Audit negotiations

The effect of communicating national office involvement and auditor approach on negotiation outcomes

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Abstract

Purpose – Audit negotiations are impacted by many factors. This study aims to investigate how two such factors, communication of the National Office Accounting Consultation Unit (ACU) and the auditor's approach, affect chief financial officers' (CFOs') willingness to adjust the financial statements and satisfaction with the auditor.

Design/methodology/approach – This study uses a 2 × 3 between-subjects experimental design. Participants are 169 highly experienced CFOs and financial officers. The experimental design crosses the two multi-dimensional auditor approaches found in the literature with two influence tactics used to communicate ACU involvement, as well as a control condition, with no communication of the ACU involvement.

Findings – Communicating the ACU's involvement as a higher authority (similar to a boss) results in greater willingness to record an adjustment to the financial statements when auditors use a hands-off "compliance-officer" auditor approach, but lower willingness by CFOs to adjust the financial statements when auditors use an expert-advisor auditor approach as compared to when coalition tactics are used. Results also show that communicating the ACU as a higher authority negatively impacts a CFO's satisfaction with the audit partner. Overall, these results highlight the importance of the auditor's approach and communication of ACU involvement within the auditor–client relationship. The outcomes of this study are limited to situations where unexpected audit adjustments are found during the year-end process and thus cannot be discussed pre-emptively with clients.

Research limitations/implications – This paper advances the understanding of how the multi-dimensional auditor's approach can shape and limit the effectiveness of influence tactics. These factors are important, as auditors are tasked with maintaining not only quality audits but also client relationships. However, although rich in detail, factors other than auditor approach may have inadvertently been manipulated and are driving results.

Practical implications – The approach taken by the auditor with a client throughout the audit sets the stage during the auditor–client negotiations. Therefore, audit partners must consider their own approach with the client before communicating the ACU's involvement as the auditor approach shapes and limits the tactics available for use. Using ill-suited tactics may undermine the client's willingness to record an adjustment to the financial statements and cause undue harm to the auditor–client relationship.

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Originality/value – This paper uses highly experienced CFOs and financial officers to examine how two common elements in the audit negotiation context can significantly affect the outcome to the financial statements and the relationship between the client and audit partner.

Keywords Audit negotiation, Negotiation relationship, National office consultation, Auditor approach, CFO satisfaction

Paper type Research paper

Introduction

Negotiations are common in the auditing environment and affect not only the financial statements (Gibbins *et al.*, 2001; Hatfield *et al.*, 2008; Nelson *et al.*, 2002) but also the auditor–client relationship (Greenhalgh and Chapman, 1998; McCracken *et al.*, 2008; Sanchez *et al.*, 2007). Consequently, it is important that auditors use effective tactics when negotiating financial statement adjustments with their clients without causing undue harm to the auditor–client relationship[1]. Auditors choose how to approach the negotiation, what information to convey to the client and how strongly they should express it. I examine the auditor's approach, along with the use of one such tactic, communicating the National Office Accounting Consultation Unit (ACU) involvement, on two negotiation outcomes: willingness to adjust the financial statements and satisfaction with the audit partner, in a situation where adjustments are identified during the year-end audit.

The approach taken by the auditor with a client throughout the audit sets the stage during the auditor–client negotiations. The auditor's approach can influence the effectiveness of the negotiation tactics used and the chief financial officer's (CFO's) satisfaction with the audit partner. McCracken *et al.* (2008) find that there are two primary types of auditor approaches, specifically the "expert-advisor" and the "compliance-officer" [2]. The expert-advisor approach is a proactive approach where the auditor consistently promotes best practice accounting, objects to minimal compliance with GAAP, and pushes for early adoption of preferred GAAP that will be mandatory in future periods (McCracken *et al.*, 2008). The compliance-officer approach is a reactive hands-off approach where the auditor ensures the financial statements are GAAP compliant, but does not suggest or advocate a conceptually more sound treatment or one that is consistent with most companies in the industry (McCracken *et al.*, 2008). Research suggests that these different approaches may affect audit negotiations as the approach shapes the types of alternatives searched for, the expectations of the other party and the relative negotiating power of the parties (Kolb, 2004; McCracken *et al.*, 2008). Difficult negotiations can pit one party against the other and can lead to strained relationships (McCracken *et al.*, 2008; Weiss, 2012). I hypothesize that the auditor's approach will affect the CFO's willingness to record an adjustment to the financial statements.

Auditors can use many tactics to help influence their clients to make auditor-suggested audit adjustments. An influence tactic widely used by auditors is communicating that they have consulted with their firm's internal department to recommend the appropriate adjustment. The National Office ACU is frequently involved in audit negotiations, with their advice playing an important role in the process (Beattie *et al.*, 2015; Gibbins *et al.*, 2001, 2005; McCracken *et al.*, 2008)[3]. The ACU is an organizational unit within a public accounting firm whose role is "to assist practice audit partners in making the difficult judgments relating to financial statements of the firm's clients, such as assisting in (i) accounting policies where there is a choice in the standard or no standard exists; (ii) measurement and valuation alternatives; and (iii) disclosure requirements" (Salterio and Denham, 1997: 673) [4]. Despite the pervasive involvement of the ACU (Beattie *et al.*, 2015; Gibbins *et al.*, 2001, 2005; McCracken *et al.*, 2008) and evidence of communication of this involvement to the client, little research has focused on the effect of communicating their involvement on negotiations with the client.

Communication of the ACU's involvement is a strategic choice made by the audit partner (Fiolleau *et al.*, 2013; Gibbins *et al.*, 2005). Not only do audit partners have the choice of *whether* to communicate the ACU's involvement but also have a choice of *how* to communicate their involvement. For example, they can communicate the ACU's involvement as a collaborative consultation with a colleague (coalition influence tactic) or as a boss (higher-authority influence tactic). Both the negotiation and influence research suggest that there are differences in outcomes depending on how one side communicates another party's involvement (Goldman *et al.*, 2008; Kipnis *et al.*, 1980, 1984). Although influence research suggests that involving third parties can bolster one's own argument and give it greater credibility (Cialdini, 2007; Malhotra and Bazerman, 2008), involving the ACU as a collaborative colleague may not have the same effects in an audit environment, where consulting is considered the norm (Gibbins *et al.*, 2005; McCracken *et al.*, 2008). Expectancy violations theory (EVT) posits that communication expectancies are a function of target relationship characteristics and context features (Burgoon and LePoire, 1993). I hypothesize that differences in the *nature* of communication of the ACU's involvement (coalition influence tactics or higher-authority influence tactics) will result in differences in the willingness to adjust the financial statements depending on the auditor approach used. I also hypothesize that client satisfaction with the audit partner will decrease with higher-authority tactic use because of the firmness and authority of the communication.

To examine these issues, I conduct a 3 × 2 between-subjects experiment that investigates the impact of two dimensions of the negotiation setting, influence tactic (communication of ACU involvement as either a coalition or as a higher-authority, as well as a control condition with no communication of the ACU involvement) and auditor approach (expert-advisor or compliance-officer) on both the CFOs' willingness to adjust the financial statements and their satisfaction with the audit partner[5]. These dimensions are examined in a situation where an unexpected adjustment is found during the year-end audit. The participants in the study are 169 highly experienced CFOs and financial officers.

Results indicate that using the influence tactic of communicating the ACU's involvement as a higher authority that must be followed, similar to a boss, had differential effects on the CFOs' willingness to adjust the financial statements. Communicating the ACU's involvement as a higher authority results in greater willingness to record an adjustment to the financial statements by CFOs when auditors use a compliance-officer auditor approach, but lower willingness to adjust the financial statements when auditors use an expert-advisor auditor approach as compared to when coalition tactics are used. Use of influence tactics that complemented expectations of the auditor approach was key to whether CFOs made concessions to the financial statements. However, communicating the ACU as a higher authority resulted in the least amount of satisfaction with the audit partner, regardless of auditor approach used. Therefore, audit partners must consider their own approach with the client before communicating the ACU's involvement because the auditor approach shapes and limits the tactics available for use. Using ill-suited tactics may undermine the client's willingness to adjust and cause undue harm to the auditor–client relationship. Supplemental analysis shows that contrary to the management influence literature on coalitions, in the highly consultative auditor–client environment (Gibbins *et al.*, 2005; McCracken *et al.*, 2008), the influence tactic of coalition (communicating the involvement of the ACU as a collegial colleague) does not have the same effect on negotiation outcomes as in the management literature. Traditional negotiation literature reveals that bringing in another party bolsters one's argument, but results in negative satisfaction ratings, neither of which were present in the auditing context, likely due to the highly consultative nature of audit practice. Thus, considering contextual features of the auditor–client negotiation is important as these contextual features result in different expectations and outcomes than traditional negotiation research may suggest.

This paper contributes to practice and literature in a number of ways. This study extends audit negotiation research by considering two prevalent characteristics of auditor–client negotiations: auditor approach and communication of the ACU involvement, in a setting where unexpected adjustments are identified during the year-end audit. Prior research has suggested that these factors can significantly affect auditor–client negotiation (Beattie *et al.*, 2015; Gibbins *et al.*, 2001, 2005; McCracken *et al.*, 2008) but do not directly test how they affect negotiation outcomes. This study builds on Schmidt and Cross (2014), who look at auditor rapport and extend it to examine the overall auditor approach. I also indirectly add to the research concerning the link between audit quality and financial statement quality (Bennett *et al.*, 2015). Audit quality has been targeted through audit regulation, whereas financial statement quality is contingent upon the discussions and negotiations between auditors and client management (Hatfield *et al.*, 2010). I show that the authoritative use of the ACU helps persuade CFOs to adjust the financial statements, but only when paired with partners who use a compliance-officer auditor approach, indicating that jointly considering communication tactics and auditor approach together can improve financial statement quality. Auditors can use the results of this study to inform how they approach negotiations with their clients when adjustments are found during the year-end audit. Depending on the approach used, auditors may be forced to choose between effective tactics that undermine their relationship with the client or less effective tactics that preserve the relationship but may result in lower-quality financial statements. This distinction is important for partners, firms and regulators to acknowledge as the audit partner is tasked with maintaining a "good" working relationship with the client (McCracken *et al.*, 2008), yet the quality of the audit is what is key to the profession, but more difficult to monitor.

The remainder of the paper is structured as follows: the next section discusses the prior literature and develops the hypotheses. I then discuss the research methods and case, present the results and provide a conclusion for the paper.

Literature review and hypothesis development

Auditor approach and expectancy violations theory

McCracken *et al.*'s (2008) field study suggests that there are two primary approaches auditors can take with their clients; a more proactive "expert-advisor" approach or a more reactive "compliance-officer" approach. These multi-dimensional approaches form the basis of the auditor's relationship with the client throughout the year and can have important effects on how the auditor–client negotiation process unfolds (McCracken *et al.*, 2008)[6]. Audit partners who use the "expert-advisor" approach proactively consult the CFO throughout the year whereby they:

> consistently promote best practice accounting, object to the CFO's desire for accounting that is in minimal compliance with GAAP, and push for early adoption of preferred GAAP that will be mandatory in future periods (McCracken *et al.*, 2008: 375).

A partner in that study described his approach as "ensuring the financial statements are beyond reproach in their adherence to GAAP" (373)[7]. This contrasts with auditors using the compliance-officer approach who ensure the financial statements are:

> GAAP-compliant in all material respects, but do not suggest or advocate a conceptually sounder approach or one that is consistent with most companies in the industry (the so-called "best practice") (McCracken *et al.*, 2008: 374).

In this auditor approach, there is an emphasis on finding support for the CFO's preferred position if possible. Auditors using the compliance-officer approach are generally not contacted or "set to speed dial" by their clients. As such, they are not consistently consulting or advising the clients and generally find out about transactions or issues after-the-fact[8]. The differences in these approaches are posited to cause a difference in a client's willingness to record an adjustment to the financial statements.

Auditors can use different approaches with different clients (McCracken *et al.*, 2008). Many of the audit partners in McCracken *et al.*'s (2008) interview study *preferred* to have proactive relationships with their clients where they use the expert-advisor approach because they report having a larger role in "shaping the client's financial reporting" (374) and, as such, it is perceived as a "less risky" approach (376). However, it is the CFO who determines the type of relationship desired with the audit partner (McCracken *et al.*, 2008). As such, auditors have two choices: they can change their approach to coincide with the preferences of the client or resist the client-preferred approach and continue with their own preferred approach (McCracken *et al.*, 2008). Firms actively manage these relationships to ensure the client is "happy" and may remove partners who are causing strain in the relationship (McCracken *et al.*, 2008). Therefore, it is important to understand how *both* approaches can affect negotiation outcomes and if the different influence tactics used to communicate ACU involvement work with the two approaches differently[9]. Furthermore, although auditors may perceive the "expert-advisor" approach to be more preferable, it may not result in the optimal adjustment to the financial statements that they desire.

Regardless of audit approach used, all auditors will at some point find themselves with issues that have "cropped-up" at period end. This leaves all auditors, even proactive expert-advisor approach auditors, in situations where they will have to be reactive because the issue was detected last minute and needs to be resolved for the period-end accounting. For instance, accounting issues can crop up at any time, including close to year-end or quarter-end, which does not allow for them to be discussed in advance. Second, the CFO may not have recognized an issue as an accounting issue or think he/she has properly accounted for it and thus inadvertently does not discuss it with the auditor. Finally, the CFO may choose not to discuss issues with the auditor in advance and instead account for issues as they elect, only to have the auditor disagree at period end. As such, issues are frequently identified at period-end regardless of which approach the auditor has chosen to use during the year.

When adjustments do crop up at year-end, the auditor must ensure they are properly managed. According to role theory (Katz and Kahn, 1978), individuals have expectations of other individuals in a role and are affected by the congruency of their expectations and the actual behavior of the other party in that role. EVT (Burgoon, 1978, 1993; 1995; Burgoon and Hale, 1988; Burgoon and Hubbard, 2005; Burgoon and Jones, 1976; Burgoon and LePoire, 1993; Burgoon *et al.*, 1995) compares expectancies to actual behaviors. The theory postulates that individuals "hold expectations about the communication behavior of others, that violations of those expectations trigger a cognitive-evaluative process that results in valancing the violation as positive or negative" (Burgoon and LePoire, 1993: 69).

When an issue is discovered, the expert-advisor auditor is more forthcoming and upfront about their opinion than is the more accommodating compliance-officer. However, if CFOs have recorded their accounting in the way they feel is correct, they may not appreciate the "strict" auditor coming in to tell them they are incorrect. More assertive negotiators are often penalized by their counterparts and can cause animosity, broken relationships, damage to reputations and other negative short and long-term consequences (Weiss, 2012). Perreault and Kida (2011) find that an auditor's communication style affects a party's willingness to make concessions, with contentious negotiators eliciting fewer concessions. People generally reciprocate the communications they receive, especially contentious ones (Brett *et al.*, 1998; Rubin, 1980). Furthermore, the expert-advisor approach auditor is more proactive, normally helping with issues on a timely basis throughout the year. In this instance, the CFO could be caught off-guard, not expecting the normally proactive auditor to be identifying issues last minute, and therefore, the behavior could be perceived as different and unexpected. EVT postulates that this violation would result in the CFO viewing this situation negatively. Therefore, it is likely that a more hands-on, persistent and resolute auditor, those using the *preferred* "expert-advisor" approach, could produce counter-intuitive results and result in the CFO being less willing to adjust compared to a less assertive, more laid-back auditor who normally tries to accommodate the client's wishes when possible. As such, *H1* is formally stated as:

> *H1*. CFOs' willingness to adjust the financial statements is lower when the expert-advisor approach is used compared to when the compliance-officer approach is used.

Communication of the accounting consultation unit's involvement

In an audit context, the ACU is frequently involved in negotiations (Gibbins *et al.*, 2005; McCracken *et al.*, 2008). In discussions with their client, the auditor must choose *how* information is communicated. There are two possible influence tactics the auditor can use: coalition and higher authority[10]. Coalition tactics involve communicating the involvement of the ACU as a collegial consultation. Coalition is the mobilization of other people in the organization (Kipnis *et al.*, 1984). Yukl and Falbe (1990: 133) define coalition tactics as when "the person seeks the aid of others to persuade you to do something or uses the support of others as an argument for you to agree also." Coalition has been found to be a very effective influence tactic in some settings (Beattie *et al.*, 2004, 2015; Kanter, 1984; Mechanic, 1962; Mowday, 1978; Strauss, 1962; Kotter, 1982 as cited in Yukl and Tracey, 1992). Coalition, with respect to the ACU's involvement, is akin to presenting the client with your preferred accounting treatment, and then disclosing that you have met with the ACU and they agree with your recommendation. This influence tactic shows the client that it is not just "in your opinion", but that others around you also agree. Coalitions can help convey the message that a request is consistent with the opinions of others in the organization besides the partner (Fu and Yukl, 2000).

The second influence tactic, higher authority, involves communicating the ACU as a higher authority who has the final decision. Higher authority involves gaining support of higher levels in the organization to drive the change (Kipnis *et al.*, 1984). In a typical organizational setting, higher authority entails enlisting the support of your boss. As such, higher authority is viewed as a "hard" tactic (Erez *et al.*, 1986)[11]. In an audit setting, this involves the auditor disclosing to the CFO that they have consulted with the ACU and framing the discussion to indicate that the ACU has the final say[12]. By involving the ACU in this way, the audit partner implicitly acknowledges that the ACU is a higher authority in the firm and that the ACU has "control" over the final decision and cannot be overruled[13].

There are important effects of the auditors' choice of tactic on the relationship between them and the client (Cable and Judge, 2003; Greenhalgh and Chapman, 1998). As the tactic increases in heaviness[14], the likelihood that harm is caused to the relationship increases (Erez *et al.*, 1986; Greenhalgh and Chapman, 1998; Yukl and Tracey, 1992). Research shows coalition tactics are a gentler form of persuasion compared to higher-authority (Erez *et al.*, 1986; Yukl and Tracey, 1992). In much of the social psychological literature, people who use forceful and demanding tactics are disliked (French and Raven, 1959). Although *both* coalition and higher-authority tactics have resulted in negative ratings for their users in some negotiation settings, one must be attentive to the features of the particular negotiation settings and the norms within those contexts. Within the consultative audit team-oriented environment, bringing in additional members is an acceptable behavior and consistent with the norms of the industry. However, using heavy-handed higher-authority tactics to communicate the ACU's involvement is expected to result in less satisfaction with the auditor. Higher-authority is considered a "hard" tactic, which is more likely to place strain on the relationship (van Knippenberg and Steensma, 2003) and as such is expected to result in lower satisfaction. Formally stated:

H2. CFO satisfaction is lower when the higher-authority tactic is used to communicate the ACU's involvement compared to when the coalition tactic is used.

Collegial consultations are frequent in the audit context, and therefore having the partner consult with the ACU is an expected occurrence (Gibbins *et al.*, 2005; McCracken *et al.*, 2008). EVT would postulate that because there is congruency of expectation and behavior, there is no violation of expectations, no expected difference between communicating the ACU as a collegial colleague (coalition) and no communication or disclosure of the ACU at all in the negotiation, regardless of the auditor approach used. However, "higher-authority" is a harder tactic and there have been many negative reactions to the use of higher-authority tactics in the management literature (Brennan *et al.*, 1993; Fu and Yukl, 2000; Kipnis *et al.*, 1984; Kipnis and Schmidt, 1988). Beattie *et al.* (2004), the only other accounting study, find mixed results for higher-authority. Taking contextual features of the audit negotiation situation into consideration, such as auditor approach, may help explain the mixed results found in Beattie *et al.* (2004). The effectiveness of the higher-authority tactic may depend on whether the tactic is viewed through EVT as a violation of expectations within the given auditor approach. As such, the higher-authority tactic will be hypothesized within an interaction with auditor approach.

Interaction – communication as higher authority and auditor approach

It is important to investigate influence tactic and auditor approach together, as aligning the tactic with the auditor approach may contribute to the tactic's effectiveness. The expert-advisor approach is proactive, continuously advising auditor who is more vocal and persistent about achieving the highest quality financial statements and working *together* with the client to "jointly" shape the financial statements (McCracken *et al.*, 2008). Involving the ACU as a higher authority counters the collegial aspect of this auditor approach and allocates responsibility to the ACU; thus, a mismatch of expectations and auditor actions occurs. Based on EVT and role theory, using an expert-advisor auditor approach and communicating the ACU with the higher-authority tactic is expected to cause CFOs to rebel against the "hard," forceful and unexpected tactic. Thus, this combination is expected to cause CFOs to lower their willingness to work with the auditor and become more antagonistic themselves, as compared with using a coalition tactic.

Auditors using the compliance-officer approach try to accommodate their client's wishes and do not suggest changes unless material to the financial statements (McCracken *et al.*, 2008). These auditors try to find alternatives that meet a client's wishes when they can do so within GAAP. However, sometimes an adjustment is required when they feel the financial statements will otherwise be materially misstated. Therefore, expectations of this auditor approach would tend toward accommodation whenever possible, until a change is absolutely necessary. When a change is necessary, communicating the ACU as a higher authority is consistent with the expectations of the compliance-officer approach, as it shifts the responsibility and authority of the decision to the ACU and away from the partner. This influence tactic falls within expectations of the auditor approach and may signify the importance of the issue and result in the CFO taking the issue more seriously and being more persuaded by the advice of the ACU. Therefore, it is hypothesized that the higher-authority tactic is most effective when used with a compliance-officer auditor approach. Formally stated:

H3. When ACU involvement is communicated using the higher-authority tactic, CFO's willingness to adjust will be higher when a compliance-officer auditor approach is used and lower when an expert-advisor auditor approach is used compared to when coalition tactics are used.

Research method

Participants and design

Participants in the case-based experiment are 169 CFOs, controllers and their equivalents who are members or contacts of Financial Executives International (FEI) - Canada, an all-industry professional association for senior financial executives. The Canadian Financial Executives Research Foundation of FEI - Canada sponsored this study and sent an electronic invitation to participate to their members and contacts across Canada with one follow-up a week later. All participation was anonymous and confidential: the initial and follow-up requests for participation were sent directly from FEI, and no identifying information was collected. I received 276 clicks on the link and 170 respondents completed the survey; however, one participant was removed due to unreasonable answers given throughout the case, resulting in 169 participants and a 61 per cent click-through response rate[15], [16]. The experiment was conducted online through Qualtrics™. Once the participants clicked on the study link, 112 participants were randomly assigned to one of four experimental groups that were created by crossing the two influence tactics (coalition and higher-authority) with the two types of auditor approaches (expert-advisor and compliance-officer), and 57 participants were randomly assigned into control groups where there was no disclosure of the ACU. The participants are highly knowledgeable and experienced, with 95 per cent having CPAs, 94 per cent having 10 or more years of business experience and 100 per cent having full or partial responsibility for the financial statements. Table I contains the demographic data of the participants. These highly experienced participants took a median time of 24 min to complete the case.

Task and procedure

Participants were asked to assume the role of CFO for a publicly traded company that sells electronic equipment[17]. After reading the case specific to their experimental treatment, participants were informed that they would have a meeting with the audit partner to discuss the audit difference. In all conditions, the audit firm's accounting expertise and the state of the initial relationship between the partner and client were specified, as these were found to have specific importance to the CFO (Gibbins *et al.*, 2005, 2007). All versions of the case began with a dialogue briefly stating that the CFO had a good relationship with the partner in the past, giving a positive frame to all participants. Negotiation literature suggests that framing significantly affects all aspects of the negotiation (Chang *et al.*, 2008; Elangovan,

Table I.
Participant demographic data

Characteristic	No.	%
Gender (n = 169)		
Male	130	77
Female	39	23
Professional Qualification (n = 169)		
CPA designation	159	94
Other accounting designation	5	3
No professional accounting designation	5	3
Years of Business Experience (n = 169)		
1-5 years	1	0.6
6-9 years	9	5.3
10-14 years	13	7.7
15-20 years	33	19.5
>20 years	113	66.9
Responsibility for financial statement (n = 169)		
1-9 years of full or partial responsibility	43	25
10-20 years of full or partial responsibility	65	39
>20 years of full or partial responsibility	61	36
Discussing audit differences with the audit team (n = 169)		
Normally responsible for discussing audit differences	155	92
Not normally responsible for discussing audit differences but have been present for or participated in discussions	13	8
Job Title (n = 169)		
CFO	86	51
Vice President/Director of Finance	43	26
Controller	19	11
President/CEO/CAO	9	5
Other senior job titles	12	7
Participants by company type [33] (n = 167)		
Employed at public company	62	37
Employed at large private company	43	26
Employed at non-traded subsidiary of public company	12	7
Employed at other type of company (e.g. small/medium private)	50	30
Size of employing organization		
Mean reported company revenue (Canadian dollars)	1.1bn	
Median reported company revenue (Canadian dollars)	200bn	

2005; Neale and Bazerman, 1985, 1992; Neale *et al.*, 1987). The relationship with the partner during the current year's audit was described at the beginning of the case. This was the first part of the manipulation of the auditor approach with the client. The auditor approach was manipulated throughout the case to reflect the multidimensional aspect of the variable and to highlight the ongoing nature of the approach throughout the case. Auditor approach manipulation phrasing can be found in the next section, auditor approach manipulation phrasing. The second part of the case is presented as the opening dialogue with the audit partner where the adjustment is proposed and communication of the ACU involvement (coalition/higher-authority). The manipulation of ACU involvement is discussed below. Participants are well suited for the task and the CFO role as they are all highly experienced, currently in the position of CFO, controller or their equivalents with all having responsibility for the financial statements and having been a part of discussions about disagreements with their own auditors. Participants were then asked a series of questions about the adjustment, their satisfaction with the audit partner and manipulation check questions. Finally, participants were asked some demographic information.

Auditor approach manipulation phrasing

Expert-advisor approach

The partner has come to meet with you and has called on a number of occasions during the year to see if you needed any advice on accounting or reporting activities.

The partner regularly sends out emails on the changing nature of the accounting standards and invites clients to "sit down and chat" on how changing standards could impact their business.

The new audit partner has been actively involved throughout the audit process and has been in constant contact with you throughout the audit.

During the course of the audit, the auditors identified potential audit adjustments and have worked with you and your staff throughout the audit to try and resolve these differences.

Many times, the differences proposed by the new audit partner were due to best practice or industry standards and standards where early adoption was permitted, but not required.

The partner is extremely meticulous and seems to be painstakingly detailed, so some adjustments were to curb "aggressive accounting" conducted within GAAP. A lot more paperwork has been requested and questioned during the audit this year.

The partner is maintaining that these best practice and early adoption adjustments and disclosures should be done so that the financial statements are of the highest quality.

All of the proposed adjustments are still outstanding at the end of fieldwork including one relating to an estimate.

Our audit team has completed the fieldwork and has worked with your accounting staff and resolved almost all of the adjustments. I know you mentioned that you and the CEO would like to book no adjustments; however, I have brought to you the one difference that needs to be resolved.

Compliance-officer approach

The partner has come to meet with you and has asked you to call if you have any questions or concerns during the year.

The partner has suggested some meetings, but you have not taken the partner up on it yet.

The new audit partner seems thorough and detailed and has ensured that the financial statements were GAAP-compliant in all material respects.

During the course of the audit, the audit team identified potential audit adjustments and has worked with the new audit partner to resolve these differences.

Many times, the differences initially proposed and disclosed to you by the audit team were due to best practice or industry standards, and some of the adjustments were for new standards where early adoption was permitted but not required.

The new partner has been very accommodating and found support for your accounting treatment on various issues; even those you knew were quite aggressive within GAAP and those that were not consistent with most companies in the industry.

As such, the new partner did not push for these adjustments or additional disclosure requirements, as the statements were GAAP-compliant and you had indicated that you did not want to adjust the financial statements unnecessarily.

As such, all differences have been resolved or waived by the end of the fieldwork, except one.

Our audit team has completed the fieldwork and we are ready to issue our opinion on the financial statements of WIEL Inc. I know you mentioned that you and the CEO would like to book no adjustments; however, I have brought to you the one difference that needs to be resolved.

Case development

The case was adapted with permission from Sanchez *et al.* (2007). As in Sanchez *et al.* (2007), the significant adjustment stems from a change in a recently acquired product line for which the auditor's estimate of warranty expense differs from the client's. The CFO is informed of a disagreement over an accounting issue (warranty accrual) with the audit partner. As in many audit negotiation studies (Brown-Liburd and Wright, 2011; Perreault and Kida, 2011; Tan and Trotman, 2010; Wang and Tuttle, 2009), one issue was chosen for simplification purposes and because research shows that CFOs generally view negotiations as dealing with one issue only (Gibbins *et al.*, 2005; Salterio, 2012)[18]. Consistent with prior research (Brown-Liburd and Wright, 2011; Goodwin, 2002; Hatfield *et al.*, 2008, 2011; McCracken *et al.*, 2011; Perreault and Kida, 2011; Sanchez *et al.*, 2007; Trotman *et al.*, 2005, 2009), I chose a subjective adjustment which entails more negotiation than an objective, clear-cut issue such as a client error where little or no negotiation is required. Furthermore, subjective issues are often more contentious and more difficult to convince the client to record (Beattie *et al.*, 2000; Braun, 2001; Brown-Liburd and Wright, 2011; Gibbins *et al.*, 2001; Joe *et al.*, 2011; Libby and Kinney, 2000; Wright and Wright, 1997)[19].

Independent variables

To examine my research questions and test my hypotheses, I use a 3 (*influence tactic*) × 2 (*auditor approach*) between-subjects complete factorial design. There are two levels of *influence tactics*, as well as a control condition where there is no communication of the ACU involvement. The two levels are *coalition*: the ACU involvement is communicated to the client as a collegial consultation; and *higher-authority*: the ACU involvement is communicated to the client as an authority that must be respected, similar to a boss. The two *auditor approach* manipulations are *expert-advisor approach* and *compliance-officer approach*.

Influence tactics. To manipulate the *influence tactic*, a paragraph was inserted into the partner's opening dialogue to the client. Additional participants received the case with no paragraph discussing consultation with the ACU. This was run as a control to ensure that the effects found for *influence tactic* were caused by the *way* the ACU involvement was communicated and not simply the disclosure of ACU involvement. As anticipated, the *no disclosure* condition results parallel the *coalition tactic* results (see supplemental analysis). In the *coalition tactic*, the partner discloses to the participant (CFO) that some colleagues in the ACU have been contacted for guidance. After reviewing the information, the colleagues in the ACU are in agreement with the partner's recommendation and feel the proposed adjustment is reasonable, and an adjustment should be made. In the *higher-authority tactic*, the partner discloses to the participant (CFO) that the ACU has been contacted. After reviewing the information, the ACU is in agreement with the partner's recommendation and approved the adjustment. Now that they are involved, they have the final authority on signing off on the financial statement, and it is their professional opinion that the issue needs to be resolved.

Auditor approach. Auditor approach is manipulated throughout the case to differentiate between the *expert-advisor auditor approach* and the *compliance-officer auditor approach* and is based on McCracken *et al.*'s (2008) auditor approaches[20]. These multi-faceted approaches vary in many dimensions, such as the level of contact with CFO, persistence of partner, amount of pro-activeness, amount of best-practice pointedness, timing of contact and level of openness. The *auditor approach* was manipulated throughout the case to reflect the multidimensional aspect of the variable and to highlight the ongoing nature of the approach throughout the audit. The *auditor approach* manipulation phrasing can be found in the auditor approach manipulation phrasing section.

Dependent variables

The outcome to the financial statements is measured by asking participants to record their willingness to record the adjustment on an 11-point scale anchored on 1 = completely unwilling and 11 = very willing[21]. To test *H2*, data on participants' satisfaction with the auditor, also measured on an 11-point scale, were used, where 1 = completely dissatisfied and 11 = very satisfied[22].

Pretesting

Pretesting of the instrument was conducted in three phases. In the first phase, the instrument was reviewed by five accounting academic faculty, all of whom have professional designations. The second phase was a verbal protocol with five individuals with significant CFO/controller experience. The participants each read the case and then verbally went over their thought process when answering the questions. The third phase used 40 MBA students as participants with a pen and paper version of the case. Based on results of the three-step pre-testing, a number of changes were made to both the final case and question wording[23].

Manipulation checks and case understanding

Manipulation check questions for the two independent variables were provided to the participants to ensure their understanding and careful reading of the case. Manipulation checks for communication of ACU were completed through a series of three questions. The 169 participants were asked to respond to an initial question on whether the ACU was involved and then two follow-up questions (using smart logic) regarding their degree of authority[24]. There were also two questions to test for *auditor approach*. The two questions elicit participants' perceptions of whether the auditor approached the negotiation as an expert-advisor or a compliance-officer[25]. In total, two participants were removed from the main study and one from the control group. One participant failed the manipulation check questions, by failing both questions about ACU involvement (*influence tactic*). The participant failed to identify that the ACU had been consulted and failed to identify how the ACU's involvement was communicated. Two participants were removed as identified outliers because their answer to one of the manipulation check questions was significantly outside of the normal range, which indicates a lack of understanding of the manipulations [26]. This resulted in useable data from 110 participants in the main analysis and 56 participants in the control conditions[27], [28].

Results

Chief financial officers' willingness to record adjustment

To test *H1* and *H3*, I conduct an analysis of variance and a test of planned contrasts. The descriptive statistics for *willingness to record adjustment* are summarized in Table II (Panel

		Influence Tactic Coalition	Influence Tactic Higher-Authority	Average
Panel A: descriptive statistics: means, standard deviation and number of participants				
Auditor approach	Expert-Adviser	5.46 (2.213) 26 (Cell A)	4.62 (2.426) 29 (Cell B)	5.02 (2.345) 55
	Compliance-Officer	5.70 (2.569) 27 (Cell C)	7.07 (2.814) 28 (Cell D)	6.40 (2.759) 55
	Average	5.58 (2.381) 53	5.82 (2.879) 57	
Panel B: analysis of variance dependent variable: willingness to record adjustment				
Factor		df	F	p-value[37]
Intercept		1	564.990	< 0.00
Auditor Approach		1	7.842	< 0.01
Influence Tactic		1	0.300	0.59
Influence Tactic × Auditor Approach		1	5.275	0.01
Panel C: Results of ANOVA, Contrast Model (H3)				
Dependent Variable: Willingness to Record Adjustment Contrast Weights:				
(A = −1, B = −2, C = +1, D = +2)				
Source		df	F	p-value (one-tailed)
Auditor approach and influence tactic		1	11.7	<0.00
Panel D: Planned Comparisons and Follow-up Tests of H1 and H3 Dependent Variable: Willingness to Record Adjustment				
Source				p-value (one-tailed)
H1: Higher-authority: Expert-advisor vs Compliance (B < D, Figure 1)				<0.00
H1: Coalition: Expert-advisor vs Compliance (A < C, Figure 1)				0.36
H3: Compliance-officer: Higher-Authority vs. Coalition (D > C, Figure 1)				<0.05
H3: Expert-advisor: Higher-Authority vs. Coalition (B < A, Figure 1)				p-value (one-tailed)

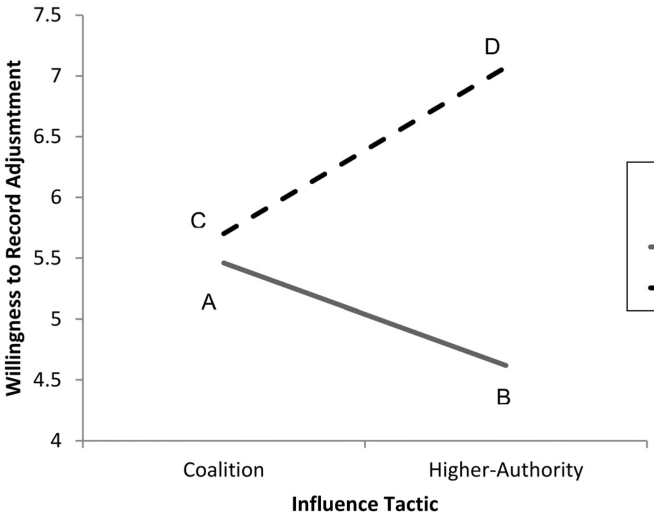
Table II.
The effect of auditor approach[34] and influence tactic[35] on CFOs' willingness to record adjustment to the financial statements[36]

A), and a 2 × 2 ANOVA model (*auditor approach* × *influence tactic*), with *willingness to record adjustment* as the dependent variable, is presented in Panel B (the "no communication" control condition is analyzed in the supplemental analysis)[29]. The overall model is significant ($F_{(3,106)} = 4.617$, $p = 0.004$). *H1* predicts that the CFOs' willingness to record the adjustment will be lower when the expert-advisor auditor approach is used compared to when the compliance-officer auditor approach is used. The analysis of variance, as reported in Table II, Panel B, provides evidence consistent with *H1*. Results indicate a significant main effect of *auditor approach* (F = 7.842, $p < 0.01$, one-tailed) on *willingness to record adjustment*. Consistent with expectations, participants in the *expert-advisor auditor approach* condition were significantly less willing to record the adjustment to the financial statements (mean = 5.02, see Table II, Panel A) than those in the *compliance-officer auditor approach* condition (mean = 6.40)[30]. Therefore, I find some support for *H1*. Individuals are less likely to record an adjustment to the financial statements when the expert-advisor auditor approach is used.

However, additional analysis reveals that the effect of *auditor approach* on *willingness to record adjustment* occurs when *higher-authority influence tactics* are used, but not when *coalition influence tactics* are used. Planned comparisons provide evidence that in the *higher-authority influence tactic* condition, the difference between *expert-advisor approach* (mean = 4.62) and *compliance-officer auditor approach* (mean =7.07) is significant (Table I, Panel D: $p < 0.01$, one-tailed); however, the difference is directionally consistent but not significantly different when comparing within the *coalition influence tactic* conditions (*expert-advisor approach* mean = 5.46, *compliance-officer approach* mean = 5.70, $p = 0.363$, one-tailed).

Therefore, I find partial support for *H1*. I examine the effects of *influence tactic* on *willingness to record adjustment* more closely in testing *H3*.

H3 predicts that when ACU involvement is communicated using the higher-authority influence tactic, the CFOs' willingness to adjust will be higher when a compliance-officer auditor approach is used and lower when an expert-advisor auditor approach is used compared to the use of coalition tactics. The analysis of variance (Table II, Panel B) shows a significant interaction between *influence tactic* and *auditor approach* [$F_{(1,106)} = 5.275$, ° = 0.01, one-tailed]. Consistent with expectations, participants in the *compliance-officer approach* condition are more *willing to record adjustment* to the financial statements when *higher-authority influence tactics* (mean = 7.07, see Table II, Panel A and Figure 1, D) are used versus when *coalition influence tactics* are used (mean = 5.70, Figure 1, C) and participants in the *expert-advisor approach* condition are less willing to record the adjustment to the financial statements when *higher-authority influence tactics* (mean = 4.62, Figure 1, B) are used versus when *coalition influence-tactics* are used (mean = 5.46, Figure 1, A). To test *H3*, I estimate a planned contrast as shown in Table II, Panel C, that relies on weights of −1, −2, +1, +2, where the *expert-advisor approach, coalition influence tactic* condition has a weight of −1, *expert-advisor approach, higher-authority influence tactic* condition has a weight of −2, *compliance-officer auditor approach, coalition influence tactic* condition has a weight of +1 and *compliance-officer auditor approach, higher-authority influence tactic* condition has a weight of +2. This weighting reflects the *a priori* predictions of both *H1* and *H3*. The planned contrast is significant [Table II, Panel C: ($F_{(1,106)} = 11.70$, $p < 0.001$, one-tailed] The results are depicted in Figure 1. This supports *H3*, which predicts an interaction of auditor approach within the higher-authority tactic and supports EVT and role theory, showing that expectations of the auditor approach limit and shape the tactics available to the audit partner. This also supports results found in the traditional negotiation literature, which find that hard tactics combined with assertive negotiators can result in spirals downward toward ineffective negotiations (Weiss, 1993).



Note: Willingness to record adjustment is on a scale where 1 equals completely unwilling and 11 equals very willing

Figure 1.
Effect of auditor approach and influence tactic on CFOs' willingness to record adjustment

Chief financial officers' satisfaction with the audit partner

The descriptive statistics for satisfaction with the audit partner are summarized in Table III, Panel A, and a 2 × 2 ANOVA model (*auditor approach* × *influence tactic*), with *satisfaction with the audit partner* as the dependent variable is presented in Panel B[31]. The overall model is significant [$F_{(3,106)} = 4.122$, $p = 0.007$]. *H2* predicts that CFO satisfaction is lower when the *higher-authority influence tactic* is used to communicate ACU's involvement compared to when the *coalition influence tactic* is used. The analysis of variance, as reported in Table III, Panel B, provides evidence consistent with *H2*. Results indicate a significant main effect of *influence tactic* ($F = 7.916$, $p < 0.01$, one-tailed) on *satisfaction with the audit partner*. Consistent with expectations, participants in the *higher-authority influence tactic* condition were significantly less satisfied with the audit partner (5.28, see Table III, Panel A) than those in the *coalition influence tactic* condition (6.66)[32]. Therefore, *H2* is supported. CFOs are less satisfied with the audit partner when they communicate the ACU's involvement as a higher authority.

Supplemental analysis

Management and negotiation literature show mixed and many negative results for the disclosure of consultation on negotiation outcomes. However, because of the unique consultative practices in the audit industry, it was anticipated that CFOs would view consultations as expected, whether or not communicated. Therefore, it was expected there would be no differences in either CFOs' willingness to record the audit adjustment or satisfaction with the audit partner when coalition influence tactics are used to communicate the ACU versus not disclosing the involvement of the ACU (for example, a situation where the ACU is consulted by the partner, but this consultation is never communicated to the client). The nature of the auditing industry dictates that consultations with the ACU are used frequently, and therefore should be expected by CFOs, whether or not communicated (Gibbins *et al.*, 2005; McCracken *et al.*, 2008). The participants in the experiment are highly experienced, and so their expectations would be that the ACU has been consulted even if auditors do not disclose these communications. To test this assumption and rule out possible alternative explanations for the effect of ACU communication, a control condition was included where there was no communication of the ACU involvement. Analyzing the *no communication* condition and the *coalition tactic* conditions (results not tabulated) shows that there is no difference in CFOs' *willingness to record adjustment* due to *influence tactic* ($F = 0.066$, $p = 0.798$). Participants in the *no communication* condition were equally willing

Table III.
The effect of auditor approach[38] and influence tactic[39] on CFOs' satisfaction with the auditor[40]

		Influence Tactic: Coalition	Influence Tactic: Higher-Authority	Average
Panel A: Descriptive Statistics: Means, (Standard Deviation), Number of Participants				
Auditor Approach	Expert-Adviser	6.31 (2.739)26	4.66 (2.690)29	5.44 (2.814)55
	Compliance-Officer	7.00 (2.337)27	5.93 (2.356)28	6.45 (2.387)55
	Average	6.66 (2.542)53	5.28 (2.590)57	

Panel B: Analysis of Variance Dependent Variable: Satisfaction with the Auditor			
Factor	df	F	*p*-value[41]
Intercept	1	608.966	< 0.00
Auditor Approach	1	4.122	< 0.05
Influence Tactic	1	7.916	<0.01
Influence Tactic x Auditor Approach	1	0.360	0.56

to record adjustments to the financial statements (n = 57, mean = 5.72, sd = 2.827) as those in the *coalition* condition (n = 53, mean = 5.58, sd = 2.381). Results (not tabulated) show that there is also no difference in *satisfaction with the audit partner* due to *influence tactic* (F = 0.112, p = 0.738). Participants in the *no communication* condition were equally satisfied with the audit partner (n = 57, mean = 6.81, sd = 2.279) as those in the *coalition* condition (n = 53, mean = 6.66, sd = 2.542). Therefore, contrary to the management literature, in the auditing environment where consultations are the norm, as expected, there are no differences between not communicating the ACU involvement and communicating their involvement as a coalition.

Although not specifically hypothesized, as reported in Table III, Panel B, results indicate a significant main effect of Auditor Approach (F = 4.122, $p < 0.05$) on *satisfaction with the audit partner*. Consistent with reasoning provided in *H1*, participants in the *expert-advisor* condition were significantly less satisfied with the audit partner (5.44, see Table III, Panel A) than those in the *compliance-officer* condition (6.45). Not considering the CFO's auditor preference and whether they are matched with their preferred auditor approach, CFOs are less satisfied with the expert-advisor audit partner.

Discussion and conclusions

Auditors must balance their duty to ensure that financial statements are free of material misstatement while simultaneously fostering a functional working relationship with the client. Both the quality of the financial statements and the livelihood of the auditor are at stake when there is a disagreement between the auditor's and the client's perceptions of the financial statements. The auditor's approach with the client can shape the tactics available to the auditor when working through these disagreements. To help ensure quality financial statements, auditors often seek the advice of the ACU within their firm, and studies show their advice plays an important role in the audit negotiation (Beattie *et al.*, 2015; Gibbins *et al.*, 2001, 2005; McCracken *et al.*, 2008). However, little is known about how the auditors' approach with the client or how they communicate the involvement of the ACU during the negotiation affect the financial statements and the satisfaction of the CFO with the auditor. This study builds on previous research (Beattie *et al.*, 2015; Gibbins *et al.*, 2001, 2005; McCracken *et al.*, 2008) and explores how different auditor approaches and strategies of communicating the involvement of the ACU affect both the financial and relationship outcomes of the negotiation.

I find that when unexpected audit adjustments are found in the year-end process (preventing pre-emptive discussions with the client), involving the ACU as a higher authority has differential results with respect to the CFOs' willingness to record an adjustment to the financial statements, depending on if the influence tactic is consistent with the given auditor approach. Partners using a compliance-officer approach are normally accommodating, and the higher-authority tactic aligns with this approach because it shifts the responsibility of the decision to the ACU and away from the accommodating partner. An auditor using the compliance-officer approach who communicates the ACU involvement as a higher authority results in increased CFO willingness to record an adjustment to the financial statements. However, for partners using an expert-advisor approach, communicating the ACU involvement as a higher authority results in a reverse response from CFOs. CFOs are significantly less willing to record an adjustment to the financial statements when an expert-advisor approach is coupled with communicating the ACU as a higher authority. CFOs may view it as yet another adjustment initiated by their auditor, and it counters the normally collegial approach of the expert-advisor when they involve the ACU in this way. Therefore, auditors must take care in aligning their negotiation approach with the appropriate tactics to help ensure the desired results in terms of adjustments to the financial statements.

Although involving the ACU as a higher authority resulted in the greatest amount of willingness to adjust the financial statements when paired with a compliance-officer auditor approach, *any* auditor who used this influence tactic to communicate involvement of the ACU suffered from lower satisfaction scores. This is consistent with Fiolleau *et al.* (2013), who show that clients appear to want autonomy in their auditors. Therefore, although this tactic could be used successfully to persuade some clients to adjust the financial statements, its use could potentially damage the relationship between the CFO and the audit-partner.

In non-audit negotiation studies, *both* coalition and higher authority are seen as aggressive influence tactics and result in poor performance reviews (Kipnis and Schmidt, 1988). However, in the highly consultative audit setting (Gibbins *et al.*, 2005; McCracken *et al.*, 2008), coalition influence tactics do not have this same negative affect. This finding helps support the claims that the audit negotiation contains various contextual features which make the audit negotiation setting unique from a general negotiations setting.

This study highlights the pervasive impact of auditor approach on negotiation outcomes. Identifying auditor approaches is a key finding in McCracken *et al.* (2008); however, no study to date has tested or incorporated this critical variable into audit-negotiation studies. I find that auditor approach impacts CFOs' willingness to record an adjustment to the financial statements and show that these approaches shape the expectations of what is perceived as an appropriate action and find that operating outside of these expectations results in less willingness to concede. Future research should continue to incorporate this important variable as it may impact the generalizability of results and usefulness of findings.

As with all research, there are limitations that need to be addressed. This study presents results obtained from a single-negotiation context; however, the communication strategy adopted in one period will likely affect future negotiations. Future research could explore the effect of communicating involvement of the ACU in a multi-period negotiation context. This study manipulates the "auditor approach" construct as a whole as described by McCracken *et al.* (2008) and Beattie *et al.* (2004). In future research, this overarching construct, rich in detail as a whole, may be further broken into smaller elements of the construct to explore possible differences in variations of isolated elements of the auditor's approach on the presented results. In addition, it is possible that other factors have been inadvertently manipulated with this multi-dimensional approach and are driving results. Furthermore, this study uses a single adjustment, whereas financial statement audits typically result in the detection of two or more misstatements (Perreault *et al.*, 2017). Although audit negotiations may have more than one adjustment, CFOs perceive negotiations as dealing with one issue only (Gibbins *et al.*, 2005; Salterio, 2012). This study uses a context of a subjective adjustment, with support of the ACU on the amount of the estimate. Future research might focus on the impact of ACU involvement in a scenario where the adjustments are more objective in nature. Scenarios in which adjustments are less subjective in nature might show there is a greater impact of the ACU involvement.

This study highlights the precarious position of auditors, who must balance professional duties to maintain independence and perform a quality audit while also trying to maintain a good working relationship with the client. If audit differences need to be adjusted, can they be enforced while maintaining client satisfaction? These findings provide some initial guidance to audit practitioners on how to maintain a good working relationship with the client to serve them in future years and show that a compliance-officer approach may be the least risky approach to take with a client when their preference is unknown. In previous research, it has been shown that auditors may not be very strategic in terms of planned negotiation strategies (Bame-Aldred and Kida, 2007) or opening bids (Brown and Johnstone, 2009), thus resulting in adjustments that may result in lower-quality financial statements, as in Ng and Tan (2003). Understanding strategies of communication of ACU involvement and how it impacts a client provides insight on audit practice interventions (e.g. training) that may improve audit quality, but it also highlights the cost associated with these strategies. Therefore, this study reiterates a call for auditors to engage in training specific to auditor–client negotiation. While Hatfield *et al.* (2010) find that only 28 per cent of their sample receives any formal negotiation-related training, Bennett *et al.* (2015) infer that this training is generic or related to the negotiation of fees. The current study provides information on the behavior of clients that may improve auditor self-awareness of their approach during audit adjustment studies and offer insights on how any ACU involvement should be strategically communicated to the client.

Notes

1. Negotiation is defined as "any context in which two or more parties with differing preferences jointly make decisions that affect the welfare of both (all) parties" (Murnigham and Bazerman, 1990: 642).
2. McCracken *et al.* (2008) use the term "police-officer" instead of "compliance-officer"; however, for the remainder of this paper, the term "compliance-officer" will be used as the label for this approach.
3. The generic term ACU will be used because each accounting firm has a unique name for this group.
4. Audit partners are *required* to consult the ACU in certain circumstances and can *choose* to consult in others (Deloitte, 2013; Ernst and Young, 2013; KPMG, 2013; PricewaterhouseCoopers, 2008).
5. The control condition is analyzed in the supplemental analysis.
6. Beattie *et al.* (2004) identify three auditor seller-types that have sufficient professional integrity and competence to meet professional standards. Two of these 'auditor seller-types, "Crusader" and "Safe Pair of Hands" map to McCracken *et al.*'s (2008) expert-advisor, while the accommodator auditor seller-type maps to the compliance-officer auditor approach, providing further validity to McCracken *et al.*'s (2008) classification.
7. This coincides with Beattie *et al.*'s (2004) *Crusader* and *Safe Pair of Hands* approaches. A Crusader is an auditor who "exhibits a high level of professional and personal integrity who is willing to take their responsibilities beyond their strict statutory duty." (15) Similarly, the *Safe Pair of Hands* auditor approach "displays a high level of professional integrity and their actions are designed to ensure that the company's financial reporting complies not only with the letter of the regulatory framework, but with the spirit" (15).
8. This approach mirrors Beattie *et al.* (2004) "Accommodator" approach, which entails having a "moderate level of professional integrity, complying with the letter of the rules" (15). They may "condone creative compliance or rather aggressive accounting treatments," especially in circumstances where there is pressure from the client (15).
9. Although the CFO has a relationship preference, this preference may not always be fulfilled in practice, or may take years before changes are implemented (McCracken *et al.* 2008 for several illustrations of this). For example, in selling their services to a potential client, partners desire to show the appropriate *fit* or *match* with the client (Fiolleau *et al.*, 2013), enabling them to obtain clients, although their *true type* may not be revealed until later in the relationship when an audit

issue is discovered. Also, new CFOs may need to retain the audit firm for a number of year before suggesting a change, and even this suggestion may not be taken as the audit committee has the statutory requirement to select auditors (in most countries). If the audit committee is content with the current partner/firm, they may not support a CFO's desire to switch audit firms or partners. Furthermore, a new CFO may not have developed strong enough relationships or garnered enough power with those on the board to sufficiently influence a change. Additionally, with mandatory partner or firm rotation required in most countries, there may not be a large selection of partners that have the industry expertise needed who will also comply with CFO preferences.

10. Communicating the involvement of the ACU in different ways is consistent with how they can be involved in practice. Ng and Shankar (2010) investigate the effects of ACU involvement on the auditors' propensity to accept client-preferred accounting methods. The ACU members interviewed for that study state that ACU involvement is communicated either as additional advice (coalition) or as an explicit recommendation (higher-authority). Beattie *et al.* (2001; 2004) find the audit partner engages the ACU as both coalitions or as a higher-authority in discussions with audit partners and CFOs.
11. "The distinction between hard and soft tactics mirrors the difference in forcefulness of influence tactics" (van Knippenberg and Steensma, 2003: 57).
12. This influence tactic is more aggressive than a coalition tactic but is less aggressive than an overt 'threat' tactic where an auditor would specifically threaten to qualify the audit report.
13. A comment made by a CFO in the current experiment (in the higher-authority condition) also directly ties in to the realism of communicating the ACU as a higher-authority in practice; the CFO states, "Certain national offices play this very card all the time where a conclusion on an estimate is made."
14. Pruitt (1983) uses the term 'heavy' to describe tactics that put pressure on the other party.
15. This one respondent clicked on the same number throughout the survey, failed all the manipulation checks and did not fill out demographic data.
16. Two participants did not fully complete all questions in the last section about their personal experiences, however they provided full answers up to that point and are therefore included in the analysis. Similar to many studies using notifications in newsletters or other advertisements (Jamal and Tan, 2010; Pomeroy, 2010), it is difficult to calculate a true response rate as the number of people who saw the posting cannot be calculated. The survey link was sent to 5332 individuals asking for their participation, resulting in a 5.2 per cent response rate based on those who activated the link. A low participation rate was expected as participants at high levels were being solicited to participate in the study, and perhaps not all participants who were sent the link were qualified to complete the study and therefore did not participate. For example, Kipnis and Schmidt (1988) had an overall response rate of 7 per cent for CEOs, Graham and Harvey (2001) reported 8.8 per cent for senior financial managers, Graham *et al.* (2005) report an 8.4 per cent response rate for an email survey of senior financial executives, Dichev *et al.* (2013) report a 5.4 per cent response rate for using an online survey of CFOs, and Anderson and Lillis (2011) report a 5 per cent response rate for their online survey of top executives (such as CEOs, CFOs, and controllers).
17. Participants were asked to read and sign an informed consent statement before beginning the case.
18. In all scenarios, multiple issues were alluded to, but by the end of case when the CFO participant was to make their decision on the adjustment, in all scenarios, there was only one issue outstanding.
19. Ng (2007) also notes that clients are more likely to book an audit difference when it is more objective in nature. Therefore, it is important to study ways to help influence clients to book more subjective differences and help mitigate potential earnings management attempts.

20. Tests show no significant differences between the two manipulated auditor approaches or influence tactics and participants' perception of the auditor's knowledge of the company.
21. How willing are you to post this adjustment?
22. How satisfied are you with the performance of the audit partner?
23. Changes made during pretesting included adding a sentence regarding the experience of the audit team and partner and formatting changes, such as moving the placement of the financial statements and modifying the later part of the case so it read more like a dialogue with the partner.
24. The initial question posed was, "In this case, did the audit partner consult with his/her Accounting Consultation Unit?" Three participants answered this question incorrectly; however, two of the participants correctly answered the two follow-up questions and were therefore left in the analysis (the third participant was removed). Two follow-up questions were then posed, both relating to the degree of authority of the ACU. The first follow-up question had two choices relating to whether they were involved through a collegial consultation (coalition) or as a higher-authority who must be respected (higher-authority). Twenty-six participants did not answer this question correctly (17 in the coalition condition and 9 in the higher-authority condition). The second follow-up question elicited participants' perception of the degree of authority they felt the ACU had on a scale of 1 to 11 with 1 being the ACU had no authority and 11 being the ACU had complete authority. Those in the coalition influence tactic condition had a mean of 6.44 and those in the higher-authority had a mean of 9.40, which is statistically different ($p = 0.00$) and directionally consistent with expectations. All of the participants were left in the analysis as the interpretation of the questions was subjective and would bias against results if left in the analysis. If the 26 participants are removed, the second follow-up question is still statistically significant ($p = 0.00$), with the coalition mean of 5.62 and the higher authority mean of 9.80. The main analysis is also slightly stronger, but not statistically different than presented if participants are excluded.
25. In both versions of the case, other peripheral audit differences were noted which related to best practice and early adoption adjustments. Referring to these peripheral adjustments, participants were asked in the first question the degree to which the auditor recommended posting these adjustments on a 1 to 11 scale, where 1 equals not at all and 11 equals to a high degree. The average response for participants in the expert-advisor approach condition was 9.33 and the average in the compliance-officer condition was 7.16, which is statistically different, $p < 0.001$. The second question, which also refers to these other adjustments, asked participants for their perception of how willing they felt the partner was in trying to accommodate their preferred accounting choice (not making any adjustments) on a scale from 1 to 11 with 1 being not at all and 11 being to a high degree. Those in the expert-advisor approach condition had an average of 5.49 while those in the compliance-officer condition had an average of 8.11, which is statistically different, $p < 0.001$.
26. Only these two participants were identified as outliers based on box plots of answers relating to a question on the actual approach of audit partner. Both had extreme answers and one of the participants also took over one and a half hours to complete the case, likely indicating they were not paying attention to case facts. One of these participants was in the control group, and one in the main experiment. Both were removed from their respective groups.
27. Patterns of cell means and statistical inferences are the same as those reported if these participants are included.
28. No significant demographic differences were found between the experimental conditions, suggesting successful random assignment of participants. Non-response bias was assessed by comparing the early versus late responders which showed no significant differences.

29. The demographic variables (Gender, CFO experience, company type and size) were included in the analysis and there were no significant effects with the main variables of interest. They were therefore dropped from the model.
30. Willingness to record adjustment where 1 = completely unwilling, 11 = very willing.
31. Satisfaction with the audit partner where 1 = Completely dissatisfied, 11 = Very satisfied.
32. Alternate dependent variables "Satisfaction with the way the audit partner handled the warranty adjustments" and "Satisfaction with the audit firm" were also elicited. The variables are highly correlated to the variable used (0.847 and 0.880) and inferences are the same as the variable used.
33. Public companies are companies whose shares are traded on a stock exchange whereas private company's shares are not traded on a stock exchange.
34. Auditor-Approach: the approach of the auditor was described as being more like an 'expert-advisor' or more like a 'compliance-officer.' See phrasing manipulations in auditor approach manipulation phrasing.
35. Influence Tactic is the tactic used to communicate the ACU involvement. The two levels are: Coalition – the ACU involvement is communicated as a collaborative colleague, and Higher-Authority – the ACU involvement is communicated as a higher-authority, similar to a boss.
36. Willingness to record adjustment where 1 = Completely unwilling, 11 = Very willing.
37. The p-values of tested hypothesis are directional and based on one-tailed tests. All other p-values are two-tailed.
38. Auditor-Approach: the approach of the auditor was described as being more like an *expert-advisor* or more like a *compliance-officer*. See phrasing manipulations in.
39. Influence Tactic is the tactic used to communicate the ACU involvement. The two levels are: Coalition – the ACU involvement is communicated as a collaborative colleague, and Higher-Authority – the ACU involvement is communicated as a higher-authority, similar to a boss.
40. Satisfaction with the audit partner where 1 = Completely dissatisfied, 11 = Very satisfied.
41. The p-values of tested hypothesis are directional and based on one-tailed tests. All other p-values are two-tailed.

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Further reading

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