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The Implications of Auditors' Dispositional Trust and Career Advancement Opportunities for the Detection of Fraud

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I. INTRODUCTION

Large organizations, including audit firms, seek to provide opportunities for effective employees to advance. In this respect, three decades of research across the social sciences shows that employees who perform management functions in organizations must place trust in their clients and coworkers to manage effectively (see e.g. Rose and Rose 2008; Hall 2006; Rosanas and Velilla 2003; Brien 1998; Lewicki et al. 1998; Hollis 1998; Shapiro et al. 1992; Gambetta 1990). Perhaps surprisingly, therefore, very little accounting literature has directly examined the role of trust in career advancement or the possible effects of relationships between trust and advancement on the quality of auditing and assurance processes. The current study fills one of these gaps in the literature by investigating the potential for dispositional trust (i.e., a stable personality trait that causes individuals to consistently trust or consistently not trust others) to influence career advancement in the audit profession. The current study's primary contribution is the evaluation of the relationship between dispositional trust and auditors' capacity to reach manager and partner levels in audit firms.

The effects of dispositional trust on career advancement are particularly relevant to public accounting firms because of the need to detect and prevent financial statement fraud and thereby protect the integrity of audit firms and the audit profession. According

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to the Association of Certified Fraud Examiners (ACFE), a typical organization loses seven percent of its annual revenues to occupational fraud, which is estimated at $994 billion annually (ACFE 2009). Several recent studies find that auditors and audit committee members who have high propensities to trust others, relative to less trusting auditors and audit committee members, evaluate audit evidence less thoroughly, pay less attention to indicators of fraud risk, are less effective in detecting fraud and errors, and are less able to recognize misrepresentations by management (Rose and Rose 2003; Rose 2007; Rose and Rose 2008). These prior studies document potentially serious effects of high levels of dispositional trust on audit effectiveness. We extend these prior studies by investigating the potential for systematic differences in dispositional trust at different levels (i.e., staff, senior, manager, partner) in audit firms. Given this background, the purpose of this paper is to draw attention to the role trust may play in the career advancement of auditors in their firms and the role trust may play in contributing to *ineffective* monitoring of management and oversight of financial reporting.

We present the findings from a study of dispositional trust scores from 216 practicing auditors at Big 4 firms, as correlated to their position in the firm. Results indicate that auditors who advance to manager and partner positions in Big 4 firms have significantly higher levels of dispositional trust than do auditors in staff and senior positions. Given that dispositional trust is a stable personality trait that does not change over time, our results indicate that trusting auditors are more likely to advance to manager and partner levels while less trusting auditors either fail to advance or leave the profession. Prior research indicates that trust can facilitate career advancement through its effects on effective interactions with clients and the selling of services, while lack of

trust may hinder career advancement. Our findings, coupled with prior research that has found adverse effects of high dispositional trust on audit effectiveness, suggest threats to the integrity of the audit profession stemming from relationships between a trusting disposition and career success. Audit firms need to be wary of promotion systems that emphasize the acquisition and retention of clients, as such promotion systems favor highly trusting managers and partners who may lack sensitivity to indicators of fraud of aggressive accounting practices.

II. BACKGROUND AND HYPOTHESIS DEVELOPMENT

Dispositional Trust

Dispositional trust (we will refer to dispositional trust as "trust" in the remainder of the paper) is a state of positive expectation concerning the behavior of another party with respect to oneself in a situation entailing risk to oneself (Lewicki and Bunker 1995; Boon and Holmes 1991; Dibben 2004). It is an inherent and unchanging personality trait that influences an individual's judgment and decision making across all decision contexts (see e.g., Bayless 1971; Wrightsman 1974; Rotter 1980; Wrightsman 1992). That is, decision makers with high levels of trust consistently trust others, even as situational and environmental factors change (Deutsch 1973; Wrightsman 1974; Harnett and Cummings 1980; Wrightsman 1991; Wrightsman 1992). Highly trusting individuals believe that other individuals are trustworthy and that trusting usually results in personal gains (Deutsch 1973; Harnett and Cummings 1980; Wrightsman 1991; Wrightsman 1992).

Although an individual's trust does not change, trust varies considerably across individuals (Nottingham, Gorsuch, and Wrightsman 1970; Wrightsman 1974; Harnett and Cummings 1980; Rempel et al. 1985; Wrightsman 1991; Sorrentino et al. 1995). This

indicates that individuals make different assumptions about the trustworthiness of others and the benefits of trusting others. One consequential effect of trust on decision making relates to the evaluation of evidence and its source. Individuals who are less trusting tend to evaluate evidence and its source more critically than do more trusting individuals (Schul 1993; Schul et al. 1996).

Dispositional trust should not be conflated with learned trust. There is a commonly understood distinction between dispositional trust and learned trust in the psychology, management, and accounting literatures. Dispositional trust concerns the inherent psychological disposition of an individual. As a psychological trait, dispositional trust is accepted to be unchanging. Learned trust, by contrast, is the trust that an individual develops as a result of social interaction with another particular individual over time (e.g. Wrightsman 1992; Boon and Holmes 1992; Lewicki and Bunker 1996). Learned trust develops and changes. Dispositional trust is generally predictive of an individual's learned trust in that it is the starting point for an individual's interpersonal interactions with others (Boon and Holmes 1992; Lewicki and Bunker 1996). A handful of prior studies in accounting have examined learned trust (e.g., Shaub 1996; Peecher 1996). The current study focuses entirely on dispositional trust, and we measure dispositional trust using a validated instrument that captures the stable disposition to trust.

Auditors, Trust, and Professional Skepticism

Given concerns by practitioners and regulators that SAS No. 53, *The Auditors Responsibility to Detect and Report Errors and Irregularities,* did not clearly define the responsibility of auditors regarding fraud detection, the ASB began development of an

auditing standard that focused more specifically on fraud. The result was Statement on Auditing Standards No. 82, *Consideration of Fraud in a Financial Statement Audit* (AICPA, 1997), which clarified the external auditor's responsibilities related to fraud detection and prevention. At the beginning of 2003, the Auditing Standards Board (ASB) released SAS No. 99 – *Consideration of Fraud in a Financial Statement Audit*. This new statement superseded SAS No. 82 and significantly increased the auditor's responsibility to maintain professional skepticism and detect fraud.

One of the primary functions of SAS No. 99 (and formerly SAS No. 82) is to promote professional skepticism (AICPA 1997; AICPA 2003; Knapp and Knapp 2001; Rose 2007). Professional skepticism is defined as "an attitude that includes a questioning mind and a critical assessment of audit evidence" (AICPA 2003, paragraph .13). Professional skepticism is desired because professionals and regulators believe that skepticism leads to more effective audits and more effective detection of fraud (AICPA 1997; AICPA 2003). Experimental research provides support for this assumption, and existing research finds that auditors indeed are more critical of evidence when they are cued to be skeptical or when they are inherently skeptical of others (Peecher 1996; Shaub and Lawrence 1999; Knapp and Knapp 2001; Rose and Rose 2003; Rose 2007).

Accounting research has addressed the effects of situational and contextual factors on learned trust. These studies find that indicators of potential misstatement (such as potential problems with management credibility or the presence of red flags) affect the manner in which auditors evaluate evidence. For example, Peecher (1996) demonstrated that evidence that client management may not be credible causes auditors to rely less on explanations provided by the client. Other studies have found that situational factors

(such as incentives to misstate and client history) influence auditors' trust in their clients (Shaub 1996), and that auditors react to situational factors (such as fraud red flags) by increasing audit-testing procedures (Shaub and Lawrence 1996; Mock and Turner 2005). Overall, investigations of learned trust indicate that auditors react appropriately and behave more skeptically when the environment indicates potential for misstatement or error.

Other research has addressed the potential for dispositional, rather than learned, trust to influence the evaluation of audit evidence and audit judgment. Two recent studies find that auditors who are inherently more trusting of others evaluate evidence less thoroughly and pay less attention to indicators of aggressive and fraudulent reporting than do less trusting auditors (Rose and Rose 2003; Rose 2007). Rose and Rose (2008) also find that audit committee members who are more trusting are less able to recognize management deceptions than are less trusting audit committee members. Of particular concern is the finding by Rose (2007) that the effects of trust on attention and judgment can overwhelm the effects of prior experience, indicating that trust plays a crucial role in judgments based on the evaluation of evidence.

Based upon the findings of Rose (2007) and Rose and Rose (2003), one might expect that auditors who reach the highest ranks in audit firms will have lower levels of trust than auditors who fail to be promoted or who leave their firms because auditors who are less trusting are more effective in detecting and preventing errors or fraud than those auditors who are more trusting. If less trusting auditors are more effective auditors, then these auditors should be: more likely to succeed in the auditing profession, more likely to

receive positive evaluations for their performance, and more likely to be promoted than more trusting auditors.

Another line of thought makes the opposite predictions, however. Positions at the highest ranks in audit firms (i.e., managers and partners) require different skills than positions at lower ranks (i.e., staff and seniors). Managers and partners spend considerable time and effort on practice development (Hall and Renner 1991; Cohen and Trompeter 1998), and they sometimes emphasize client retention in their judgments and decisions (e.g., Hackenbrack and Nelson 1996). Auditors at higher ranks must focus more on client acquisition and retention than auditors at lower ranks. Managers and partners interact with clients extensively, attract new clients, maintain relationships with clients, resolve disputes with clients, and make client acceptance decisions. In these capacities, as much of the accounting (Krishnan and Krishnan 1997; Rich et al. 1997; Carcello and Neal 2000; Kinney 2001; Larcker et al. 2007), entrepreneurship (Dibben 2000; Dibben et al. 2003) and even health care and leisure management literatures (Dibben and Davies 2004; Lynch et al. 2007) confirm, managers and partners must place trust in clients in order to effectively fulfill their management roles. Again, trust is typically viewed as an essential ingredient for organizational success (Rosanas and Velilla 2003).

Based upon the role of trust in effective management, higher levels of trust can make managers and partners more effective in their management roles. Individuals with low levels of trust may simply be unable to place enough trust in clients to effectively function in a manager or partner capacity. From this perspective, those who succeed in audit firms will be the most trusting individuals, which would suggest potentially serious

problems for audit effectiveness created by the organizational structure of audit firms. The structure may promote good relationships with clients while hindering the detection of errors and fraud.

If managers and partners consistently exhibit high levels of trust, they will be less likely to attend to evidence of fraud, they will evaluate the available evidence less thoroughly, and they will be more susceptible to management deception (Rose and Rose 2003; Rose 2007; Rose and Rose 2008). While less trusting staff and seniors may help to mitigate the problems associated with highly trusting managers and partners, relying on staff members to detect all errors, fraud, and deception is problematic for three reasons. First, if highly trusting staff members conduct the initial fieldwork, and managers and partners are consistently trusting, then all stages of the audit process will be conducted by trusting individuals. Second, inexperienced staff members lack the necessary experience and exposure to fraud to effectively detect fraud, errors, and deception. Third, Rose and Rose 2008 find that experienced audit committee members who are very trusting are much more likely to accept deceptive management explanations for earnings management than are less trusting audit committee members. Given that many of the most important interactions with clients occur at the manager and partner level, there is also a risk that highly trusting managers and partners will be less sensitive to potential deception by management.

Prior research has also demonstrated that the job requirements of managers and partners result in "lower" levels of ethical judgment by management and partners, relative to staff and seniors (see e.g., Armstrong 1987; Bernardi and Arnold 1997; Lampe and Finn 1992; Ponemon 1990; Ponemon 1992; Ponemon and Gabhart 1993; Shaub

1997). For example, Ponemon (1990) finds that ethical judgment and position level in audit firms are negatively correlated. Similarly, the results of Ponemon (1995) indicate that managers and partners exhibit lower Defining Issues Test (DIT) scores than do staff and seniors. These studies suggest that auditors who are promoted to higher levels in their firms may have more ethical "flexibility" than auditors at lower levels in firms. Thus, the ethics research provides evidence that personality traits can be associated with career advancement in the auditing profession, and traits associated with advancement may run counter to the primary purpose of the attest function. Differences in dispositional trust may similarly influence career advancement.

In summary, there are two competing theories for potential variations in trust at different ranks in professional audit firms. First, those who are less trusting may be more effective auditors. Thus, less trusting auditors will be more likely to advance to higher ranks (i.e., manager and partner levels) in their respective firms. Alternatively, auditors at higher ranks in professional firms may require high levels of trust in order to be effective in these positions. Thus, auditors who are more trusting will be more likely to advance to higher ranks within their firms. Given the competing theories, we propose the following non-directional hypothesis:

> H1: Auditors employed at higher ranks in auditing firms (i.e., managers and partners) will possess different levels of dispositional trust than will auditors employed at lower ranks in audit firms (i.e., staff members and seniors).

III. METHOD

Trust Questionnaire

Participants completed a validated questionnaire designed to measure their level of trust (Wrightsman 1974; Nottingham, Gorsuch, and Wrightsman 1970; Wrightsman

1991; Wrightsman 1992). The Wrightsman scale consists of 14 statements concerning honesty and trust, and participants indicate their agreement with each statement on a six-point scale (see Appendix). Studies in accounting and psychology have extensively employed the Wrightsman scale to measure dispositional trust (see e.g., Duke and Wrightsman 1968; Wrightsman 1966; Dole, Nottingham, and Wrightsman 1969; Bayless 1971; Cox 1972; Gardiner 1972; Wilksinson and Hood 1973; Stack 1978; Uejio and Wrightsman 1967; Wrightsman 1992; Shaub 1996; Rose and Rose 2003; Rose 2007; Rose and Rose 2008). The trust score is the sum of the 14 questions, where the trusting end of the scale for each question is scored as 3 and the non-trusting end is scored as -3 (Wrightsman 1991). The score can range from -42 to +42, where lower scores represent lower levels of trust.

The Wrightsman scale measures an individual's disposition to trust others. This disposition is a stable personality trait that remains stable after early adolescence (e.g., Bayless 1971; Wrightsman 1974, 1991, 1992; Rotter 1980; Rose 2007). Given that trust is a stable personality trait, an individual auditor's trust will not change as the auditor progresses to more senior ranks in an audit firm. As a result, differences in average trust at different ranks in audit firms indicate that auditors with specific trust characteristics are either more or less successful in achieving high ranking positions in audit firms, or they are more or less likely to choose to leave audit firms.

Participants

Participants included 216 practicing auditors at Big 4 firms in the Southwest and 53 students enrolled in a Master of Accountancy program at a large public university. All of the students included in the sample indicated an intention to enter the auditing

profession upon graduation (with expected graduation occurring one semester after the administration of the trust measure). The data was collected between 2005 and 2007.

Procedure

In order to overcome many of the validity threats associated with employing mail or Internet-based methods of collecting questionnaire data, we provided the Wrightsman (1974, 1991) trust questionnaire to all respondents directly and under controlled conditions. All respondents also completed a short demographic questionnaire. Practicing auditors completed the trust measurement under the supervision of one of the authors either during national training seminars or during one-on-one sessions at their offices. Graduate accounting students completed the questionnaires during class time. Data collection for all auditors occurred after the collapse of Enron and after the release of SAS No. 99. Thus, our results should not be sensitive to any major changes in requirements for professional skepticism that occurred during data collection.

IV. RESULTS

Preliminary Statistics

The Cronbach alpha for the trust scale in our study is 0.724, which is consistent with the Cronbach alpha (0.78) obtained during large sample validation of the trust instrument (Wrightsman 1974). Nunnally and Bernstein (1994) suggest a general standard of 0.70 as an acceptable level for Cronbach alpha. Table 1 presents the means and standard deviations of the trust scores and years of experience by firm level.[1] The average trust scores of managers (6.27) and partners (11.09) are higher than trust scores

[1] We also collected demographic information (such as gender, age, degree, etc). These factors were not significantly correlated with the trust scores ($p>0.30$ in all cases) and were not statistically significant in any of our analyses. Thus, we do not present this demographic information or include it in further analyses.

of new staff (-1.58) and newly (2.96) appointed seniors. There appear to be significant differences in trust at different levels in audit firms (see Table 1).

In addition, frequency analysis indicates that individuals on the less trusting end of the scale (i.e., with trust scores that are less than or equal to zero) steadily disappear at higher levels in the firm. At the staff level 51% of auditors have trust sores below zero. This level falls to 44% for seniors, 24% for managers, and 0% in our sample of partners. Thus, less trusting individuals seem to leave the firm before reaching manager and partner levels.

Hypothesis Testing

To test the hypothesis that trust varies at different ranks in audit firms, we employ an ANOVA model with the trust score as the dependent variable and position as the independent variable. The results of the model are presented in Panel A of Table 2. The variable for position is statistically significant ($p< 0.000$), indicating that trust varies by position in the firm. Panel B of Table 2 presents a Bonferroni post-hoc comparison of the mean trust levels for different positions in audit firms (and also for students who intend to become auditors). The Bonferroni comparisons indicate that staff auditors are less trusting than managers ($p<0.001$) or partners ($p<0.000$), seniors are less trusting than partners ($p<0.007$), and students are less trusting than managers ($p<0.002$) and partners ($p<0.000$).

We also conduct a planned comparison to test the different between staff/seniors versus managers/partners. The planned comparison indicates that partners and managers are significantly more trusting than are staff auditors and seniors ($p<0.000$). Auditors at manager and partner ranks in audit firms are inherently more trusting than auditors at

lower ranks, and partners are significantly more trusting than any other auditors. It appears that the different job requirements of managers and partners (e.g., practice development and client retention) create a selection bias in the promotion process. Prior research suggests that those auditors who are very trusting are better able to attract and maintain clients and build relationships. Thus, the more trusting auditors are more likely to advance to manager and partner levels (see Table 2).

V. DISCUSSION AND CONCLUSIONS

Analysis of the results of measurements of professional auditor's dispositional trust indicate that auditors who fail to advance are less trusting than those who advance to higher levels within the firms. We find evidence to suggest that the organizational structure and purpose of audit firms may promote the advancement of more trusting individuals, while forcing out less trusting auditors. Based on our current findings and the results of prior experimental research related to the effects of trust on auditor judgment (Rose and Rose 2003; Rose 2007; Rose and Rose 2008), there is evidence that firms promotion processes may be improving client management at the expense of effective auditing.

We propose that three different mechanisms may be operating to remove less trusting auditors. First, if less trusting individuals are ineffective at "selling services", they will be unsuccessful in upper levels in the hierarchy, and they will choose to pursue other career opportunities. Second, less trusting individuals may be uncomfortable with the work required at more senior levels, and these less trusting individuals choose to leave the firm before engaging in manger and partner duties. That is, auditors who enjoy detail-oriented work, but not building the practice, choose to seek other detail-oriented

career opportunities. Third, audit firms may actively attempt to remove less trusting individuals when these auditors reach more senior levels, because less trusting auditors lack the dispositional traits needed to maintain relationships with clients. Our data cannot reveal which explanation is best, and this provides an avenue for further research. How audit firms should respond to the threats posed by high trust will depend upon the mechanisms that drive the removal of less trusting auditors.

We suggest our results indicate that the *nature* of the business is different at the top of an audit firm, compared to that at the bottom, and it requires different skills. To use a nautical analogy, working in the engine room that powers the ship to its destination is a very different task to navigating the ship from the bridge. Furthermore, even being in charge of the engine room is a very different job relative to being in overall charge of the ship. Similarly, a staff member's job is different from that of a senior, of a manager, of a partner, and different again from that of a senior partner. Qualities that make a good auditor (e.g. scrutinizing the details) are not necessarily qualities that make a good partner (e.g. creating and maintaining client relationships). Of course, we are not claiming that partners lack detail-oriented abilities or that all partners achieve partner status only as a result of their relationship skills. Rather, we identify a potential threat to firms' abilities to identify fraud and errors that is associated with a promotion process that favors trusting individuals.

The ethics literature typically considers trust to be a cornerstone of effective management. Many ethics researchers argue that professions must develop cultures of trust in order to be successful and that audit firms and corporations must promote systems that engender trust in order to foster cooperation and shared values (e.g., Brien 1998;

Paine 2003; Satava et al. 2006). While we do not argue against the value of trust in organizational culture, we do find evidence for detrimental effects of trust in the audit profession, and this evidence also indicates potential threats created by trust in any profession that involves oversight and monitoring. In short, trust may not always yield its expected benefits. As Maury (2000) argues, auditor independence creates public trust in the ability of auditors to properly monitor management and maintain strict ethical standards. However, the trust needed to develop relationships and facilitate interaction between auditors and their clients has the potential to hinder the detection of fraud and erode the effectiveness of audit processes.

In conclusion, we argue from this study that staff and senior auditors with a less trusting disposition will be less likely to advance to manager and partner levels even though their less trusting disposition may provide them with fraud-detections skills and make them excellent auditors. Conversely, staff and seniors of a more trusting disposition may be less effective auditors. However, their inherent ability to trust others may make it more likely they will develop trusting relationships with clients. Since client relationships are the key to the survival of the firm, they are more likely to advance up the hierarchy. In other words, competent auditors who are excellent relationship managers are more likely rise to partner status than those auditors whose less trusting disposition makes them simply excellent auditors. An inherently trusting disposition may be the factor marking out a staff member as a future partner, and the significance of trust to advancement can have significant implications for the ability of audit firms to detect financial fraud.

TABLE 1
Descriptive Results – Trust Score and Experience Means (Standard Deviation)

Position	N	Trust Score	Years Experience
Audit Staff	90	-1.58 (11.34)	0.21 (0.43)
Audit Senior	47	2.96 (13.49)	2.26 (1.18)
Audit Manager	45	6.27 (8.72)	5.80 (2.32)
Audit Partner	34	11.09 (6.02)	13.62 (2.16)
Student - Audit	53	-1.87 (9.41)	na

a The Trust Score is the dispositional trust score of each participant based upon the Wrightsman trust scale. The score ranges from -42 to +42.

b Years Experience represents the number of years of Big 4 audit experience.

TABLE 2
Hypothesis Tests

Panel A: ANOVA Results

Source	Sum Squares	df	Mean Square	F	Sig.
Intercept	2764.941	1	2764.941	25.190	0.000
Position	5614.177	4	1403.544	12.787	0.000
Error	28977.481	264	109.763		
Total	35745.000	269			

R Squared = .162 (Adjusted R Squared = .150)

Dependent variable = The Trust Score from the Wrightsman Trust Scale

Position = A categorical measure to represent audit firm position (students, staff auditors, senior auditors, managers, and partners).

Panel B: Bonferroni Multiple Comparison Tests

Position(a)	Position(b)	Mean Difference (a-b)	Std. Error	Sig.
Staff	Senior	-4.535	1.885	0.168
	Manager	-7.844	1.913	0.001
	Partner	-12.666	2.109	0.000
	Student	0.290	1.814	1.000
Senior	Staff	4.535	1.885	0.168
	Manager	-3.309	2.185	1.000
	Partner	-8.131	2.359	0.007
	Student	4.825	2.099	0.223
Manager	Staff	7.844	1.913	0.001
	Senior	3.309	2.185	1.000
	Partner	-4.822	2.381	0.438
	Student	8.135	2.124	0.002
Partner	Staff	12.666	2.109	0.000
	Senior	8.131	2.359	0.007
	Manager	4.822	2.381	0.438
	Student	12.956	2.302	0.000
Student	Staff	-0.290	1.814	1.000
	Senior	-4.825	2.099	0.223
	Manager	-8.135	2.124	0.002
	Partner	-12.956	2.302	0.000

APPENDIX
Wrightsman Trust Questions

Reponses are recorded using the following scale:

Agree Strongly	Agree Somewhat	Agree Slightly	Disagree Slightly	Disagree Somewhat	Disagree Strongly

Trust1: Most students will tell the instructor when he has made a mistake in adding up their scores, even if he has given them more points than they deserve.

Trust2: If you give the average person a job to do and leave him to it, he will finish it successfully.

Trust3: People claim that they have ethical standards regarding honesty and morality, but few people stick to them when the chips are down.

Trust4: People usually tell the truth, even when they know that they would be better off by lying.

Trust5: Nowadays people commit a lot of crimes and sins that no one else ever hears about.

Trust6: If most people could get into a movie without paying and be sure that they were not seen, they would do it.

Trust7: Most students do not cheat when taking an exam.

Trust8: Most people would tell a lie if they could gain by it.

Trust9: Most people are basically honest.

Trust10: If you act in good faith with people, almost all of them will reciprocate with fairness towards you.

Trust11: Most people lead clean, decent lives.

Trust12: If you want people to do a job right, you should explain things to them in great detail and supervise them closely.

Trust13: Most people are not really honest for a desirable reason; they're afraid of getting caught.

Trust14: Most people would cheat on their income tax if they had a chance.

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