

Title	会計監査における知慮の概念フレームワーク
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Citation	
Issue Date	2017-09
Type	Thesis or Dissertation
Text version	ETD
URL	<a href="http://hdl.handle.net/10119/14820">http://hdl.handle.net/10119/14820</a>
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## Abstract

An audit is an independent professional service that improves the quality of information for decision makers. An audit of financial statements is the determination of whether the financial statements of a company present a true and fair view of its state of affairs. In practice, auditing is a complex process posing great challenges because auditors often deal with complicated circumstances that they may have not experienced before or for which their knowledge may be irrelevant or inadequate. In these circumstances, they may be incapable to make accurate decisions and take proper actions. For example, the failure of Arthur Andersen in Enron's audit (2002) is an example of an auditing service lacking judgment in handling complex practices. The falsification that occurred in the Olympus scandal in Japan (2011) is another example of challenges to auditors in real contexts.

In addition, wisdom is mentioned as one of the most important aspects in management practice. Researchers argue that wisdom helps managers to use sound judgment when making decisions and call for empirical studies on this emerging topic. Although the concept of wisdom has been investigated intensively for centuries, very little research in the literature has attempted to examine the concept empirically. In auditing, research is still short of studies that explains how wisdom is able to improve auditor's decisions. In order to deal with complex, unforeseen, and turbulent situations in auditing, we need to investigate the concept of wisdom in auditing thoroughly.

To address the above issue, this study focuses on the research question: "*What are the concept of wisdom and its roles in auditing?*". To answer the research question, we conducted a mixed adoption of a qualitative and a quantitative testing with two stages. Firstly, we conducted a qualitative research by employing grounded theory methodology in order to deeply investigate the new insights of the wisdom phenomenon in auditing. Then, to verify and justify the tentative theory from the qualitative research, we performed and analyzed a quantitative survey with a larger population of 78 practicing auditors. The findings from the qualitative research and the results of statistical tests provided us with useful suggestions to develop a more comprehensive explanation of wisdom in the auditing context.

The empirical findings revealed that the making of audit decisions is an integrated exercise of multiple virtues including epistemic aspects, phronetic judgment, and praxis tendency. Based on the theoretical implications from findings, the study proposed a conceptual framework for wisdom in auditing. The framework suggests that wisdom in auditing is embedded in decision making process and it can be achieved through an integration of multiple important virtues. *The*

*first virtue* is defined as the multi-dimensional integration of epistemic aspects in the form of general, technical, and subspecialty knowledge. *The second virtue* is relevant to the ability to exercise professional judgment. It is the enabling aspect of wisdom in practice. The study proposes that practicing auditors make “*phronetic judgment*” in wise decision making. Phronetic judgment implies that auditors, in making professional judgments, orient toward phronesis (practical wisdom) in professional life. *The third virtue*, or *praxis priority*, involves ethical aspect of an auditor in decision making. The empirical analyses indicated that “ethics is the core value to auditors”. Praxis priority means that ethics is the first-priority values of an auditor in decision making. The ethical aspect is reflected through the requirements of professional conduct and code of ethics of an audit. These virtues are integrated in decision making since they have mutual relationships. A wisdom in auditing is defined as an integration of these important virtues.

This is one of the first empirical studies examining wisdom and auditing. The contributions of this study are original and significant since they deepen the wisdom concept and its associated virtues in auditing. The study enhances better understanding of the complex nature of wisdom and its associated virtues in the auditing context.

**Keywords:** wisdom, auditing, public accounting firm, professional judgment, decision making, audit knowledge, ethics.