relationships involving equal parties, such as friendship or marriage. In contrast, their interviews with experienced auditors revealed that auditor dyads are organised hierarchically as reviewer-reviewee pairs. The literature on hierarchical organisational structure emphasises the importance of demonstrating that hierarchical differentiation based on position or power differences is justified. Hierarchical differentiation enables a distinct division of labour, hence improving cooperation and coordination. This need may be incompatible with similarity-based relationships, thereby reducing the importance of choice-based homophily.

Second, auditing is heavily regulated, and these requirements highlight the need of audit team members being skilled and independent. Auditing provides a good institutional setting for studying the role of homophily in pair formation. To begin with, sociology frequently focuses on these criteria, and the more organised formation processes in comparison to other contexts may reduce the impact of choice-based homophily, calling into doubt the application of theory and previous study findings. Finally, within the organisational structure of an audit firm, auditor dyads are formed.

The number of prospective auditor dyad partners is limited by the boundaries of this organisational unit. This setting allows us to study how choice-based homophilous tendencies are affected by the number of auditors accessible in an audit business or audit office.

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