SUMMARY

This study reports the results of an experiment that investigates the effects of financial report timing, EPS proximity to analyst forecast, and external auditor argument consistency on audit committee members’ support for a proposed audit adjustment. Specifically, we use source credibility theory to predict greater support for the audit adjustment when the financial report is at year-end rather than at interim, when unadjusted EPS is above rather than below forecast, and when the auditor consistently argues for adjustment rather than agrees with management’s preference to avoid adjustment. One-hundred thirty-one audit committee members participated in a between-subjects experiment. Consistent with theory, the participants were more likely to recommend adjustment for annual statements and for adjustments that the auditor consistently supported. Two significant interactions indicate that the effect of report timing holds only in the under forecast and inconsistent auditor conditions. Finally, audit committee members who were CPAs were less likely to recommend adjustment. We discuss implications and future research directions.