AUDITORS' ACCEPTANCE OF
CLIENT-PREFERRED FINANCIAL REPORTING:
THE INFLUENCE OF PROFESSIONAL ROLE IDENTITIES AND CLIENT IMPORTANCE

BY

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DISSERTATION

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Abstract

Auditors protect our capital markets by assuming a stakeholder interest role of constraining aggressive, client-preferred financial reporting; in order to profitably operate as a business, however, they also must undertake a commercial role of acquiring or retaining profitable clients. In this dissertation, I examine and report the results of two experiments, testing whether the salience of auditors' professional role identities (stakeholder interest versus commercial) and client importance (lower versus higher) interact to jointly influence decisions about client financial reporting. Drawing on research in psychology, I predict and find that seasoned audit partners, compared to lower-ranked audit seniors, allow more aggressive client accounting recognition when a commercial versus stakeholder interest role identity is salient, but only when serving clients of lower importance. Audit partners with a salient stakeholder interest role identity request more conservative client accounting recognition regardless of client importance level. When the stakes of making an incorrect decision are lower (i.e., lower client importance), identity-related information processing biases are more likely to manifest, yet as decision stakes increase (i.e., higher client importance), accuracy motivations attenuate the identity effects. In addition, I find that audit partners treat the paired decision of accounting recognition and financial statement disclosure transparency (collectively, financial reporting) differently depending on client importance level. Specifically, audit partners request more conservative accounting recognition, but allow less financial statement disclosure transparency, particularly when client importance is higher. A comparison of audit partner and audit senior judgments reveals that, expectedly, lower-ranked audit seniors are not as influenced by professional role identity and client importance.

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I. INTRODUCTION

Auditors protect our capital markets by assuming a stakeholder interest role of constraining client management tendencies to use aggressive financial reporting that materially fails to conform to GAAP (SEC 2000).[1] In order to profitably operate as a business, however, auditors must balance their stakeholder interest role with a commercial role of executing their business model, which involves attracting, landing, and retaining profitable clients (Zeff 2003; Knechel 2007; Malsch and Gendron 2013). Researchers and regulators have long expressed concerns over auditor allowance of more aggressive, client-preferred financial reporting due to their preoccupation with commercial motivations (e.g., SEC 2000; Harris 2016). Auditors develop identities based on the roles they assume within their accounting firm. Whereas lower-ranking audit seniors do not routinely engage in commercial activities of the firm, seasoned audit partners, for example, have likely developed commercial and stakeholder interest identities due to their roles as audit executives. However, empirical evidence is lacking about whether the judgments of highly experienced audit professionals are subject to identity-related information processing biases.

By providing such evidence in this dissertation, I examine whether the salience of audit partners' professional role identities (stakeholder interest versus commercial) and client importance (lower versus higher) interact to jointly influence auditor judgments and decisions about aggressive, client-preferred financial reporting. Prior research finds that prompting a professional identity, in a stakeholder interest sense, causes relatively inexperienced auditors to

[1] Prior research related to stakeholder theory defines stakeholders in various ways (Clarkson 1995; Asher, Mahoney, and Mahoney 2005). This dissertation defines stakeholders as those individuals or groups that rely on management's objective financial reporting of the firm for resource allocation and formal and informal contracting (Jensen and Meckling 1976; Watts and Zimmerman 1986; Healy and Palepu 2001; Kothari, Ramanna, and Skinner 2010). Thus, in this dissertation, stakeholders include shareholders, board members, option holders, debt holders (e.g., banks, bondholders), employees, customers, suppliers, and regulators.

judge aggressive client-preferred financial reporting less favorably (King 2002; Bauer 2015). In contrast to junior auditors, audit partners are most directly responsible for dispatching audits of sufficient quality as well as executing a business model of landing and retaining profitable clients. Although audit partners routinely engage in both commercial and stakeholder interest roles, we know little about how identities formed as a result of engaging these roles influence how the partners think about and decide on the acceptability of client financial reporting. It could be that audit partners tend to permit more aggressive accounting when environmental cues activate a commercial identity. Further, there is not a clear understanding of whether decisions made under stakeholder interest or commercial identities change as the underlying client importance changes (encompassing current and future client audit fees, client size, and client visibility).

Although prior audit research suggests that the presence of a single (stakeholder interest) professional identity influences relatively inexperienced auditor judgments (Bamber and Iyer 2007; Bauer 2015), I expect that audit executives form multiple professional identities due to the different roles they undertake routinely as accounting executives (e.g., sales-driven commercial identity and stakeholder interest identity). Complementing prior research, I examine the influence of professional role identity salience within individual executive-level auditors at two levels of client importance. Both identity salience and incentives related to client importance are important drivers of behavior, yet little is known about their joint influence.

Based on identity theory and motivated reasoning, I predict that audit partners are more likely to permit management preferred, aggressive accounting when a commercial role identity versus stakeholder interest role identity is salient, but only when serving clients of relatively lower versus higher importance. When the decision stakes of drawing an incorrect conclusion are lower (e.g., when client importance is lower), identity effects are more likely to manifest. Yet, as the decision stakes of drawing an inappropriate conclusion increase (e.g., when client importance is higher), I propose, based on motivated reasoning theory, that audit partners will develop accuracy goals and engage in more effortful cognitive processing, attenuating the identity effects (Kunda 1990). In other words, audit partners are more likely to be subject to identity-related information processing biases when the decision stakes of drawing an incorrect decision are lower. Although my theory applies to audit partners' judgments and decisions, I examine in supplemental analyses audit seniors' judgments and decisions as a counterfactual test to better understand whether or not lower-ranking audit seniors develop similar identities.

It is important to examine audit partners in testing for the joint influence of professional role identity and client importance in particular because the experiential contexts associated with selling services or constraining aggressive accounting, or even the salience of costs and benefits of serving clients of differing importance, typically do not manifest at lower-level auditor ranks (Shaub and Lawrence 1996).[2] Despite theory supporting this assertion, there is considerable *a priori* tension that warrants an empirical-experimental test. One often overlooked consideration is that audit partners are not randomly selected from auditors at lower-level ranks to become audit executives of their respective firms. Indeed, the base rate percentage of audit seniors who proceed to become audit executives is estimated to be small.[3] Further, while audit seniors and

[2] In supplemental analyses, I compare the judgments and decisions of audit partners to lower-ranking audit seniors (i.e., 3-5 year professionals) by administering an experimental instrument nearly identical to the current study to 143 practicing audit seniors. Although, as discussed later, I find a marginally significant three-way interaction of auditor rank x professional role identity x client importance, I find no statistically significant interaction of professional role identity x client importance or main effects on client accounting aggressiveness at the lower-level audit senior ranks. This finding is expected given audit seniors' differing role within the accounting firm, focusing primarily on dispatching audits in accordance with professional standards rather than also routinely engaging in a commercial role of selling services.

[3] One recent informal estimate suggests that only 2% or less of audit staff will become audit partners (BreakingBig4 2014). Perhaps more revealing, only an estimated 17% of Big 4 audit senior managers with nine to 13 years of experience can be expected to become audit partners (Newquist 2011).

others at lower ranks have been shown to revise their decision processes when prompted with a stakeholder interest identity, the decision processes of more experienced auditors, especially those of audit executives, may be fairly immune to the effects of such prompts. Craig (1992) implies that, since audit partners have years of daily exposure to different professional pressures and accountabilities to parties with divergent preferences, their decision processes may become focused on identifying the right answer with little regard to what particular professional identities or economic pressures are salient in a given decision context. Further, as Hobson, Mayew, Peecher, and Venkatachalam (2015) show, auditors have different learned incentives and behaviors depending on levels of experience. As such, the pattern of findings observed in prior research using lower-ranking auditors and different operational versions of the constructs I examine herein arguably will not generalize to how these constructs jointly influence the decision processes of seasoned audit executives.

To test my hypothesis, I conduct an experiment using a 2 x 2 between-subjects design. I manipulate professional role identity salience and client importance (see Figure 1, Panel A). I manipulate professional role identity salience by prompting participants to write down thoughts about either winning or retaining an important client (commercial) or standing up to an aggressive client due to professional responsibility (stakeholder interest). I manipulate client importance by informing participants that their audit firm is (is not) the preferred assurance provider to the client's private equity (hereafter "PE") firm owner.[4]

I test my theory within the PE setting because it enables me to readily capture clients of differential importance and provides a critical and unique opportunity for commercial incentives

[4] A private equity firm is defined in this dissertation as an organizational form that engages in leveraged buyout investments and other activities by raising capital through private equity funds. Prominent private equity firms include KKR, Blackstone, and Carlyle. Refer to Kaplan and Stromberg (2009) for additional information about the private equity organizational structure.

to permeate audit partners' judgments without the risk of sanctions from the regulator over public company audits (PCAOB). Being the "preferred provider" of assurance services to a PE firm presents considerably higher current and future economic benefits to audit partners and firms. Not only are PE firms highly coveted auditor clients, but also the PE organization form as a whole continues to be the target of increased criticism from regulators and investors for engaging in aggressive financial reporting (Bowden 2014; Morgenson 2015). For example, the SEC inspected approximately 150 PE firms and found aggressive or misleading financial reporting in more than 50% of those firms (Bowden 2014).[5] Furthermore, popular press highlighted similar investor concerns that PE firms often engage in opaque financial reporting (Morgenson 2015).[6] Despite absence of audit research, an estimated 13,000 private companies are held within portfolios of approximately 3,800 PE firms in the United States (Private Equity Growth Capital Council 2015), an ownership form that has grown in investment from $0.4 trillion worldwide in 2001 to over $3.8 trillion in 2014.[7]

In my experiment, audit partners review a legal loss contingency scenario and respond to three dependent variables that measure their acceptance of client-preferred financial reporting. In doing so, audit partners determine the likelihood of requesting management to accrue (i.e., "book") a liability, the relative amount of the liability to record, and the likelihood of requesting management to disclose more "beyond compliance" details about the nature of the contingency

[5] Examples of financial reporting issues observed by SEC inspectors include improper expense allocation, hiding advisor fees, and overstating values in PE marketing and valuation materials (Bowden 2014).
[6] The NYT reported that a PE fund owned by KKR disclosed a $38.6 million expense buried in the footnotes on page 35 of 37 in the 2014 annual report, noting that the obligation would be paid to KKR out of "realization proceeds applicable to the fund" upon sale of fund investments rather than presenting it as a net expense in the fund's financial statements.
[7] In comparison, there were approximately 6,900 and 5,600 listed companies with a total market capitalization of $14.6 trillion and $27.9 trillion in 2001 and 2014, respectively, among the NYSE and Nasdaq exchanges combined (SIFMA 2015). As a percentage of private equity and public companies, private equity grew from 2.7% in 2001 to 12.0% in 2014.

in the financial statement footnotes.[8] In all conditions, management expresses a strong preference to record no accrual and to disclose the fewest details in the footnotes.

Results are consistent with my predictions. Audit partners with a more salient commercial versus stakeholder interest professional role identity allow less conservative client accounting recognition, but only when client importance is lower versus higher. Further, audit partners with a salient stakeholder interest professional role identity request more conservative accounting recognition, regardless of the level of client importance. In additional analyses, I examine whether audit partners tend to substitute accounting recognition and expanded financial statement disclosure. I do not find evidence to suggest that auditors generally substitute more conservative accounting recognition for requesting management to disclose more "beyond compliance" details about the nature of the contingency in the financial statement footnotes. Rather, it appears audit partners treat the paired decision of accounting recognition and expanded financial statement disclosure differently depending on levels of client importance. Specifically, audit partners request more conservative accounting recognition, but allow less financial statement disclosure transparency, particularly when client importance is higher.

I also find judgment process evidence supporting my theory. Consistent with the expectation that audit partners develop distinct identities given their differing roles as accounting executives, an administered post-experimental questionnaire confirmed that audit partner participants assessed their own personal attributes, beliefs, and qualities as an accounting professional (collectively, "professional identity") to be more commercial or more stakeholder interest in nature when primed with environmental cues of each respective professional role identity. I also find that audit partners perceive the stakes or consequences involved in drawing

[8] Prior research in accounting has examined auditor "book or waive" decisions or the likelihood an auditor would "require" management to adjust their accounting. I use the term "request" to be consistent with applicable auditing standards, particularly, ISA 450: Evaluation of Misstatements Identified during the Audit.

an incorrect conclusion to be greater when serving clients of higher importance, and that they engage in more cognitive effort when deliberating about a course of action. These findings are consistent with motivated reasoning theory (Kunda 1990), suggesting that motivations to be more accurate in decision-making, combined with more careful cognitive consideration, attenuates identity-related information processing biases.

My dissertation makes several contributions to both research and practice. One, I extend prior psychological research on the multifaceted nature of identities (Markus and Kunda 1986; LeBeouf, Shafir, and Belyavsky Bayuk 2010). Building on motivated reasoning theory, I show that identity effects manifest in very experienced audit professionals when decision stakes are lower, but are attenuated when stakes or consequences of drawing an incorrect conclusion increase. Two, I provide evidence that audit partners reach different decisions depending on the salience of a stakeholder interest role identity and a commercial role identity, two roles that audit partners routinely assume as accounting executives. Thus, auditors do not always think and make decisions under a single professional identity, as largely assumed in prior research at least, using considerably less experienced participants (King 2002; Bauer 2015). This dissertation also has implications for audit practitioners and regulators, as I demonstrate the importance of maintaining a stakeholder interest professional identity, particularly when serving clients of lower importance level to the audit firm. Counter to regulator fears that auditors permit clients to engage in more aggressive financial reporting primarily when serving clients of higher importance level, I find that higher client importance can be a mechanism that actually reduces commercial identity effects. Nevertheless, I do find that simply asking audit partners to write about winning or retaining an important client increases their tendency to permit more aggressive client financial reporting in some contexts (i.e., when client importance is lower). This finding suggests that identity effects could have a subtle influence on auditor judgments, depending on how easily a commercial identity is activated.

Three, the current dissertation builds on prior research by examining how auditors treat accounting recognition and expanded financial statement disclosure (Griffin 2014). Specifically, in an ambiguous decision setting, I find no evidence to suggest that audit partners generally view more conservative accounting recognition and expanded financial statement disclosure as substitutes. However, it appears that audit partners do treat the paired decision of accounting recognition and expanded financial statement disclosure differently depending on levels of client importance. Specifically, while audit partners request more conservative accounting recognition, they allow less transparent financial statement disclosure, particularly for clients of higher importance. Finally, this dissertation provides a better understanding of how the expanding, but understudied, PE organizational form and its operating environments influence experienced auditors (Financial Services Authority 2006; Cumming, Siegel, and Wright 2007; Wright, Gilligan, and Amess 2009).

The remainder of the dissertation is organized as follows. Section II explains the theory and hypothesis. Sections III and IV describe the experimental method and the results, respectively. Section V describes supplemental analyses, and section VI provides discussion and concluding comments.

II. THEORY AND HYPOTHESIS

Professional Role Identities

"Individuals possess many different identities, and the same individual may make vastly different decisions depending on which identity is relatively more salient" (Bauer 2015, 99). Identity salience is the extent that an identity is at the forefront of an individual's mind, and the salience increases with the presence and intensity of a particular identity's cues or attributes (Forehand, Deshpande, and Reed 2002; Bauer 2015). Even though individuals often have many different identities, the more salient identity at a particular decision point influences behaviors (Ashforth, Harrison, and Terry 2008; Bauer 2015).

Prior identity research in accounting examined client identity and professional identity (i.e., the extent to which an auditor identifies with norms, goals, and values of their client and, respectively, of the accounting profession) and suggests that increasing the salience or strength of either identity influences judgments and decision making of auditors (Bamber and Iyer 2007, Suddaby, Gendron, and Lam 2009; Bauer 2015; and Koch and Salterio 2015). Specifically, auditors tend to permit client-preferred, aggressive accounting more when their client identities are stronger, but less when their professional identities are stronger or more salient (King 2002; Bauer 2015; Bamber and Iyer 2007). I posit that, relative to inexperienced auditors, the professional identity is more complex for more experienced auditors; multiple identities within the professional context develop and evolve as auditors encounter particular clients and circumstances.

Audit partners form identities over time based on the unique roles they assume as executives, which likely include both a stakeholder interest role (i.e., being skeptical, protecting others' interests, and maintaining independence) and a commercial role identity (i.e., maintaining good client relationships, maintaining profitability, and growing the profession) (Anderson-Gough, Grey, and Robson 2001; Gendron 2001, 2002; Barrett, Cooper, and Jamal 2005; Suddaby et al. 2009; Gendron and Spira 2010; Kornberger, Justesen, and Mouritsen 2011; Malsch and Gendron 2013). Given prior identity research, audit executives' judgments and decisions likely depend on whether a stakeholder interest or commercial role identity is relatively more salient at the time of the decision. In general, audit partners would likely request more conservative client accounting when a stakeholder interest role identity is salient compared to when a commercial role identity is salient.

Importance of Client to Audit Firm

The construct of client importance is multi-faceted; it captures benefits in the form of fees and career advancement as well as reputation-related risks that come with greater client size and client visibility. Although higher importance may lead to the development of directional goals of appeasing management to retain current and future client fees, it may also increase the perceived risks or consequences of making an incorrect decision. This would, in turn, increase audit partners' motivations to be accurate in their decision-making. I argue that higher client importance increases the stakes or consequences (both positive and negative) of making an incorrect decision (e.g., motivations to be accurate).

The theory of economic dependence suggests that auditors are more prone to be acquiescent to managements' financial reporting demands for the reason of earning higher current and future fees (Keune and Johnstone 2012). As fees increase, auditors face greater future at-risk income (DeAngelo 1981; Simunic 1984), which pressures auditors to permit aggressive financial reporting (Wright and Wright 1997; Nelson, Elliott, Tarpley, and Gibbins 2002; Keune and Johnstone 2012). Other research proposes, however, that the potential costs of a particular decision become more salient as client importance increases. For example, Keune and Johnstone (2012, 1646) point out that "the theory of reputation protection suggests that auditors value their reputations, identify risks posed by their clients, and respond by exerting effort (Bedard and Johnstone 2004) so as to protect their reputations and reduce litigation risk (Stice 1991; Lys and Watts 1994; Johnstone and Bedard 2001)." As clients become more important, auditors experience greater reputational risk due to increased visibility, thus leading to less willingness to allow management to engage in aggressive financial reporting. In summary, the perceived personal decision stakes or consequences (both upside and downside) to the audit partner related to client financial reporting are higher when client importance increases.

The PE setting provides a critical opportunity for commercial incentives to permeate audit partners' judgments and decisions. For instance, in a typical auditor-client relationship, an auditor serves *one* client who is controlled by *one or more* owners. In the typical PE setting, however, an auditor serves *one or more* clients who are controlled by *one* common owner (or a group of common owners). This can aggregate to a substantial number of clients for the accounting firm if the auditor is the preferred assurance provider. Also, PE firms often acquire and divest of companies over, short finite time periods. Thus, auditors receive not only on-going fees for audits of PE portfolio companies, but also fees for merger and acquisition consultations, in addition to IPO fee opportunities when associated with PE firms. Clearly, landing or retaining a PE firm client with a preferred provider relationship is important to individual audit partners and their firms. Not only are there potential benefits to serving clients of higher importance, there are also potential costs. For example, PE clients of greater importance are larger in size and more visible, both attributes that relate to greater auditor litigation and reputational risk. Because clients of greater importance encompass potential benefits through current and future client fees and potential costs through litigation and reputational risk, I expect that the stakes of making an incorrect decision are perceived to be greater as client importance increases.

Moderating Effect of Client Importance on Professional Role Identities

Prior research in accounting suggests that auditors are subject to biased information processing when directional goals exist or when a strong client identity is present (Hackenbrack and Nelson 1996; Kadous, Kennedy, and Peecher 2003; Blay 2005; Suddaby et al. 2009; Bauer 2015). In line with motivated reasoning (Kunda 1990), a salient professional role identity invokes directional goals to please a particular group or to support a preferred course of action through subconscious processing. At lower levels of client importance, auditors will likely focus on and act in favor of directional goals, which are shaped by the more salient professional role identity (either a stakeholder interest or commercial identity). Yet, as accuracy goals increase (i.e., in light of the positive and negative stakes of making an incorrect decision), participants will likely engage in deeper and more careful cognitive processing (McAllister, Mitchell, and Beach 1979; Tetlock 1985; Chaiken and Maheswaran 1994), stemming from accuracy goals, and typically lead to attenuation of directional goal processing biases (Pyszczynski and Greenberg 1987; Mishra, Shiv, and Nayakankuppam 2008; Mishra, Mishra, Rixom, and Chatterjee 2013).

As Pyszczynski and Greenberg (1987, 313) suggest, "the more concerned the individual is with drawing an accurate inference, the more consistent data will be required to accept the hypothesis and the less inconsistent data will be required to reject the hypothesis." Mishra et al. (2013) find that when individuals are motivated to be accurate about spending habits, they have difficulty generating spending justifications and thus save more compared to others without motivations to be accurate. In other words, they spend conservatively. Mishra et al. (2008) propose that activated accuracy goals tend to eliminate post-action optimism bias, which, in their study, is a tendency to expect more favorable outcomes with vague information after taking an action instead of prior to doing so. Collectively, these studies advocate that deeper and more careful cognitive effort, coupled with accuracy goals will reduce the effects of a directional preference-consistent bias. Auditors concerned with accuracy goals strive to make the correct judgment, which is unknown ex-ante (Bonner 2008). However, due to GAAP, auditors who strive to be correct likely gravitate toward more conservative actions.

In my experiment, I expect audit partners to allow the least conservative client accounting when a commercial identity is salient and client importance is lower compared to all other conditions. When client importance is higher, auditors will likely request more conservative accounting due to accuracy goals regardless of their activated professional role identity. Under lower client importance, auditors will be more likely to make decisions in line with the values of their activated professional role identity. Accordingly, this leads to the following hypothesis, as depicted in Panel A of Figure 1:

> H1: Audit partners will allow the least conservative client accounting when commercial identity is salient and client importance is lower, and request more conservative client accounting when either stakeholder interest identity is salient (regardless of client importance), or when commercial identity is salient and client importance is higher.

H1 is not without tension, however. As Kunda (1990) points out, a deeper and more careful cognitive effort associated with accuracy goals could also lead the decision maker to create or reinforce justifications for desired conclusions. In other words, accuracy goals can exacerbate directional goal processing biases. For instance, Tetlock and Boettger (1989) found that accuracy goals exacerbated the dilution effect bias, due to more complex processing. Audit partners must be able to possess and access more appropriate reasoning strategies for accuracy goals to reduce bias. Thus, if deeper and more careful cognitive effort accompanying accuracy goals exacerbate audit partners' directional biases, then an alternative prediction would be that audit partners allow the least conservative client accounting when a commercial identity is salient and client importance is higher.

The Relation between Recognition and Financial Statement Disclosure Transparency

Audit partners are charged with constraining management tendencies to use aggressive financial reporting. By definition, financial reporting encompasses both recognized amounts (e.g., accounting recognition) and financial statement footnote disclosures (e.g., transparency). While the FASB has indicated that financial statement disclosure is not a substitute for recognition, and that more useful information should be recognized (SFAC No. 5, FASB 1984), prior research (albeit limited) suggests that auditors tolerate greater potential misstatement in the financial statements when clients provide supplemental fair value disclosures (Griffin 2014).

The relation between accounting recognition and financial statement disclosure remains unclear, particularly when clients express a preference to neither recognize a liability nor include additional details beyond what are required for compliance purposes in the financial statements. For example, audit partners might push clients for more forthcoming financial statement footnote disclosure (above and beyond compliance requirements) in exchange for allowing less conservative liability recognition. Alternatively, because standards indicate information that is more useful should be recognized, audit partners might request more conservative liability recognition, yet allow less transparent financial statement footnote disclosure. Both of these financial reporting decisions could be conditional on client importance. That is, audit partners may provide more concessions, either by substituting transparency for recognition or allowing more lenient footnote disclosure, for clients of higher importance. As such, I explore four research questions to better understand the relation between accounting recognition and expanded financial statement disclosure transparency.

> RQ1A: Do audit partners request more transparent financial statement disclosure, yet allow less conservative accounting recognition?
>
> RQ1B: Conditional on client importance, do audit partners request more transparent financial statement disclosure, yet allow less conservative accounting recognition?
>
> RQ2A: Do audit partners request more conservative accounting recognition, yet allow less transparent financial statement disclosure?
>
> RQ2B: Conditional on client importance, do audit partners request more conservative accounting recognition, yet allow less transparent financial statement disclosure?

III. EXPERIMENTAL METHOD

Participants and Design

Fifty-three audit executives from U.S. accounting firms ranging in size from Big 4 to small local or regional firms participated in the experiment.[9] Audit partner participants have, on average, 24 years of experience.[10] Participants were recruited via email and telephone primarily through a contact person at each participating accounting firm or office location. The accounting firm contact person sent an introductory email, on my behalf, to prospective participants within their respective firm that included a hyperlink to a Qualtrics online instrument. Self-reported demographics indicate that 27 participants were from Big 4 audit firms, 15 from non-Big 4 international audit firms, one from a national audit firm, and 10 from regional or local audit firms.[11]

To test my hypothesis, I conducted an experiment using a 2 x 2 between-subjects design. As explained more fully in the next section, I manipulated professional role identity salience and client importance (see Figure 1, Panel A). Participants were randomly assigned to one of the four treatment groups.

Task and Procedure

Upon study participation consent, auditors were asked to read brief background information. Next, participants encountered the professional role identity salience manipulation, as shown in Appendix A. As part of the manipulation, I asked participants to complete a thought

[9] Fifty-six audit executives completed the research instrument. Two participants were excluded for failing both a professional role identity comprehension check and a client importance comprehension check. One other participant was excluded from all analyses because tests (e.g., Cook's Distance) revealed this participant as an outlier on most experimental measures. This participant also did not complete one of the dependent variables. Inferences are unchanged if the outlier is included and if the data from the two participants failing both comprehension checks are included in the analyses.

[10] There were no significant differences between groups ($p > 0.316$). All participants are audit executives (e.g., opinion signing audit professionals) and highly experienced experts in their field. Therefore, any variation in years of experience at this level is not expected to influence judgments and decisions among subjects.

[11] There were no significant differences between groups based on firm size (Fisher's Exact Test, $p = 0.292$).

exercise by taking two to three minutes to reflect on specific experiences in their professional career. Participants in the *Commercial* professional role identity condition were to consider the following: "As you look back on your career, think about times in the past where you or a person you mentored won or retained an important client." Participants in the *Stakeholder Interest* professional role identity condition were to consider: "As you look back on your career, think about times in the past where you or a person you mentored stood up to an aggressive client because it was the professionally responsible thing to do." All participants were then asked to reflect on a particularly important example and to draft 2-3 short phrases that captured their thoughts. It was noted in the participants' materials that their response could include, for example, how the event was meaningful to their professional career.[12]

Then, participants were provided hypothetical audit client background information, which included the client importance manipulation. Participants were asked to assume they are the person responsible for signing the audit opinion for the client. Those in the *Higher* client importance condition were informed that the accounting firm is the preferred assurance provider for the audit client's PE firm owner. That is, the accounting firm provides assurance services to essentially all other companies owned by the PE firm; thus, substantial current and future business prospects exist. Participants in the *Lower* client importance condition were informed that the accounting firm is not the preferred assurance provider for the PE firm owner of the audit client, in which case the accounting firm does not provide services to other companies owned by the PE firm. In this condition, the materials also noted that the preferred assurance provider is heavily entrenched so it is unlikely that the audit firm will have any foreseeable growth opportunities with the client's PE owner. In all conditions, participants were informed

[12] Refer to Appendix B for example participant responses to the professional role identity manipulation.

that the client's PE firm owner and the accounting firm maintain a somewhat favorable, but fragile relationship and that any misstep in the current year's audit could jeopardize the accounting firm's relationship with the client's PE owner.

I use the PE industry setting to operationalize levels of client importance primarily because I can examine the influence of perceived incentives related to individual audit executives in a setting where the influence of potential benefits from current and future client fees and costs due to visibility can be amplified while muting the influence of sanctioning risk from the PCAOB. The PE setting provides a critical opportunity for commercial incentives to permeate audit executive judgments and decisions.

Following the client importance manipulation, participants were presented with an accounting issue related to a legal contingency. The issue relates to the accounting recognition (e.g., whether to record an accrual and amount) and the level of disclosure in the notes to the financial statements (collectively, financial reporting) stemming from a client's litigation loss contingency. The hypothetical case was designed for participants to use professional judgment and identify a course of action related to the client's financial reporting. Included in the materials were various facts that supported or did not support a more conservative financial reporting course of action. The case materials were clear that a loss contingency was probable, yet there was some uncertainty as to whether the amount of potential loss could be reasonably estimated. It was noted that, although the client claimed they could not reasonably estimate either a point estimate or range of potential loss, the engagement team could develop estimates of both. Importantly, participants were informed that client management expressed a strong preference to not recognize any accrual for potential loss and to include as few details in the financial statement disclosure as possible while still meeting applicable reporting requirements. Three retired Big 4 audit partners reviewed the case materials to ensure that the accounting issue and client scenario were realistic and that the facts of the accounting issue could support both more or less conservative financial reporting. Participants were then given a summary of ASC 450 – Contingencies and asked to apply the guidance by selecting a course of action in response to the client's accounting issue.

For the primary dependent variables, I used three seven-point Likert scales to examine audit executive decisions about client accounting recognition and financial statement disclosure. Participants provided assessments about the likelihood of requesting management to record an accrual, the relative amount of the accrual, and the likelihood of requesting management to disclose relevant details about the nature of the contingency well beyond those minimally required for compliance purposes. Participants also were asked, in a free response question, to indicate the primary factors that influenced their overall decision. Next, audit executives were given six seven-point Likert scales representing financial reporting choices listed from most conservative (e.g., accrue the point estimate and disclose relevant details beyond the minimal compliance requirements) to least conservative (e.g., do not accrue any amount as a liability and disclose only those essential details, strictly speaking, for compliance purposes). Participants were asked to assess the likelihood that each financial reporting choice is acceptable for client management use in their financial statements.

Participants then responded to a series of survey questions to measure the salience of their relative commercial or stakeholder interest professional role identity, their beliefs about professional skepticism, and their perceptions of client importance. Demographic and comprehension check questions also were included.

Finally, I administered a within-subjects manipulation of client importance. In particular, depending on the experimental condition, participants were asked how their response on the primary dependent measures would change assuming that their audit firm's relationship with the PE owner had been described conversely, as the preferred assurance provider (not the preferred assurance provider) as opposed to not the preferred assurance provider (the preferred assurance provider). Professional role identity salience, however, was held constant.

IV. RESULTS

Preliminary Tests

To ensure attendance to the experimental manipulations, I ask participants in a post-experimental questionnaire, prior to the within-subjects manipulation, to indicate whether the central topic of the thought exercise was about "standing up to an aggressive client because it was the professionally responsible thing to do" or "winning or retaining an important client." In this study, 86 percent of participants correctly answered this question. Further, 91 percent of participants correctly answered a question about whether or not the accounting firm was considered the preferred provider of assurance services for the client's PE firm owner, suggesting that participants attended to both manipulations.[13]

To test the effectiveness of the professional role identity manipulation and to provide evidence in support of formed identities of audit executives, I use a measure developed in the spirit of an Inclusion of Other in the Self (IOS) scale, a measure of connectedness and identity previously used in accounting research (Bauer 2015) and psychology studies (Aron, Aron, and Smollan 1992; Tropp and Wright 2001). After collecting the primary dependent measures, I provide participants with seven pie-chart images shaded at varying degrees (1/8 increments). I ask participants to identify the picture that best describes how their personal attributes, beliefs, and qualities as an accounting professional align with, collectively (A): the maintenance of good client relationships, profitability, and growth of the profession (shaded portion) relative to, collectively (B): skepticism, protection of others' interests, and independence (unshaded portion). The 7/8 shaded image (indicative of a highly commercial professional role identity) is assigned a value of 7; the 1/8 shaded image (indicative of a highly stakeholder interest professional role

[13] Inferences are unchanged if data from the participants who failed either manipulation check are excluded from the analyses.

identity) is assigned a value of 1. Participants select relatively more shaded images when a commercial professional role identity is primed (mean = 5.04) relative to when a stakeholder interest identity is primed (mean = 4.59; $F_{1,47} = 2.44$, $p = 0.063$, one-tailed), thus indicating a moderately successful role identity manipulation.[14]

I elicit measures of client importance and capture participant perceptions on various dimensions, including how audit executives view the client's importance to them individually and to their accounting firm. I use questions rated on seven-point scales from "not at all important" (1) to "extremely important" (7) and centered on "moderately important" (4). I ask participants to indicate how economically important both the PE portfolio client and the PE firm owner are to them. Participants indicate that the *PE portfolio client* is more personally economically important when client importance is higher (mean = 4.01) relative to lower (mean = 3.06; $F_{1,49} = 4.99$, $p = 0.015$, one-tailed), and that the *PE firm owner* is more personally economically important when client importance is higher (mean = 4.75) relative to lower (mean = 2.68; $F_{1,49} = 20.29$, $p < 0.001$, one-tailed).[15]

I also ask participants to indicate how important the PE portfolio client and the PE firm owner are to the audit partners' firms. According to participant responses, the *PE portfolio client* is more economically important to their firm when client importance is higher (mean = 3.79) relative to lower (mean = 2.73; $F_{1,49} = 5.92$, $p = 0.010$, one-tailed). Similarly, participants indicate that the *PE firm owner* is more economically important to their firm when client importance is higher (mean = 5.14) relative to lower (mean = 2.83; $F_{1,49} = 31.99$, $p < 0.001$, one-tailed).[16] I further inquire about the importance level for participants to maintain a successful

[14] Two participants did not provide a response to this question. I find no other significant main or interaction effects (both $p > 0.272$).
[15] I find no other significant main or interaction effects on either measure (all $p > 0.436$).
[16] I find no other significant main or interaction effects on either measure (all $p > 0.395$).

relationship with the PE portfolio client. To participants, it is more important to maintain a successful relationship with the *PE portfolio client* when client importance is higher (mean = 4.63) relative to lower (mean = 4.06; $F_{1,49}$ = 2.21, p = 0.072, one-tailed).[17] Next, I ask about the importance level for participants to maintain a successful relationship with the PE firm owner. Participant answers indicate it is more important to maintain a successful relationship with *PE firm owner* when client importance is higher (mean = 5.13) relative to lower (mean = 4.18; $F_{1,49}$ = 5.56, p = 0.011, one-tailed).[18]

Overall, these findings suggest a successful manipulation of client importance and professional role identity. However, more importantly, these findings convey knowledge about the presence of professional role identities within audit executives and how audit executives perceive client importance under various dimensions.[19]

Test of Hypothesis about Audit Partners' Client Accounting Conservatism

H1 predicts that audit partners who have a more salient commercial role identity when client importance is lower will allow less conservative client accounting than audit partners who have a more salient stakeholder interest professional identity (regardless of client importance) or audit partners who have a more salient commercial role identity when client importance is higher. Participants were asked "How likely are you to request management to record an accrual?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3), and centered on "undecided" (0). Panel A of Table 1 presents the descriptive statistics for client accounting conservatism, where higher mean values indicate more client-preferred accounting conservatism.

[17] I find no other significant main or interaction effects (both p > 0.560).
[18] I find a marginally significant main effect of professional role identity (p = 0.08), but no interaction effect (p = 0.484).
[19] Post-experimental questionnaire responses of various measures related to risk and professional skepticism suggest that, although participants hold a high level of professional skepticism, there were no differences between groups. Refer to supplemental analyses for discussion of these measures.

Panel B of Figure 2 illustrates graphically the observed means. Because H1 predicts an ordinal interaction (i.e., a nonsymmetric pattern of cell means), using contrast codes is the most appropriate way to test my hypothesis. This approach improves statistical power over the interaction tested in a traditional categorical ANOVA without increasing Type I error rates (Buckless and Ravenscroft 1990). Accordingly, I use contrast weights of -3 for the commercial professional role identity, lower client importance condition; +1 for the stakeholder interest professional role identity, lower client importance condition; +1 for the commercial professional role identity, higher client importance condition; and +1 for the stakeholder interest professional role identity, higher client importance condition. Table 1, Panel B displays a traditional categorical ANOVA, while Panel C presents my hypothesis test (using contrast weights) and simple main effects.

Results presented in Panel C show that the -3, +1, +1, +1 planned contrast is significant ($F = 4.11$, $p = 0.024$, one-tailed), consistent with my interaction prediction.[20] A test of the residual between-cells variation (not tabulated) is not significant, suggesting that the hypothesized contrast explains variation in the data well ($F_{2,49} = 1.95$, $p = 0.153$, two-tailed).[21] In addition, the follow-up simple effect tests suggest that for lower client importance, a salient commercial professional role identity (mean = 1.00) permits less conservative accounting relative to a salient stakeholder interest professional role identity (mean = 2.13; $F = 3.97$, $p = 0.026$, one-tailed). The findings also demonstrate that, for a salient commercial professional role identity, higher client importance (mean = 2.09) results in more conservative accounting relative

[20] Although Shapiro-Wilk's tests indicate that the data in three of the four conditions violate the assumption of normality, non-parametric tests for H1 lead to similar inferences.

[21] The semi-omnibus F statistic tests the significance of the variation caused by the independent variables that is not explained by the hypothesized contrast; a p-value greater than 0.05 indicates that the remaining variation is insignificant (Keppel and Wickens 2004; Guggenmos, Piercey, and Agoglia 2016). I compute the semi-omnibus F test using the sums of squares from the ANOVA model testing the primary dependent variable.

to lower client importance (mean = 1.00; $F = 3.79$, $p = 0.029$, one-tailed). For completeness, the results imply that for a salient stakeholder interest professional role identity, accounting conservatism is not statistically significant between higher client importance (mean = 1.61) and lower client importance (mean = 2.13; $F = 0.89$, $p = 0.349$, two-tailed). In summary, this pattern of results is consistent with H1.

I also examine whether audit executives permit less financial statement disclosure transparency when a commercial versus stakeholder interest professional role identity is more salient, but only when serving clients of relatively lower importance. Participants were asked, "How likely are you to request management to disclose relevant details about the nature of the contingency that go well above and beyond the bare essentials required for compliance purposes?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Table 2 presents the descriptive statistics and results of the analysis for expanded financial statement disclosure transparency. None of the specified tests is statistically significant at conventional levels. Analyses reveal that audit executives view the decision to request accrual recognition differently than the decision to request financial statement disclosure above and beyond compliance requirements.[22]

Tests of Research Questions about Accounting Recognition and Disclosure Transparency

As previously mentioned, I ask participants on two seven-point scales (centered on zero) the likelihood they would request client management to record an accrual and the likelihood they would request client management to disclose more details about the matter than required for compliance purposes. To examine whether audit partners tend to substitute accounting recognition and financial statement disclosure transparency, I first partition participants into four

[22] Untabulated analysis of the dependent variable measuring the amount of accrual recognition the audit partner will request management to record reveals that none of the specified tests is statistically significant at conventional levels.

categories based on their positive/negative responses to these two dependent measures: likely accrue/likely expand disclosure, likely accrue/unlikely expand disclosure, unlikely accrue/likely expand disclosure, and unlikely accrue/unlikely expand disclosure.

Table 3 reports the distribution of financial reporting preference by number of participants. Splitting the likelihood scales at zero, I find that 22 of 50 participants either selected likely accrue/unlikely expand disclosure or unlikely accrue/likely expand disclosure.[23] This finding implies that although the majority of participants (28 or 56%) take a likely accrue/likely expand disclosure course of action, some participants (22 or 44%) tradeoff between the two decision choices, suggesting a substitution effect could exist. Interestingly, no participants chose to side with management by selecting unlikely accrue/unlikely expand disclosure. I also examine the correlation between accounting recognition and expanded financial statement disclosure, noting that the correlation between the two is not significant ($r = -0.17$; $p = 0.221$, two-tailed).

To further examine the potential substitution effect of accounting recognition and financial statement disclosure transparency, I examine two primary research questions: One, do audit partners request more transparent financial statement disclosure, yet allow less conservative accounting recognition (RQ1A), and does the tradeoff depend on client importance level (RQ1B)? Two, do audit partners request more conservative accounting recognition, yet allow less transparent financial statement disclosure (RQ2A), and does the tradeoff depend on client importance level (RQ2B)?

If audit partners request more transparent financial statement disclosure, yet allow less conservative accounting recognition, I would expect the cell mean pattern of financial statement disclosure to be greater than the pattern for accounting recognition overall (RQ1A) or depending

[23] Three participants were excluded: one participant indicated undecided accrue/unlikely expand disclosure, one participant indicated undecided accrue/likely expand disclosure, and one participant indicated undecided accrue/undecided expand disclosure.

on client importance level (RQ1B). The pattern of cell means in Tables 1 and 2 do not support RQ1A or RQ1B. That is, the individual cell means of accounting recognition are all greater than their paired cell means of expanded financial statement disclosure. Overall, compelling evidence does not exist to suggest that audit partners substitute more conservative accounting recognition with more forthcoming financial statement disclosure (RQ1A), regardless of the influence of client importance (RQ1B).

The pattern of cell means, however, could support RQ2A and RQ2B. To examine RQ2A and RQ2B, I perform a paired t-test, comparing paired audit partner decisions of accounting recognition (Table 1) and expanded financial statement disclosure (Table 2). Results for RQ2A indicate that, overall, accrual recognition (mean = 1.73) is higher than expanded financial statement disclosure (mean = 0.76; $t_{52} = 0.76$, $p = 0.012$, two-tailed), suggesting that audit partners are overall more likely to request client management to recognize an accrual than to request financial statement disclosure beyond compliance requirements.

Further, results for RQ2B show no difference in the likelihood of requesting accrual recognition (mean = 1.59) and expanded financial statement disclosure (mean = 1.15) when serving clients of lower importance ($t_{24} = 0.76$, $p = 0.452$, two-tailed). However, when serving clients of higher importance, accrual recognition (mean = 1.85) is higher when compared to financial statement disclosure (mean = 0.41; $t_{27} = 3.08$, $p = 0.005$, two-tailed). These results propose that audit partners appear to request more conservative accounting recognition, yet allow more flexibility in the amount of details disclosed in the financial statements, primarily when serving clients of higher importance.

In summary, although compelling evidence does not exist to suggest that audit executives permit less conservative accounting recognition for expanded financial statement disclosure, I find evidence to suggest that audit executives treat the paired decision of accounting recognition and expanded financial disclosure differently, particularly on different levels of client importance.

V. SUPPLEMENTAL ANALYSES

Evidence of Underlying Theory

To illuminate audit executives' perceptions of the stakes or consequences of coming to an incorrect conclusion (e.g., extent of audit partners' commitments to accuracy goals), I ask participants in a post-experimental questionnaire to identify how costly it would be to their career if they did not request the client to modify their preferred accounting treatment and a misstatement was later revealed. I use a seven-point scale from "not at all costly" (1) to "very costly" (7) and centered on "moderately costly" (4). Table 7 presents the descriptive statistics and ANOVA. I find that participants perceive a misstatement to be more costly to their careers in the higher client importance condition (mean = 6.16) compared to the lower client importance condition (mean = 5.28; F = 6.98, p = 0.006, one-tailed).[24] I also ask participants to identify how costly it would be to their careers if they requested the client to do something management deemed undesirable and the firm lost the client over the disagreement (e.g., extent of audit partners' commitments to directional goals of appeasing management). I use a seven-point scale from "not at all costly" (1) to "very costly" (7) and centered on "moderately costly" (4). Analysis in Table 7 reveals that participants do not perceive the loss of the client as more costly to their career in the higher client importance condition (mean = 2.24) compared to the lower client importance condition (mean = 1.87; F = 1.82, p = 0.183, two-tailed). Thus, although audit partners appear to hold similar commitments to directional goals in both the lower and higher importance conditions, audit partners' commitments to accuracy goals appear stronger for clients of relatively higher client importance. Importantly, these findings are consistent with motivated reasoning theory.

[24] One participant did not provide a response to this question.

According to psychology theory, when task importance is greater (i.e., the salience of consequences is heightened), individuals will likely expend more cognitive effort as a result of increased accuracy motivations. Thus, I also measure the amount of cognitive effort (i.e., time in seconds) participants expended between reading the client importance manipulation and responding to the primary dependent questions.[25] This includes time spent reading the background, accounting issue, and applicable guidance, and answering the primary dependent questions. Results show that audit executives expended marginally more cognitive effort (i.e., time in seconds) in the higher client importance condition (mean = 598) compared to the lower client importance condition (mean = 488; $F_{1,48} = 1.91$, $p = 0.087$, one-tailed).[26] Importantly, more effortful cognitive processing accompanied by accuracy goals has been shown in prior psychology research to attenuate the effects of some information processing biases. Therefore, this finding suggests that the effects of professional role identity that were observed under lower client importance are attenuated under higher client importance due to deeper and more effortful cognitive effort stemming from motivations for accurate decision-making.

Collectively, these results provide support for motivated reasoning theory. Not only do audit executives perceive the stakes or consequences to be greater when serving clients of higher importance, but they also engage in more careful and effortful cognitive processing. That is, when serving clients of lower importance, professional role identity appears to influence audit partner decision-making, yet as client importance increases, the identity effects are attenuated.

Insights into the Conscious versus Subconscious Nature of the Decision Process

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[25] While the conceptual definition of cognitive effort includes intensity and duration of attention (Libby and Lipe 1992), I focus on time spent on issue deliberation as it can be reliably measured.

[26] One participant was excluded from the analysis for spending time deliberating on the accounting issue that was more than eight times greater than the average of all other participants' and more than ten standard deviations greater than the mean. I find no other significant main or interaction effects (both $p > 0.825$).

As Libby, Bloomfield, and Nelson (2002) suggest, a better understanding is warranted of how (i.e., the process through which) incentive effects occur. Bazerman, Morgan, and Loewenstein (1997) suggest that auditors cannot be independent because of the subconscious judgment effects arising from such incentives. Other researchers have argued that through a conscious decision-making process, counterbalancing forces, such as legal sanctioning or market penalties from reputational loss, reduce auditors' incentives to misreport (Keune and Johnstone 2012). Thus, auditors face conscious tradeoffs between client fees for allowing more aggressive accounting versus potential economic penalties for permitting more aggressive accounting (King 2002). If audit partners' variation in acceptable client accounting is a result of conscious decision processes, audit executives should modify their decisions about acceptable client accounting when the description about the importance of the client is overtly reversed (Kahneman and Tversky 1996).

In my study, I ask participants whether their client accounting decision would change, if at all, given the opposite client importance scenario. At the end of the instrument, participants are told to reconsider their initial client accounting preference (e.g., likelihood of requesting client management to record an accrual) when their audit firm's relationship with the PE owner was instead described as the opposite type (the audit firm was the preferred assurance provider for the PE firm owner, or was not the preferred assurance provider for the PE firm owner). Participants responded by choosing one of three choices: 1) "I would be more likely to request management…" 2) no change in action; or 3) "I would be less likely to request management…" Results indicate that 96% (24 of 25 participants) did not revise their initial decision from lower client importance to higher client importance and that 96% (27 of 28 participants) did not revise their initial decision from higher client importance to lower client importance. Therefore, I find an interactive effect of professional role identity and client importance on a between-subjects basis; yet, on a within-subjects basis the same participants indicate, on average, they would not alter their initial decision under the opposite level of client importance. This finding suggests that audit partners seemingly believe their judgments are unaffected by perceptions of client importance.

Audit Partner to Audit Senior Decision Comparison

In a separate experiment, I administer a nearly identical experimental instrument to lower-level ranked audit seniors (i.e., 3-5 year professionals) to better empirically investigate whether the effects of professional role identities and client importance are conditional on auditor rank. Overall, I expect audit partners and audit seniors to make divergent judgments, given the differing roles they routinely engage in within the firm and how they perceive client importance.

Professional Role Identity

Auditors engage in diverse roles within their organization depending on their rank and tenure. Although audit partners and audit seniors routinely engage in a stakeholder interest role of dispatching quality audits in accordance with professional standards, audit partners are likely to have more developed commercial identities, given a partner's routine role of engaging in sales activities. For example, audit seniors' roles include managing audit engagements on a day-to-day operational level, interacting with clients, performing audit tasks, and delegating to and reviewing work from lower-ranking staff. Audit seniors may also participate in client pursuit teams in an attempt to attract and attain new clients. In contrast, audit partners not only are the decision-finalizing members of audit teams, who oversee the entire audit product, but also they are incentivized to attract or retain clients. Thus, audit partners routinely engage in a role of selling professional services. Since role identities are formed through engaging in actions or behaviors, I do not expect lower-ranking audit seniors, who do not routinely engage in a commercial role of selling services, to have developed a strong commercial identity. However, I do expect audit seniors to have developed a relatively strong stakeholder interest identity due to their routine role of dispatching audits in accordance with professional standards. In summary, I expect audit partners and audit seniors to have differing levels of identity development.

Client Importance

Audit seniors and audit partners likely perceive client importance differently given their different roles and incentives as auditors. Whereas audit partners likely perceive the personal and career benefits or consequences of retaining or losing clients of higher importance quite saliently, audit seniors likely do not have the experience or the underlying incentives to fully comprehend similar risks and rewards to attaining or retaining important clients. Although I do not expect audit seniors and audit partners to perceive client importance similarly, I do expect audit seniors to have the ability to identify attributes of higher and lower important clients.

Participants and Design

One hundred forty-three audit seniors from a Big Four accounting firm in the U.S. participated in the experiment.[27] Audit senior participants have, on average, four years of experience.[28] Identical to the partner study, I employ a 2 x 2 between-subjects design where I manipulate professional role identity salience and client importance. In the senior study, I add a control condition to examine the effects of client importance without the influence of professional role identity.

[27] In contrast to the audit partner study that was administered online through the Qualtrics platform, the audit senior study was administered on paper at a national firm training event by the author and four research assistants.
[28] Three managers with nine and 10 years of experience were included within the sample. Inferences from primary dependent variables and process measures do not change when excluded.

Although the details of the case in the audit senior experiment are identical to those in the audit partner experiment, certain modifications are made for the case to be applicable to lower-ranked senior auditors. The following modifications are within the experimental instrument. One, because lower-level auditors are not likely to attain clients in a similar fashion as audit partners, the wording of the commercial identity manipulation is modified to state: "Think about times in the past when you participated on a client pursuit team (i.e., a team bidding on a client), or what it would be like to participate on a client pursuit team, that won or retained an important client." Furthermore, instead of asking audit seniors to decide on a course of action, as partners typically do in the decision finalization role, audit senior participants are asked to recommend a course of action to the audit partner.

The dependent variables in the audit partner experiment and audit senior experiment are equivalent. Related to accounting conservatism, participants are asked, "How likely are you to recommend that management record an accrual?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Related to financial statement transparency, participants are asked, "How likely are you to recommend management disclose relevant details about the nature of the contingency that go well above and beyond the bare essentials required for compliance purposes?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0).

Preliminary Tests

To ensure audit senior participants attend to the experimental manipulations, I ask participants in a post-experimental questionnaire, prior to the within-subjects manipulation, to indicate whether the central topic of the thought exercise is about "standing up to an aggressive client because it was the professionally responsible thing to do" or "participating on a team that won or retained an important client." Seventy-eight percent of participants correctly answered this question. Eighty-four percent of participants correctly answered a similar question about whether or not the accounting firm was considered the preferred provider of assurance services for the client's PE firm owner.

Similar to the audit partner study, I ask audit seniors to assess their own identity in terms of commercial attributes or stakeholder interest attributes. In contrast to audit partners, audit seniors do not select relatively more commercial related images when a commercial professional role identity is primed (mean = 3.55) relative to when a stakeholder interest identity is primed (mean = 3.55; $F_{1,94} = 0.45$, $p = 0.506$, two-tailed). These results suggest that audit seniors are not as sensitive as audit partners to identity activation in terms of how they identify with commercial aspects or stakeholder interest aspects. This finding is expected, given audit seniors' differing role within the accounting firm that focuses primarily on dispatching audits in accordance with professional standards rather than also engaging in a commercial role of selling services.

Similar to the audit partner study, I elicit measures of client importance, capturing participants' perceptions on various dimensions, including how audit seniors view the client's importance to themselves individually and to their accounting firm. The following questions were asked and rated on seven-point scales from "not at all important" (1) to "extremely important" (7) and centered on "moderately important" (4). I ask participants to indicate how economically important both the PE portfolio client and the PE firm owner is to them individually. In contrast to audit partners, audit senior participants indicate that the *PE portfolio client* is not more economically important to them when client importance is higher (mean = 3.89) relative to lower (mean = 3.74; $F_{1,94} = 0.24$, $p = 0.629$, two-tailed). However, consistent with audit partners, audit seniors indicate that the *PE firm owner* is more economically important to them when client importance is higher (mean = 4.18) relative to lower (mean = 3.34; $F_{1,94}$ = 7.09, p = 0.005, one-tailed).[29]

I also ask participants to indicate how important the PE portfolio client and the PE firm owner are to the audit seniors' firms. In contrast to audit partners, audit senior participants indicate that the *PE portfolio client* is not more economically important to their firm when client importance is higher (mean = 4.59) relative to lower (mean = 4.44; $F_{1,89}$ = 0.30, p = 0.584, two-tailed). Nonetheless, audit senior participants, similar to audit partners, indicate that the *PE firm owner* is more economically important to their firm when client importance is higher (mean = 5.33) relative to lower (mean = 4.15; $F_{1,94}$ = 17.05, p < 0.001, one-tailed).[30] I further ask how important it was for participants to maintain a successful relationship with the PE portfolio client. In contrast to audit partner participants, audit senior participant responses indicate it is not more important to maintain a successful relationship with the *PE portfolio client* when client importance is higher (mean = 4.65) relative to lower (mean = 4.65; $F_{1,94}$ < 0.01, p = 0.965, two-tailed). Next, I ask how important it is for participants to maintain a successful relationship with the PE firm owner. Consistent with audit partners, audit senior participant responses indicate it is more important to maintain a successful relationship with *PE firm owner* when client importance is higher (mean = 4.95) relative to lower (mean = 3.94; $F_{1,91}$ = 12.08, p < 0.001, one-tailed).[31]

In summary, audit seniors and audit partners appear to not perceive client importance in identical ways, yet overall, these findings suggest a successful manipulation of client importance. As expected, my primary measure of identity activation suggests that, compared to audit partners, audit seniors do not appear to be influenced similarly by the environmental cues within the professional role identity manipulation.

[29] I find no significant main or interaction effects (both p > 0.603).
[30] I find no significant main or interaction effects (both p > 0.651).
[31] I find no significant main or interaction effects (both p > 0.177).

Audit Seniors' Client Accounting Conservatism and Financial Statement Disclosure Transparency

Panel A of Table 4 presents the descriptive statistics for client accounting conservatism, where higher mean values indicate more client accounting conservatism. Panel B displays a traditional categorical ANOVA, while Panel C presents a planned contrast as well as simple main effects. In contrast to audit partners, none of the specified tests related to audit seniors' client accounting conservatism is statistically significant at conventional levels. In Table 6, there is a marginal three-way interaction between Auditor Rank, Professional Role Identity, and Client Importance ($F = 2.89$, $p = 0.092$, two-tailed), suggesting that audit partners and seniors reach different decisions given professional role identity and client importance. Again, this finding is expected, given audit seniors' differing role within the accounting firm.

Table 5 presents the descriptive statistics, ANOVA, planned contrast, and simple main effects related to expanded financial statement disclosure transparency. In contrast to audit partners, results presented in Panel C show that a -3, +1, +1, +1 planned contrast related to audit seniors is only marginally significant ($F = 2.25$, $p = 0.068$, one-tailed). In addition, the follow-up simple effect tests imply that for lower client importance, a salient commercial professional role identity (mean = 0.44) allows for less conservative disclosure transparency relative to a salient stakeholder interest professional role identity (mean = 1.53; $F = 4.56$, $p = 0.018$, one-tailed). None of the remaining simple main effect tests is significant at conventional levels. In Table 6, an expanded ANOVA reveals no three-way interaction between Auditor Rank, Professional Role Identity, and Client Importance ($F = 0.06$, $p = 0.812$, two-tailed).

Taking these findings as a whole, professional role identity and client importance appear to influence audit seniors and audit partners differently, as expected, regarding judgments of accounting conservatism and financial statement disclosure transparency.

Further analyses reveal that in contrast to audit partners, audit seniors do not perceive the consequences of making an incorrect decision (e.g., commitments to accuracy goals) to be greater in the higher client importance condition compared to the lower client importance condition. For example, as presented in Table 7, audit seniors in the higher client importance condition (mean = 5.47) do not perceive a misstatement to be more costly to their careers compared to the lower client importance condition (mean = 5.29; F = 0.42, p = 0.516, two-tailed). This result suggests that audit seniors' commitments to accuracy goals do not change when client importance increases. Similar to the audit partner experiment, I ask audit senior participants to identify how costly it would be to their careers if they requested the client to do something management deemed undesirable and the firm lost the client over the disagreement. Similar to audit partner participants, as noted in Table 7, audit senior participants do not perceive the loss of the client to be more costly to their careers in the higher client importance condition (mean = 5.25) compared to the lower client importance condition (mean = 3.46; F = 0.34, p = 0.563, two-tailed), suggesting that audit seniors' commitments to directional goals do not change when client importance increases.

Interestingly, in an audit partner to audit senior comparison, I find that descriptive means of audit partners' and audit seniors' perceptions about the costliness of a later revealed misstatement on their careers to be close to one another, and not statistically significantly different overall (partner mean = 5.75; senior mean = 5.38; F = 1.89; p = 0.171, two-tailed) and in the lower client importance condition (partner mean = 5.23; senior mean = 5.29; t_{69} = 0.03, p =

0.975). However, audit partners perceive (mean = 6.19) a misstatement to be more costly to their careers than audit seniors (mean = 5.47; t_{75} = 2.17, p = 0.033, two-tailed) in the higher client importance condition, suggesting that audit partners have greater accuracy-related goal commitment when client importance is higher. Further, I find that audit seniors perceive requesting the client to do something management deemed undesirable resulting in the firm losing the client over the disagreement to be more costly to their careers than audit partners overall (senior mean = 3.35; partner mean = 2.06; F = 30.28, $p < 0.001$) and in conditions of lower client importance (senior mean = 3.46; partner mean = 1.87; t_{69} = 4.51, p = <0.001) and higher client importance (senior mean = 3.25; partner mean = 2.26; t_{75} = 3.12, p = 0.003). Therefore, my study indicates that audit seniors generally have greater directional goal commitments than audit partners, and, overall, that audit partners and audit seniors appear to have differing accuracy and directional goal commitments.

Audit Senior versus Audit Partner Comparisons of Professional Skepticism and Perceptions of Client Pressure

I also compare perceptions of client pressure (Koch and Salterio 2015) and three different dimensions within an attitude conceptualization of professional skepticism, which include measures of beliefs, feelings, and actions (Nolder and Kadous 2014), between audit partners and audit seniors. The following results suggest that audit partners and audit seniors hold different perceptions of professional skepticism and client pressure.

Professional Skepticism - Beliefs

Table 8 presents descriptive statistics and analyses related to beliefs of professional skepticism. I ask participants to rate three measures. The first measure asks, “How would you assess the risk that Basepoint's financial statements are materially misstated when using management's preferred accounting treatment?" on a seven-point scale from "low" (1) to "high" (7) and centered on "moderate" (4). Analysis reveals that, overall, audit partners' descriptive mean (mean = 5.15) and audit seniors' descriptive mean (mean = 4.95; $F = 0.62$, $p = 0.433$, two-tailed) are not statistically significantly different from one another. The second measure asks, "How reasonable is management's preferred accounting treatment?" on a seven-point scale from "very unreasonable" (-3) to "very reasonable" (+3) and centered on "undecided" (0). Overall, audit partners (mean = -1.25) believe that management's preferred accounting treatment is marginally less reasonable than audit seniors (mean = -0.85; $F = 2.87$, $p = 0.092$, two-tailed). The third measure asks "Based on the brief information provided in the case, how would you rate management's competence?" on a seven-point scale from "very low" (1) to "very high" (+3) and centered on "moderate" (0). Although a three-way interaction is observed ($F = 5.59$; $p = 0.019$, two-tailed), overall, audit partners' descriptive mean (mean = 3.64) and audit seniors' descriptive mean (mean = 3.72; $F = 0.18$, $p = 0.673$, two-tailed) are not statistically significantly different. In summary, audit partners and audit seniors have different perceptions about their beliefs of professional skepticism related to the reasonableness of management's preferred accounting treatment.

Professional Skepticism - Feelings

Table 9 presents descriptive statistics and analyses related to feelings of professional skepticism. I ask participants to rate two measures. The first measure asks, "How worried are you that the financial statements are misstated if Basepoint uses their preferred accounting treatment (i.e., to not record an accrual and to disclose a minimally acceptable level of detail about the nature of the contingency in the notes to the financial statements)?" on a seven-point scale from "not at all worried" (1) to "very worried" (7) and centered on "moderately worried"

(4). Overall, audit partners' descriptive mean (mean = 5.21) and audit seniors' descriptive mean (mean = 5.13; $F = 0.08$, $p = 0.783$, two-tailed) are not statistically significantly different overall. Next, I ask participants, "How worried are you that the evidence supporting management's preferred accounting treatment is not sufficient to support their conclusion?" on a seven-point scale from "not at all worried" (1) to "very worried" (7) and centered on "moderately worried" (4). Analysis reveals a non-significant three-way interaction ($F = 2.45$; $p = 0.120$, two-tailed), and overall, audit partners' descriptive mean (mean = 5.26) and audit seniors' descriptive mean (mean = 5.06; $F = 0.68$, $p = 0.412$, two-tailed) are close to each other and not statistically significantly different.

Professional Skepticism - Actions

Table 10 presents descriptive statistics and analyses related to actions of professional skepticism. I ask participants to rate three measures. The first measure asks, "How likely are you to take the following action: seek additional evidence and/or explanation from Basepoint's management?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Analysis reveals that, overall, audit partners (mean = 2.80) are more likely to seek additional evidence and/or explanation from management compared to audit seniors (mean = 2.39; $F = 10.79$, $p = 0.001$, two-tailed). The second measure asks, "How likely are you to take the following action: consult (recommend consultation) with a technical partner or your firm's professional practice group regarding the accounting issue?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3), and centered on "undecided" (0). Analysis reveals that, overall, audit partners' descriptive mean (mean = 2.29) and audit seniors' descriptive mean (mean = 2.12; $F = 0.93$, $p = 0.337$, two-tailed) are not statistically significantly different. The third measure asks, "How likely are you to take the following action: Bring

(Recommend bringing) the accounting issue up with the audit committee?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Overall, audit partners (mean = 2.61) are more likely to bring (recommend bringing) the issue up with the audit committee than audit seniors (mean = 1.53; $F = 30.21$, $p < 0.001$, two-tailed). In summary, audit partners are more likely to seek out additional evidence and bring the issue up with the audit committee when compared to audit seniors.

Perceptions of Client Pressure

Table 11 presents descriptive statistics and analyses related to perceptions of client pressure. I also elicited two measures of perceptions of client pressure (Koch and Salterio 2015). The first measure states, "If you do not agree with Basepoint's management, they are in a position to penalize you for your behavior" on a seven-point scale from "strongly disagree" (-3) to "strongly agree" (+3) and centered on "neither agree nor disagree" (0). Overall, audit partners (mean = 0.67) perceive that management is more in a position to penalize them for their behavior compared to audit seniors (mean = -0.27; $F = 9.41$, $p = 0.003$, two-tailed). The second measure asks, "Client management's interests and your interests as an auditor are in conflict in this situation" on a seven-point scale from "strongly disagree" (-3) to "strongly agree" (+3) and centered on "neither agree nor disagree" (0). Analysis reveals that, overall, audit partners' descriptive mean (mean = 1.13) and audit seniors' descriptive mean (mean = 1.31; $F = 0.53$, $p = 0.466$, two-tailed) are not statistically significantly different. In summary, although perceptions of conflicts of interest are similar between audit partners and audit seniors, audit partners perceive that management is in a position to penalize them for their behavior more than audit seniors. Overall, these findings suggest that audit partners hold different perceptions of client pressure compared to audit seniors.

VI. CONCLUSION

In this study, I provide experimental evidence that the salience of two audit partner professional role identities (stakeholder interest versus commercial) and audit firm client importance (lower versus higher) interact to jointly influence judgments and decisions about client financial reporting. Specifically, I find that audit executives with a salient commercial versus stakeholder interest professional role identity allow more aggressive client accounting, but more so when client importance is lower versus higher. Audit partners with a salient stakeholder interest professional role identity request more conservative client accounting recognition regardless the level of client importance. I do not find evidence to suggest that auditors generally substitute more conservative accounting recognition for expanded financial statement disclosure, but it appears that audit partners treat the paired decision of accounting recognition and expanded financial statement disclosure differently depending on levels of client importance. Finally, my results suggest that the influence of professional role identity, particularly a commercial identity, manifests primarily at the audit partner level and not at lower-level audit senior ranks.

One limitation of this study is that my results regarding the subconscious nature of the decision process related to client importance could be subject to effects of self-preservation concerns or social desirability bias. That is, the audit partner responses to the client importance within-subjects manipulation could stem from not wanting to overtly concede that their decisions about client financial reporting depend on the level of client importance. Despite the anonymous and confidential nature of my research study and open candor of audit partners discussing in free response questions the influence that landing important clients had on their careers, a claim that client importance effects appear to stem from a subconscious decision process is limited by participants potentially engaging in self-preservation or exhibiting a social desirability bias. One reason is because I ask audit executives directly about their own behavior within the experimental materials. The choice to directly ask about audit partners' own behavior allows me to examine the influence of individual audit executive professional role identity that manifests through personal experiences as an accounting professional. I concluded that it is essential to examine professional role identity by directly asking about individual participant behavior.

Despite this potential limitation, my dissertation has important implications for researchers, audit practitioners, and regulators. One, by drawing on motivated reasoning theory, I show that identity effects are attenuated as the stakes or consequences of drawing an incorrect conclusion increase (e.g., higher client importance). Two, I provide evidence suggesting that audit partners reach different decisions depending on the joint interaction of professional role identities and client importance. Thus, auditors do not always think and make decisions under a single professional identity as primarily shown in prior research (King 2002; Bamber and Iyer 2007; Suddaby et al. 2009; Bauer 2015). Interestingly, I find that simply asking partners to write down thoughts about winning an important client or standing up to an aggressive client can trigger different identities, suggesting that these identities can be easily activated in the natural environment resulting in pervasive effects. Three, counter to prior research, this study does not find compelling evidence to suggest that auditors generally trade off more conservative client accounting recognition for more forthcoming financial statement disclosure transparency as noted in prior research related to auditor fair-value decisions (Griffin 2014). Instead, I find that audit partners tend to request more conservative client accounting recognition, but permit less forthcoming financial statement disclosure transparency, particularly when serving clients of higher client importance. Four, this study provides a better understanding of the type of decision processes through which client incentive effects (related to client importance) occur. In particular, I find that incentive effects related to client importance appear to be the result of a subconscious decision process. Finally, this study enhances our understanding of how the expanding, but understudied, PE organizational form and its operating environments influence audit partners (Financial Services Authority 2006; Cumming et al. 2007; Wright et al. 2009).

Although regulators have criticized private equity industry firms for engaging in aggressive accounting and financial reporting, private equity industry firms are not subject to public company regulatory scrutiny and auditors of these firms are not sanctioned under PCAOB regulations. Thus, future research could examine whether auditors make different decisions for private equity industry clients compared to publically traded clients (i.e., when stricter regulations are in place).

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FIGURES

Figure 1
Experimental Design

Panel A: 2x2 Between-Subjects Design Portion

		Professional Role Identity	
		Commercial	**Stakeholder Interest**
Client Importance	**Lower**	Lower/ Commercial	Lower/Stakeholder Interest
	Higher	Higher/ Commercial	Higher/Stakeholder Interest

Figure 1 (cont.)
Experimental Design

Panel B: Administration of Tasks

Participants begin by reading background information about the tasks within the experimental instrument.

Professional Role Identity Between-Subjects Manipulation

Participants are asked to complete a thought exercise by reflecting on their career. They are asked to think of a particularly important example and to write down thoughts that come to mind about this particular example.

Commercial Identity Condition	**Stakeholder Interest Identity Condition**
As you look back on your career, think about times in the past when you or a person you mentored won or retained an important client.	As you look back on your career, think about times in the past when you or a person you mentored stood up to an aggressive client because it was the professionally responsible thing to do.

Client Importance Between-Subjects Manipulation

Participants read background information about the audit client, management, the client's audit committee, the client's board of directors, and the relationship between the client and the audit firm. The background information includes the client importance manipulation. In all conditions, participants are told that the audit firm and the private equity owner maintain a somewhat favorable, but fragile relationship and that any misstep in the current year's portfolio company audit could jeopardize the audit firm's relationship with the private equity owner.

Lower Client Importance Condition	**Higher Client Importance Condition**
Participants are told that their firm is not considered the preferred provider of assurance services for the private equity owner, so their firm does not audit other portfolio companies owned by the private equity firm. Additionally, participants are told that the preferred assurance provider is heavily entrenched with the private equity firm, thus it is unlikely that their audit firm will have any foreseeable growth opportunities with the private equity owner.	Participants are told that their firm is considered the preferred provider of assurance services for the private equity owner, so their firm audits essentially all other portfolio companies owned by the private equity firm.

Accounting Issue and Accounting Guidance

Participants read about the accounting issue which relates to a litigation loss contingency. The materials were designed to provide participants with several facts that could support both more conservative and less conservative financial reporting. The materials indicate that client management has expressed a strong preference to not record any accrual for potential loss and to include as few details in the footnote disclosure as possible while still meeting applicable reporting requirements. Participants are provided with a summary of ASC 450 – Contingencies.

Figure 1 (cont.)
Experimental Design

Panel B (cont.): Administration of Tasks

Between-Subjects Dependent Variables
Participant responses are measured on seven-point scales 1) How likely are you to request management to record an accrual? 2) If you were to request management to record an accrual, what amount would you ask them to record? 3) How likely are you to request management to disclose relevant details about the nature of the contingency that go well above and beyond the bare essentials required for compliance purposes? 4) Indicate the primary factors that influenced your overall decision (free response). 5) How acceptable are each of the six financial reporting choices?

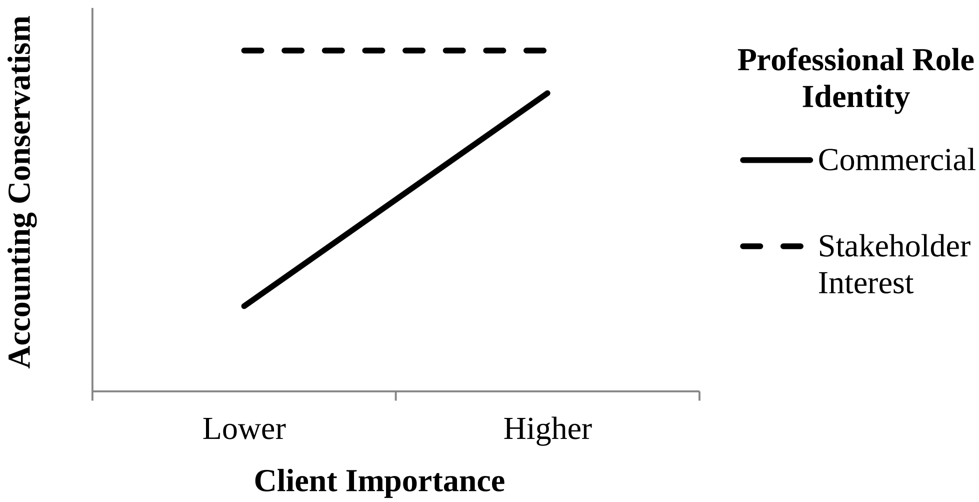
Post-experiment Questionnaire
Participants complete the post-experiment questionnaire.

Client Importance Within-Subjects Manipulation	
Participants are asked to think back to the beginning of the case materials and the accounting issue that surfaced. Participants were reminded that their audit firm was or was not considered the preferred provider of assurance services for the private equity firm owner (depending on which condition they were randomly assigned). The materials then ask participants to consider if they were instead told that their audit firm had the other relationship with the private equity firm.	
Participants that were initially assigned to the Higher Client Importance Condition read: Consider if you were instead told that your firm was not considered the preferred provider of assurances services for the private equity owner, so your firm does not audit other portfolio companies owned by the private equity firm. Additionally, the preferred assurance provider is heavily entrenched with the private equity firm, thus it is unlikely that your audit firm will have any foreseeable growth opportunities with the private equity owner.	**Participants that were initially assigned to the Lower Client Importance Condition read:** Consider if you were instead told that your firm was considered the preferred provider of assurances services for the private equity owner, so your firm audits essentially all other portfolio companies owned by the private equity firm.

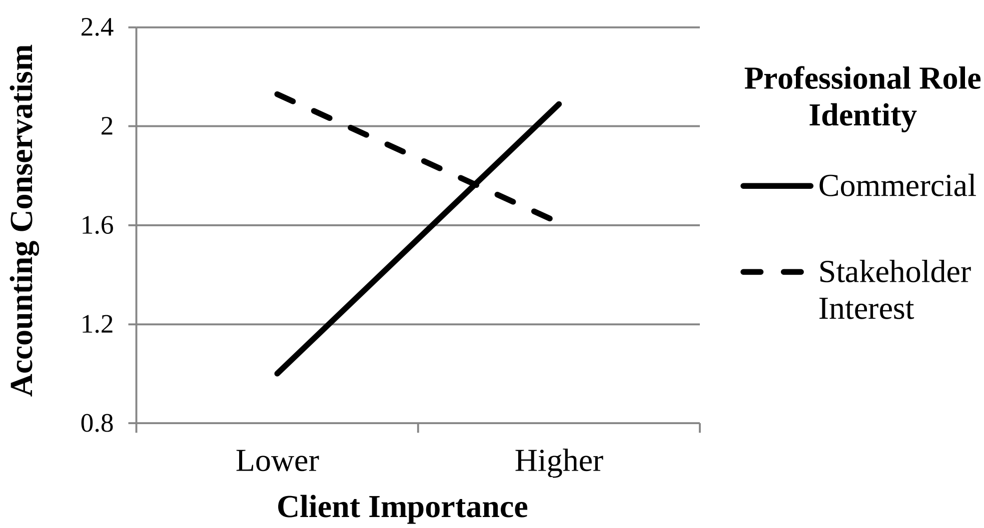
Within-Subjects Dependent Variables
Participant responses are measured on three categorical choice measures (more likely to request…; no change; less likely to request…) 1) Based on this new scenario, how would your decision related to requesting management to record an accrual change, if any? 2) Based on this new scenario, how would your decision related to the level of disclosure about the nature of the contingency change, if any?

Figure 2
Hypothesized graphical pattern and observed graphical pattern

Panel A: Hypothesized Ordinal Interaction of Professional Role Identity and Client Importance on Client Accounting Conservativism



Panel B: Observed Professional Role Identity and Client Importance on Client Accounting Conservatism



Panel A depicts the pattern consistent with the hypothesized interaction of professional role identity (commercial or stakeholder interest) and client importance (lower or higher) on audit partners' client accounting conservatism. Panel B depicts the observed pattern of cell means for audit partners' decisions of client accounting conservatism. This pattern is tested using the ANOVA presented in Panel B of Table 1. A total of 53 audit partners provide judgments on a seven-point scale, from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0), to capture accounting conservatism. The accounting conservatism measure asks "How likely are you to request management to record an accrual?" Higher cell means are indicative of more conservatism.

TABLES

Table 1
Audit Partner - Accounting Conservatism

Panel A: Descriptive Statistics of Accounting Conservatism

Client Importance			Accrual Recognition: Professional Role Identity: Commercial	Accrual Recognition: Professional Role Identity: Stakeholder Interest	Accrual Recognition: Across Professional Role Identity
Client Importance	Lower	Mean	1.00	2.13	1.59
		(Standard deviation)	(2.12)	(0.88)	(1.66)
		Sample size	12	13	25
		Cell	A	B	
	Higher	Mean	2.09	1.61	1.85
		(Standard deviation)	(1.13)	(1.34)	(1.24)
		Sample size	14	14	28
		Cell	C	D	
	Across Client Importance	Mean	1.58	1.86	1.73
		(Standard deviation)	(1.72)	(1.15)	(1.45)
		Sample size	26	27	53

Panel B: Basic ANOVA Model of Accounting Conservatism

Source	Accrual Recognition: df	MS	F	p-value**
Professional Role Identity	1	1.43	0.71	0.402
Client Importance	1	1.07	0.53	0.469
Professional Role Identity x Client Importance	1	8.47	4.21	0.046
Error	49	2.01		

Table 1 (cont.)
Audit Partner - Accounting Conservatism

Panel C: Planned Contrast and Follow-up Simple Main Effect Tests for H1

	Accrual Recognition		
Source	**df**	**F**	**p-value**
Overall Test:			
Audit partners will allow the least conservative client accounting when a commercial professional role identity is salient and client importance is lower when compared to all other conditions. Contrast weights (-3, +1, +1, +1)*	1,49	4.11	0.024
Follow-up Simple Effect Tests:			
Effect of professional role identity given lower client importance [B - A]*	1,49	3.97	0.026
Effect of client importance given commercial professional role identity [C - A]*	1,49	3.79	0.029
Effect of client importance given stakeholder interest professional role identity [D - B]**	1,49	0.89	0.349
Effect of professional role identity given higher client importance [C - D]**	1,49	0.77	0.383

Table 1 presents descriptive statistics, ANOVA, contrast-coded ANOVA, and simple main effect tests for the primary measure used in my experiment to capture audit executives' client accounting conservatism (e.g., accrual recognition). The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. A total of 53 audit partners provide judgments on a seven-point scale, from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0), to capture accounting conservatism. The accounting conservatism measure asks, "How likely are you to request management to record an accrual?" Higher cell means are indicative of more conservatism. The accounting conservatism cells of the experiment receive contrast weights as follows: commercial/lower importance = -3, stakeholder interest/lower importance = +1, commercial/higher importance = +1, and stakeholder interest/higher importance = +1.

* Expectation is directional; p-value is based on a one-tailed equivalent.

** p-value is based on two-tailed tests.

Table 2
Audit Partner - Financial Statement Disclosure Transparency

Panel A: Descriptive Statistics of Financial Statement Disclosure Transparency

Client Importance			Expanded Financial Statement Disclosure: Professional Role Identity: Commercial	Expanded Financial Statement Disclosure: Professional Role Identity: Stakeholder Interest	Across Professional Role Identity
	Lower	Mean	0.83	1.45	1.15
		(Standard deviation)	(1.89)	(2.06)	(1.96)
		Sample size	12	13	25
		Cell	A	B	
	Higher	Mean	0.38	0.44	0.41
		(Standard deviation)	(2.00)	(2.23)	(2.08)
		Sample size	14	14	28
		Cell	C	D	
Across Client Importance		Mean	0.58	0.92	0.76
		(Standard deviation)	(1.93)	(2.17)	(2.04)
		Sample size	26	27	53

Panel B: Basic ANOVA Model of Financial Statement Disclosure Transparency

	Expanded Financial Statement Disclosure			
Source	**df**	**MS**	**F**	**p-value****
Professional Role Identity	1	1.52	0.36	0.552
Client Importance	1	7.00	1.66	0.204
Professional Role Identity x Client Importance	1	1.05	0.25	0.620
Error	49	4.22		

Table 2 (cont.)

Audit Partner - Financial Statement Disclosure Transparency

Panel C: Planned Contrast and Follow-up Simple Main Effect Tests for Financial Statement Disclosure Transparency

	Expanded Financial Statement Disclosure		
Source	**df**	**F**	**p-value**
Overall Test:			
Audit partners will allow the least transparent client financial statement disclosure when a commercial professional role identity is salient and client importance is lower when compared to all other conditions. Contrast weights (-3, +1, +1, +1)*	1,49	0.01	0.458
Follow-up Simple Effect Tests:			
Effect of professional role identity given lower client importance [B - A]*	1,49	0.57	0.227
Effect of client importance given commercial professional role identity [C - A]*	1,49	0.27	0.292
Effect of client importance given stakeholder interest professional role identity [D - B]**	1,49	1.63	0.208
Effect of professional role identity given higher client importance [C -D]**	1,49	0.01	0.942

Table 2 presents descriptive statistics, ANOVA, contrast-coded ANOVA, and simple main effect tests for the primary measure used in my experiment to capture audit executives' client financial statement disclosure transparency. The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. A total of 53 audit partners provide judgments on a seven-point scale, from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0), to capture financial statement disclosure transparency. The disclosure transparency measure asks, "How likely are you to request management to disclose relevant details about the nature of the contingency that go well above and beyond the bare essentials required for compliance purposes?" Higher cell means are indicative of more transparency. The disclosure transparency cells of the experiment receive contrast weights as follows: commercial/lower importance = -3, stakeholder interest/lower importance = +1, commercial/higher importance = +1, and stakeholder interest/higher importance = +1.

* Expectation is directional; p-value is based on a one-tailed equivalent.

** p-value is based on two-tailed tests.

Table 3
Audit Partner - Tests of Research Questions about Accounting Recognition and Disclosure Transparency

Panel A: Number of Participants Selecting a Financial Reporting Preference

		Likelihood of Requesting Expanded Financial Statement Disclosure	
		Likely	**Unlikely**
Likelihood of Requesting Accrual Recognition	**Likely**	28	16
	Unlikely	6	0

Panel B: Analysis of Financial Reporting Preference

	Chi-square	**p-value****
Accrual Recognition x Expanded Financial Statement Disclosure	3.21	0.073

Table 3 presents audit executives' financial reporting preference by count of number of participants and an analysis of financial reporting preference. The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. A total of 53 audit partners provide judgments on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Participants are categorized based on whether their responses were positive (likely) or negative (unlikely) on the seven-point likelihood scales for each measure. Three participants were not included: one participant indicated undecided accrue/unlikely expand disclosure, one participant indicated undecided accrue/likely expand disclosure, and one participant indicated undecided accrue/undecided expand disclosure.

** p-value is based on two-tailed tests.

Table 4
Audit Senior - Accounting Conservatism

Panel A: Descriptive Statistics of Accounting Conservatism

			Accrual Recognition			
			Professional Role Identity			
			Commercial	**Stakeholder Interest**	**Across Professional Role Identity**	**Control**
Client Importance	**Lower**	Mean	1.45	1.70	1.57	1.35
		(Standard deviation)	(1.40)	(1.19)	(1.30)	(1.57)
		Sample size	24	23	47	24
		Cell	A	B		C
	Higher	Mean	1.46	1.77	1.62	1.70
		(Standard deviation)	(1.70)	(1.38)	(1.54)	(1.41)
		Sample size	24	24	48	24
		Cell	D	E		F
	Across Client Importance	Mean	1.46	1.73	1.59	1.52
		(Standard deviation)	(1.54)	(1.28)	(1.42)	(1.49)
		Sample size	48	47	95	48

Panel B: Basic ANOVA Model of Accounting Conservatism

	Accrual Recognition			
Source	**df**	**MS**	**F**	**p-value****
Professional Role Identity	1	1.82	0.89	0.349
Client Importance	1	0.05	0.02	0.882
Professional Role Identity x Client Importance	1	0.02	0.01	0.915
Error	91	2.05		

Table 4 (cont.)

Audit Senior - Accounting Conservatism

Panel C: Planned Contrast and Follow-up Simple Main Effect Tests for Accounting Conservatism

	Accrual Recognition		
Source	**df**	**F**	**p-value**
Overall Test:			
Audit seniors will allow the least conservative client accounting when a commercial professional role identity is salient and client importance is lower when compared to all other conditions. Contrast weights (-3, +1, +1, +1)*	1,91	0.33	0.285
Follow-up Simple Effect Tests:			
Effect of professional role identity given lower client importance [B - A]*	1,91	0.35	0.279
Effect of client importance given commercial professional role identity [D - A]*	1,91	0.00	0.488
Effect of client importance given stakeholder interest professional role identity [E - B]**	1,91	0.03	0.858
Effect of professional role identity given higher client importance [D - E]**	1,91	0.56	0.458

Table 4 presents descriptive statistics, ANOVA, contrast-coded ANOVA, and simple main effect tests for the primary measure used in my experiment to capture audit seniors' client accounting conservatism (e.g., accrual recognition). The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. A total of 143 audit seniors provide judgments on a seven-point scale, from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0), used to capture accounting conservatism. The accounting conservatism measure asks, "How likely are you to recommend that management record an accrual?" Higher cell means are indicative of more conservatism. The accounting conservatism cells of the experiment receive contrast weights as follows: commercial/lower importance = -3, stakeholder interest/lower importance = +1, commercial/higher importance = +1, and stakeholder interest/higher importance = +1.

* Expectation is directional; p-value is based on a one-tailed equivalent.

** p-value is based on two-tailed tests.

Table 5
Audit Senior - Financial Statement Disclosure Transparency

Panel A: Descriptive Statistics of Financial Statement Disclosure Transparency

			Expanded Financial Statement Disclosure			
			Professional Role Identity			
			Commercial	**Stakeholder Interest**	**Across Professional Role Identity**	**Control**
Client Importance	**Lower**	Mean	0.44	1.53	0.97	1.01
		(Standard deviation)	(1.60)	(1.65)	(1.70)	(1.97)
		Sample size	24	23	47	24
		Cell	A	B		C
	Higher	Mean	0.72	0.94	0.83	1.03
		(Standard deviation)	(2.05)	(1.64)	(1.84)	(1.95)
		Sample size	24	24	48	24
		Cell	D	E		F
	Across Client Importance	Mean	0.58	1.23	0.90	1.02
		(Standard deviation)	(1.83)	(1.66)	(1.77)	(1.94)
		Sample size	48	47	95	48

Panel B: Basic ANOVA Model of Financial Statement Disclosure Transparency

	Expanded Financial Statement Disclosure			
Source	**df**	**MS**	**F**	**p-value****
Professional Role Identity	1	10.18	3.33	0.071
Client Importance	1	0.60	0.20	0.659
Professional Role Identity x Client Importance	1	4.47	1.46	0.230
Error	91	3.06		

Table 5 (cont.)
Audit Senior - Financial Statement Disclosure Transparency

Panel C: Planned Contrast and Follow-up Simple Main Effect Tests for Financial Statement Disclosure Transparency

	Expanded Financial Statement Disclosure		
Source	**df**	**F**	**p-value**
Overall Test:			
Audit seniors will allow the least transparent client financial statement disclosure when a commercial professional role identity is salient and client importance is lower when compared to all other conditions. Contrast weights (-3, +1, +1, +1)*	1,91	2.25	0.068
Follow-up Simple Effect Tests:			
Effect of professional role identity given lower client importance [B - A]*	1,91	4.56	0.018
Effect of client importance given commercial professional role identity [D - A]*	1,91	0.30	0.294
Effect of client importance given stakeholder interest professional role identity [E - B]**	1,91	1.35	0.248
Effect of professional role identity given higher client importance [D - E]**	1,91	0.19	0.663

Table 5 presents descriptive statistics, ANOVA, contrast-coded ANOVA, and simple main effect tests for the primary measure used in my experiment to capture audit seniors' client financial statement disclosure transparency. The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt or none. The experiment also manipulates whether the hypothetical client is of lower or higher importance. A total of 143 audit seniors provide judgments on a seven-point scale, from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0), to capture financial statement disclosure transparency. The disclosure transparency measure asks, "How likely are you to recommend that management disclose relevant details about the nature of the contingency that go well above and beyond the bare essentials required for compliance purposes?" Higher cell means are indicative of more transparency. The disclosure transparency cells of the experiment receive contrast weights as follows: commercial/lower importance = -3, stakeholder interest/lower importance = +1, commercial/higher importance = +1, and stakeholder interest/higher importance = +1.

* Expectation is directional; p-value is based on a one-tailed equivalent.

** p-value is based on two-tailed tests.

Table 6
Audit Partner and Audit Senior Comparison

Panel A: Basic ANOVA Model of Audit Partner and Audit Senior Accounting Conservatism and Financial Statement Disclosure Transparency

	Accrual Recognition				**Expanded Financial Statement Disclosure**			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Auditor Rank	1	0.43	0.21	0.646	1	0.62	0.18	0.673
Professional Role Identity	1	3.12	1.53	0.218	1	8.38	2.42	0.122
Client Importance	1	0.92	0.45	0.504	1	6.68	1.93	0.167
Auditor Rank x Professional Role Identity	1	0.02	0.01	0.915	1	0.85	0.24	0.622
Auditor Rank x Client Importance	1	0.49	0.24	0.624	1	2.75	0.79	0.374
Professional Role Identity x Client Importance	1	5.03	2.47	0.119	1	4.35	1.26	0.265
Auditor Rank x Professional Role Identity x Client Importance	1	5.88	2.89	0.092	1	0.20	0.06	0.812
Error	140	2.04			140	3.46		

Table 6 presents an ANOVA model for Auditor Rank x Professional Role Identity x Client Importance for the two primary dependent measures. The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. A total of 95 audit seniors and 53 audit partners provide judgments on an accounting conservatism measure asking "How likely are you to request (recommend) that management record an accrual?" on a seven-point scale, from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Participants also respond to a financial statement disclosure transparency measure asking, "How likely are you to request (recommend) that management disclose relevant details about the nature of the contingency that go well above and beyond the bare essentials required for compliance purposes?" on a seven-point scale, from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). All p-values are based on two-tailed tests.

Table 7
Commitment to Accuracy and Directional Goals

Panel A: Descriptive Statistics of Commitment to Accuracy and Directional Goals

			Audit Partner - Commitment to Accuracy and Directional Goals					
			Accuracy Goals			**Directional Goals**		
			Professional Role Identity			**Professional Role Identity**		
			Commercial	**Stakeholder Interest**	**Across Professional Role Identity**	**Commercial**	**Stakeholder Interest**	**Across Professional Role Identity**
Client Importance	**Lower**	Mean	5.07	5.47	5.28	1.87	1.88	1.87
		(Standard deviation)	(1.80)	(1.21)	(1.50)	(1.23)	(0.66)	(0.96)
		Sample size	12	13	25	12	13	25
	Higher	Mean	5.94	6.39	6.16	2.46	2.01	2.24
		(Standard deviation)	(1.06)	(0.71)	(0.91)	(1.11)	(0.83)	(0.99)
		Sample size	14	14	28	14	14	28
	Across Client Importance	Mean	5.54	5.94	5.75	2.19	1.94	2.06
		(Standard deviation)	(1.49)	(1.07)	(1.30)	(1.19)	(0.74)	(0.98)
		Sample size	26	27	53	26	27	53

Table 7 (cont.)
Commitment to Accuracy and Directional Goals

Panel A (cont.): Descriptive Statistics of Commitment to Accuracy and Directional Goals

		Audit Senior - Commitment to Accuracy and Directional Goals					
		Accuracy Goals			**Directional Goals**		
		Professional Role Identity			**Professional Role Identity**		
		Commercial	**Stakeholder Interest**	**Across Professional Role Identity**	**Commercial**	**Stakeholder Interest**	**Across Professional Role Identity**
Client Importance – **Lower**	Mean	5.13	5.46	5.29	3.31	3.61	3.46
	(Standard deviation)	(1.51)	(1.07)	(1.32)	(1.53)	(1.70)	(1.60)
	Sample size	24	22	46	24	22	46
Client Importance – **Higher**	Mean	5.69	5.25	5.47	3.68	2.83	3.25
	(Standard deviation)	(1.40)	(1.84)	(1.64)	(1.57)	(1.41)	(1.54)
	Sample size	24	24	48	24	24	46
Across Client Importance	Mean	5.41	5.35	5.38	3.49	3.21	3.35
	(Standard deviation)	(1.47)	(1.51)	(1.48)	(1.54)	(1.59)	(1.56)
	Sample size	48	46	94	48	46	48

Table 7 (cont.)
Commitment to Accuracy and Directional Goals

Panel B: Basic ANOVA Model of Commitment to Accuracy and Directional Goals

	Audit Partner Commitment to Accuracy and Directional Goals							
	Accuracy Goals				Directional Goals			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Professional Role Identity	1	2.36	1.55	0.219	1	0.66	0.69	0.411
Client Importance	1	10.60	6.98	0.011	1	1.75	1.82	0.183
Professional Role Identity x Client Importance	1	0.01	0.00	0.953	1	0.72	0.75	0.390
Error	49	1.52			49	0.96		

	Audit Senior Commitment to Accuracy and Directional Goals							
	Accuracy Goals				Directional Goals			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Professional Role Identity	1	0.06	0.03	0.873	1	1.71	0.71	0.402
Client Importance	1	0.75	0.34	0.563	1	1.02	0.42	0.516
Professional Role Identity x Client Importance	1	3.53	1.59	0.211	1	7.66	3.18	0.078
Error	90	2.23			90	2.41		

Table 7 (cont.)

Commitment to Accuracy and Directional Goals

Panel B (cont.): Basic ANOVA Model of Commitment to Accuracy and Directional Goals

	Commitment to Accuracy and Directional Goals							
	Accuracy Goals				Directional Goals			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Auditor Rank	1	3.74	1.89	0.171	1	57.53	30.28	<0.001
Professional Role Identity	1	1.18	0.60	0.442	1	2.06	1.08	0.300
Client Importance	1	9.76	4.94	0.028	1	0.20	0.11	0.744
Auditor Rank x Professional Role Identity	1	1.88	0.95	0.331	1	0.02	0.01	0.921
Auditor Rank x Client Importance	1	4.35	2.20	0.140	1	2.77	1.46	0.229
Professional Role Identity x Client Importance	1	1.14	0.58	0.448	1	5.47	2.88	0.092
Auditor Rank x Professional Role Identity x Client Importance	1	1.41	0.71	0.400	1	0.96	0.51	0.478
Error	139	1.98			139	1.90		

Table 7 presents audit partner and audit senior descriptive statistics and ANOVA for commitment to accuracy and directional goals. Commitment to accuracy goals asks, “How costly would it be to your career if you did not request Basepoint to modify their preferred accounting treatment and a material misstatement was later revealed?” on a seven-point scale from “not at all costly” (1) to “very costly” (7) and centered on “moderately costly” (4). Commitment to directional goals asks, “How costly would it be to your career if you requested Basepoint to do something management deemed undesirable and the firm lost the client over the disagreement?” on a seven-point scale from “not at all costly” (1) to “very costly” (7) and centered on “moderately costly” (4). The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. All p-values are based on two-tailed tests.

Table 8
Professional Skepticism - Beliefs

Panel A: Descriptive Statistics of Professional Skepticism - Beliefs

			Audit Partner - Professional Skepticism - Beliefs								
			Misstatement Risk			**Reasonableness**			**Mgmt Competence**		
			Professional Role Identity			**Professional Role Identity**			**Professional Role Identity**		
			C	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**
Client Importance	**Lower**	Mean	4.75	5.48	5.15	-1.10	-1.45	-1.29	3.57	3.85	3.72
		(Standard deviation)	(1.39)	(1.10)	(1.27)	(1.16)	(1.20)	(1.17)	(1.33)	(1.46)	(1.38)
		Sample size	11	13	24	11	13	24	11	13	24
	Higher	Mean	5.21	5.11	5.16	-1.21	-1.21	-1.21	3.76	3.37	3.57
		(Standard deviation)	(1.30)	(1.58)	(1.42)	(0.96)	(1.30)	(1.12)	(0.95)	(0.76)	(0.87)
		Sample size	14	14	28	14	14	28	14	13	27
	Across Client Importance	Mean	5.01	5.29	5.15	-1.16	-1.33	-1.25	3.68	3.61	3.64
		(Standard deviation)	(1.33)	(1.36)	(1.34)	(1.03)	(1.23)	(1.13)	(1.11)	(1.17)	(1.13)
		Sample size	25	27	52	25	27	53	25	26	51

Table 8 (cont.)
Professional Skepticism – Beliefs

Panel A (cont.): Descriptive Statistics of Professional Skepticism - Beliefs

			Audit Senior - Professional Skepticism - Beliefs							
			Misstatement Risk			**Reasonableness**			**Mgmt Competence**	
			Professional Role Identity			**Professional Role Identity**			**Professional Role Identity**	
			C	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**
Client Importance	**Lower**	Mean	4.65	5.18	4.91	-0.70	-1.08	-0.89	4.16	3.61	3.89
		(Standard deviation)	(1.48)	(1.40)	(1.45)	(1.53)	(1.28)	(1.41)	(1.16)	(1.04)	(1.13)
		Sample size	24	23	47	24	23	47	24	23	47
	Higher	Mean	5.18	4.83	5.00	-0.83	-0.80	-0.82	3.25	3.86	3.55
		(Standard deviation)	(1.12)	(1.25)	(1.19)	(1.38)	(1.45)	(1.40)	(1.15)	(0.98)	(1.10)
		Sample size	24	24	48	24	24	48	24	24	48
	Across Client Importance	Mean	4.91	5.00	4.95	-0.76	-0.94	-0.85	3.70	3.74	3.72
		(Standard deviation)	(1.32)	(1.32)	(1.32)	(1.44)	(1.36)	(1.40)	(1.23)	(1.01)	(1.12)
		Sample size	48	47	95	48	47	95	48	47	95

Table 8 (cont.)
Professional Skepticism – Beliefs

Panel B: Basic ANOVA Model of Professional Skepticism – Beliefs

	Professional Skepticism - Beliefs											
	Misstatement Risk				Reasonableness				Mgmt Competence			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Auditor Rank	1	1.10	0.62	0.433	1	5.10	2.87	0.092	1	0.22	0.18	0.673
Professional Role Identity	1	1.39	0.78	0.377	1	1.02	0.58	0.449	1	0.01	0.00	0.947
Client Importance	1	0.14	0.08	0.777	1	0.14	0.08	0.776	1	1.88	1.53	0.218
Auditor Rank x Professional Role Identity	1	0.41	0.23	0.632	1	0.00	0.00	0.994	1	0.06	0.05	0.818
Auditor Rank x Client Importance	1	0.01	0.01	0.930	1	0.00	0.00	0.976	1	0.28	0.23	0.632
Professional Role Identity x Client Importance	1	6.05	3.41	0.067	1	1.23	0.69	0.407	1	0.52	0.42	0.517
Auditor Rank x Professional Role Identity x Client Importance	1	0.01	0.01	0.938	1	0.01	0.01	0.936	1	6.86	5.59	0.019
Error	139	1.77			139	1.77			138	1.23		

Table 8 presents audit partner and audit senior descriptive statistics and ANOVA for three belief measures of professional skepticism. Measure #1 asks, “How would you assess the risk that Basepoint's financial statements are materially misstated when using management's preferred accounting treatment?” on a seven-point scale from “low” (1) to “high” (7), and centered on “moderate” (4). Measure #2 asks, “How reasonable is management's preferred accounting treatment?” on a seven-point scale from “very unreasonable” (-3) to “very reasonable” (+3) and centered on “undecided” (0). Measure #3 asks, “Based on the brief information provided in the case, how would you rate management's competence?” on a seven-point scale from “very low” (1) to “very high” (7) and centered on “undecided” (4). The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. All p-values are based on two-tailed tests.

Table 9
Professional Skepticism – Feelings

Panel A: Descriptive Statistics of Professional Skepticism - Feelings

			Audit Partner - Professional Skepticism - Feelings					
			Misstatement Worry			**Evidence Sufficiency Worry**		
			Professional Role Identity			**Professional Role Identity**		
			C	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**
Client Importance	**Lower**	Mean	4.87	5.48	5.20	4.95	5.62	5.31
		(Standard deviation)	(1.46)	(1.15)	(1.31)	(1.67)	(1.35)	(1.51)
		Sample size	11	13	24	11	13	24
	Higher	Mean	5.59	4.85	5.22	5.64	4.80	5.22
		(Standard deviation)	(1.04)	(1.89)	(1.55)	(0.90)	(1.88)	(1.51)
		Sample size	14	14	28	14	14	28
	Across Client Importance	Mean	5.28	5.16	5.21	5.33	5.20	5.26
		(Standard deviation)	(1.27)	(1.58)	(1.43)	(1.31)	(1.67)	(1.49)
		Sample size	25	27	52	25	27	52

Table 9 (cont.)
Professional Skepticism – Feelings

Panel A (cont.): Descriptive Statistics of Professional Skepticism – Feelings

			Audit Senior - Professional Skepticism - Feelings					
			Misstatement Worry			Evidence Sufficiency Worry		
			Professional Role Identity			Professional Role Identity		
			C	SI	Across Professional Role Identity	C	SI	Across Professional Role Identity
Client Importance	Lower	Mean	4.86	5.28	5.07	4.86	4.93	4.89
		(Standard deviation)	(1.29)	(1.51)	(1.40)	(1.25)	(1.48)	(1.35)
		Sample size	24	23	47	24	23	47
	Higher	Mean	5.28	5.12	5.20	5.21	5.24	5.22
		(Standard deviation)	(1.23)	(1.25)	(1.23)	(1.32)	(1.08)	(1.19)
		Sample size	24	24	48	24	24	48
	Across Client Importance	Mean	5.07	5.20	5.13	5.03	5.09	5.06
		(Standard deviation)	(1.26)	(1.37)	(1.31)	(1.29)	(1.28)	(1.28)
		Sample size	48	47	95	48	47	95

Table 9 (cont.)
Professional Skepticism – Feelings

Panel B: Basic ANOVA Model of Professional Skepticism – Feelings

	Professional Skepticism - Feelings							
	Misstatement Worry				**Evidence Sufficiency Worry**			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Auditor Rank	1	0.14	0.08	0.783	1	1.25	0.68	0.412
Professional Role Identity	1	0.03	0.02	0.893	1	0.01	0.00	0.948
Client Importance	1	0.24	0.13	0.721	1	0.58	0.32	0.575
Auditor Rank x Professional Role Identity	1	0.32	0.17	0.680	1	0.14	0.07	0.787
Auditor Rank x Client Importance	1	0.06	0.03	0.861	1	1.32	0.71	0.400
Professional Role Identity x Client Importance	1	7.83	4.24	0.041	1	5.03	2.72	0.102
Auditor Rank x Professional Role Identity x Client Importance	1	1.24	0.67	0.413	1	4.54	2.45	0.120
Error	139	1.85			139	1.85		

Table 9 presents audit partner and audit senior descriptive statistics and ANOVA for two feeling measures of professional skepticism. Measure #1 asks, "How worried are you that the financial statements are misstated if Basepoint uses their preferred accounting treatment (i.e., to not record an accrual and to disclose a minimally acceptable level of detail about the nature of the contingency in the notes to the financial statements)?" on a seven-point scale from "not at all worried" (1) to "very worried" (7) and centered on "moderately worried" (4). Measure #2 asks, "How worried are you that the evidence supporting management's preferred accounting treatment is not sufficient to support their conclusion?" on a seven-point scale from "not at all worried" (1) to "very worried" (7) and centered on "moderately worried" (4).The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. All p-values are based on two-tailed tests.

Table 10
Professional Skepticism - Actions

Panel A: Descriptive Statistics of Professional Skepticism - Actions

			Audit Partner - Professional Skepticism - Actions								
			Seek Additional Evidence			**Consult with Others**			**Discuss with Audit Committee**		
			Professional Role Identity			**Professional Role Identity**			**Professional Role Identity**		
			C	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**
Client Importance	**Lower**	Mean	2.84	2.76	2.80	2.33	2.18	2.25	2.83	2.61	2.72
		(Standard deviation)	(0.30)	(0.42)	(0.36)	(1.22)	(0.93)	(1.06)	(0.37)	(0.76)	(0.61)
		Sample size	12	13	25	12	13	25	12	13	25
	Higher	Mean	2.86	2.76	2.81	2.36	2.31	2.33	2.36	2.67	2.52
		(Standard deviation)	(0.53)	(0.50)	(0.51)	(0.84)	(0.88)	(0.85)	(1.15)	(0.43)	(0.87)
		Sample size	14	14	28	14	14	28	14	14	28
	Across Client Importance	Mean	2.85	2.76	2.80	2.35	2.24	2.29	2.58	2.64	2.61
		(Standard deviation)	(0.43)	(0.45)	(0.44)	(1.01)	(0.89)	(0.94)	(0.90)	(0.60)	(0.75)
		Sample size	26	27	53	26	27	53	26	27	53

Table 10 (cont.)
Professional Skepticism – Actions

Panel A (cont.): Descriptive Statistics of Professional Skepticism - Actions

			Audit Senior - Professional Skepticism - Actions							
			Seek Additional Evidence			Consult with Others			Discuss with Audit Committee		
			Professional Role Identity			Professional Role Identity			Professional Role Identity		
			C	SI	Across Professional Role Identity	C	SI	Across Professional Role Identity	C	SI	Across Professional Role Identity
Client Importance	Lower	Mean	2.66	1.91	2.29	2.26	1.67	1.97	1.52	1.33	1.43
		(Standard deviation)	(0.48)	(1.41)	(1.10)	(0.79)	(1.50)	(1.22)	(1.25)	(1.68)	(1.46)
		Sample size	24	23	47	24	23	47	24	23	47
	Higher	Mean	2.56	2.40	2.48	2.30	2.23	2.27	1.68	1.60	1.64
		(Standard deviation)	(0.60)	(0.70)	(0.65)	(0.72)	(1.27)	(1.02)	(1.14)	(1.15)	(1.13)
		Sample size	24	24	48	24	24	48	24	24	48
	Across Client Importance	Mean	2.61	2.16	2.39	2.28	1.96	2.12	1.60	1.46	1.53
		(Standard deviation)	(0.54)	(1.12)	(0.90)	(0.75)	(1.40)	(1.13)	(1.19)	(1.42)	(1.30)
		Sample size	48	47	95	48	47	95	48	47	95

Table 10 (cont.)
Professional Skepticism – Actions

Panel B: Basic ANOVA Model of Professional Skepticism – Actions

	Professional Skepticism - Actions											
	Seek Additional Evidence				**Consult with Others**				**Discuss with Audit Committee**			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Auditor Rank	1	6.03	10.79	0.001	1	1.05	0.93	0.337	1	40.21	30.21	<0.001
Professional Role Identity	1	2.54	4.55	0.035	1	1.60	1.41	0.237	1	0.08	0.06	0.804
Client Importance	1	0.35	0.62	0.432	1	1.20	1.05	0.307	1	0.00	0.00	0.977
Auditor Rank x Professional Role Identity	1	1.14	2.05	0.155	1	0.44	0.39	0.533	1	0.27	0.21	0.651
Auditor Rank x Client Importance	1	0.31	0.55	0.458	1	0.42	0.37	0.546	1	1.47	1.11	0.295
Professional Role Identity x Client Importance	1	0.69	1.23	0.269	1	0.82	0.72	0.398	1	0.88	0.66	0.418
Auditor Rank x Professional Role Identity x Client Importance	1	0.79	1.41	0.237	1	0.35	0.31	0.579	1	0.38	0.28	0.596
Error	140	0.56			140	1.14			140	1.33		

Table 10 presents audit partner and audit senior descriptive statistics and ANOVA for three action measures of professional skepticism. Measure #1 asks, "How likely are you to take the following action: seek additional evidence and/or explanation from Basepoint's management?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Measure #2 asks, "How likely are you to take the following action: consult (recommend consultation) with a technical partner or your firm's professional practice group regarding the accounting issue?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). Measure #3 asks, "How likely are you to take the following action: Bring (Recommend bringing) the accounting issue up with the audit committee?" on a seven-point scale from "very unlikely" (-3) to "very likely" (+3) and centered on "undecided" (0). The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. All p-values are based on two-tailed tests.

Table 11
Perceptions of Client Pressure

Panel A: Descriptive Statistics of Perceptions of Client Pressure

Client Importance			Audit Partner – Perceptions of Client Pressure: Mgmt in Position to Penalize: Professional Role Identity: C	SI	Across Professional Role Identity	Mgmt and Auditor Interests Conflict: Professional Role Identity: C	SI	Across Professional Role Identity
Client Importance	Lower	Mean	1.27	1.17	1.22	0.98	1.57	1.28
		(Standard deviation)	(2.02)	(1.77)	(1.85)	(1.46)	(0.87)	(1.20)
		Sample size	12	13	25	12	13	25
	Higher	Mean	0.53	-0.15	0.19	0.85	1.13	0.99
		(Standard deviation)	(1.80)	(1.58)	(1.70)	(1.71)	(1.13)	(1.43)
		Sample size	14	14	28	14	14	28
	Across Client Importance	Mean	0.87	0.49	0.67	0.91	1.34	1.13
		(Standard deviation)	(1.90)	(1.77)	(1.83)	(1.57)	(1.02)	(1.32)
		Sample size	26	27	53	26	27	53

Table 11 (cont.)
Perceptions of Client Pressure

Panel A (cont.): Descriptive Statistics of Perceptions of Client Pressure

			Audit Senior - Perceptions of Client Pressure					
			Mgmt in Position to Penalize			**Mgmt and Auditor Interests Conflict**		
			Professional Role Identity			**Professional Role Identity**		
			C	**SI**	**Across Professional Role Identity**	**C**	**SI**	**Across Professional Role Identity**
Client Importance	**Lower**	Mean	-0.15	-0.62	-0.38	1.31	0.90	1.11
		(Standard deviation)	(2.04)	(1.77)	(1.90)	(1.49)	(1.58)	(1.53)
		Sample size	24	23	47	24	23	47
	Higher	Mean	-0.14	-0.18	-0.16	1.50	1.50	1.50
		(Standard deviation)	(1.87)	(1.83)	(1.83)	(1.15)	(1.28)	(1.20)
		Sample size	24	24	48	24	24	48
	Across Client Importance	Mean	-0.14	-0.39	-0.27	1.40	1.21	1.31
		(Standard deviation)	(1.94)	(1.79)	(1.86)	(1.32)	(1.45)	(1.38)
		Sample size	48	47	95	48	47	95

Table 11 (cont.)
Perceptions of Client Pressure

Panel B: Basic ANOVA Model of Perceptions of Client Pressure

	Perceptions of Client Pressure							
	Mgmt in Position to Penalize				**Mgmt and Auditor Interests Conflict**			
Source	**df**	**MS**	**F**	**p-value**	**df**	**MS**	**F**	**p-value**
Auditor Rank	1	32.16	9.41	0.003	1	1.00	0.53	0.466
Professional Role Identity	1	3.52	1.03	0.312	1	0.46	0.25	0.621
Client Importance	1	5.50	1.61	0.207	1	0.09	0.05	0.824
Auditor Rank x Professional Role Identity	1	0.15	0.04	0.836	1	3.48	1.86	0.174
Auditor Rank x Client Importance	1	13.29	3.89	0.051	1	3.81	2.04	0.155
Professional Role Identity x Client Importance	1	0.05	0.01	0.905	1	0.02	0.01	0.922
Auditor Rank x Professional Role Identity x Client Importance	1	2.17	0.63	0.427	1	1.11	0.60	0.442
Error	140	3.42			140	1.87		

Table 11 presents audit partner and audit senior descriptive statistics and ANOVA for two measures of perceptions of client pressure. Measure #1 asks, “If you do not agree with Basepoint's management, they are in a position to penalize you for your behavior” on a seven-point scale from “strongly disagree” (-3) to “strongly agree” (+3) and centered on “neither agree nor disagree” (0). The second measure asks, “Client management's interests and your interests as an auditor are in conflict in this situation” on a seven-point scale from “strongly disagree” (-3) to “strongly agree” (+3) and centered on “neither agree nor disagree” (0). The experiment manipulates whether participants are subjected to a commercial or a stakeholder interest professional role identity prompt. The experiment also manipulates whether the hypothetical client is of lower or higher importance. All p-values are based on two-tailed tests.

APPENDIX A: EXPERIMENTAL INSTRUMENT

The following pages provide the experimental instrument exported from Qualtrics. Additional information is provided in brackets.

Letter of Information & Informed Consent

This research study is part of my doctoral dissertation. The purpose of this study is to investigate the judgments experienced audit professionals make during financial statement audits. Your significant professional experience makes you an ideal candidate to participate in this study. Your participation will take approximately 20-25 minutes of your time.

Your participation in this study will involve reading a brief business case that describes specific information about a hypothetical audit client. After reading the business case, you will be asked to respond to questions about particular issues and provide basic demographic information (e.g., experience, position/title, industry specialization, etc.). There are no right or wrong answers, as most of the questions deal with matters of professional judgment.

Your decision to participate is completely voluntary and you may withdraw from this study at any time without any consequences. While we hope you will be able to answer all questions, you are free to decline to answer any or all questions. You may print this letter of information and informed consent for your records.

Your participation in this study is confidential, and all responses are anonymous. Please do not include any identifiable information in narrative responses. Any identifiable information included in narrative responses will be removed by researchers prior to analysis. Your responses will not be connected to any individually identifiable information, though demographic information will be collected. All responses will be saved electronically on secure computers that are only accessible by the researchers, and kept in locked storage. The electronic data will be kept for a period of at least five years. The results of this study will be reported in aggregate form, but we may decide to anonymously quote some responses as an illustration of the professional judgments auditors make. These quotes will not be associated in any way with individual participants.

Only we will have access to the data during the study. Other researchers may request to view the data later and by participating in this study you are giving permission for other researchers to potentially view the data at a later time. However, they will not know your identity and will not be permitted to publish individual responses. When this research is discussed or published, no one will know that you were in the study.

If you would like further information about the study, please contact one of the researchers. If you feel you have not been treated according to the descriptions in this form, or if you have any questions about your rights as a research subject, including questions, concerns, complaints, or to offer input, you may call the Office for the Protection of Research Subjects (OPRS) at 217-333-2670 or e-mail OPRS at irb@illinois.edu.

Thank you in advance for your valuable time.

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I have read and understood this consent letter and voluntarily agree to participate (please click on ‘continue’ to consent and proceed to the research materials).

Background Information

You will now be asked to complete a series of tasks that may not be related to each other. A couple of tasks relate to a hypothetical audit engagement and we understand that the amount of information provided to you is considerably less than what you normally would have when making judgments and decisions. Your best professional judgment to all questions given the available information is vital to our research and greatly appreciated.

[Note: The following information is displayed for the ***commercial professional role identity condition*** only.]

Part 1 - Reflect on Your Career

Complete the following thought exercise. Do not include identifiable information in your following response. If any identifiable information is included, researchers will remove this information prior to analysis. At this time, take 2-3 minutes to consider the following:

As you look back on your career, think about times in the past when you or a person you mentored won or retained an important client.

Think of a particularly important example. Without revealing sensitive details, use the space below to write down thoughts (i.e., 2-3 short phrases) that come to mind about this particular example. Your response might include, for example, how this event was meaningful to your professional career.

[Note: The following information is displayed for the ***stakeholder interest professional role identity condition*** only.]

Part 1 - Reflect on Your Career

Complete the following thought exercise. Do not include identifiable information in your following response. If any identifiable information is included, researchers will remove this information prior to analysis. At this time, take 2-3 minutes to consider the following:

As you look back on your career, think about times in the past when you or a person you mentored stood up to an aggressive client because it was the professionally responsible thing to do.

Think of a particularly important example. Without revealing sensitive details, use the space below to write down thoughts (i.e., 2-3 short phrases) that come to mind about this particular example. Your response might include, for example, how this event was meaningful to your professional career.

[Note: The following information is displayed for the ***higher client importance condition*** only.]

Part 2 - Hypothetical Audit Case

Your task: Consider the following information and provide your best professional judgment.

You are the person responsible for signing the audit opinion (i.e., engagement partner) for Basepoint Computer Company (Basepoint), a client of your firm.

Client Background
Basepoint manufactures and sells real-time computer systems directly to a diverse group of industries and is owned by a large private equity firm, Smith Global Partners. Your audit firm was selected to serve Basepoint due to its expertise in the industry. Also, your firm is considered the preferred provider of assurance services for Smith Global Partners, so your firm audits essentially all other portfolio companies owned by the private equity firm. As the preferred assurance provider for the private equity firm, it is likely that your audit firm will have foreseeable growth opportunities with Smith Global Partners. In your view, Smith Global Partners and your audit firm maintain a somewhat favorable, but fragile relationship. That is, any misstep in the current year's Basepoint audit could jeopardize your audit firm's relationship with Smith Global Partners.

Smith Global Partners has indicated their interest to divest of Basepoint through an IPO within the next few years. Basepoint has been involved in this business for five years and has personnel with significant expertise in all aspects of the business. Basepoint strives to maintain an effective oversight through a board of directors and audit committee. One concern you have is that while the audit committee has good credentials, it is not a very active external monitor of management. The board of directors is highly focused on developing a trend of strong sales results, and both management and staff of Basepoint have significant portions of their compensation that consist of bonuses, which are contingent on meeting sales targets.

[Note: The following information is displayed for the ***lower client importance condition*** only.]

Part 2 - Hypothetical Audit Case

Your task: Consider the following information and provide your best professional judgment.

You are the person responsible for signing the audit opinion (i.e., engagement partner) for Basepoint Computer Company (Basepoint), a client of your firm.

Client Background

Basepoint manufactures and sells real-time computer systems directly to a diverse group of industries and is owned by a large private equity firm, Smith Global Partners. Your audit firm was selected to serve Basepoint due to its expertise in the industry. However, your firm is not considered the preferred provider of assurance services for Smith Global Partners, so your firm does not audit other portfolio companies owned by the private equity firm. The preferred assurance provider is heavily entrenched with the private equity firm, thus it is unlikely that your audit firm will have any foreseeable growth opportunities with Smith Global Partners. In your view, Smith Global Partners and your audit firm maintain a somewhat favorable, but fragile relationship. That is, any misstep in the current year's Basepoint audit could jeopardize your audit firm's relationship with Smith Global Partners.

Smith Global Partners has indicated their interest to divest of Basepoint through an IPO within the next few years. Basepoint has been involved in this business for five years and has personnel with significant expertise in all aspects of the business. Basepoint strives to maintain an effective oversight through a board of directors and audit committee. One concern you have is that while the audit committee has good credentials, it is not a very active external monitor of management. The board of directors is highly focused on developing a trend of strong sales results, and both management and staff of Basepoint have significant portions of their compensation that consist of bonuses, which are contingent on meeting sales targets.

[Note: The following information and questions follow regardless of condition.]

Accounting Issue

In the current year's audit, the manager on the engagement whom you trust tells you that, in her opinion, a dispute is brewing about the treatment of a legal liability. It relates to a legal case that has been ongoing for several years between Basepoint and a third-party vendor. It is a similar type of litigation that Basepoint has settled with other vendors in the past.

Similar to prior years, the outside legal counsel that represents Basepoint in this case asserts that the loss is clearly probable, but the amount of loss is difficult to estimate. Legal counsel defers to management to estimate the loss as they might have a better picture given their somewhat common experience with exposure to this type of litigation.

The engagement manager believes that the company should be able to reasonably determine a point estimate of potential loss or at least a range of potential loss based on the following:

- the length of time that has elapsed in the case
- the quality of information that is currently available
- Basepoint's historical experience with this type of litigation

Further, management has a history of claiming they have insufficient information to determine a point estimate or a range of potential loss related to this type of litigation, yet settling weeks after the end of reporting periods for amounts material to those financial statements. If this litigation were to be settled at an amount similar to prior year vendor cases, it would be material to the current year's financial statements. Based on the information available, the engagement team has calculated a range of potential loss and a point estimate within the range. Recording the point estimate could result in Basepoint missing forecasted profit projections. Recording the lower end of the team's calculated range would not result in Basepoint missing forecasted profit projections.

Basepoint's CFO and a Smith Global Partner executive who monitors Basepoint argue that although they agree that the loss is clearly probable, the amount of potential loss cannot be reasonably estimated at this time. Therefore, based on relevant accounting guidance, it is not necessary to record a liability on the balance sheet. Client management has expressed a strong preference to not record any accrual for potential loss. Also, since the legal case is ongoing, management has expressed a strong preference to include as few details in the footnote disclosure as possible while still meeting applicable reporting requirements.

You are asked to decide on a course of action.

Applicable Accounting Guidance: ASC 450 - Contingencies

The manager on the account pulled together a summary of applicable guidance related to accounting for loss contingencies:

When a potential loss is deemed probable and **can** be reasonably estimated, professional standards require a company to:

(1) Record an accrual for the estimated loss (the best estimate of loss within a range should be accrued; however, if no estimate in the range is better than any other, the minimum amount should be accrued) in the financial statements, and
(2) Disclose the nature of the contingency in the notes to the financial statements

When a potential loss is deemed probable, but **cannot** be reasonably estimated, professional standards require a company to:

(1) Disclose that an estimated loss cannot be reasonably determined in the notes to the financial statements, and
(2) Disclose the nature of the contingency in the notes to the financial statements

Below, you will be asked the course of action you would take in response to Basepoint's accounting issue.

Click here to view Basepoint's accounting issue again

Click here to view applicable accounting guidance again

How likely are you to request management to record an accrual?

Very Unlikely	Unlikely	Somewhat Unlikely	Undecided	Somewhat Likely	Likely	Very Likely
-3	-2	-1	0	1	2	3

If you were to request management to record an accrual, what amount would you ask them to record?

Most Likely at the Lower End of the Team's Calculated Range			Both Amounts Equally Likely			Most Likely at the Team's Calculated Point Estimate
1	2	3	4	5	6	7

How likely are you to request management to disclose relevant details about the nature of the contingency that go well above and beyond the bare essentials required for compliance purposes?

Very Unlikely	Unlikely	Somewhat Unlikely	Undecided	Somewhat Likely	Likely	Very Likely
-3	-2	-1	0	1	2	3

In a couple of short phrases, please explain how you chose your overall course of action (i.e., indicate the primary factors that influenced your overall decision):

Click here to view Basepoint's accounting issue again

Click here to view applicable accounting guidance again

Based on the information provided, what would you say is the likelihood that each of the following is acceptable for you, as engagement partner, to permit Basepoint's management to use in their financial statements?

No Chance of Being Acceptable	Very Unlikely Acceptable	Unlikely Acceptable	Roughly an Even Chance of Being Acceptable	Likely Acceptable	Very Likely Acceptable	Certainly Acceptable
-3	-2	-1	0	1	2	3

Accrue the point estimate as a liability and disclose relevant details that go well above and beyond the bare essentials required for compliance purposes:

Accrue the point estimate as a liability and disclose ONLY those details that, strictly speaking, are essential for compliance purposes:

Accrue the lower end of range as a liability and disclose relevant details that go well above and beyond the bare essentials required for compliance purposes:

Accrue the lower end of range as a liability and disclose ONLY those details that, strictly speaking, are essential for compliance purposes:

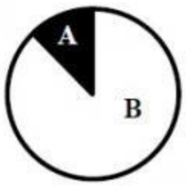
Do NOT accrue any amount as a liability and disclose relevant details that go well above and beyond the bare essentials required for compliance purposes:

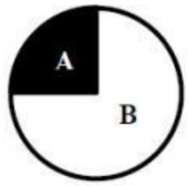
Do NOT accrue any amount as a liability and disclose ONLY those details that, strictly speaking, are essential for compliance purposes:

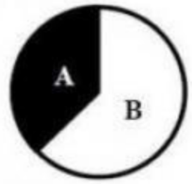
Part 3 - Questions on Being an Accounting Professional

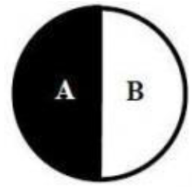
Below, please list a few of the key qualities or characteristics of being a successful accounting professional:

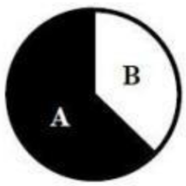
Please select the picture below that best describes how your personal attributes, beliefs, and qualities as an accounting professional align with, collectively (A): maintaining good client relationships, profitability, and growth of the profession (shaded portion) relative to, collectively (B): skepticism, protecting others' interests, and independence (unshaded portion).

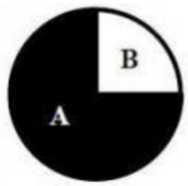










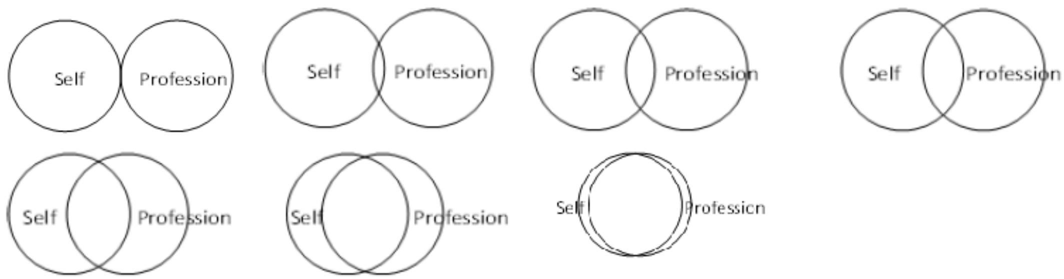


Other: Please explain.

On the following scale, identify the degree to which one consideration was more dominant relative to the other when you decided on a course of action to take in response to Basepoint's accounting issue.

Your Role as an Accounting Professional to Maintain a Skeptical Attitude			Each Consideration Equally Dominant			Your Role as an Accounting Professional to Provide High Quality Client Service
-3	-2	-1	0	1	2	3

Please select the picture below that best describes how your personal attributes, beliefs, and values **align or overlap** with the attributes, beliefs, and qualities of the accounting profession.



Part 4 - Follow-up Questions on the Case

Consider management's preferred accounting treatment (i.e., to not record an accrual and to disclose a minimally acceptable level of detail about the nature of the contingency in the notes to the financial statements).

How would you assess the risk that Basepoint's financial statements are materially misstated when using management's preferred accounting treatment?

Low			Moderate			High
1	2	3	4	5	6	7

How reasonable is management's preferred accounting treatment?

Very Unreasonable	Unreasonable	Somewhat Unreasonable	Undecided	Somewhat Reasonable	Reasonable	Very Reasonable
-3	-2	-1	0	1	2	3

Based on the brief information provided in the case, how would you rate management's competence?

Very Low			Moderate			Very High
1	2	3	4	5	6	7

How worried are you that the financial statements are misstated if Basepoint uses their preferred accounting treatment (i.e., to not record an accrual and to disclose a minimally acceptable level of detail about the nature of the contingency in the notes to the financial statements)?

Not at all Worried			Moderately Worried			Very Worried
1	2	3	4	5	6	7

How worried are you that the evidence supporting management's preferred accounting treatment is not sufficient to support their conclusion?

Not at all Worried			Moderately Worried			Very Worried
1	2	3	4	5	6	7

How likely are you to take the following three actions:

Seek additional evidence and/or explanation from Basepoint's management.

Very Unlikely	Unlikely	Somewhat Unlikely	Undecided	Somewhat Likely	Likely	Very Likely
-3	-2	-1	0	1	2	3

Consult with a technical partner or your firm’s professional practice group regarding the accounting issue.

Very Unlikely	Unlikely	Somewhat Unlikely	Undecided	Somewhat Likely	Likely	Very Likely
-3	-2	-1	0	1	2	3

Bring the accounting issue up with the audit committee.

Very Unlikely	Unlikely	Somewhat Unlikely	Undecided	Somewhat Likely	Likely	Very Likely
-3	-2	-1	0	1	2	3

To what extent do you agree or disagree with the following two statements:

If you do not agree with Basepoint's management, they are in a position to penalize you for your behavior.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
-3	-2	-1	0	1	2	3

Client management's interests and your interests as an auditor are in conflict in this situation.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
-3	-2	-1	0	1	2	3

Please answer the following questions without regard to the course of action you would take in response to Basepoint's accounting issue:

In this scenario, how important is it for you to maintain a successful relationship with the portfolio company, Basepoint?

Not at all Important			Moderately Important			Extremely Important
1	2	3	4	5	6	7

In this scenario, how important is it for you to maintain a successful relationship with the private equity firm, Smith Global Partners?

Not at all Important			Moderately Important			Extremely Important
1	2	3	4	5	6	7

Please answer the following questions without regard to the course of action you would take in response to Basepoint's accounting issue:

How likely are future business or growth opportunities with the portfolio company, Basepoint?

Very Unlikely	Unlikely	Somewhat Unlikely	Undecided	Somewhat Likely	Likely	Very Likely
-3	-2	-1	0	1	2	3

How likely are future business or growth opportunities with the private equity firm, Smith Global Partners?

Very Unlikely	Unlikely	Somewhat Unlikely	Undecided	Somewhat Likely	Likely	Very Likely
-3	-2	-1	0	1	2	3

Please answer the following questions without regard to the course of action you would take in response to Basepoint's accounting issue:

In this scenario, how economically important is the portfolio company, Basepoint, to you?

Not at all Important			Moderately Important			Extremely Important
1	2	3	4	5	6	7

In this scenario, how economically important is the portfolio company, Basepoint, to your accounting firm?

Not at all Important			Moderately Important			Extremely Important
1	2	3	4	5	6	7

Please answer the following questions without regard to the course of action you would take in response to Basepoint's accounting issue:

In this scenario, how economically important is the private equity firm, Smith Global Partners, to you?

Not at all Important			Moderately Important			Extremely Important
1	2	3	4	5	6	7

In this scenario, how economically important is the private equity firm, Smith Global Partners, to your accounting firm?

Not at all Important			Moderately Important			Extremely Important
1	2	3	4	5	6	7

Please answer the following questions without regard to the course of action you would take in response to Basepoint's accounting issue:

How costly would it be to your career if you requested Basepoint to do something management deemed undesirable and the firm lost the client over the disagreement?

Not at all Costly			Moderately Costly			Very Costly
1	2	3	4	5	6	7

How costly would it be to your career if you did not request Basepoint to modify their preferred accounting treatment and a material misstatement was later revealed?

Not at all Costly			Moderately Costly			Very Costly
1	2	3	4	5	6	7

Who do you view as the primary client in this context?

Basepoint			Both Entities Equally			Smith Global Partners
1	2	3	4	5	6	7

To what extent do you agree or disagree with the following three statements:

For estimates having the complexity of the one in this case, a detailed disclosure in the notes to the financial statements can compensate for not recording an accrual for a potential loss.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
-3	-2	-1	0	1	2	3

For estimates having the complexity of the one in this case, a transparent and thorough footnote is even more important than what single number, if any, is ultimately accrued.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
-3	-2	-1	0	1	2	3

Auditors can maintain objectivity while serving important clients.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
-3	-2	-1	0	1	2	3

Part 5 - Questions about Your Professional Experience

How many years have you worked in audit or assurance services?

What is your current position or job title (e.g. partner, retired partner, principal, executive director, senior manager)?

In your career, have you served in a consultation role (e.g., technical group, professional practice group, etc...)?

Yes

No

What is your industry specialization, if any (e.g. financial services, technology, etc.)?

Please identify below which best describes your audit firm:

Regional or local audit firm

National audit firm

Non Big-4 international audit firm

Big-4 audit firm

How much experience do you have serving clients that are owned by private equity firms?

No Experience			Average Experience			Extensive Experience
1	2	3	4	5	6	7

Part 6 - Final Questions about the Case

At the beginning of this case, you were asked to complete a thought exercise. You were asked to think of an important example and to write down thoughts (i.e., 2-3 short phrases) that came to mind about this particular example. What was the central topic? Please select one of the following:

Standing up to an aggressive client because it was the professionally responsible thing to do

Winning or retaining an important client

In the case materials, was your audit firm considered the preferred provider of assurance services for the private equity firm Smith Global Partners? Please select one of the following:

Yes, my audit firm was considered the preferred provider of assurance services for Smith Global Partners

No, my audit firm was not considered the preferred provider of assurance services for Smith Global Partners

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[Note: The following information is displayed for the ***higher client importance condition*** only.]

Two final questions.

Think back to the beginning of the case materials and the accounting issue that surfaced. You were told that your audit firm was considered the preferred provider of assurance services for the private equity firm Smith Global Partners, so your firm audits essentially all other portfolio companies owned by the private equity firm. As the preferred assurance provider for the private equity firm, it is likely that your audit firm will have foreseeable growth opportunities with Smith Global Partners.

Consider if you were instead told that your audit firm was not considered the preferred provider of assurance services for the private equity firm Smith Global Partners, so your firm does not audit other portfolio companies owned by the private equity firm. The preferred assurance provider is heavily entrenched with the private equity firm, thus it is unlikely that your audit firm will have any foreseeable growth opportunities with Smith Global Partners.

[Note: The following information is displayed for the ***lower client importance condition*** only.]

Two final questions.

Think back to the beginning of the case materials and the accounting issue that surfaced. You were told that your audit firm was not considered the preferred provider of assurance services for the private equity firm Smith Global Partners, so your firm does not audit other portfolio companies owned by the private equity firm. The preferred assurance provider is heavily entrenched with the private equity firm, thus it is unlikely that your audit firm will have any foreseeable growth opportunities with Smith Global Partners.

Consider if you were instead told that your audit firm was considered the preferred provider of assurance services for the private equity firm Smith Global Partners, so your firm audits essentially all other portfolio companies owned by the private equity firm. As the preferred assurance provider for the private equity firm, it is likely that your audit firm will have foreseeable growth opportunities with Smith Global Partners.

[Note: The following questions follow regardless of condition.]

Based on this new scenario, how would your decision related to requesting management to record an accrual change, if any?

I would be more likely to request management to record an accrual.

No change.

I would be less likely to request management to record an accrual.

Based on this new scenario, how would your decision related to the level of disclosure detail about the nature of the contingency change, if any?

I would be more likely to request management to include a more detailed disclosure about the nature of the contingency.

No change.

I would be less likely to request management to include a more detailed disclosure about the nature of the contingency.

APPENDIX B: PROFESSIONAL ROLE IDENTITY FREE RESPONSE DATA

The following pages provide free response data from audit partner and audit senior participants related to the professional role identity manipulation. The author removed any audit firm identifiable information as noted. Participants who did not respond to the free response question are excluded.

Audit Partner – Professional Role Identity Free Response Data

Partner Participant Number	Commercial	Stakeholder Interest
1		Empowerment, responsible.
2	A large distribution company put their audit out for bid as they believed they were outgrowing their current auditor. I was part of the pursuit team and scheduled to be the lead audit manager. We were fortunate enough to win the engagement and the opportunity helped credentialize me for future business development opportunities.	
3	Relationships are key. Excellent client service carried the day. Being confident in communications makes decision makers comfortable	
4	It was a very important client that was important (not critical) for me and the firm to retain. Firm leadership was active in our proposal efforts.	
5		I have had a couple of instances where I have had to deal with an aggressive client and deliver bad/tough messages. Looking back, it was difficult at the time, but the right thing to do. Having gone through the experience, I am better prepared to deal with these situations in the future.
6	Validated that our services were valued, important to maintaining our brand, exciting to prevail over the competition and provide opportunities for our people.	
7	The retention and winning of a client was, I believe, critical to my promotion to partner. The business case is an essential aspect related to promotion as well as advancement. Also resulted in increased self-confidence, validation of what I hold most important --integrity and "doing the right thing"	

Partner Participant Number	Commercial	Stakeholder Interest
8		Although a difficult discussion, afterwards felt good to do the right thing. What also helped was feeling that my superiors and overall firm was behind my decision. Client also was happy after a period of time when emotions calmed down and also determined it was the right thing to do.
9		Difficult discussion with a domineering CEO regarding a revenue recognition transaction that he thought met the criteria to record while the audit partner did not. Created considerable tension and possibly put the client relationship in jeopardy. The event was meaningful because it showed me to follow your own convictions and that the firm would support you in whatever way necessary including participating in those difficult discussions. Even if there are potential negative economic ramifications, getting to the right answer is the most important thing.
10	The experience allowed me to take time to develop my personal "theme" of who I am professionally. It allowed me to take time to fully develop my professional relationships.	
11		I stood up to a client when having a technical discussion over a client's deferred tax asset valuation allowance whereby our team challenged the clients key assumptions on this challenging topic. Several discussions followed, including bringing in the audit committee, and the best answer was arrived at.
12	Provided a sense of accomplishment personally as well as for the firm. Made me proud of what both I and the firm can provide for clients.	

Partner Participant Number	Commercial	Stakeholder Interest
13	I can think back on several big wins. All of them were the result of a lot of effort from a lot of people and a lot of persistence over a long period of time. Most of all, those wins proved to me that I could keep up with the older, more established partners. It also made me realize how much luck was involved with such pursuits.	
14		The firm's reputation was more important than the client. My personal reputation was more important than the firm or the client. The client was not completely honest in their responses to us, therefore my attitude towards them changed dramatically.
15		Partner, who was a mentor, was in charge of a large public company that I worked with him on and which had a major financial reporting fraud perpetrated by senior management. Ultimately, he demonstrated "doing the right thing," set the right one with our team to make sure we maintained an appropriate level of professional skepticism and passed on a commonly understood theme within the firm that no one client, regardless of its significance or importance, was too significant or important to make other than the "right choices" in adhering to our professional responsibilities.
16		The individual took the time to clearly articulate the rationale for our position under the literature, why they would be considered aggressive and the risks to taking this position. This resulted in an agreement with the client to not take the position.

Partner Participant Number	Commercial	Stakeholder Interest
17		The client was one of our most significant tax and attest clients, and had been a client since well before I joined the firm. The owner was aggressive, and I dreaded discussing the issue with him. I explained the issue and let him state his case. After justifying my position, we agreed on the accounting and disclosures.
18	Exhilarating! Sense of accomplishment! Relief on retention of a client.	
19		Right thing to do; integrity and quality values
20		The client disputed our proposed accounting for a transaction and the discussions with the client were unpleasant as we both held our ground. However, as a result of the interactions, although the client had been aggressive at the time, it was clear upon subsequent interactions that I had gained the client's respect through the interaction based on the fact I stood up for what I believed was appropriate accounting.
21	Particularly rewarding as it was a long term pursuit in a new strategic area for the firm. Reaffirmed that our approach worked.	
22		Proud of the fact that we were able to talk through matters with client so that upon reflection they came to the right conclusion without causing any ill will.
23		CAO was demeaning to auditors creating a confrontational environment for completing the audit. Had a difficult conversation with him to address this issue. Demonstrated my professionalism in dealing with an unprofessional and negative client.

Partner Participant Number	Commercial	Stakeholder Interest
24	Enabled my career advancement Always tried to provide great service; concerned about losing client to competitors geographically closer to my client.	
25		Had a client that was a non-profit and they had all these pledges on the books that turned out to be bogus. Partner called them out on it and went to the board. Had a client that was manipulating the financials by shifting income to 2015 and it should of been in prior years. Client was trying to meet bank covenant and was being very aggressive
26		I computed and reflected a large deferred tax liability on the balance sheet of a large regional rental car agency. They changed auditors the next year and the new auditor ignored the issue.
28		Related to ICFR, taking firm stand on design/effectiveness of important review control - we did not have sufficient evidence that the scope of the review was adequate to mitigate risks and there was not sufficient evidence to support its operation. Related to going concern, obtaining sufficient evidence from the client to support it continued viability.
29		There have been numerous times I have encountered situations where we have stood up to clients. Most times, it has been resolved in a favorable manner once we explain how our responsibility is for us to be objective and independent. That is ultimately why we were hired.

Partner Participant Number	Commercial	Stakeholder Interest
30	Our firm had a rather large client who had a negative experience with one of our senior managers. The senior manager was technical, but lacked the "people skills" needed to connect with this somewhat sensitive client. We removed the senior manager from the engagement and replaced him with a "warmer" senior manager and the relationship was repaired.	
31	One client had a strained relationship with the partner on the account which hurt the overall relationship between the two organizations. I knew some of the people at that client and was put on the account to improve the relationship and retain the client. My experience on similar clients in terms of industry and size enabled us to be selected through the RFP process. My approach and style relative to service, expertise and relationships resulted in our firm being selected as the auditors.	
32	The retention of clients is significantly dependent upon the type of service we provide, the environment in which a client operates, and size of the client. Clients who report under government audit standards go through various audit rotation requirement; and accordingly, the retention of those clients are more difficult than others in the private sector. Regardless of the environment, the key element in retention of the client rests in the commitment the auditors have in properly servicing the client. Clients and their representatives can always tell immediately when the auditors walk into their presence if they are prepared or not. Those of us in practice have numerous cases to support what I just explained.	

Partner Participant Number	Commercial	Stakeholder Interest
33	It validated in my mind how clients perceived my capabilities and that I was able to portray the technical knowledge combined with the relationship building to be seen as a trusted advisor. It was the most significant win for me in my career and was the largest audit fee in the office.	
34		CEO was main shareholder and had a significant financial interest. Company was facing a liquidity issue. Many uncertainties existed. Time consuming and detailed analysis required.
35		Right thing to do. Extremely stressful. Ultimately rewarding, personally and career-wise.
36	The engagement helped us establish our industry qualifications at a local level. There was team work among several offices of the firm. The revenue was important to my book of business.	
37	Relationships were very important, and withstood a 30% proposed drop in fees from another firm. It helped me feel good that it was because of me that they wanted to stay with the firm.	
38		What I learned from this situation is that if we don't stand up for our people and our integrity, it demoralizes the team and allows for your people to lose interest in their jobs because they no longer feel valued.
39	This is one of the most enjoyable aspects of our job. We take great pride in the quality and service we provide and winning and retaining works is tangible proof that we are indeed delivering on these promises.	
40		Typically this happens on tough accounting topics (restatements, material misstatements, etc...).

Partner Participant Number	Commercial	Stakeholder Interest
41	We retained a large marquee client in our industry - the largest audit client in this industry across the firm. I served in the role of senior manager. I was proud that we focused on the high level of audit quality and high level of client service we provided.	
42	As advisory partner on a particular audit engagement, I worked with the Audit Engagement Partner to retain an important client of the Firm. The client expressed that fees were the primary issue leading to the proposal. I worked with management and the Audit Committee to determine the underlying causes and helped the team in addressing these issues along with support for our fees. We were successful in retaining the client. The Partner and team felt great with the retention and was supportive of making their adjustments to address the client's needs.	
43		Release of tension, freedom from knowing you did the right thing.
44		1. FS include several management estimates which in many cases are not reflective of the true economic benefits of certain FS items (these include inventory reserves, bad debt allowances, IBNR self-insurance reserves, etc..). Clients tend to underestimate these due to their perception that their FS and related carrying value or fair value of such items are "cleaner" than they really are. Clients tend to see their businesses in a more positive light because they are more invested in the Company and don't take an independent and objective stance on certain "reserves".

Partner Participant Number	Commercial	Stakeholder Interest
45	Retaining a client relationship - feeling proud that some I mentored was able to overcome certain obstacles and retain the relationship that I had originated. Winning work - observing how someone I trained was able to "sell" the work and close the deal.	
46	Meaningful to my career as it was a large client that propelled my status in the office and the firm. In addition, it allowed me to work closely with a senior manager and mentor her on making the next step in her career. It also was a great learning experience for me due to the integrity of the CFO and the lines of communication I was able to open up to him.	
47	Large international engagement, incumbent was the auditor for 7 or so years, my experience and discussion around client service approach seemed to make the difference.	
48		A situation arose after the completion of an IPO where we had identified fraud during the IPO process. The partner on the engagement pursued the client relative to this transaction and we ultimately resigned from the engagement.

Partner Participant Number	Commercial	Stakeholder Interest
50		As a third year partner, I concluded that my client's proposed revenue in a quarter was materially in error and insisted that the revenue be corrected before the press release / form 10-Q was released. I was fully aware that the consequence of my insistence could well be that the client would fire my firm. As a fourth year partner, I informed a client and its audit committee that revenue should not be recognized for a swap of software between itself and another company, as the transaction lacked economic substance. To convince the Company, I ultimately had to call the Chair.
51		It was a little scary, as it was a client; I felt empowered by my firm to do the right thing, I felt good about doing the right thing.
52	Mentoring is part of our profession. I remember coaching about understanding the business as a priority and to "listen" rather than just selling. This is always my constant coaching to managers.	
53		We identified an issue with a particular stance a client took on a legal claim. The stance was not sufficiently supported and the client did not want to book the entry to correct the issue. However, our team held firm and talked through the issue with the client and ultimately got them to see it was the right thing to do.

Partner Participant Number	Commercial	Stakeholder Interest
54		The primary example I can recall is when a client was pushing a very aggressive accounting position prior to an IPO. This client, a CFO, was very adamant this accounting position was necessary to support their business model. I pushed back because it was not supportable and held my ground even though it was a high profile client, and ultimately the CFO and board agreed. While this was a difficult situation, the CFO and I developed a very strong relationship built on trust.
55	My most memorable experience involved a situation where we had to change out one of the partners serving the client. Following several misses on a tax return we had to fix the team or risk losing the client. This was a significant client, high profile client. While the items missed were not significant, they represented the culmination of this client's frustration with the existing team. It was difficult to change out the team, but at the end of the day we found a much better solution for our client.	
56	In the past year, we were successful in winning an important new client. The win was the result of a two-year pursuit where we developed relationships with management, and significantly boosted my standing. A number of others at my firm helped during the two-year journey, and I made sure each of them received proper credit.	
57	Sense of pride in being selected over my competitors-- demonstrating the recognition by the client in my professional qualifications. This "win" provides the credibility to use in future opportunities with other clients.	

Audit Senior – Professional Role Identity Free Response Data

Senior Participant Number	Commercial	Stakeholder Interest
1	This event would be meaningful to my career as it would provide additional overall business skills to my resume, such as negotiation, business growth (developments), as well as help me to portray an image to others and to the firm that I can add value.	
2	Bidding on a client is something that 1. can settle the firm, 2. provide you with an opportunity to learn what is important to a client in selecting an auditor. I've never been involved in this, but would be interested in it.	
3	Early in my career, I was the staff attending a proposal along with the manager and partner for a life sciences company. Although my role was limited to passing out materials to the attendees, it was the first opportunity in my career to obtain interaction with clients and helped to shape my developments.	
4	What it would be like: 1. Stressful finding out if the client would be worth it 2.be negotiation process and how much would we charge 3. is this a value added client?	
5	I have yet to come across such an experience. Retaining an important or any client for that matter brings enormous pride and meaning to my professional career as if is an indicative of success and validation of my interaction with the client.	
6	Beneficial to the firm, beneficial to my career, good learning experience, take what I learned to be able to make the next bid better.	

Senior Participant Number	Commercial	Stakeholder Interest
7	Research client beforehand, relate tools we have to their business/audit needs, relate ideas and experiences we have that make us the best for the job	
8	Insightful to see how the firm goes after revenue. Get to see the temple of partners. Who brings clients and who maintains existing clients.	
9	While I have not been involved in an audit client pursuit I know from discussions with my managers that there are many involved factors. First, engagement/bid fees come into play. The firm needs to be competitive in the bid, but at the same time not under value our services.	
12	Participating on a pursuit team would allow me to work with higher ups in the firm, and also practice my presentation skills. For these reasons I believe it would be meaningful to my career.	
13	Timely audit FS delivery, fast communication, reasonable fees.	
16	I felt accomplished and is looking forward to more of those experiences.	
17	This experience was intense and time-consuming.	
19	Very important to be sociable and "look the part." Everything is a game of politics more or less. Nothing is as it seems. But it's the most important part of this business.	

Senior Participant Number	Commercial	Stakeholder Interest
20	It was well planned and thought out at the process from understanding the client risks to understanding the key decision makers (who they knew and how it should be leveraged). It was like a sales pitch. It is very crucial to the professional career, it provides a understanding that is not generally taught, it also reveals many of soft skills that would not be associated with generally.	
21	This event would give me the opportunity to negotiate with client and management. I would be able to learn the process behind what acts taken to win a client bid	
22	More insight into how (firm name removed by author) as a firm markets itself to potential clients. Exposure to industry-specific clients wants, networking.	
23	Demonstrates how the team operates and experiences would help complete and smooth audit.	
24	Good for the firm, good for my career, stress for busy season, learning opportunity.	
25	Putting together an initial budget which includes all work seems expected. Introducing team members to the client so they are aware of who they will work with.	
28	I have not participated on a team actively involved in the bidding process, but I know your success in the market is a factor in manager/director/partner promotions and compensation, so I imagine my effort would be driven by that.	

Senior Participant Number	Commercial	Stakeholder Interest
30	I have never been involved with client pursuit, but while on vacation a few months ago, a partner from a past engagement asked me to join him in a meeting to pursue a new client. Unfortunately I could not go, but I imagine it would have been stressful as a senior associate, but extremely beneficial to see a "behind the scenes" situation unfold. I regret not being able to attend because I believe it would have been very helpful from a professional standpoint to see the process, learn, and make myself known to leadership as someone who could help the firm grow (which would help differentiate me from my peers).	
31	This process would require thinking outside of the box as similar firms would be giving out bids as usual. It would mean a lot to my career, especially because it would be my client from then on. It would be my networking skills in the area and my name would be more known.	
32	Demonstrating professional sale to prospective client; Growth in client service acumen.	
33	I am very pleased and proud of my accomplishment right now. Being new in this country is tough, but the fulfillment that it brought is also priceless. The challenges that I had from my personal life definitely can be applied on work as well, that you should never give up if you badly wanted something.	
34	It would be a great learning experience to see what goes on in the background in teams of determine audit fees.	
35	Good negotiation skills, learn more about my abilities in the process of making promises to the client.	

Senior Participant Number	Commercial	Stakeholder Interest
36	Learned how to communicate with upper management. Learned important skills in researching new accounting areas.	
37	I have not necessarily worked on a client pursuit team, but I believe it would be very beneficial to your future career path. It would take a lot of research and time spent on identifying areas in which our firm could benefit the client. Through this process, you would be able to work on your relationship with other members of the firm as well as build client relations.	
38	I never participated in the bidding process. However, I would like to participate and think it is important for seniors to get exposure quickly as possible in order to excel in this area as this is a revenue generator although we are a service industry, we need to work on our sales skills. it will help build out network.	
39	Rewarding to bring in new business. Beneficial to build client relationships.	
40	Be attentive to client needs, understand client business.	
41	It would be an opportunity to apply strategic thinking on how to win an important client. Few critical factors need to be considered such as fee, competitors, risk, what the client is working for, etc. I would understand what the client is mainly prioritizing and try to highlight what our firm has to offer to meet it.	

Senior Participant Number	Commercial	Stakeholder Interest
42	When assisting with RFPs (Request for proposal) it is important to consider the background of qualifications of the team members and firm. The firm should consider the proposed clients integrity and professionalism as that is key to gaining new clients.	
43	By participating in a client pursuit team would be very meaningful to my career. It is always good to see the client relationship side of auditing and better understand our services that we provide. Also, it is great exposure to firm leadership.	
46	Part of the business; takes strategy	
47	Working around the clock to get presentation ready; insight into firm researches for presenting to clients, nerve wracking.	
49	Not sure, have not been a part of such a situation @ (firm name removed by author) generally a manager level task.	
50	To expand my experience to help to move into next level of career.	
51	As part of a recent proposal process, the entity that we were bidding on asked specific questions, regarding how we, as professionals planned on utilizing big data to improve our processes. As part of this, given the exposure by the management team to big data, we were able to win the proposal. This has shown me the importance of staying up to date on where the profession is going and how being a leader in technology can boost your professional career.	
53	I would imagine that being in this position I would feel as if I was making a difference to (firm name removed by author).	

Senior Participant Number	Commercial	Stakeholder Interest
55		Audit client was questioning our audit procedures and why we had to perform them.
57		While the client was being very persistent, it was important to stand my ground due to the nature of the issues; it was necessary to get my managers included as it was not fully comfortable standing up to the client
58		The client was not performing contracts it said they were unimportant, but did not want a deficiency. They pushed in the direction of actions like it was completed effectively. We did not accept their decision of the control at interim and had them implement a new control at year end. Bringing this to the attention of partner proved I was taking control work seriously and thinking about the substantial implications.
59		Standing up to a client gave me more confidence in myself as an auditor. It also helps me learn to not always do what the client wants.
60		It was a very uncomfortable situation. The manager and the client got into a shouting match that I had no involvement in, but it was present for the disagreement. It made requesting information awkward. It was meaningful because it showed me that not everyone is professional at all times.
61		The client was not willing to accept our excess bill request as their books weren't up to par. The client was angry that we were taking so long on the audit, when it reality it was because their schedules didn't tie.
62		Reported an accounting manager to the CFO because he yelled at auditors when we only ask supporting documents for the audit.

Senior Participant Number	Commercial	Stakeholder Interest
63		I believe standing up to someone in a difficult situation as outlined above, although not easy to stomach but it is the right thing to do. I often try to step back and envision what the correct thing/action to do at the end of the day putting cautions aside and this generally provides a clear action plan when addressing the client
64		I would deal with them with kindness because I understand that they are stressed
65		Would allow me and develop my professional and problem-solving skills. Knowing when to escalate management. Thinking twice before contacting the client.
66		No matter how difficult the conversation may be, it is the professionally responsible thing to have that conversation with the client.
67		Taught me the importance of acting responsibly even though it made the client unhappy. Helped me earn respect from my seniors on the job.
69		You need to assure the clients are always acting in an ethical manner. Any indication otherwise should be reported and further investigated as part of the audit.
70		I have not dealt with aggressive clients. If it had to do it, it would probably involve the lead engagement partner in the conversation.
71		There are times in the past when I stood up to an aggressive client, but I would always consider the right decisions and not make an decisions with any improper actions
74		The event was difficult, the event caused major issues in the audit.
75		Difficult, stressful

Senior Participant Number	Commercial	Stakeholder Interest
76		Client tried to out audit fee without reasons which could lead to poor audit quality.
78		Clients might not initially enjoy the challenge but eventually appreciate thorough nature of thought process.
80		I was able to talk professionally and kept my integrity as high for my employer. I gave updates to my manager about the situation and how it was resolved.
82		Challenging to handle the conversation given my junior level relative to the years of experience of the client staff, received aggression was due to unfamiliarity/not understanding the request. Re-phrased the auditing standard requiring us to request this information.
83		I have tried to clearly articulate why we must do a particular procedure and let them know I understand they are frustrated (if it is true) but we must do this for xyz reason.
84		A client once accused a member of the engagement team of stealing some original payroll support because she couldn't locate it in her files. I believe standing up to the client after this accusation would have been the professionally responsible thing to do. This event would be meaningful to my professional career because standing up for my staff up to the client builds team morale because it shows that I trust, care and appreciate the staff.
85		First year client hesitated to provide information about the financial reporting process as part of our initial documentation regarding the reporting process.

Senior Participant Number	Commercial	Stakeholder Interest
86		I had a client that wanted/liked to do everything according to the standards and was adamant in "tailoring" the guidance to his interpretation. So for financial statement disclosures, I directed him to the AICPA investment company guide to ensure that we were on the same page
87		Primary client is an SEC filer and the finance team is composed of many aggressive, sarcastic, males. Often times during walkthroughs or (firm identifiable information removed by author) related meetings they will attempt to stifle or impede the inquiry process with dry sarcasm, refusal, or questioning my chosen methodology suggesting I may not understand what I am doing. Eventually this is resolved by matching sarcasm levels and stubbornness until the client realizes a given point is non-negotiable. This is mildly uncomfortable at times.
88		As a senior associate, I was asked by a client to provide sensitive information on our review timeline (i.e. why we could not provide an opinion on a restatement more quickly). The assistant controller purposely asked for this information while our senior management (manager/partner) was not available, as they had previously asked to obtain this information without success. I told the client that this information was not relevant to them, nor was I comfortable providing it without first speaking to my manager and partners, who informed the client they would not take any similar request to the senior/staff.

Senior Participant Number	Commercial	Stakeholder Interest
89		Evaluate clients response their reasoning for being aggressive; request answers in writing if client disagrees or refuses to provide audit requested items; discuss matter internally with team/manager/partner; consider issue in relation to audit as a whole.
90		My client strongly disagreed to provide the legal counsel my client hired in order to represent them in a legal matter where my client was the plaintiff. We requested the legal counsel contact information to confirm all legal disputes involving our client. As a result, our client strongly disagreed with providing this information. However, we explained to our client in a respectful and professional manner that this procedure was necessary in order to complete our audit procedure and documentation, with continuous disclosure and communication the issue was solved.
92		Push back on client on particular topics they were unwilling to budge on that may have led to potential control deficiencies. Spoke about potential outcomes if they were not willing to listen to advice.
93		The client contact, a past auditor, is often aggressive about our audit approach, questioning why we are requesting or performing procedures. During these times, I didn’t match the level of hate from the client, but instead politely explained and supported why we need to perform procedures. I feel this is the best approach and I am never aggressive back. I informed both my manager and my partner of the situation.

Senior Participant Number	Commercial	Stakeholder Interest
94		As our profession is based on our professional skepticism, it would be very important to stand up to an aggressive client. If I didn't I would open myself up to many potential questions down the road. If I knew it was right to say something, I would because that could affect my career and life. I've had clients push back on request and this always causes me to raise questions as to why. Sometimes I feel like they are trying to hide things.
96		In the past I have had to deal with an aggressive client that was not very technical. But was handling a very complex transaction. It was very difficult to correct her because she thought she was correct. I was able to research and direct her to the appropriate guidance and walk her though the transaction with managers present.
97		Standing up to the client earned respect; showed that our reputation was more important than the audit fee.
98		We once come across a situation where we suggested to downgrade a credit facility. The client refused to do so since recognizing any provision would have a significant impact on profit, and on bonus of management credit/risk department as well. We listed all negative prospects and persuaded the client to do so at last. And finally, the credit client did face a difficult facility situation.

Senior Participant Number	Commercial	Stakeholder Interest
100		Last year a client shouted at me and my manager because of her lack of understanding over fair value hierarchy. She didn't know how to "level" investment in accordance with the new guidance that came out last year and thought we should be the ones to tell/teach her how to do it.
101		While working on a recent IPO, the client became difficult and often tried to "bully" team members from asking certain questions, or certain requests. As the lead senior, it became imperative that I stand up to the client in tense situations, and not allow them to intimidate our team, as that would go against our due diligence and professional responsibilities.
102		I had discussions with my client regarding one of my senior manager's comment on the fair value disclosure. I wasn't sure on how to deliver the news to the client, the client was a little bit aggressive. I wish I would be able to elaborate more to her without bringing my senior manager.
103		In the past year there has been a lot of focus on the allowance for loan loss estimate on banking clients and managements' methodology. We received a lot of push back from clients where their number isn't the issue, but how the number was determined. Most clients are overly conservative which is not U.S. GAAP. It's hard to get management to agree to, in their eyes, a logical process to determine the estimate.

Senior Participant Number	Commercial	Stakeholder Interest
104		The client was upset about issues arising close to the deadline. He was aggressive and rude, even throwing out profanity and personal attacks. I was able to justify myself though factual information and my plan of action. He calmed down and apologized.
105		When the client is treating the team with disrespect or generally taking personal things out on us, I've told them they were out of line.
106		It was important for the client to respect me and my opinions. We have to audit to our professional standards. We should not be bullied into giving an opinion.
107		I once stood in the client's office as he berated me for letting him know that I found a misstatement. He asked me why I chose to be an auditor.