



RESEARCH ARTICLE

The Effects of Familiarity and Assertions of the RPT Violator on Internal Auditors' Credibility and Reporting Judgments

Marzieh Tohidinejad*

Faculty of Management and Accounting, Allameh Tabataba'i University, Tehran, Iran

How to cite this article:

Tohidinejad, M. (2025). The Effects of Familiarity and Assertions of the RPT Violator on Internal Auditors' Credibility and Reporting Judgments. *Iranian Journal of Accounting, Auditing and Finance*, 9(3), 119-137. doi: 10.22067/ijaaf.2025.46248.1423
https://ijaaf.um.ac.ir/article_46248.html

ARTICLE INFO

Abstract

Article History

Received: 2024-06-15

Accepted: 2024-12-17

Published online: 2025-07-18

A 2×2 full factorial experiment is designed by manipulating participants' exposure to the positive behavioral information of a Chief Financial Officer (CFO) as a violator of Related Party Transactions (RPT) (high versus low exposure) and his related assertions (combined versus denial assertion). These manipulated variables can influence internal auditors' credibility and reporting judgments in accordance with the mere-exposure effect and the benefit of the doubt. This study included 80 Iranian internal auditors as participants. The results suggest that exposure to the violator's positive behavioral information enhances internal auditors' perceived credibility of the violator, leading to a decreased likelihood of reporting the RPT. Furthermore, the findings demonstrate that when internal auditors are exposed to the positive behavioral information of the RPT violator, the combined assertion of the RPT violator reduces the probability of reporting the RPT by internal auditors. The results underscore the significance of professional judgment and skepticism among internal auditors.

Keywords:

Credibility Judgment, Mere-Exposure Effect, Reporting Judgment, Related Party Transactions, Violator's Assertions



<https://doi.org/10.22067/ijaaf.2025.46248.1423>



NUMBER OF REFERENCES

36



NUMBER OF FIGURES

3



NUMBER OF TABLES

3

Homepage: <https://ijaaf.um.ac.ir>

E-Issn: 2717-4131

P-Issn: 2588-6142

*Corresponding Author: Marzieh Tohidinejad

Email: mtohidinejad@yahoo.com

Tel: 09106169068

ORCID: 0000-0001-6045-4299

1. Introduction

A Related Party Transaction (RPT) transfers resources, services, or obligations between an entity and a related party, regardless of whether a price is charged. According to internal audit standards worldwide, such as the Standard on Internal Audit (SIA), internal auditors are required to perform audit procedures and related activities to gather information relevant to evaluating internal controls associated with RPTs. Furthermore, internal auditors must obtain sufficient and appropriate audit evidence regarding management's assertion that a RPT was conducted under terms equivalent to those prevailing in an arm's length transaction.

This study examines whether internal auditors' credibility and reporting judgments are affected by (1) exposure to the CFO's positive behavioral information and (2) the CFO's assertions regarding the RPT. Both factors are essential components of the internal audit process. Familiarity with the CFO relates to auditor-client staff interactions, which form an inseparable part of the internal audit process with potential unintended consequences. Considering the CFO's assertions (including admissions, denials, etc.) about the RPT is also a crucial element of evidence gathering in the audit process.

The combined influence of the two factors on internal auditors' credibility and reporting judgments has not been explored, yet it holds significance for several reasons. Familiarity arising from exposure to the violator's positive behavioral information alone (i.e., without any claims regarding the detected RPT) serves as an irrelevant cue; however, psychological research indicates that this can adversely impact internal auditors' reporting judgments. According to the mere-exposure effect, a well-known heuristic, individuals often develop a preference for things simply because they are familiar with them. Psychological studies reveal familiarity predicts liking, goodness, attractiveness, and pleasantness (Orive and Gerard, 1987; Clark and Watson, 1988; Bornstein and D'Agostino, 1994; Lee, 2001; Denrell, 2005). Consequently, familiarity is recognized as a threat to internal auditors (IIA, 2001). It may cause an auditor to lose perspective and prejudge a client based on past issues (or lack thereof), adopting a stance aligned with that prejudgment instead of approaching the situation with a fresh and objective viewpoint (Mutchler, 2003). Furthermore, the violator's assertions may influence the judgments of internal auditors. Psychoanalytic theory suggests that denial effectively helps repair trust after integrity-based violations (Kim et al., 2004, 2006; Ferrin et al., 2006), possibly because acknowledging violations triggers an unpleasant emotional response in those affected by a breach of trust. In practice, a third category of assertions also exists, which we refer to as a combined assertion in this study. Assertions that are appropriately combined convey both loyalty and innocence signals simultaneously. Consequently, a combined assertion may foster more favorable perceptions than a denial assertion. In the context of exposure to the violator's positive behavioral information, the violator's combined assertion may lead to further decreased objectivity in internal auditors' judgment while reporting the RPT, which poses a significant concern.

Various surveys and experiments illustrate the impact of external auditors' familiarity with clients on the audit process (Asare and McDaniel, 1996; Hussey, 1999; Wilson et al., 2018). For example, Bamber and Lyer (2007) noted that auditors tend to identify with their clients, and those who identify more strongly are more likely to conform to the client-preferred position. Cefaratti and Barkhi (2013) explored the effects of communication media and client familiarity on auditors' confidence in detecting deception. Asare and McDaniel (1996) analyzed the influence of familiarity with the preparer and task complexity on reviewers' effectiveness in identifying errors. Their study revealed that reviewers of unfamiliar preparers performed more of the preparers' work but did not identify more classification errors. In contrast, interactively, preparer familiarity and task complexity influenced effectiveness in detecting conclusion errors. Wilson et al. (2018) conducted

an experiment to assess whether increased audit firm tenure and auditor familiarity lead to greater trust, which enhances the willingness to whistle-blow. They found evidence that auditor familiarity boosts trust, positively affecting an employee's intentions to whistle-blow. While these studies emphasize external audit and client-related issues, our investigation in this study focuses on internal auditors and reporting issues concerning the client staff, specifically the CFO.

An experiment is conducted to investigate the related issues. The primary advantage of the experimental approach is that it allows us to manipulate the participants' exposure to the CFO's positive behavioral information and assertions. Furthermore, employing the experimental approach enables us to control other factors, such as pressures imposed on auditors and audit tenure, which influence internal auditors' reporting judgment in this study.

In this study, we conceptualized a CFO as a violator, an RPT as a violation, and the internal auditors' perceived credibility of the CFO and their decision to report or not report the RPT as the two dependent variables. We conducted a 2×2 full factorial between-subject experiment, manipulating two independent variables: prior exposure to the violator's positive behavioral information (low vs high exposure) and the violator's assertion regarding the RPT (combined vs denial assertion). The study participants consisted of Iranian internal auditors with professional experience in the internal audit departments of parent companies.

Our findings indicate that exposure to the violator's positive behavioral information enhances internal auditors' perceived credibility of the violator, leading to a decreased likelihood of reporting the RPT. Furthermore, the results demonstrate that when auditors are presented with the violator's positive behavioral information, this combined assertion boosts the perceived credibility of the violator and lowers the probability of internal auditors reporting the RPT.

This investigation adds to the existing body of knowledge in two significant ways. Firstly, we find that when internal auditors are presented with the violator's positive behavioral information, the perceived credibility of the violator is greater when they encounter the combined assertion rather than the denial assertion. Secondly, the increased credibility of the violator through high exposure, along with the combined assertion, reduces the likelihood of RPT reporting.

In the following section, we examine the relevant literature and formulate the hypotheses. Next, we outline the research design and experimental procedure, analyze the experimental results, and conclude the paper.

2. Hypotheses development

The familiarity principle is a cognitive shortcut through which individuals tend to develop a preference for things simply because they are familiar with them. [Zajonc \(1968\)](#) defines the familiarity principle as the mere exposure effect. The mere exposure effect is a heuristic by which individuals tend to favor things merely due to familiarity ([Zajonc, 2001](#)). In a meta-analysis, [Bornstein \(1989\)](#) documents a significant mere exposure effect concerning various types of stimuli: sounds, ideographs, nonsense words and symbols, drawings, photographs, words and names, polygons, objects, and people. Evaluating the mere exposure effect with people as stimuli has led to a research stream focused on interpersonal relationships. [Moreland and Beach \(1992\)](#) conducted a seminal study. Four female confederates entered a classroom in a manner visible to other students either zero, five, ten, or fifteen times over a semester; they did not interact with the students. Afterwards, students were asked to rate the confederates on various dimensions. The more often a confederate was seen by students, the more she was liked and rated positively across different dimensions. Other studies indicate that the more frequently another person is seen, the more participants rate that person positively and desire to interact with her/him ([Brockner and Swap,](#)

1976); the longer participants are exposed to another person's ideas, the more they appreciate that person (Brickman et al., 1975); and the more familiar participants are with a negotiation partner, the more willing they are to reach compromise solutions (Druckman and Broome, 1991).

Four general explanations clarify why familiarity predicts liking, goodness, attractiveness, and pleasantness. First, since most social experiences are mildly positive in affective tone, or at least not aversive (Clark and Watson, 1988; Denrell, 2005), individuals encountered more frequently become associated with positive effects. Second, novel stimuli evoke uncertainty and cautious reactions (Orive and Gerard, 1987; Lee, 2001), which diminish once repeated exposure, revealing the novel stimulus as benign. Third, familiarity creates opportunities for interactions. Positively toned interactions are more prevalent than aversive ones, suggesting that such opportunities are more likely than not to lead to rewarding social experiences and favorable impressions (Denrell, 2005). Fourth, familiar stimuli are processed perceptually and cognitively with greater fluency, and fluency is typically experienced in relatively positive affective ways (Mandler et al., 1987; Jacoby et al., 1992; Bornstein and D'Agostino, 1994). All four explanations indicate that prior exposure will similarly positively influence credibility assessments.

The positive effects of the familiarity principle enhance efficiency in executing various social tasks; however, these effects can backfire in certain situations. According to the framework of internal auditors (IIA, 2001), internal auditors perceive familiarity as a potential threat. This threat may arise from an auditor's relationship with the client or if the auditor has previously worked within the client unit. Familiarity can cause an auditor to lose perspective on an audit by making them overly sympathetic to the client. Conversely, familiarity may lead an auditor to prejudge a client based on past issues (or lack thereof) and adopt a stance aligned with that prejudgment rather than approaching the situation with a fresh, objective perspective (Mutchler, 2003).

Prior studies in the auditing and accounting literature have focused on the impacts of frequent exposure to decision-relevant information, such as repeated individual presentations of financial statement errors (Butt, 1988), financial statements alongside voluntary disclosures containing the same information (Joe, 2003), and redundancy in financial performance information (Hugon, 2004), as well as decision-irrelevant information, like the frequency of an analyst's name appearing (Bonner et al. 2007; Chen and Tan, 2013), on various types of judgments. While these studies investigate the effects of repeating individual decision-relevant and decision-irrelevant information, a variety of irrelevant information is often present simultaneously in more realistic situations.

Specifically, internal auditors are consistently exposed to various pieces of information (such as appearance, name, age, marital status, number of children, work experience, education level, skills, attitude, behavior, mood, etc.) about the employees of the company, particularly the CFO, which creates a mental sense of familiarity. Thus, there is always some degree of familiarity with the CFO. The lowest level of familiarity is confined to personal information, such as appearance, name, age, marital status, number of children, work experience, and education level, resulting from human resource process auditing. Conversely, familiarity at the highest level evolves into intimacy due to the long-term relationship. However, the most common level of familiarity is where internal auditors gather some behavioral information, such as attitude and mood, along with personal information through observation, interaction, and document review during the audit process.

Accordingly, we anticipate that exposure to both personal and positive behavioral information about the RPT violator will lead to a higher perception of the violator's credibility and, consequently, a lower likelihood of internal auditors reporting the RPT. We define low exposure as the auditor being exposed solely to personal information, while the high exposure condition refers to the scenario in which the auditor is exposed to both personal and positive behavioral information about the RPT violator.

In addition to exposure and familiarity, the judgment of internal auditors appears to be influenced by the violator's assertions. The claims regarding the identified violations are compelling and appealing in this context, particularly when paired with the positive effects of the familiarity principle. Two straightforward assertions in this scenario involve admitting versus denying the violations. Psychoanalytic theory posits denial as a defense mechanism whereby an individual confronts a fact that is too uncomfortable to accept and rejects it, insisting it is untrue despite potentially overwhelming evidence (Vaillant et al., 1986).

Research has shown that denial can be a more effective response in repairing trust after integrity-based violations (Kim et al., 2004, 2006; Ferrin et al., 2006), possibly indicating that admitting violations triggers a more unpleasant emotional reaction in those harmed by a trust breach. According to Kim et al. (2004), denial, which explicitly asserts that accusations of guilt are false, aids in trust repair by encouraging the betrayed individual to extend the transgressor the benefit of the doubt¹. It may be that acknowledging culpability by admitting to the violations, rather than allowing for doubt about responsibility through denial, results in more negative emotions (Kim et al., 2004). Some studies indicate that denying culpability in the transgression while expressing empathy significantly increases the violator's perceived integrity (Bagdasarov et al., 2019). People may be more inclined to repair trust after an integrity-based violation when the violator denies responsibility and responds with an empathetic display.

Although previous research has focused on comparing behavioral reactions to denial and admission, we also encounter combined assertions in the real world. In our study, the CFO might use a combined assertion such as "Although I was aware of the RPT, I was unable to prevent the transaction." While the initial admission ("I was aware of the RPT") demonstrates the CFO's loyalty, the subsequent denial ("I was unable to prevent the transaction") conveys innocence. Consequently, a combined assertion may foster even more positive perceptions compared to a denial assertion ("I was not aware of the transaction"). Combined assertions (denial following admission) may elicit stronger positive feelings.

Accordingly, we anticipate that the content of the combined assertion will lead to a higher perceived credibility of the violator and, consequently, a lower likelihood of internal auditors reporting the RPT. Hypotheses one through four are formally stated below.

H1: Exposure to both personal and positive behavioral information about the RPT violator has a more favorable impact on internal auditors' assessments of the violator's credibility when the violator employs a combined assertion rather than a denial assertion.

H2: A combined assertion utilized by the RPT violator has a more favorable impact on internal auditors' assessments of the violator's credibility when the internal auditor is exposed to both personal and positive behavioral information about the RPT violator compared to exposure to only personal information.

H3: Exposure to both personal and positive behavioral information about the RPT violator results in a higher likelihood of not reporting the RPT violation when the violator employs a combined assertion rather than a denial assertion.

H4: A combined assertion utilized by the RPT violator results in a higher likelihood of not reporting the RPT violation when the internal auditor is exposed to both personal and positive behavioral information about the RPT violator compared to exposure to only personal information.

¹ According to the Merriam-Webster dictionary, the benefit of the doubt is defined as the state of accepting something or someone as honest or deserving of trust even though there are doubts.

3. Method

3.1 Participants

We experimented with Iranian internal auditors in 2023. After reviewing LinkedIn user profiles over sixty days, we identified approximately 187 internal auditors with experience in the internal audit units of parent companies. LinkedIn is an American business and employment-oriented online service that enables members (both employees and employers) to create profiles and connect in an online social network that reflects real-world professional relationships. Given LinkedIn's popularity among Iranian professionals and the absence of a professional survey institution in Iran to assist researchers in locating relevant professional participants, we selected it as the most effective tool for identifying internal auditors.

We sent connection requests to all 187 internal auditors. Approximately 155 internal auditors accepted our invitation. After randomly sending online experiment links through LinkedIn messaging, 93 internal auditors participated in our study. According to G*Power output, a sample size of around 80 participants is sufficient for testing our hypotheses. Each participant is compensated with a certain amount for their involvement in the experiment.

3.2 Design

We utilize a 2×2 full factorial (exposure to the RPT violator's information; RPT violator's assertion) between-subjects design to test four hypotheses. The first independent variable is the exposure to the RPT violator's personal information (including age, marital status, work experience, and the number of children) and positive behavioral information (including general attitude and collaborative mood). Only the violator's personal information is presented to the participants in the low exposure condition. In the high exposure condition, however, participants are exposed to both personal and positive behavioral information of the violator. The second independent variable is the assertion made by the violator regarding the RPT. In the combined assertion condition, the violator admits he was aware of the RPT but denies his ability to prevent it. In the denial assertion condition, the violator claims he was unaware of the RPT.

3.3 Procedure

Participants are randomly assigned to the four conditions. Each condition consists of three main sections: (1) context description, (2) judgmental questions, and (3) demographic questions. The first section sets the scenario within an internal audit firm established by a parent company to periodically audit its associated companies. Following this, a specific case study is presented. One month has elapsed since the commencement of auditing at one of the associate companies in the construction industry. According to the parent company's internal regulations, no staff member's relatives are permitted to engage in transactions with the company where they are employed. It is then explained that the participant discovered evidence that the CFO's brother-in-law had purchased an apartment from the company through the bidding process. In odd conditions 1 and 3, only the CFO's personal information (including the photo, name, age, marital status, number of children, education level, and work experience) is provided. In even conditions (conditions 2 and 4), both personal information (including the photo, name, age, marital status, number of children, education level, and work experience) and positive behavioral information (including general attitude and collaborative mood) of the CFO is presented to the participants. Behavioral information in conditions 2 and 4 was conveyed to the participants through the following sentence: "The CFO is an affable and accommodating person who provides all the information and documents that you need". According to the majority of male CFOs in Iran, we used the same photo and full name of a man across all four conditions. To test the hypotheses, we also shared the CFO's assertions regarding his

RPT in two statements: (1) Although I was aware of this transaction, I was unable to prevent it (conditions 1 and 2); and (2) I was not aware of this transaction (conditions 3 and 4). Finally, we added the sentence "the conditions of the RPT (such as price) are the same as a normal transaction" to complete the context description and make the case more analogous to an ethical dilemma. This final sentence also mitigates the effects of the violator's potential financial incentives in RPT on internal auditors' reporting judgments. Figure 1 serves as a guide for manipulating independent variables across four conditions.

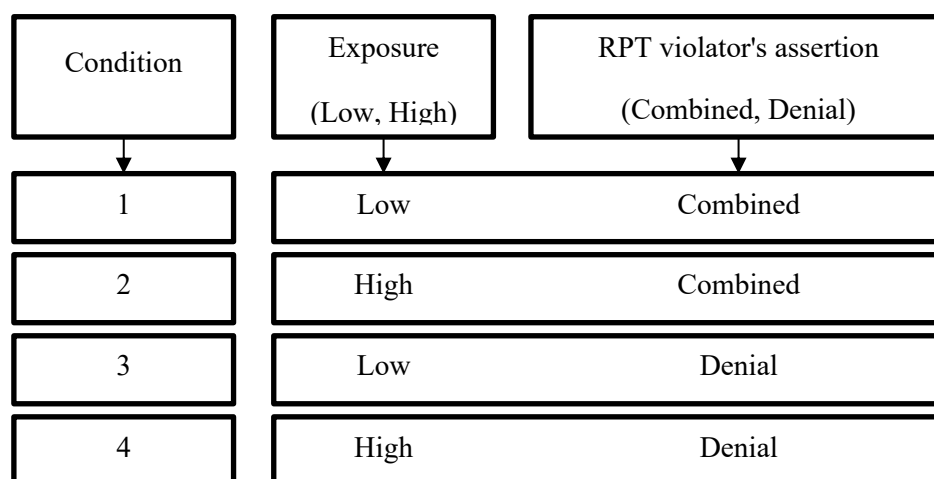


Figure 1. Manipulating independent variables in four conditions

In the second section, three identical judgmental questions were posed across all four conditions. Following prior research (e.g., Barton and Mercer, 2005; Mercer, 2005; Cianci and Kaplan, 2010; Chen and Tan, 2013), the credibility of the CFO is evaluated using a 9-point scale (0 = extremely low and 8 = extremely high) to test Hypotheses 1 and 2 in the first question. The second question is designed to capture participants' reporting judgments by providing two options: (1) to report the RPT or (2) to refrain from reporting the RPT. After selecting an option, participants encounter the third question, which assesses their confidence in their judgments on a 9-point scale (0 = extremely low and 8 = extremely high). Internal auditors were asked the final two questions to evaluate the likelihood of reporting the RPT to test Hypotheses 3 and 4. The data from the reporting judgment question (with a value of 1 for reporting and a value of 0 for not reporting the RPT) and the confidence question (measured on a 9-point scale, where 0 = Extremely low and 8 = Extremely high) are integrated using the following formula to determine the probability of reporting the RPT: [If the reporting judgment value is 1, then the probability of reporting the RPT is $((\text{confidence level}/8) \times 1)$; if the reporting judgment value is 0, then the probability of reporting the RPT is $((1 - (\text{confidence level}/8)) \times 1)$]. The research instrument across four experimental conditions is presented in Appendix A.

In the next section, participants responded to four demographic questions: age, gender, education level, and work experience as internal auditors. Appendix B contains the demographic questions.

4. Results

4.1 Manipulation checks

Participants are also asked to respond to two questions to verify their understanding of the key elements of the independent variables. One question is included to ensure that participants have accurately recognized the extent of exposure to the RPT violator's personal and positive behavioral

information. Another question is posed to confirm that participants correctly understood the CFO's assertion regarding the RPT. A total of 80 participants answered the manipulation check questions correctly. We excluded 13 participants who did not answer the manipulation checks accurately. Appendix B contains the manipulation check questions.

4.2 Descriptive statistics

The descriptive statistics are shown in Table 1. The average age of the 80 participants was 32.22 years. Among the 80 participants, 64 were male (80%) and 16 were female (20%). A total of 40 participants (50%) were randomly assigned to conditions 1 and 3, while 40 individuals (50%) took part in conditions 2 and 4. Regarding work experience, 11 (55%), 11 (55%), 12 (60%), and 10 (50%) participants had over 6 years of internal auditing experience in conditions 1 to 4, respectively. The majority of male participants were also evident in all conditions, with 16 (80%), 15 (75%), 16 (80%), and 17 (85%) participants in conditions 1 to 4, respectively.

Table 1. Descriptive statistics

Demographic Questions	Low Exposure		High Exposure		All Participants
	Combined Assertion	Denial Assertion	Combined Assertion	Denial Assertion	
	Condition 1	Condition 3	Condition 2	Condition 4	
No. of Participants:	20	20	20	20	80
Work Experience:					
Less than 3 years	5	6	4	5	20
3 to 5 years	4	3	4	5	16
6 to 10 years	6	5	5	6	22
More than 10 years	5	6	7	4	22
Gender:					
Male	16	15	16	17	64
Female	4	5	4	3	16
Mean Age:	33.68	32.94	30.33	31.94	32.22
Education Level:					
Bachelor degree	4	5	6	5	20
Master degree	13	12	13	12	50
Ph.D.	3	3	1	3	10

4.3 Test of Hypotheses

Table 2 presents the results regarding participants' perceived credibility of the RPT violator. The ANOVA results indicate a significant main effect of exposure to the RPT violator information ($p = 0.039$), an insignificant effect of the RPT violator's assertion ($p = 0.075$), and an insignificant interaction effect ($p = 0.452$; Panel B Table 2).¹ Figure 2 offers a graphical summary of ANOVA results related to testing Hypotheses 1 and 2.

The ordinal interaction suggested in Hypotheses 1 and 2 is examined through a contrast test with a weight of -3 in the "high exposure + combined assertion" condition and +1 in the "low exposure + combined assertion," "high exposure + denial assertion," and "low exposure + denial assertion" conditions (Buckless and Ravenscroft, 1990; Rosnow and Rosenthal, 1995). The results indicate that the contrast test is significant ($F = 63.459$, $p < 0.05$; Panel C Table 2).

1- We run several robustness tests. First, we transform data to ranks (as shown in Panel A, Tables 2 and 3) and run the two-way ANOVA using ranked dependent variables. Second, we run the non-parametric Kruskal–Wallis H test. Results from these tests were similar to those in our main analyses.

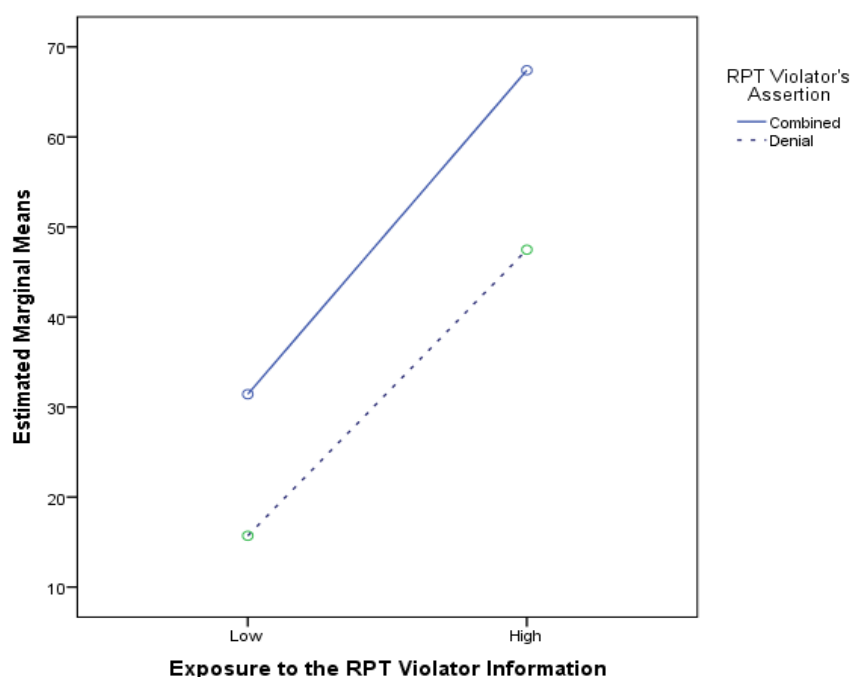


Figure 2. Estimated marginal means of perceived credibility of the RPT violator

Table 2. Credibility of the RPT Violator

Panel A: Mean perceived credibility of the RPT violator (standard deviation) [rank]				
Exposure to the RPT Violator Information	RPT Violator Assertion			Row Mean
	Combined	Denial		
Low	5.00 (0.86) [31.43] N= 20 [Condition 1]	3.75 (1.16) [15.70] N= 20 [Condition 3]		4.38 (1.19) [23.56] N= 40
High	7.30 (0.66) [67.40] N= 20 [Condition 2]	6.00 (0.86) [47.48] N= 20 [Condition 4]		6.65 (1.00) [57.44] N= 40
Column Mean	6.15 (1.39) [49.41] N= 40	4.88 (1.52) [31.59] N= 40		
Panel B: ANOVA results				
Source	df	Mean square	F	p-Value
Intercept	1	131220.000	4.491	0.208
Exposure	1	22950.312	260.208	0.039
Assertion	1	6354.612	72.048	0.075
Exposure × Assertion	1	88.200	0.571	0.452
Panel C: Contrast tests for testing H1 and H2				
Source	df	Mean square	F	p-Value
Contrast: [H1 & H2: +1/-3/+1/+1]	1	9797.708	63.459	0.000
Contrast: Condition 1 vs. Condition 2	1	12942.006	100.112	0.000
[H1: Effect of exposure in the presence of a combined assertion]				
Contrast: Condition 3 vs. Condition 4	1	10096.506	56.244	0.000
[H1: Effect of exposure in the presence of a denial assertion]				
Contrast: Condition 1 vs. Condition 3	1	2472.756	14.980	0.000
[H2: Effect of an assertion in the low exposure]				
Contrast: Condition 2 vs. Condition 4	1	3970.056	27.625	0.000
[H2: Effect of an assertion in the high exposure]				

To test Hypothesis 1, we conducted two contrast tests using the participants' perceived credibility data. Both contrast tests yielded significant results ($F = 100.112$, $p < 0.05$; $F = 56.244$, p

< 0.05). These findings support Hypothesis 1. Specifically, participants in the high exposure condition rated the CFO's credibility higher (mean = 6.65) compared to those in the low exposure condition (mean = 4.38).

Two additional contrast tests were conducted to evaluate Hypothesis 2. In line with Hypothesis 2, the outcomes of these contrast tests are also significant ($F = 14.980$, $p < 0.05$; $F = 27.625$, $p < 0.05$; Panel C, Table 2). Specifically, participants in the combined assertion condition perceive the CFO's credibility as higher (mean = 6.15) compared to the denial assertion condition (mean = 4.88).

4.4. Test of hypotheses 3 and 4

Table 3 summarizes the results of participants' RPT reporting probabilities. The ANOVA results indicate insignificant main effects of exposure to the RPT violator information ($p = 0.063$), the RPT violator's assertion ($p = 0.079$), and the interaction effect ($p = 0.718$). Figure 3 presents a graphical summary of the ANOVA results related to testing Hypotheses 3 and 4.

A planned contrast test utilizing weights comparable to those employed in the contrast test of Hypotheses 1 and 2 is conducted to examine the ordinal interactions outlined in Hypotheses 3 and 4. The result of the planned contrast test is significant ($F = 7.357$, $p < 0.05$; Panel C Table 3).

To test Hypothesis 3, we conducted two contrast tests. The first contrast test, which compares conditions 1 and 2, was significant ($F = 8.600$, $p < 0.05$), while the second contrast test, comparing conditions 3 and 4, was not significant ($F = 2.847$, $p = 0.069$). Specifically, participants in the combined assertion condition were less likely to report the RPT when they were highly exposed to the RPT violator's information (mean = 0.35) compared to when they were not (mean = 0.64).

Two additional contrast tests related to hypothesis 4 indicate that while the probability of participants RPT reporting in low exposure conditions remains unchanged regardless of whether the violator employs a combined or a denial assertion ($F = 3.174$, $p = 0.083$), in high exposure conditions, it increases when the violator uses a combined assertion compared to a denial assertion ($F = 5.462$, $p < 0.05$, Panel C, Table 3).

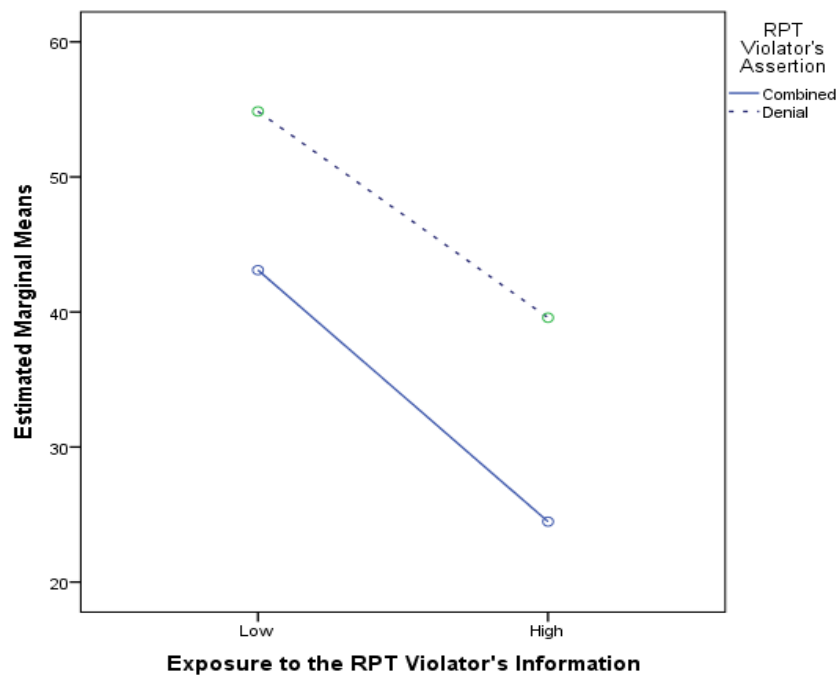


Figure 3. Estimated marginal means of probability of reporting RPT by auditors

Table 3. Internal Auditors' Reporting Probability

Panel A: Mean internal auditors' reporting probability (standard deviation) [rank]				
Exposure to the RPT Violator Information	RPT Violator Assertion			
	Combined	Denial	Row Mean	
Low	0.64 (0.28) [31.43] N= 20 [Condition 1]	0.78 (0.29) [15.70] N= 20 [Condition 3]	0.71 (0.29) [23.56] N= 40	
High	0.35 (0.29) [67.40] N= 20 [Condition 2]	0.58 (0.31) [47.48] N= 20 [Condition 4]	0.47 (0.32) [57.44] N= 40	
Column Mean	0.50 (0.32) [49.41] N= 40	0.69 (0.31) [31.59] N= 40		
Panel B: ANOVA results				
Source	df	Mean square	F	p-Value
Intercept	1	131220.000	14.118	0.071
Exposure	1	5746.05	102.402	0.063
Assertion	2	3604.612	64.239	0.079
Exposure × Assertion	2	56.112	0.132	0.718
Panel C: Contrast tests for testing H3 and H4				
Source	df	Mean square	F	p-Value
Contrast: [H3 & H4: +1/-3/+1/+1]	1	3135.592	7.357	0.000
Contrast: Condition 1 vs. Condition 2 [H3: Effect of exposure in the presence of a combined assertion]	1	3468.906	8.600	0.006
Contrast: Condition 3 vs. Condition 4 [H3: Effect of exposure in the presence of a denial assertion]	1	1393.878	2.847	0.069
Contrast: Condition 1 vs. Condition 3 [H4: Effect of an assertion in the low exposure]	1	1380.625	3.174	0.083
Contrast: Condition 2 vs. Condition 4 [H4: Effect of an assertion in the high exposure]	1	2280.100	5.462	0.025

5. Conclusion

This study investigates the combined effect of exposure to the RPT violator's positive behavioral information and the violator's assertions regarding the RPT on the reporting judgments of internal auditors from parent companies. In our experiment, we manipulated whether participants were exposed to the positive behavioral information of the CFO as an RPT violator in Stage 1 and whether the CFO acknowledged being aware of the RPT but was unable to prevent it (combined assertion) or simply denied awareness of the RPT (denial assertion) in Stage 2. Results indicate that while exposure to the RPT violator's positive behavioral information enhances the perceived credibility of the RPT violator, it results in a lower likelihood of internal auditors reporting the RPT. This underscores the familiarity threat faced by internal auditors. Additionally, results indicate that when auditors are presented with the RPT violator's positive behavioral information, the overall assertion of the RPT violator reduces the likelihood of internal auditors reporting the RPT.

Our study has implications for how client staff violators can influence auditors' judgments for their own benefit by enhancing their credibility through a shift in mentality (being friendly and accommodating while providing all necessary information and documents to the auditor) and their assertions regarding the violation (admitting and then denying their control over the violation instead of simply denying it). Consequently, auditors can remain vigilant in making their professional judgments. Our findings underscore the significance of professional judgment and skepticism among internal auditors.

Several limitations of the study should be acknowledged. One limitation is that we focus on the exposure of a male violator. In contrast, a female violator may hold greater credibility in auditors' minds due to the "*women are wonderful effect*". Future research could explore the incremental

impact of a female violator. Another limitation of the current study is our focus on internal auditors in Iran. Due to varying cultural contexts, conducting this research in other countries may yield different results. Other contextual factors may also influence our theoretical predictions and findings. For example, inexperienced auditors might be more susceptible to the exposure and assertion effects than their more experienced counterparts. We leave these questions for future research.

References

1. Asare, S.K. and McDaniel, L.S. (1996). The effects of familiarity with the preparer and task complexity on the effectiveness of the audit review process. *Accounting Review*, 71(2), pp. 139-159. <http://www.jstor.org/stable/248443>.
2. Bagdasarov, Z., Connelly, S. and Johnson, J.F. (2019). Denial and empathy: partners in employee trust repair? *Frontiers in Psychology*, 10(1), pp. 19. <https://doi.org/10.3389/fpsyg.2019.00019>
3. Bamber, E.M. and Iyer, V.M. (2007). Auditors' identification with their clients and its effect on auditors' objectivity. *Auditing: A Journal of Practice & Theory*, 26(2), pp. 1-24. <https://doi.org/10.2308/aud.2007.26.2.1>
4. Barton, J. and Mercer, M. (2005). To blame or not to blame: analysts' reactions to external explanations for poor financial performance. *Journal of Accounting and Economics*, 39(3), pp. 509-533. <https://doi.org/10.1016/j.jacceco.2005.04.006>
5. Bonner, S.E., Hugon, A. and Walther, B.R. (2007). Investor reaction to celebrity analysts: The case of earnings forecast revisions. *Journal of Accounting Research*, 45(3), pp. 481-513. <https://doi.org/10.1111/j.1475-679X.2007.00245.x>
6. Bornstein, R.F. (1989). Exposure and affect: overview and meta-analysis of research, 1968–1987. *Psychological bulletin*, 106(2), pp. 265. <https://psycnet.apa.org/record/1990-00422-001>
7. Bornstein, R.F. and D'Agostino, P.R. (1994). The attribution and discounting of perceptual fluency: Preliminary tests of a perceptual fluency/attributional model of the mere exposure effect. *Social Cognition*, 12(2), pp. 103-128. <https://doi.org/10.1521/soco.1994.12.2.103>
8. Brickman, P., Meyer, P. and Fredd, S. (1975). Effects of varying exposure to another person with familiar or unfamiliar thought processes. *Journal of Experimental Social Psychology*, 11(3), pp. 261-270. [https://doi.org/10.1016/S0022-1031\(75\)80026-6](https://doi.org/10.1016/S0022-1031(75)80026-6)
9. Brockner, J. and Swap, W.C. (1976). Effects of repeated exposure and attitudinal similarity on self-disclosure and interpersonal attraction. *Journal of Personality and Social Psychology*, 33(5), pp. 531. <https://psycnet.apa.org/doi/10.1037/0022-3514.33.5.531>
10. Buckless, F.A. and Ravenscroft, S.P. (1990). Contrast coding: a refinement of ANOVA in behavioral analysis. *Accounting Review*, 65(4), pp. 933-945. <http://www.jstor.org/stable/247659>
11. Butt, J.L. (1988). Frequency judgments in an auditing-related task. *Journal of Accounting Research*, 26(2), pp. 315-330. <https://doi.org/10.2307/2491106>
12. Cefaratti, M. and Barkhi, R. (2013). The effects of communication media and client familiarity on auditors' confidence in deception detection. *Journal of Forensic & Investigative Accounting*, 5(2), pp. 1-26. <http://aisel.aisnet.org/jais/vol15/iss9/1>
13. Chen, W. and Tan, H.T. (2013). Judgment effects of familiarity with an analyst's name. *Accounting, Organizations and Society*, 38(3), pp. 214-227. <https://doi.org/10.1016/j.aos.2013.02.001>
14. Cianci, A.M. and Kaplan, S.E. (2010). The effect of CEO reputation and explanations for poor performance on investors' judgments about the company's future performance and

- management. *Accounting, Organizations and Society*, 35(4), pp. 478-495. <https://doi.org/10.1016/j.aos.2009.12.002>
15. Clark, L.A. and Watson, D. (1988). Mood and the mundane: relations between daily life events and self-reported mood. *Journal of Personality and Social Psychology*, 54(2), pp. 296. <https://psycnet.apa.org/doi/10.1037/0022-3514.54.2.296>
 16. Denrell, J. (2005). Why most people disapprove of me: experience sampling in impression formation. *Psychological Review*, 112(4), pp. 951. <https://doi.org/10.1037/0033-295X.112.4.951>
 17. Druckman, D. and Broome, B.J. (1991). Value differences and conflict resolution: familiarity or liking?. *Journal of Conflict Resolution*, 35(4), pp. 571-593. <https://doi.org/10.1177/0022002791035004001>
 18. Ferrin, D.L., Dirks, K.T. and Shah, P.P. (2006). Direct and indirect effects of third-party relationships on interpersonal trust. *Journal of Applied Psychology*, 91(4), pp. 870. <https://psycnet.apa.org/doi/10.1037/0021-9010.91.4.870>
 19. Hugon, J.A. (2004). *Effects of redundancy in media coverage on nonprofessional investors' earnings forecasts*. University of Southern California, California, US.
 20. Hussey, R. (1999). The familiarity threat and auditor independence. *Corporate governance: an International Review*, 7(2), pp. 190-197. <https://doi.org/10.1111/1467-8683.00146>
 21. Jacoby, L.L., Lindsay, D.S. and Toth, J.P. (1992). Unconscious influences revealed: attention, awareness, and control. *American Psychologist*, 47(6), pp. 802. <https://psycnet.apa.org/doi/10.1037/0003-066X.47.6.802>
 22. Joe, J.R. (2003). Why press coverage of a client influences the audit opinion. *Journal of Accounting Research*, 41(1), pp. 109-133. <https://doi.org/10.1111/1475-679X.00098>
 23. Kim, P.H., Dirks, K.T., Cooper, C.D. and Ferrin, D.L. (2006). When more blame is better than less: The implications of internal vs. external attributions for the repair of trust after a competence-vs. integrity-based trust violation. *Organizational Behavior and Human Decision Processes*, 99(1), pp. 49-65. <https://doi.org/10.1016/j.obhdp.2005.07.002>
 24. Kim, P.H., Ferrin, D.L., Cooper, C.D. and Dirks, K.T. (2004). Removing the shadow of suspicion: the effects of apology versus denial for repairing competence-versus integrity-based trust violations. *Journal of Applied Psychology*, 89(1), pp. 104. <https://doi.org/10.1037/0021-9010.89.1.104>
 25. Lee, A.Y. (2001). The mere exposure effect: an uncertainty reduction explanation revisited. *Personality and Social Psychology Bulletin*, 27(10), pp. 1255-1266. <https://doi.org/10.1177/01461672012710002>
 26. Mandler, G., Nakamura, Y. and Van Zandt, B.J. (1987). Nonspecific effects of exposure on stimuli that cannot be recognized. *Journal of Experimental Psychology: Learning, Memory, and Cognition*, 13(4), pp. 646. <https://psycnet.apa.org/doi/10.1037/0278-7393.13.4.646>
 27. Mercer, M. (2005). The fleeting effects of disclosure forthcomingness on management's reporting credibility. *The Accounting Review*, 80(2), pp. 723-744. <https://doi.org/10.2308/accr.2005.80.2.723>
 28. Moreland, R.L. and Beach, S.R. (1992). Exposure effects in the classroom: the development of affinity among students. *Journal of Experimental Social Psychology*, 28(3), pp. 255-276. [https://doi.org/10.1016/0022-1031\(92\)90055-O](https://doi.org/10.1016/0022-1031(92)90055-O)
 29. Mutchler, J.F. (2003). Independence and objectivity: a framework for research opportunities in internal auditing. *Research Opportunities in Internal Auditing*, 231(1), pp. 268.
 30. Orive, R. and Gerard, H.B. (1987). The familiar stimulus as a reducer of anxiety: an experimental study. *Journal of Social and Clinical Psychology*, 5(3), pp. 330-338.

- <https://guilfordjournals.com/doi/abs/10.1521/jscp.1987.5.3.330>
31. Rosnow, R.L. and Rosenthal, R. (1995). "Some things you learn aren't so": Cohen's paradox, Asch's paradigm, and the interpretation of interaction. *Psychological Science*, 6(1), pp. 3-9. <https://doi.org/10.1111/j.1467-9280.1995.tb00297.x>
 32. The Institute of Internal Auditors (IIA). (2001). *Independence and objectivity: A framework for internal auditors*. Altamonte Springs. Florida
 33. Vaillant, G.E., Bond, M. and Vaillant, C.O. (1986). An empirically validated hierarchy of defense mechanisms. *Archives of General Psychiatry*, 43(8), pp. 786-794. <https://doi.org/10.1001/archpsyc.1986.01800080072010>
 34. Wilson, A.B., McNellis, C. and Latham, C.K. (2018). Audit firm tenure, auditor familiarity, and trust: effect on auditee whistleblowing reporting intentions. *International Journal of Auditing*, 22(2), pp. 113-130. <https://doi.org/10.1111/ijau.12108>
 35. Zajonc, R.B. (1968). Attitudinal effects of mere exposure. *Journal of Personality and Social Psychology*, 9(22), pp. 1-27. <https://psycnet.apa.org/doi/10.1037/h0025848>
 36. Zajonc, R.B. (2001). Mere exposure: A gateway to the subliminal. *Current Directions in Psychological Science*, 10(6), pp. 224-228. <https://doi.org/10.1111/1467-8721.00154>

Appendix A. Experimental conditions (Research instrument)

A.1. Condition 1

Consider an internal audit firm that is established by a parent company to audit associated companies periodically. As an auditor in this firm, you are committed to report all violations in related rules and regulations to your supervisor. In a specific case, one month has passed from the start of the auditing in an associate company in the construction industry. Mr. X is the CFO of the company. Mr. X has a master degree in accounting, he is 32, married, and has two children.

According to the parent company's internal regulation, none of the staff's relatives are allowed to transact with the company which they are working. That is while you have found evidence showing that the Mr. X's brother-in-law has purchased an apartment from the company through the bidding process. Your further investigations show that the transaction's condition (such as price) is the same as other normal transactions. During an interview, Mr. X asserted that although he was aware of this transaction, he was unable to prevent the transaction. Now, you have only two options to choose from:

1. To report the RPT.
2. To not report the RPT.

- How do you assess the credibility of Mr. X?

0	1	2	3	4	5	6	7	8
Extremely Low				Moderately				Extremely High

- Which option is *right* to choose? 1 ☐ 2 ☐

- Determine your confidence in choosing the right option.

0	1	2	3	4	5	6	7	8
Extremely Low				Moderately				Extremely High

A.2. Condition 2

Consider an internal audit firm that is established by a parent company to audit associated companies periodically. As an auditor in this firm, you are committed to report all violations in related rules and regulations to your supervisor. In a specific case, one month has passed from the start of the auditing in an associate company in the construction industry. Mr. X is the CFO of the company. *Mr. X has a master degree in accounting, he is 32, married, and has two children. It seems to you that Mr. X is an affable and accommodating person and has worked well with you by presenting all the information and documents you needed.*

According to the parent company's internal regulation, none of the staff's relatives are allowed to transact with the company which they are working. That is while you have found evidence showing that the Mr. X's brother-in-law has purchased an apartment from the company through the bidding process. Your further investigations show that the transaction's condition (such as price) is the same as other normal transactions. *During an interview, Mr. X asserted that although he was aware of this transaction, he was unable to prevent the transaction.* Now, you have only two options to choose from:

- To report the RPT.
- To not report the RPT.

- How do you assess the credibility of Mr. X?

0	1	2	3	4	5	6	7	8
Extremel y Low				Moderately				Extremel y High

- Which option is *right* to choose? 1 ☐ 2 ☐

- Determine your confidence in choosing the right option.

0	1	2	3	4	5	6	7	8
Extremel y Low				Moderately				Extremel y High

A.3. Condition 3

Consider an internal audit firm that is established by a parent company to audit associated companies periodically. As an auditor in this firm, you are committed to report all violations in related rules and regulations to your supervisor. In a specific case, one month has passed from the start of the auditing in an associate company in the construction industry. Mr. X is the CFO of the company. *Mr. X has a master degree in accounting, he is 32, married, and has two children.*

According to the parent company's internal regulation, none of the staff's relatives are allowed to transact with the company which they are working. That is while you have found evidence showing that the Mr. X's brother-in-law has purchased an apartment from the company through the bidding process. Your further investigations show that the transaction's condition (such as price) is the same as other normal transactions. *During an interview, Mr. X asserted that he was not aware of this transaction.* Now, you have only two options to choose from:

- 1- To report the RPT.
- 2- To not report the RPT.

- How do you assess the credibility of Mr. X?

0	1	2	3	4	5	6	7	8
Extremel y Low				Moderatel y				Extremel y High

- Which option is *right* to choose? 1 ☐ 2 ☐

- Determine your confidence in choosing the right option.

0	1	2	3	4	5	6	7	8
Extremel y Low				Moderatel y				Extremel y High

A.4. Condition 4

Consider an internal audit firm that is established by a parent company to audit associated companies periodically. As an auditor in this firm, you are committed to report all violations in related rules and regulations to your supervisor. In a specific case, one month has passed from the start of the auditing in an associate company in the construction industry. Mr. X is the CFO of the company. Mr. X has a master degree in accounting, he is 32, married, and has two children. It seems to you that Mr. X is an affable and accommodating person and has worked well with you by presenting all the information and documents you needed.

According to the parent company's internal regulation, none of the staff's relatives are allowed to transact with the company which they are working. That is while you have found evidence showing that the Mr. X's brother-in-law has purchased an apartment from the company through the bidding process. Your further investigations show that the transaction's condition (such as price) is the same as other normal transactions. During an interview, Mr. X asserted that he was not aware of this transaction. Now, you have only two options to choose from:

To report the RPT.

To not report the RPT.

How do you assess the credibility of Mr. X?

0	1	2	3	4	5	6	7	8
Extremely Low				Moderately				Extremely High

Which option is *right* to choose? 1 ☐ 2 ☐

Determine your confidence in choosing the right option.

0	1	2	3	4	5	6	7	8
Extremely Low				Moderately				Extremely High

Appendix B. Manipulation checks and demographic questions

B.1. Manipulation Checks:

What information is provided about Mr. X?

Personal information (photo, age, marital status, the number of children, education level, and working experience in the company)

Personal (photo, age, marital status, the number of children, education level, and working experience in the company) and Behavioral information (attitude and collaboration mood)

What was Mr. X's assertion about your findings about his brother-in-law's transaction with the company?

Mr. X asserted that he was not aware of it

Mr. X asserted that he was aware of it but unable to prevent it

B.2. Demographic questions:

Age:

Gender: Male ☐ Female ☐

Education level: Bachelor degree ☐ Master degree ☐ Ph.D. ☐

Work experience as an internal auditor: Less than 3 years ☐ 3 to 5 years ☐ 6 to 10 years ☐ More than 10 years ☐