THE EFFECT OF AUDITORS' COMMUNICATION OF THE PROFESSIONAL PRACTICE DEPARTMENT INVOLVEMENT ON AUDIT NEGOTIATIONS

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Abstract

Auditor-Client negotiation about difficult client accounting issues involves the auditor, the client, and various other parties on both the client and auditor side. On the auditor side, the Professional Practice Department has been reported to play a significant role in the financial reporting process, yet is rarely the focus of academic study. In this study, I investigate how communicating the involvement of the Professional Practice Department (PPD) to top management using different influence techniques impacts negotiated outcomes between audit partners and top management. I examine the impact of communicating the involvement of the PPD in the context of two other variables found in prior auditing literature to be important in the negotiation process, auditor type and CFO (Chief Financial Officer) preferred auditor-type. While auditors must attest that the financial statements are free from material misstatement, they also must ensure they foster a functional working relationship with the client. The auditor-client context is unique, and takes place within an on-going relationship where expectations and preferences have been established. Therefore, I examine these negotiation outcomes while incorporating a key contextual variable, auditor-type, in the negotiations. Both the CFO's preference for auditor-type, as well as actual auditor-type will be examined in addition to the specific influence tactic. I use a 3×2×2 fully factorial design to experimentally analyze the impact of two manipulated variable (influence tactic and auditor-type) and one measured variable (CFO preference for auditor-type) on two dependent variables. The two dependent variables are the CFO's willingness to post an adjustment to the financial statements and the CFO's satisfaction with the audit partner. I

report the results of an audit negotiation experiment in which 154 highly experienced CFOs responded to a case scenario that incorporated or measured the three key variables (influence tactic communicating PPD involvement, auditor-type and CFO preference for auditor type). My results indicate that using the most aggressive influence tactic to communicate the Professional Practice Department's involvement had a mixed effect on the CFOs willingness to post adjustments to the financial statements. The CFOs in this influence condition that were paired with an accommodating auditor-type reported a higher willingness to adjust the financial statements while CFOs paired with a proactive and advising auditor-type reported a lower willingness to post adjustments. All CFOs reported less satisfaction with the audit partner when the most aggressive influence tactic was used to communicate the Professional Practice Department's involvement. Furthermore, the CFO's preference for an auditor-type significantly affects negotiation outcomes. CFOs that prefer more proactive and advising audit partners are more likely to post adjustments to the financial statements, regardless of whether or not they are informed of the Professional Practice Department's involvement. These same CFOs report a high level of satisfaction with the audit partner and their satisfaction is not impacted by the type of audit partner they are paired with. CFOs that prefer more reactive and accommodating audit partners are less willing to adjust the financial statements and report less satisfaction (dissatisfaction), when paired with proactive and advising audit partners. These results highlight the importance of the existing relationship within the auditor-client dyads and help support findings from auditor-client negotiation research which show that prevailing expectations of the CFO are a contextually important feature of audit negotiation and should be incorporated into more research. I also show that aggressive tactics can help persuade some CFOs to adjust the financial statements; however, consistently pushing too aggressively results in reduced cooperation. Furthermore, there are large costs in terms of the CFO's satisfaction with the audit partner in using aggressive tactics, and therefore, practically speaking the tactic that could potentially be the most effective may result in a lost client.

Dedication

To David, Tyler and Owen.

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Audit Negotiations: The Effect of Communicating Involvement of the Professional Practice Department and Auditor-Type on Negotiated Outcomes

"The goal of our consultation approach is to provide the right answer, the answer that will stand up to scrutiny" (Deloitte & Touche, 2002).

1.0 Introduction

In recent years, several high-profile accounting scandals have turned a spotlight on the accounting profession and the quality of financial statements. [1] Regulators and the accountants themselves are instituting practices focused on attaining the highest quality of financial statements. One of these enhanced audit quality control practices is the emphasis on consulting others within the professional accounting firm. In a report entitled "Integrity & Quality," Deloitte & Touche (2002, p. 2) states: "Our approach is based on the simple premise that no one can or should know everything. It is an approach that neither breeds nor tolerates 'lone rangers'."

As businesses increased in complexity, accounting standard setters followed suit with a proliferation of standards and pronouncements. Accounting firms responded by creating Professional Practice Departments (PPD) to assist partners in researching complex

[1] As discussed in Beattie, Fearnley & Brandt (2004), quality refers to whether the outcome of the financial reports reflects 'good' or 'bad' accounting as perceived by external parties.

accounting issues (Danos & Boley, 1980). These departments have become an integral component of the audit quality control mechanism within the firms. The PPD is an organizational unit within a public accounting firm with a mandate to assist audit partners in making judgments related to a client's financial statements (Danos & Boley, 1980; Salterio, 1994; Salterio & Denham, 1997).[2] Audit partners are *required* to consult the PPD in certain circumstances and can *choose* to consult them in others (Deloitte & Touche, 2002; Deloitte & Touche, 2008; Ernst & Young, 2008; KPMG, 2008; PricewaterhouseCoopers, 2008). In recent studies, the PPD has been shown to be involved frequently in audit negotiations, with their advice playing an important role in the process (Gibbins, Salterio, & Webb, 2001; Gibbins, McCracken, & Salterio, 2005; McCracken, Salterio, & Gibbins, 2008).[3] This role will only become more important as business and standards become more complex, as the majority of audit negotiations arise from change, including changes in standards (Gibbins, McCracken, & Salterio, 2007). Therefore, with the myriad of changes taking place within the International Financial Reporting Standards (IFRS), the exponential growth and innovation in business and finance, and the technological change and complexity in business, audit negotiation and PPD involvement in those negotiations will become an even more important and relevant topic. As the PPD becomes more of an integral part of the auditing process, it is important to understand how communicating their involvement impacts audit negotiations. In this paper, I investigate how informing the client of the involvement of

[2] Although accounting firms use various terminologies, the term "Professional Practice Department" (PPD) will be used in this paper.
[3] 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 & Bazerman, 1990).

the PPD impacts their willingness to adjust the financial statements, along with their satisfaction with the audit partner.

Despite the growing popularity of studies in audit negotiation, little research has focused on the role and effects of the PPD in the negotiation process. Although auditors and their clients' management (usually the CFO) are the principal parties in auditor-client negotiation, the PPD can become involved (Gibbins et al., 2007; McCracken et al., 2008) in a variety of ways. Furthermore, the model of audit negotiation (Gibbins et al., 2001) offers little insight into *how* the PPD can affect the auditor-client process. That is, given the PPD involvement, how does the communication of their involvement to the CFO affect the negotiation outcomes? Influence research suggests that including others in the situation can influence the outcome (Kipnis, Schmidt, & Wilkinson, 1980; Kipnis & Schmidt, 1982; Kipnis, Schmidt, Swaffin-Smith, & Wilkinson, 1984; Schriesheim & Hinkin, 1990; Yukl & Falbe, 1990). Multiple participants means a potential for differences in expertise, influence, and the degree to which negotiation participants perceive the auditor's and the client's interests to be aligned (Gibbins et al., 2001). Therefore, investigating the impact of this unique and important additional party to the audit negotiation will help expand and explain an important contextual feature of audit negotiations.

Much of the audit negotiation literature to date focuses on the financial accounting impact of the negotiation, that is, the amount of adjustment to the financial statements

(Brown & Johnstone, 2009; Hatfield, Agoglia, & Sanchez, 2008; Jamal & Tan, 2010; Trotman, Wright, & Wright, 2005; Trotman, Wright, & Wright, 2009). Although this financial impact is certainly important, it is not the only outcome of the negotiation. The relationship between the two parties is also affected (Gibbins et al., 2001; Greenhalgh, 1987; Greenhalgh & Chapman, 1998; McCracken et al., 2008; Neale & Bazerman, 1991). Underlying the substantive negotiation there is a 'shadow' negotiation, where the roles and relationships between the parties are defined (Kolb & Williams, 2000). The outcome of this simultaneous negotiation either enhances one's ability to advocate for one's interests or undermines the ability of the other side to do the same (Kolb, 2004), which in turn affects how the relationship works, the power of each negotiator and the financial outcome of the negotiation (McCracken et al., 2008; Salterio, 2012). Consequently, the strategy of communicating PPD involvement may impact not only the financial outcome, but also the relationship between the parties. This is important as audit negotiations take place within a continuing relationship, and audit firms actively manage these relationships (McCracken et al., 2008). They are not a 'one-off' negotiation where the parties have no prior knowledge of one another. Auditors must therefore balance their duty to ensure financial statements are free of material misstatement while simultaneously fostering a functional working relationship.

Within this continuing relationship, the CFOs have developed preferences for the type of relationship they want with their auditor (McCracken et al., 2008).[4] McCracken et al. (2008) explore these relationships, and subsequently the roles auditors are positioned into as a result of these preferences. The CFOs' preference can be for a more proactive or reactive relationship with their auditor. By defining what kind of relationship they want, they also are defining a set of actions that would be consistent within that relationship, and thus an auditor role type is developed. Relationships, and the roles parties play, have a real effect on how the negotiation takes place as well as its outcome (Beattie et al., 2004; McCracken et al., 2008). This CFO preference for auditor-type may be very important as audit firms want to maintain a good relationship with their client to help ensure they maintain the firm as a client and avoid having the audit put out to tender. This study incorporates this key variable and investigates how a CFO's preference for an auditor type and actual auditor-type impact both the financial result of the negotiation and the auditor-client relationship.

Based on results of prior research and recent changes in legislation and accounting standards, the need to explore the role of PPDs in the negotiation process is now more important than ever. Research suggests that the *communication* of the PPD involvement is a strategic choice of the audit partner (Gibbins et al., 2005). Thus, my primary objective is to investigate the financial and relationship impact of various strategies of communicating PPD involvement. This involvement encompasses two decisions by the

[4] This paper will use the term 'type' as the term 'role' is used differently in traditional negotiation literature to denote the various parties in a negotiation, such as buyer/seller, union/management.

audit partner. The first is the decision of *whether or not* to communicate the involvement of this additional party into the negotiation. The second is the decision of *how* to communicate the PPD's involvement, as both negotiation and influence literature suggest that there are differences in how parties are communicated (Goldman, Cropanzano, Stein, & Benson, 2008; Kipnis, Schmidt, & Wilkinson, 1980; Kipnis, Schmidt, Swaffin-Smith, & Wilkinson, 1984). Since audit negotiations take place within on-going relationships, it is important to incorporate other key audit-specific characteristics such as the CFO's preference for an auditor-type, and the actual auditor-type. My experimental, case based study incorporates these three key variables, two manipulated (influence tactic to communicate the PPD involvement and auditor-type), and one measured (CFO preference for auditor-type) and investigates their effect on both the financial outcome (adjustment to the financial statements) and the relationship outcome (satisfaction with the audit partner) of the negotiation.

This study contributes to the literature in three major ways. First, I combine literature from organizational behavior and psychology in order to introduce the "influence" concept to audit negotiations and explore the role of PPDs in negotiations. Previous studies of audit negotiations have studied various negotiation strategies such as bid high/concede later, trading off issues, concessionary strategies, compromising tactics, contending tactics, and reciprocity strategies (Bame-Aldred & Kida, 2007; Brown & Johnstone, 2009; Gibbins, McCracken, & Salterio, 2010; Hatfield et al., 2008; Sanchez, Agoglia, & Hatfield, 2007; Trotman et al., 2005). Such strategies and tactics have been found to be important and influence the financial outcome of the negotiation (Beattie et al., 2004). This is the first study, of which I am aware, that investigates influence tactics involving a key supporting party and tests their effectiveness on negotiation outcomes. This also allows for a better understanding of how previous research fits into the current reporting environment and how future studies could build upon the notion of influence to empirically test these and other social relationships within audit negotiations. Thus, exploring influence tactics within continuing auditor client relationships is an important extension to audit negotiation research.

Second, I explore an additional aspect of the negotiation outcome, a measure of relationship quality: client satisfaction. The different outcomes of an accounting negotiation include the contents of the client's financial statements, the auditor's opinion on the statements, whether or not the auditor is reappointed and the relationship between the audit partner and CFO (Gibbins et al., 2001; McCracken et al., 2008). Much of the audit negotiation research focuses on the final adjustment to the financial statements. This is of clear importance, as this has a direct impact on the quality of the financial reports. However, the continuing relationship between the audit partner and the CFO is also extremely important (McCracken et al., 2008) and relationship quality has been shown to influence subsequent negotiation outcomes (Greenhalgh & Chapman, 1998; McCracken et al., 2008; Weiss, 1993) but has received little attention in empirical audit negotiation research to date. Only a handful of audit negotiation studies have looked at outcomes other than the financial statement adjustment, such as client satisfaction

(Perreault & Kida, 2011; Sanchez et al., 2007) or affect (Perreault & Kida, 2011). This study answers a call in accounting for negotiation research to incorporate interpersonal relationships into the research (Bame-Aldred & Kida, 2007).

Third, I provide practical implications of involving the PPD in the negotiation. With a better understanding of how the PPD affects the negotiation process, partners can more effectively manage their relationship with the client while also ensuring high quality financial reporting. This answers a call for negotiation research to investigate how one negotiation party reacts to the tactics used by the other party (Bame-Aldred & Kida, 2007).

The remainder of this paper is organized as follows. Chapter 2 provides an overview of the auditor-client negotiation literature and describes the current audit negotiation models. I review the literature about the PPD and show how the PPD fits into the audit negotiation model. I also review the limited research discussing CFO preference for auditor roles and auditor-type. I then introduce the notion of influence and show how this concept can be applied to strategic communication of PPD involvement in audit negotiations. In Chapter 3 I propose how the PPD's involvement, CFO's auditor preference, and auditor-type impacts both the financial and relationship outcomes of the negotiation. I propose that depending on the nature of the current relationship, different strategies should be used to disclose the PPD's involvement. In Chapter 4, I discuss the results of the experiment, and Chapter 5 concludes with a discussion of results, the study's implications, and its contribution to our understanding of auditor-client negotiations.

2.0 Literature Review

Although research on negotiation is an established discipline, auditor-client negotiation is a relatively new stream of academic research. In 1991, Antle and Nalebuff proposed an analytical modeling paper of auditor-client negations; however little academic research followed their paper. By 2005, a set of foundational papers were published in the area of auditor-client negotiation (Beattie, Fearnley, & Brandt, 2000; Beattie, Fearnley, & Brandt, 2001; Beattie et al., 2004; Gibbins et al., 2001; Gibbins et al., 2005) which then spawned this new area of research. The typical view of the auditor-client interaction prior to this time was that of management (the CFO) giving the company's financial statements to the auditor; and of the auditor then issuing a report on the financial statements, usually a clean (unqualified) report (Salterio, 2012). Financial statements were viewed as the representations of management, rather than a joint product, the result of a negotiation between the auditor and the client (Antle & Nalebuff, 1991). Antle and Nalebuff (1991) recognized this and proposed an analytical model referenced in much of the auditor-client negotiation literature to come. The authors outlined their thinking in the first paragraph of their paper (Antle & Nalebuff, 1991) as follows:

> Under Generally Accepted Auditing Standards, the literal claim is that financial statements are the representations of management. Our view of the auditing process, however, focuses on its negotiated character. Financial statements should be read as a joint statement from the auditor and manager. The statement becomes a joint venture if the auditor is unwilling to provide an unqualified opinion on management's stated representations. At that point, the auditor and

> client begin negotiations in which the auditor may offer a revised statement. … In the end, compromises are usually found, statements are revised, and the auditor issues an unqualified opinion on the revised statements." (p. 31)

With increasing research focused on this 'negotiation' between auditors and their clients, the academy came to recognize that auditor-client negotiations were a real phenomenon in auditing practice, and therefore worth researching (Salterio, 2012). With the acceptance that negotiations took place in practice, critical examination of the phenomenon was needed and the stream of audit negotiations became increasingly popular.

In this section, I will first explore the foundational papers that helped establish the stream of auditor client negotiation. This includes the Gibbins et al. (2001) model, and subsequent research by Gibbins et al. (2005; 2007) which help substantiate the model, as well as the work by Beattie et al. which emerged at almost the same time (Beattie et al., 2000; Beattie et al., 2001; Beattie et al., 2004). Second, I will discuss the role of the PPD and their importance in audit negotiations. Third, I will discuss influence tactics and how they relate to involving the PPD into audit negotiations. Lastly, I will discuss auditor-client relationships and auditor-types and their importance to audit negotiations. Recognizing that two literature reviews on auditor client negotiation have been published recently (see Salterio (2012) and Brown & Wright (2008)), I will highlight key findings from this literature, discuss where my paper fits in, and then incorporate other streams of literature which relate to my paper.

2.1 Auditor-Client Negotiation Models

Drawing upon the basic premise put forward by Antle & Nalebuff (1991) toward auditor-client negotiations, Gibbins et al. (2001) develop a descriptive audit specific model of negotiation based on a model of basic negotiations (Kennedy, 1992; Pruitt & Carnevale, 1993). The auditor-client negotiation model (see Figure 1) is rooted in the psychology of negotiation literature and is also grounded in the auditing context. Building on the understanding that context is essential to accounting research in general (Libby & Luft, 1993), and to audit negotiation in particular (Beattie et al., 2000; Beattie et al., 2001; Kleinman & Palmon, 2000), Gibbins et al. (2001) adapt the model to the unique characteristics found in the auditing context, from an auditor's perspective. The model specifies contextual features found in the accounting literature, as well as factors suggested by senior practitioners in interviews that are likely to be important to auditor-client negotiations. These contextual features can influence the process elements, which in turn, can influence the prominence of the some of the contextual features (Salterio, 2012).

Figure 1: Model of Auditor Client Negotiation
Reproduced from Gibbins et al. (2001)

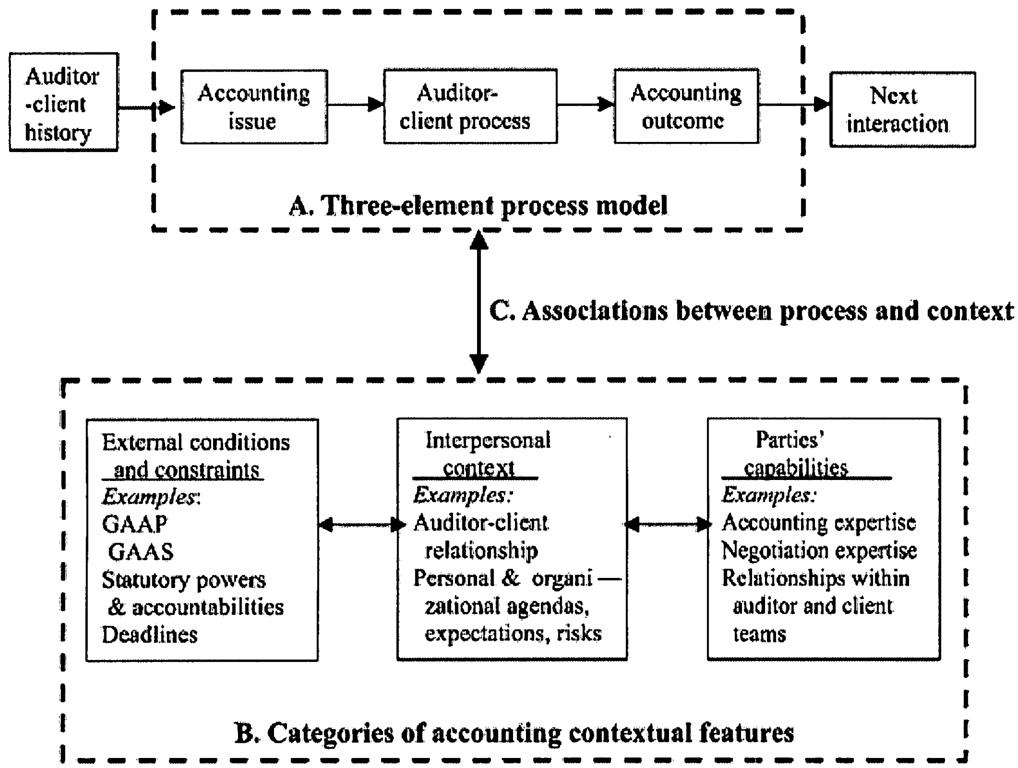

FIG. 1.—The accounting adaptation of the basic negotiation setting and categories of accounting contextual features.

The initial GSW model in Gibbins et al. (2001), which was revisited by Salterio (2012) is based on some core assumptions about the auditor/client audit negotiation context. First, there is a need for an unqualified audit report for stock exchange listings and there is an overarching joint interest between the auditor and the client which motivates them to resolve differences. Next, the auditor and the client usually have a past history of contentious or cordial relationships which frame the current and future negotiations. Because of GAAP constraints, sometimes there is no flexibility around an issue (forced choice); other times there can be opportunities to split the difference or find alternate acceptable solutions. However, there are costs of acquiring and using information. As there is usually an ongoing relationship between the auditor and client, there are consequences to the relationship and future interactions that can impact how the current negotiation is handled. [5] There can also be legal consequences, litigation and the potential for discipline from third parties as auditors are required to comply with GAAP, GAAS and other constraints placed by third parties. Lastly, the audit partner is interested in both the results for himself, but also for the client as not meeting the client's wishes impacts their future relationship.

The auditor client negotiation takes place within an audit context. The audit contextual features are grouped into three categories specified in the model: external, interpersonal and capabilities (Gibbins et al., 2001; Gibbins et al., 2005; Salterio, 2012). External conditions are factors not under control of either party, such as GAAP, GAAS, deadlines and statutory requirements. The interpersonal group contains such factors such as the roles of key players in both organizations and their desires about how to develop and manage relationships, as well as risk preferences. Capabilities include the party's expertise, knowledge and skills, and the other party's perception of those skills. As a group of experts within the firm, the PPD can assist the audit partner with technical expertise, and as such is situated in this aspect of the model (Gibbins et al., 2001).

[5] Although Rule 204 requires mandatory audit partner rotation on reporting issuers with market capitalization and total assets greater than 10 million (ICAO 2009), this rotation is after a seven year relationship has existed. Furthermore, if not a reporting issuer, the relationship can be substantially longer as no mandatory rotation requirements exist.

To help substantiate the contextualized model, Gibbins et al. (2001) develop a questionnaire to provide initial descriptive evidence about negotiation by the external auditor with the client. Ninety three experienced Big 5 (plus one international audit firm) audit partners with significant experience participated in the study. Results show that 67% of partners experience negotiations with 50% or more of their clients, and all partners had reported experiencing a negotiation with some clients, suggesting negotiations indeed do take place over the financial statements and they are a normal part of client service. The field questionnaire results are broadly consistent with the model, and thus help corroborate that the contextual features identified in the model in Figure 1 do indeed impact audit negotiations. Furthermore, the negotiation issues are complex and take much time and involve several people, including the PPD. The auditor's expertise was found to be central to accounting negotiation. Partners indicated the accounting negotiation is distributive and thus win/loss outcomes are expected more so than integrative solutions, which is consistent with much of the general behavioral negotiation literature (Neale & Bazerman, 1991). Two factors highlighted as very important to the negotiation were 'accounting and disclosure standards' and 'audit firms accounting expertise', of which the PPD is a part of. Furthermore, accounting negotiations can affect the financial statements materially and when such negotiations occur, they are important to the parties involved. Overall, results suggest that accounting negotiation is important, frequent and context-sensitive (Gibbins et al., 2001).

Building on their previous paper, Gibbins, McCracken Salterio (GMS) (2005; 2007) explore the GSW model from the CFO perspective to ensure the auditor-client negotiation model indeed represents both sides. Having both parties recall the negotiation similarly provides additional assurance that the recalls are a reliable characterization of the process. To do this, the authors compare common item "recalls" collected in the two field questionnaires by the two sides participating in the negotiations - audit partners and chief financial officers (CFOs). Overall the authors find largely congruent recalls. The results show a high level of congruency across CFOs and audit partners in the type of issues negotiated, parties involved in resolving the issue and the elements making up the negotiation process, including agreement on the relative importance of various common accounting contextual features. The analysis of the common accounting contextual features suggested that certain features were consistently important across large numbers of negotiations, whether viewed from the audit partner's or the CFO's perspective. Both sides agreed that accounting standards and expertise were central to the negotiation, and both saw the audit committee as almost entirely peripheral. The authors found that both audit partners and CFOs saw negotiation more as a distributive process. Therefore, each tries to persuade the other party to adopt their position or agree on a position between the two initial positions. Although much of the contemporary literature on negotiation espouses the benefits of integrative bargaining and finding new solutions, neither party in auditor-client negotiations appears to view the process in this way. Overall, audit partners and CFOs appeared to use a similar mental model of negotiations (Gibbins et al., 2005).

Although there was a substantially similar view of the negotiation overall, there were differences in how each party viewed some elements and features of the auditor-client negotiation model. One such difference is that audit partners emphasized prior negotiations' importance to the present negotiation more so than CFOs did. Audit partners also reported more involvement of the technical team, reporting their involvement 100% of the time whereas CFOs only reported knowing their involvement 50% of the time. Another interesting difference highlighted in the study was in terms of the number of issues viewed as part of the negotiation. CFOs viewed negotiations as a one off, thus dealing with one issue at a time, whereas audit partners were found to be aware of a list of potential issues to be negotiated. CFOs thought not only that they had more accounting expertise than the audit partners did, but that they also understood the business better (Gibbins et al., 2005).

GMS also authored a second paper (2007) based on the above CFO questionnaire; this time focusing on the additional questions posed to CFOs which did not have a comparison to audit-partner responses. The results show that CFOs saw negotiation with the auditors as a consequence of a change in: 1) accounting and disclosure standards; 2) personnel influential in the organizations financial reporting or; 3) business changes (new business deals or acquisitions). The CFO felt that the negotiation was thrust upon them, and they then had to manage it. The CFOs informed other management (such as the CEO) and were aware of their preferences, but did not seek their help. However, informing the Board or the audit committee was much less frequent, though when the committee was consulted, the more independent the audit committee was, the more likely a new potentially win-win solution was to arise. CFOs were not particularly motivated to search for win-win solutions; rather they saw the negotiation as win-lose, and focused on form more than substance in resolving the issue. The CFO felt that issues were complex, requiring research and analysis, and dependent on knowledge and expertise, rather than interpersonal bargaining tactics or relative negotiation skill (Gibbins et al., 2007)

At the same time as the literature was emerging from Gibbins et al. in Canada, an independent research program studying the same phenomenon was underway in the United Kingdom. An article was published in 2000 (Beattie et al.) and then a book titled: *Behind Closed Doors: What Company Audit is Really About* (Beattie et al., 2001). These showed a similar portrait of auditor-client negotiations, a process deeply contextualized within the auditing environment. Subsequently, the book was summarized into a paper to make it accessible through the scholarly journal literature (Beattie et al., 2004). The authors develop a model of auditor-client negotiations through surveys and interviews of auditor and CFO pairs in the UK. The model, although unique to that portrayed in Gibbins et al. (2001), largely proposes similar contextual dependent interactions.

The basic question the authors were trying to answer in this study was, "How do companies and their auditors resolve important audit issues?" (Beattie et al., 2004). In this study, the authors engaged in in-depth interviews with the matched audit partners and finance directors of a varied group of six-major UK listed companies (recently engaged in significant negotiations). As a result, they developed a grounded theory model of the negotiation process and the factors that influence the nature of the outcome of interactions. The authors note that although general theories of negotiation, such as Gulliver's framework (1979) may have some applicability to the audit setting, there are important specific factors associated with the audit context that limit the use of generic models. At the time this was the only behavioral study to adopt a qualitative, case study based approach using real audit negotiations.

The model shows that negotiation is a process involving events, strategies, outcome and consequences. The nature of the interaction is influenced by the specific context of the interactions, that is, the issue, objectives of the individual parties, key third parties and other factors. General contextual factors such as quality of the primary relationship, company circumstances, audit firm circumstances, and company buyer type is also found to impact the negotiation. The external economic and regulatory setting has a significant but more peripheral impact. The quality of the primary relationship affects both the quality of the outcome and the ease of agreement (Beattie et al., 2004). In the case of significant accounting issues (and where the main parties are unable to agree) third parties such as the audit firm's technical department and audit committees can be influential in the final outcome. This indicates that, at the negotiation stage, interactions involve multiple parties (Beattie et al., 2000). Other than highlighting the importance of other key players, such as the PPD in the negotiation process, some key factors pertinent to my study that were discussed in Beattie et al. (2004) with respect to influence strategies and roles and relationships will be discussed separately under those headings in this section.

2.2 The Professional Practice Department

The PPD is a separate organizational department in all of the largest auditing firms. The PPD was created to help practitioners deal with the explosion of standards created by the profession to keep pace with innovations in business. As businesses increased in complexity, accounting standards followed suit with a proliferation of standards and pronouncements. Accounting firms responded to the increased complexity by creating these departments to assist partners in researching difficult accounting issues (Danos & Boley, 1980). As Danos & Boley state (1980, p 10), "It is difficult to expect practitioners with full-time client responsibilities to have the time or the expertise to research all questions which arise." The PPD's role is described by Salterio & Denham (1997) as an organizational unit of public accounting firms whose role is to assist partners in making difficult judgments relating to the financial statements of an audit client (Danos & Boley, 1980; Salterio, 1994). [6] The PPD provides an opinion on how issues should be resolved.[7] The PPD is differentiated from the central research unit whose role is to provide potential precedents for practice office partners from databases maintained by the firm for that

[6] The Professional Practice Department is termed Accounting Consultation Unit in the Salterio & Denham (1997) paper.

[7] All of the Big 4 accounting firms' PPD's opinion is "final" and partners cannot overrule them (McNamee, Borrus, & Palmeri, 2002). Deloitte & Touche's Integrity & Quality Report (2002 p. 2) states, "Once a conclusion is reached, it is the final Deloitte & Touche conclusion – no partner may depart from it."

purpose (Salterio, 1994). Furthermore, central research units typically do not take responsibility for the ultimate resolution of an accounting problem in terms of its effect on a client's financial statements (Danos & Boley, 1980).

The PPD can assist in making judgments when there exists a) a choice in current accounting policy standards or no standard exists, b) measurement and/or valuation alternatives or c) disclosure requirements (Salterio & Denham, 1997). The PPD can become involved in an issue at any time (Danos, Eichenseher, & Holt, 1989; Salterio & Denham, 1997) during the accounting cycle or audit. Some firms encourage early identification to help avoid problematic issues in the later stages (Salterio & Denham, 1997), however this is not always the case in practice (McCracken et al., 2008). The PPD is a source of knowledge on technical accounting issues and as such, plays an important role in resolving the more difficult accounting issues in audit practice (Danos et al., 1989; Gibbins et al., 2001; McCracken et al., 2008). The PPD forms a part of the overall audit firm's accounting expertise, which is a very important contextual feature of accounting negotiations (Gibbins et al., 2001; Gibbins et al., 2005; Gibbins et al., 2007). Schultz and Reckers (1981) showed that PPD-like advice affected audit partner judgments on accounting disclosures and resulted in more well-reasoned positions. Ng & Shankar (2010) study the PPD from the auditor's point of reference as well. They find that when there is a quality assessment standard and the PPD explicitly recommends a preferred accounting treatment, the auditor is less likely to agree with the client's suggested accounting method. They find no significant effect of the PPD when an explicit recommendation is not present.

Although a few studies have looked at the impact of the PPD on the auditor side, no negotiation study has focused on PPDs' involvement on the CFO side as the *main* focus of study. One study that touched upon the concept of involving technical expertise of the auditing firm in auditor-client negotiations is Perreault and Kida (2011). The authors plan an experiment with various specific persuasive arguments that are unique to the auditing context. The participant breakdown in this study is: 11% non-management; 30 % managerial level positions such as project manager; 39% professionals from a number of industries (such as information technology/engineering-46%, financial services-27% and healthcare-25%) and the remaining 20% have the title of CEO, CFO or President. The arguments investigated were threats to qualify the audit opinion, warning/threats of a quality review, providing the opinion of a technical expert and providing the conduct of other companies. In addition to these arguments, they also manipulated the communication style. Communication style was manipulated in one of two ways, a cooperative style (using appreciative and respectful wording) or a contentious style (using wording that is very aggressive, such as telling the client they are wasting their time and telling them their position does not make sense). There is no control condition present so the authors could not determine how effective the arguments were compared to just asking the client to adjust, however they do compare the relative effectiveness of the arguments. The authors find that threatening to qualify the report and describing the behavior of other companies elicited larger concessions than warning of the possibility of a quality control review. Providing the opinion of a technical expert was positioned above the quality control review, below the threat to qualify the report but not statistically different from either two arguments. The nature of the manipulation was overt rather than a more nuanced manipulation that may be more ecologically valid. One interesting finding from the report was the participants' *perceived* effectiveness of each argument. The authors find that providing the opinion of a technical expert was *perceived* to be the argument that would be the most persuasive. As the study employed more participants outside of the accounting/finance area (and outside the CFO role) than in it, it is not clear whether results extend to individuals who actively participate in the unique auditing environment who know the institutional setting and implications of their concessions on financial statements.

In addition to this study, there have also been interesting findings with respect to the PPD involvement in the audit negotiation setting in general. Beattie et al. (2000) find that third parties in the negotiation process, such as the PPD, are influential in the final outcome, and that internal consultation by the audit engagement partners is high. They find that audit partners found that consultation helped support their view in discussions with clients, although company management did not appreciate their involvement late in the process. In Gibbins et al. (2001), the authors find accounting negotiations usually involve several people and the audit firm's national office technical support plays an important role in negotiations. Furthermore, when the PPD becomes involved in a negotiation, their involvement is considered quite important and has an impact on the negotiation (Beattie et al., 2000; Danos et al., 1989). In Gibbins et al. (2005), the authors find that technical partners are reported to be involved in the negotiation 100% of the time, whereas the clients report knowing of their involvement only 50% of the time. McCracken et al. (2008) build on this finding through their study of auditor-client dyads. They find the audit firm's PPD is involved deeply in almost all of the negotiations on the audit partner's side; however the audit partner does not always reveal their involvement to the client. This shows the PPD is involved in many of the most contentious issues, whether the client is aware or not. This lack of awareness of PPD involvement is interesting and suggests that auditors are making decisions behind the scenes on whether to inform the client of the PPD involvement.

2.3 Influence tactics

Influence tactics are used to accomplish specific task objectives, such as getting the target person to carry out a task or support a proposed change (Yukl et al., 2005). These tactics are especially important when we want to understand how people effectively accomplish tasks that require the cooperation and assistance of other people both inside and outside the organization (Yukl et al., 2005). Influence tactics are examined by Kipnis et al. (1980) who develop a taxonomy of interpersonal influence processes and identify eight dimensions of influence.[8] Through further work, Kipnis & Schmidt (1982) modify the items and scales and this modified typology of influence is used in later studies by the same authors (Kipnis et al., 1984; Kipnis & Schmidt, 1988) and includes seven distinct influence tactics (see Table 1) : reason, coalition, ingratiation, exchange, assertiveness, higher authority, and sanctions.[9] This seminal study triggered substantially increased work in the area of influence (Higgins, Judge, & Ferris, 2003; Schriesheim & Hinkin, 1990) and is sufficiently comprehensive and representative of the various frameworks proposed across different disciplines (Higgins et al., 2003; Malhotra & Bazerman, 2008); therefore I will use this typology as the basis for selecting and differentiating types of influence tactics.[10]

[8] A related stream of research in social psychology is the study of social power, most notably by French & Raven (1959; Raven, 1965). Social power is distinguished from influence as the former refers to the potential and the latter to the actual use of power (Raven, Schwarzwald, & Koslowsky, 1998). It is the conversion of potential power into effective persuasive strength which is important (Beattie et al., 2004).
[9] Ingratiation was also referred to as "friendliness" and exchange as "bargaining" (Kipnis, Schmidt, Swaffin-Smith, & Wilkinson, 1984)
[10] In addition to the Kipnis et al. framework, there have been other frameworks as well as extensions and revisions to the frameworks such as Mowday (1978), Schilit and Locke (1982), Schriesheim & Hinkin

Table 1: List of Influence Tactics

Reason	– the use of facts and data to support the development of a logical argument
Coalition	– the mobilization of other people in the organization
Ingratiation	– the use of impression management, flattery and the creation of goodwill
Exchange	– the use of negotiation through the exchange of benefits or favours
Assertiveness	– the use of a direct and forceful approach
Higher Authority	–gaining the support of higher levels in the organization to back up requests
Sanctions	– the use of organizationally derived rewards and punishments

Influence tactics have been studied under various names in a few studies within the auditor-client negotiation research. Beattie et al. (2004) use the above mentioned Kipnis et al. (1980; 1984) taxonomy and find the influence tactic used affected the outcome of the negotiation. Assertiveness, reasoning, coalition and sanction strategies were associated with "good outcomes" while ingratiation was associated with poor outcomes, and the use of bargaining and higher authority was associated with outcomes of varying quality (Beattie et al., 2004).[11] Perreault & Kida (2011) find the threat tactic (threatening to qualify the audit report) significantly affected the concessions a client made. Threat

(1990), Yukl & Falbe (1990) and Yukl et al. (2005). There does not appear to be a consensus within the literature on which framework is definitively the most appropriate, however, the Kipnis et al. framework appears to be the most used and dominant framework within the literature. Furthermore, as I am only looking at a subsample of the tactics, no other frameworks offer an additional influence tactic of bringing in additional parties to the negotiation.

[11] A "good outcome" means that the quality of the financial reporting outcome reflects 'good' accounting from a public interest perspective (Beattie et al., 2004, p. 11)

tactics would fit into the 'sanctions' category in the Kipnis et al. (1984) framework and may represent the most extreme form of sanction available to auditors (Beattie et al., 2004). Not surprisingly, threats have been found to engender negative attitudes and can harm the relationship between the parties (Tedeschi, 1977). Consistent with these results, Perreault & Kida (2011) find that these threats to qualify the audit report, as well as threats to send the file to the quality control department for review both resulted in the least amount of positive affect toward the auditor. Ng & Tan (2007) show strategic communication of client preferences affect auditor's decisions about requiring adjustments to the financial statements.

Other accounting studies have shown that influence techniques can influence auditor judgment. Robertson (2010) finds that ingratiation attempts can influence auditors' judgments under certain circumstances. Messier et al. (2012) find that ingratiation marginally increases auditor trust toward the client when the client has previously taken an incentive-inconsistent action (agreed to an audit adjustment). Sanchez et al. (2007) find the reciprocity strategy of conceding immaterial matters (similar to exchange), increases a client's perceived willingness to accept proposed material audit adjustments and results in greater satisfaction with the auditor and a higher likelihood of retaining the auditor. Creating a compromising atmosphere by openly waiving adjustments compels others to reciprocate (Brett, Shapiro, & Lytle, 1998; Putnam & Jones, 1982). Similarly, Messier et al. (2012) and Hatfield et al. (2008; 2010) also examine reciprocity in an audit-negotiation context.

There are seven influence tactics in the Kipnis et al. (1980, 1984) framework (as shown in Table 1), however only a subset of the tactics will be used in my paper in order to answer my specific research question. My study focuses on the effect of communicating involvement of the PPD to the CFO. Communicating the involvement of the PPD involves bringing in an additional party into the negotiation, thus, all tactics that involve *additional parties* are of interest to this study. There are two such influence tactics that entail bringing in additional parties; coalition and higher authority. A third tactic, reason, will also be discussed further, as this is the baseline condition in my study.

Reason, coalition and higher authority have all been shown to be effective influence tactics in various studies, however this does not hold true for *all* studies. [12,13] For coalition and higher authority, there are more mixed results than consistent results. Reason involves the use of facts and data to support the development of a logical argument (Kipnis et al., 1984) and has been found to be a common tactic to use when a person occupies a position of power on the basis of their skills and knowledge (Enns & McFarlin, 2003; Kipnis et al., 1984). It has been shown to be used in the accounting

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[12] A successful outcome for most influence attempts is the target person's commitment to carry out the agent's request (Yukl, Seifert, & Chavez, 2008). Effectiveness has been measured in the influence studies in a number of ways (Falbe & Yukl, 1992), such as task commitment (Yukl & Tracey, 1992), overall performance of the influence agent (Yukl & Tracey, 1992), perceived effectiveness (Fu & Yukl, 2000), a dichotomous classification of successful/unsuccessful (Case, Dosier, Murkison, & Keys, 1988; Dosier, Case, & Keys, 1988; Schilit & Locke, 1982) and commitment/compliance/resistence (Falbe & Yukl, 1992)

[13] In some studies, "reason" has been termed "rational persuasion" (Yukl & Tracey, 1992; Yukl et al., 2005; Yukl et al., 2008) and "higher authority" termed "upward appeal" (Kipnis, Schmidt, & Wilkinson, 1980; Schriesheim & Hinkin, 1990; Yukl & Falbe, 1990) The terms are synonymous and the terms "reason" and "higher authority" will be used in this paper.

environment when there was not clear agreement (Beattie et al., 2001; Beattie et al., 2004; Gibbins & Newton, 1994), and has been found to be consistently effective for proactive influence attempts (Yukl et al., 2005). Reason is a common influence tactic used in audit practice when an adjustment is suggested by the audit partner, as the partner would explain why they believe an adjustment is required. Coalition involves the mobilization of other people in the organization (Kipnis et al., 1984). Similarly, Yukl and Falbe (1990) define coalition tactics as "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", and it has been found to be a very effective influence tactic (Beattie et al., 2004; Mechanic, 1962; Mowday, 1978; Strauss, 1962) in some settings. [14] Coalitions are used most often as a follow-up tactic after the target has already opposed a more direct influence attempt (Yukl & Falbe, 1990), such as reason. Higher authority involves gaining support of higher levels in the organization to back up requests (Kipnis et al., 1984). Much of the research has found negative results for higher authority (Kipnis et al., 1984; Kipnis & Schmidt, 1988), whereas Beattie et al. (2004) found mixed results for higher authority.

[14] In later papers by Yukl and Tracey (1992) and Falbe and Yukl (1992), the authors condense coalition and higher authority as respondents failed to differentiate between them when rating downward and lateral influence attempts. However in the original paper, the authors find (similar to Kipnis and Schmidt) that the tactics are "sufficiently independent to be regarded as distinct forms of influence behavior" (Yukl & Falbe, 1990, p. 133) Furthermore, in Falbe and Yukl (1992) the authors discuss a limitation in their findings for coalition because they likely only include only overt forms of coalitions (ie. higher authority), which "appeared coercive to the targets" (1992, p. 651). Furthermore, Schriesheim and Hinkin (1990) also find support for higher authority as a separate influence tactic.

Involving the PPD in a variety of ways is consistent with how they can become involved in audit negotiation in practice. Ng & Shankar (2010) investigate the effects of PPD involvement on the auditors' propensity to accept client-referred accounting methods. Their involvement of the PPD was either more as additional advice (coalition) or as an explicit recommendation (higher authority), and the authors note that through discussions with members of the PPD, they may follow either practice. Furthermore, Beattie et al. (2001; 2004) propose coalition and higher authority tactics in their model and find the audit partner engages the PPD in both ways through discussions with audit partners and CFOs.

2.4 Relationships

Much of the previous research on negotiation has focused on negotiations between unrelated parties with no prior knowledge of one another (Greenhalgh, 1987; Greenhalgh & Chapman, 1998; Lewicki, Barry, & Saunders, 2010). The relationship between the parties was often deliberately eliminated by design so as to control for this variable (Greenhalgh, 1987). Greenhalgh (1987) began the movement to incorporate the important relationship factor into research, which has since gained traction and can be found in many negotiation studies. Auditor-client negotiations take place *within* a continuing relationship. The relationship between the audit partner and the client is very important, and was cited by CFOs as one of the most important interpersonal factor affecting the negotiation (Gibbins et al., 2005; Gibbins et al., 2007; Salterio, 2012). [15] In an audit context, the client and the audit partner can have a long relationship spanning several years and anticipate working together in the future and the general quality of the relationship affects the negotiations (Beattie et al., 2004; Gibbins et al., 2005). [16] Indeed, one aspect of focus in the accounting negotiation literature is that negotiations take place within a continuing relationship; negotiations are not a 'one off' between parties who will not see each other again. Furthermore, not only do they take place within a continuing relationship, past and current outcomes have consequences for future negotiations. Therefore, it is important to consider how this relationship is impacted when different influence tactics are used. Embedded in this relationship are certain expectations between the parties, that is, each party can advocate for a position within a role embedded in a relationship (Kolb, 2004).

2.5 Auditor Type

Kolb & Williams (2000) separate the substantive issues of the negotiation from the underlying parallel negotiation that takes place below the surface of the overt negotiation. In this 'shadow negotiation', the terms of the relationship, expectations and roles are brought out. It is through this framework of strategic moves that the negotiation unfolds

[15] Of the 23 common accounting contextual features, the relationship with the audit partner was the only feature rated significantly above the scales' midpoint (p=0.05 or lower) AND reported as "high or essential" by more than 50% of the respondents (Gibbins, McCracken, & Salterio, 2005).

[16] As noted previously, Rule 204 requires mandatory audit partner rotation on reporting issuers with market capitalization and total assets greater than 10 million (ICAO 2009), however, this rotation is after a seven year relationship has existed. Furthermore, if not a reporting issuer, the relationship can be substantially longer as no mandatory rotation requirements exist.

(Kolb, 2004). McCracken et al. (2008) use this framework to analyze the roles and relationships in CFO and audit partner dyads. The authors find that it is the CFO who positions the auditor in a role, and the quality of the relationship is affected by the appropriateness of the actions with respect to the roles.[17] Roles are also introduced in Beattie et al. (2004), though their identification of 'Audit Partner seller-types'. The term 'role' accurately describes the phenomenon that McCracken et al. (2008) wanted to capture, that is of an individual playing a 'role', like an actor. However, because this term has strong semantic underpinnings in traditional negotiation literature, the term "type" will be used in this study (i.e. "auditor-type" versus "auditor-role"), consistent with Beattie et al. (2004).

McCracken et al. (2008) focus on this dyadic relationship between audit partners and CFOs to better understand the negotiation process. In this paper the researchers analyze interviews in which pairs of CFOs and their audit partners describe their financial reporting relationship and discuss how they negotiated a specific issue. They find that the process is not linear, and the 'fluidity' of the process not only affects the financial issues in the negotiation, but also affects the 'negotiation roles' and relationships (termed the 'shadow negotiation'). The authors find that it is the CFO who determines the type of relationship (labelled proactive and reactive), thereby at the same time also positioning the auditor into a particular role and expecting them to act in a certain way to fulfill this role. Both McCracken et al. (2008) and Beattie et al. (2004) find that relationships, and

[17] In the McCracken et al. (2008) study, there is an equal split of CFO participants who prefer auditors as 'police officers' and 'experts'.

the roles parties play, have a real effect on how the negotiation takes place as well as its outcome.[18]

McCracken et al. (2008) cite two main auditor-types, the 'expert-advisor' and 'police-officer' based on their interviews with auditor-client dyads whereas Beattie et al. (2004) propose six 'seller types' in their paper, also based on interviews with auditor-client dyads.[19] Beattie et al. (2004) label and discuss the six seller types as follows: The 'crusader' is the highest quality partner, one who exhibits an extremely high level of professional and personal integrity. They display both a social and professional conscience and are prepared to take their responsibilities beyond their statutory duty if they feel that it is the right thing to do. The second type is coined the 'safe pair of hands'. This auditor type also displays a high level of professional integrity and they ensure their client's financial reporting complies not only with the letter of the regulatory framework, but also with the spirit. They will not compromise themselves in any way. The third type identified is the 'accommodator' who has a moderate level of integrity. This auditor type ensures their client's reporting complies with the letter of rules, but they are prepared, under certain circumstances to bend the rules and condone creative compliance or rather aggressive accounting treatments. The fourth auditor type is the 'trustor', who, when dealing with normally conservative clients adopt an attitude that is insufficiently

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[18] In discussing the McCracken et al. (2008) paper, I use the term 'type' instead of 'role' to maintain consistency and avoid confusion.
[19] Jamal & Tan (2010) offer a different view of "auditor-type" and identify three types of auditors which are posited to correspond to profiles of auditors as discussed by standard-setters and regulators; the principles-oriented, rules-oriented and client-oriented auditor type. These auditor-types offer insights when studying research questions relating to rules versus principles debate, but do not relate to the current study.

critical and questioning and takes the company to be fireproof. Although their underlying professional integrity may be high, this trusting attitude overarches their professional skepticism and their role as an effective auditor. The fifth auditor type is the 'incompetent' who lacks the necessary level of technical competence and the sixth is the 'rogue' who has no sense of professional integrity and will knowingly flout the regulatory framework for personal gain if they think that they can get away with it. It is noted that neither the 'Incompetent' nor the 'Rogue' were present in their study. Furthermore, Beattie et al. (2004) acknowledge that the seller types identified are not mutually exclusive and thus partners may display characteristics from multiple types. [20] As such, the Beattie et al. (2004) auditor 'seller-types' are integrated and discussed with the McCracken et al. (2008) auditor-types.

A 'proactive' relationship is described by McCracken et al. (2008) to be one where the CFO and audit partner work together throughout the year to try to deal with potentially contentious issues at an early date. The financial statements are viewed as a joint product, where the audit partner 'co-creates' them. The CFO values the audit partner's opinion and asks for advice on accounting and disclosure treatments. In this type of relationship, the goal is to have the financial statements 'right' and to have them be able to stand up to detailed scrutiny. This is not to say that there are not disagreements and negotiations, as two accountants can have different views on the same transaction (Deloitte & Touche, 2002; Gibbins & Mason, 1988); however, the focus is on trying to

[20] Footnote 9 in (Beattie et al., 2004).

attain the 'best' financial reporting (Deloitte & Touche, 2002). For this relationship to be effective it is important for the CFO and the audit partner to be matched appropriately, that is, the audit partner works in a manner consistent with the actions expected by the CFO. For this to be true, McCracken et al. (2008) introduce the notion of the 'expert advisor' auditor-type. This 'expert advisor' auditor is similar to Beattie et al.'s (2004) 'crusader' or 'safe pair of hands'. The term used in this paper for this auditor-type will be the "expert crusader".

An audit partner playing the role of the expert crusader auditor-type "consistently promotes best practice accounting, objects to the CFO's desire for accounting that is in minimal compliance with GAAP, and pushes early adoption of preferred GAAP that will be mandatory in future periods" (McCracken et al., 2008, p. 375). These auditors ensure the financial statements are of high quality and beyond reproach. In the McCracken et al. (2008) study, all of the audit partners embraced this type (though not all played it with all of their clients) and all desired to be in this ideal proactive relationship. As described in Beattie et al. (2004), the 'Crusader' is the 'highest quality' audit partner, who exhibits an extremely high level of professional and personal integrity and they are prepared to take their responsibilities beyond their strict statutory duty if they feel that it is the correct thing to do. Similarly, the 'Safe Pair of Hands' displays a high level of personal integrity and takes actions to ensure that their clients' financial reporting complies with not only the 'rules' of the framework, but also the spirit.

At the opposite end of the spectrum is the 'reactive' relationship. "The themes that characterize this relationship type include: the company has a position on an accounting for the issue that is known by many senior managers and potentially by board members, the audit partner is not informed about the issue until after the transaction has taken place, and the accounting issues are almost always being dealt with after year-end or, if a formal quarterly review is done, at the time of the quarterly review" (McCracken et al., 2008, p. 373). The focus here has shifted from best practice high quality financial statements to ensuring the CFO's version of the financial statements are GAAP compliant. For this relationship to be effective, there again needs to be an appropriate match between the CFO and the audit partner. In this 'reactive' relationship, the audit partner needs to fulfill the 'police-officer' auditor-type identified by McCracken et al. (2008), similar to the 'accommodator' auditor-type identified by Beattie et al. (2004).

Audit partners cast as a 'police-officer' type "ensure their clients' financial statements comply with the minimal technically correct GAAP rather than quality or appropriateness of the accounting disclosures" (McCracken et al., 2008, p. 381) - the police-officer ensures the minimal rules are followed. Police-officer type auditors 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, p. 374). In this auditor-type, there is an emphasis on finding support for the CFO's preferred position. Similarly, the 'Accommodator' type (Beattie et al., 2004) complies with the letter of the rules, but may condone creative compliance or rather aggressive treatment in order to be helpful to the client when possible. In this paper, the term "accommodating" auditor-type will be used.

Each proactive and reactive relationship can be effective or not, and this rests with the meshing of the auditor's actions and the CFO expectations. McCracken et al. (2008) find that it is the partner's responsibility to be the 'relationship manager' and it is part of the audit partner's job to keep the CFO happy. This can also be looked at using role theory. According to role theory (Katz & Kahn, 1978), each focal person (audit partner) is presented with a set of role expectations. The expectations for these positions are prescribed by multiple role senders (i.e. clients, employees, peers). The role senders evaluate the effectiveness of the focal person on whether their behaviours are congruent with the roles sender's expectations (Tsui, 1984). Therefore, if the CFO has positioned their auditor into an 'accommodating' auditor-type, actions consistent with this type, such as finding support for CFO position or not pressuring for early adoption of standards would be seen as congruent with the CFO's expectations, and therefore would be perceived as effective by the CFO. However, those same auditor behaviours would not be congruent with the expectations of a CFO who has a preference for an 'expert crusader' auditor-type and would likely cause strain on the relationship, causing the auditor to be replaced (as described in McCracken (2008, p. 375)). However, although the CFO tries to position the auditor into their preferred 'expert crusader' or 'accommodating' type, the audit partner may not be agreeable to this type and continue to act in their own preferred type and thus a mismatch results (actual auditor-type is different than the CFO's preferred auditor-type). As discussed in McCracken et al (2008), this can result in the firm stepping in to maintain client retention by changing the engagement partner to match-up with the client's expectations.

Regulators want high quality financial statements. Therefore, in an 'ideal' situation from the regulators and audit partner's view, all relationships would be proactive with the CFO and the audit partner coming together to ensure the financial statements are as high quality as possible. However, as discussed, this is not always the case. Therefore, it would be beneficial for audit partners to have tactics in place to help influence their CFO counterparts to accept recommendations that make the financial statements high quality without putting the relationship in jeopardy. As it stands, "Audit partners in reactive relationships have to carefully weigh the seriousness of the accounting issue against the damage a confrontation would have on the relationship with the CFO." (McCracken et al., 2008, p. 381).

2.6 Literature Review Conclusions

Previous auditing research has established that negotiations take place between the audit partner and the CFO within the auditing process. The review of prior literature indicates that this growing body of research has tested and refined various aspect of the audit negotiation model. However, testing all aspects of this audit-negotiation model has not yet been accomplished. One aspect of the model identified as important, but not yet tested is incorporating key other parties such as the PPD. From these papers, we find that the PPD is consistently involved in audit negotiations on the auditor side, and they are found to be important to the process. Although the PPD is involved frequently in the negotiation process on the auditor-side, their involvement may or may not be communicated to the client. Despite their involvement in the negotiation process, the influence of the PPD has not been empirically studied as a main topic in any study and therefore there is a missing link in how their involvement and their influence can impact the negotiations.

Influence tactics have been shown to be important in persuading others to comply with requests; however, they also can have an impact on other factors, such as satisfaction with the resolution process. Through reviewing the various influence tactics in the literature, two influence tactics involve bringing in an additional party, coalition and higher authority. Both of these tactics have been found to be used in practice involving the PPD; however the relative effectiveness of either of these tactics has not been studied to date. Therefore, this study seeks to build on the previous studies by incorporating these important influence tactics into the study of audit negotiation and test their relative effectiveness.

Investigating the effect of an influence tactic is important in the negotiation; however, looking at it in isolation does not bring in the richness of the auditing context, which is important in auditor-client negotiations. This study incorporates McCracken et al.'s (2008) finding of CFO's preference for an auditor-type being a critical aspect of audit negotiations. Each auditor-client negotiation is imbedded in a relationship, where there are existing auditor behavior expectations and preferences. I use this central theme to structure specific, pertinent hypotheses to test how influence tactics, CFO preferences of auditor-type, and actual auditor-type pairings impact not only CFO's willingness to adjust, but also their satisfaction with the process. This brings both important contextual features and influence tactic together to form a set of five specific hypothesis linked to the research conducted to date and reviewed in this section.

3.0 Hypotheses Development and Experimental Design

3.1 Hypotheses Development

Hypotheses will be developed and categorized into two categories: willingness to adjust financial statements (H1-H3) and satisfaction with the audit partner (H4-H5). Table 2 at the end of this section summarizes these hypotheses.

3.1.1 Hypotheses relating to adjustments of the financial statements

As discussed above, it is the CFO who determines the type of relationship desired with their audit partner, and thus they are also thereby positioning the audit partner into a particular auditor-type, and expecting them to act in a certain way to fulfill their expectations.[21] As McCracken et al. (2008) describe, an auditor playing the expert-crusader-type "consistently promotes best practice accounting, objects to the CFO's desire for accounting that is in minimal compliance with GAAP, and pushes early adoption of preferred GAAP that will be mandatory in future periods" (p. 375). When auditors have been positioned into this role (thus the CFO prefers this auditor-type, and desires their auditor to act in this way) they work together and the financial statements are viewed as a joint product, where the audit partner 'co-creates' them. The CFO values

[21] In practice, audit partners have the choice whether or not they act in accordance with the CFO's preferences and thus the matching of CFO preference and actual auditor-type does not always happen.

the audit partner's opinion and asks for advice on accounting and disclosure treatments (McCracken et al., 2008). Contrary to this is the CFO's preference for an 'accommodating' auditor-type, where there is an emphasis on finding support for the CFO's preferred position and the financial statements are no longer seen as a joint project (McCracken et al., 2008). The CFO is not looking for advice nor receptive to the audit partner's opinion on how to make the financial statements of a "higher quality". A quote from a CFO included in the McCracken paper sums up this role nicely, "Unless it's absolutely, fundamentally, qualifying material, then I won't change" (McCracken et al., 2008, p. 373).

When the CFO has a preference for an expert crusader auditor-type, the CFO is looking for high quality financial statements that are beyond reproach. Although he/she may have a difference of opinion with the auditor, effectively, they have positioned the auditor as the 'expert' and as such will be more willing to adjust the financial statements, regardless of which tactic the auditor uses, or which auditor-type they have been matched with. Therefore, I expect CFOs who have an 'expert crusader' auditor-type preference to be more willing to adjust the financial statements than will those with an 'accommodating' auditor-type preference. As such, hypothesis 1 is formally stated as:

H1: CFOs who prefer an expert crusader auditor type will be more willing to adjust the financial statements than CFOs who prefer an accommodating auditor type.

No specific hypothesis will be made regarding the impact of actual auditor-type assigned on the CFOs' willingness to post the adjustment as there is no theoretical basis to support a directional hypothesis for CFOs' willingness to post. Exploratory results of the auditor-type will be discussed in the discussion section.

Over and above the difference due to the CFOs' preference for auditor-type, I expect that the influence tactic used to communicate the PPD will also result in differences in the CFOs' willingness to adjust. The choice of influence tactic is important, as the use of an unacceptable influence tactic may result in a negative affective reaction by the target person, and therefore undermine the effectiveness of the behavior (Fu & Yukl, 2000).

Although there are seven distinct influence tactics, as discussed above, I focus on a subset of tactics that involve ways of communicating the involvement of an additional party. Of the seven influence tactics, two tactics entail additional parties: coalition and higher authority. Lastly, I use the influence tactic of reason (as a base-line condition, and jointly alongside the other two tactics), as the underlying assumption in the literature is that, "most agents will prefer to use tactics that are socially acceptable, that are feasible in terms of the agent's position and personal power in relation to the target, that are not costly (in terms of time, effort, loss of resources, or alienation of the target), and that are likely to be effective for a particular objective given the anticipated level of resistance by the target" (Yukl & Tracey, 1992, p. 526). Therefore reason will be used as the influence tactic when the PPD has been involved in the discussion with the audit partner, but their involvement has not been communicated to the client.

Reason "involves the use of facts and data to support the development of a logical argument" (Kipnis et al., 1984) and is used as a starting point in most negotiations. Research on use of tactics alone and in combinations shows that rational persuasion (reason) was the most common tactic to be used when only one tactic was used, and was also the tactic selected most often for use in combination (Yukl, Falbe, & Youn, 1993); and would likely be the first choice for a partner trying to influence a client. When a partner is trying to influence a client to change their financial statements, they would first use arguments to support their recommendation, in hopes that the client would agree and acquiesce. Furthermore, one would rather start with a tactic that is likely to accomplish an objective with the least effort and cost associated with it (Yukl et al., 1993). Therefore a partner would try rational persuasion first rather than opt for a more aggressive form of influence to start the negotiation. Additionally, Yukl et al. (1993) found that most managers prefer to use this direct influence tactic for most requests as they are reluctant to invest the time and effort required to enlist the help of other people unless it is clearly necessary to influence the target person. Therefore, reason will be used as the influence tactic with the control group, where the PPD is involved behind the scene, but the client is unaware of any PPD involvement. Reason will also be used as the starting point in the other two conditions (coalition and higher authority) as it would not make sense for the auditor to require an adjustment but then not give a reason to the CFO of why they require the adjustment.

Coalition "involves the mobilization of other people in the organization" (Kipnis et al., 1984). Similarly, Yukl & Falbe (1990) define coalition tactics as "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", and have found to be a very effective influence tactic (Mechanic, 1962; Mowday, 1978; Strauss, 1962).[22] Coalition, with respect to PPD involvement, is akin to presenting the client with your preferred accounting treatment, and then disclosing that you have met with the PPD and they agree with your recommendation. This influence tactic shows the client that it is not just "in your opinion", but rather others around you, your colleagues, also agree. Coalitions are used most often as a follow-up tactic after the target has already opposed a more direct influence attempt (Yukl & Falbe, 1990), such as reason.

Higher authority "involves gaining support of higher levels in the organization to back up requests" (Kipnis et al., 1984). In a typical organizational setting, this would entail enlisting the support of your boss and having them present or endorse your request. In an

[22] In later papers by Yukl & Tracey (1992) and Falbe & Yukl (1992), the authors condense the tactics of coalition and higher authority into one tactic, coalition. However in the original paper, the authors find (similar to Kipnis and Schmidt) that the tactics are "sufficiently independent to be regarded as distinct forms of influence behavior" (Yukl & Falbe, 1990, p. 133) Furthermore, in Falbe & Yukl (1992) the authors discuss a limitation in their findings for coalition because they likely only include overt forms of coalitions (i.e. higher authority), which "appeared coercive to the targets" (1992, p. 651). Yukl also uses both higher authority and coalition in some later papers looking at cross-cultural difference (Fu & Yukl, 2000; Yukl, Fu, & McDonald, 2003), suggesting they are distinct influence tactics.

audit setting, this would entail revealing to the CFO that you have spoken to the PPD and then indicating that they have the final say. By involving the PPD in this way, the audit partner implicitly acknowledges that the PPD is a higher authority in the firm, and that the PPD in fact have the 'control' over the final decision and they cannot be overruled.[23]

In practice, each of the accounting firms has a policy detailing what their process is to deal with consultations and differences of opinion, and each of the Big Four has similar formal authority for decisions of their PPDs. As a result of Enron's collapse, each of the Big Four firms has been subject to much scrutiny in recent years with respect to its consultation process. A Business Week article from 2002 states,

> Like the other Big Five accounting firms, Andersen employs a team of experts at headquarters and elsewhere to review and pass judgment on knotty accounting, auditing, and tax issues facing its local offices. But unlike other firms, Andersen allows regional partners—the frontline executives closest to the companies they audit—to overrule the experts, according to accounting pros at the Securities & Exchange Commission and elsewhere. (McNamee et al., 2002)

In a Deloitte report also published in 2002, the firm acknowledges that, "Differences of opinion do occur, and we expect each professional to address them throughout the consultations process." Furthermore, they also state the authority of the PPD, "Once a

[23] This strategy is more aggressive than a coalition strategy but is less aggressive than an overt 'threat' strategy where an auditor would specifically threaten to qualify the audit report.

conclusion is reached, it is the final Deloitte & Touche conclusion - no partner may depart from it" (Deloitte & Touche, 2002, p. 2). Similar authority is given to the PPD of the other Big Four accounting firms (Deloitte & Touche, 2008; Ernst & Young, 2008; KPMG, 2008; PricewaterhouseCoopers, 2008).

Although the PPD may *formally* have the final say on issues brought to them, how their involvement is communicated (if at all) to the client is at the partner's discretion.[24] The partner's choice of influence tactic will affect the process and outcome of current negotiation, which then affect future negotiations (Gibbins et al., 2001), as well as the relationship between the parties (McCracken et al., 2008). Therefore, it is important that the audit partner carefully consider influence tactics before showing all of their cards.

Although in the *management* literature coalition and higher authority tactics have generally been found to be less effective than other influence tactics (Falbe & Yukl, 1992; Yukl & Tracey, 1992), this may not hold in audit negotiations. For instance, Beattie et al. (2004) found coalition tactics to be associated with good outcomes, and mixed outcomes for higher authority tactics. This supports the finding from Falbe et al. (1992) that in difficult influence situations (such as an audit negotiation), using some of the 'less effective' tactics to supplement the core tactics can increase the likelihood of

[24] Ng & Shankar (2010) investigate the effects of the PPD on the audit-partner decisions and in footnote 5 , state, "Based on our discussions with the technical department staff of participating firms, in general, the technical department personnel provide their opinion on the accounting issue under consultation, and leave the final decision to the discretion of the audit engagement partner." As such, it is possible that either influence tactic, coalition or higher authority, could be used by audit partners. Furthermore, Ng & Shankar (2010, pg. 1745) state that the PPD (when dealing with various accounting methods) "frequently, *but do not always* explicitly recommend/suggest that the client should adopt the most appropriate accounting method"

gaining target commitment, and may prove to be more effective than reason alone. However, because of the mixed results in both the management and audit literature with respect to the influence tactic of higher authority, no formal predictions will be made with respect to the effect of this specific influence tactic.

Many of the effective influence techniques available to managers in a management context may not be appropriate for an audit partner in an auditing context. The coalition tactic is appropriate and could be a valuable tool for audit partners to have in their proverbial negotiation toolbox. Yukl & Falbe (1990, p. 135) proposed that coalition tactics would be used more often in upward and lateral influence attempts than in downward influence attempts, reasoning that managers usually have sufficient power and authority to influence subordinates without using coalitions, however, for influencing a peer over whom one has no authority, coalitions may be one of the most effective influence strategies. Coalitions are a gentler form of persuasion compared to higher authority (Erez, Rim, & Keider, 1986; Yukl & Tracey, 1992), and research has shown that although usually a less effective tactic, coalitions can be highly effective in certain situations, such as supporting changes, innovations and new projects (Kanter, 1983; Kotter, 1982) (as cited Yukl & Tracey, 1992). Coalitions can also help convey the message that a request is consistent with the opinions of others in the organization besides the partner (Fu & Yukl, 2000). Therefore, I expect the CFO is more likely to concede and adjust the financial statements when the auditor brings in the PPD as a supportive colleague, regardless of auditor-type. As such, hypothesis 2 is formally stated as:

H2: CFOs in the coalition condition will be more willing to adjust the financial statements than CFOs in the reason condition.

In both coalition and higher authority tactics, there are two parties in agreement, in a situation of uncertainty. Although coalition generally has received some positive results, there have been mixed, and many negative reactions to higher authority tactics in the literature (Brennan, Miller, & Seltzer, 1993; Fu & Yukl, 2000), as this is a more aggressive tactic (Erez et al., 1986). Higher authority "involves gaining support of higher levels in the organization to back up requests" (Kipnis et al., 1984), and therefore the auditor may be able to enhance their negotiation stance by providing the authority of a higher level. It is not just in the opinion of one person, it is the opinion of many, and they are powerfully encouraging cooperation. In this way, 'higher authority' is much more aggressive than simply informing of an opinion of another person in the organization (coalition). As such, higher authority is a very aggressive tactic that may, or may not been seen in a positive light by their counterparts. Much of the negotiation research has found negative results for higher authority (Kipnis et al., 1984; Kipnis & Schmidt, 1988) , whereas Beattie et al. (2004) found mixed results for higher authority. Therefore, analyzing the situation closely and taking other factors into consideration may reveal detailed nuances not previously studied that become important in determining the effectiveness of a tactic, and could help explain the mixed results found in Beattie et al. (2004).

As McCracken et al. (2008) and Beattie et al. (2004) find, relationships, and the roles parties play, have a real effect on how the negotiation takes place as well as its outcome. McCracken et al. (2008) cite two main auditor-types, the 'expert-crusader' and the 'accommodator'. The expert-crusader auditor type is a proactive, continuously advising and assertive auditor who is more vocal and persistent about every little detail. This auditor makes sure that every issue is addressed, and the addition of yet *another* aggressive tactic could cause the CFOs to rebel against the overly aggressive tactic, causing them to lower their willingness to work with the auditor and become more antagonistic themselves. Coercive tactics have been found to inhibit joint gain because their use will undermine cooperation (Carnevale, Pruitt, & Britton, 1979; Greenhalgh & Chapman, 1998). Overly 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). Similarly, Perreault & Kida (2011) find an auditor's communication style affected a party's willingness to make concessions, with contentious negotiators eliciting fewer concessions. Furthermore, people generally reciprocate the communications they receive, especially contentious ones (Brett et al., 1998; Rubin, 1980). Therefore, it is likely that an assertive and aggressive auditor, combined with the most aggressive influence technique could produce counterproductive results and result in less willingness to adjust the financial statements. [25] Comparing this situation to one with a less assertive, more laid back accommodator-type auditor who normally tries to accommodate the client's wishes, the communication of the PPD as the higher authority may result in the CFO taking the issue more seriously and being more persuaded by the advice provided by this strong additional party. Thus, the auditor himself is not assertive, he/she is just the communicating the decision of the PPD. As such, hypothesis 3 is formally stated as:

H3: Within the higher authority influence tactic, auditor type will affect the CFO's willingness to adjust, such that the greatest willingness to adjust will occur with an accommodating auditor type and the least willingness to adjust will occur with an expert crusader auditor type.

[25] No formal hypothesis will be predicted for other interactions as mixed results and limited theory prevent any basis for making theoretically informed predictions.

3.1.2 Hypotheses relating to client satisfaction with the audit partner

In addition to the effects on the financial statements, there are also important effects from auditor-client negotiation on the relationship between the two parties. As discussed above, there are various influence tactics that an auditor can use to persuade the CFO to adopt their preferred position. As the tactic increases in aggressiveness, the likelihood that harm is caused to the relationship increases. Not only will the tactics affect the financial outcome of the negotiation, they also affect the interpersonal interactions (Cable & Judge, 2003; Greenhalgh & Chapman, 1998) between the parties and thus the relationship. Kipnis and Schmidt (1988) find those in both high and low status jobs who use 'appeal to higher authority' and 'coalition' tactics to influence their superiors receive the lowest performance ratings. In studies involving multiple influence tactics where reason, coalition and/or higher authority are involved, reason is most frequently used and is found to be more effective in terms of task commitment and effectiveness ratings of the agent (Yukl & Tracey, 1992). In much of the social psychological literature, people who use forceful and demanding tactics are disliked (French & Raven, 1959). Although involving others can be seen as a more aggressive influence tactic, it has also been found that involving others is a way to avoid 'losing face' and can help to convey that the request or proposal is consistent with the desires and needs of others besides the agent (Fu & Yukl, 2000). As well, one must be attentive to the features of particular negotiation settings and the consultative audit-team oriented environment. Furthermore, in many influence studies, coalition and higher authority influence tactics were combined into one category, and labeled “coalition”. Thus some previous results labeled “coalition” may be more logically linked to the tactic of higher authority. So although coalition tactics have sometimes been linked to less favourable outcomes, this is likely not true in the highly consultative audit environment, where bringing in additional members is more of an acceptable behavior and consistent with the norms of the industry. However, involving the PPD and communicating their involvement as a higher authority is considered an aggressive strategy, a hard tactic, which is more likely to place strain on the relationship (van Knippenberg & Steensma, 2003), and as such is expected to harm the relationship. As such, hypotheses 4 are formally stated as:

H4a: CFOs in the coalition condition are not expected to be more or less satisfied with the performance of the audit partner than CFOs in the reason condition.

H4b: CFOs in the higher authority condition will be less satisfied with the performance of the audit partner than CFOs in the coalition or reason conditions.

Although aggressive negotiators are often penalized, understanding the expectations of others and acting in accordance with those expectations will impact satisfaction of the CFO. When exploring the effect on the working relationship between the parties, the concept of expectations takes precedence. The consistency with the CFO’s prevailing expectations in the context will determine whether harm is caused in the relationship (Tsui, 1984; Yukl & Tracey, 1992; Yukl et al., 1993). For instance, a manager facing aggressive pressuring influence tactics from his boss will react differently than that same manager under those same aggressive pressuring tactics from a subordinate (Falbe & Yukl, 1992). Individuals need to exercise influence in an appropriate way to gain acceptance and motivate others to implement their decisions (Cohen & Bradford, 1989). Conforming to social norms is important because the use of an unacceptable influence tactic may result in a negative affective reaction by the target person (Fu & Yukl, 2000). Simply put, if the auditor is acting consistent with the CFOs' *preferred* auditor-type, there should be no harm to the relationship, as the CFO would be satisfied with the way in which the audit partner has performed. Harm to the relationship can occur if the CFO is dissatisfied with the way in which the audit partner has handled the situation, that is, the auditor is acting outside of the preferred expectations and results in <u>more aggressive</u> actions (unacceptable influence tactics) than what is expected by the target. The key for audit partners would be to understand the expectations of the CFO and ensure their actions are consistent with them in order to avoid harm to the relationship as different tactics will have differing results depending on the nature of the relationship between the two parties (Sundie, Cialdini, Griskevicius, & Kenrick, 2006).

Although the CFO has a preference on what type of auditor he would like to work with, that match does not always take place perfectly across all audit negotiation contexts. Within smaller firms, there may not be a large choice of partners with the appropriate expertise, and costs of switching firms can be substantial. Even within larger firms, although a preference might be towards a more accommodating auditor, perhaps a more assertive, advising type auditor is hired. Also, new CFOs may not be able to "choose" their auditor, as the firm and/or their specific partner have been with the organization for a number of years, and switching may not be feasible or appropriate. As such, there are many instances in which the CFO preferred auditor-type is not aligned with the actual type of the auditor. This mismatch is not expected to harm the relationship unless the auditor is *more aggressive* than the role preferred. As such, hypothesis 5 is formally stated as:

H5: CFO preferred auditor type, and type of auditor received will interact to affect the CFO's satisfaction such that the lowest satisfaction ratings will occur for CFOs who prefer accommodating-type auditors but are matched with expert crusader type auditors compared to the other pairings.

Table 2: Summary of Hypotheses

Hypotheses relating to financial statement adjustments	
H1	CFOs who prefer an expert crusader auditor type will be more willing to adjust the financial statements than CFOs who prefer an accommodating auditor type.
H2	CFOs in the coalition condition will be more willing to adjust the financial statements than CFOs in the reason condition.
H3	Within the higher authority influence tactic, auditor type will affect the CFO's willingness to adjust, such that the greatest willingness to adjust will occur with an accommodating auditor type and the least willingness to adjust will occur with an expert crusader auditor type.
Hypotheses relating to satisfaction with the audit partner	
H4a	CFOs in the coalition condition are not expected to be more or less satisfied with the performance of the audit partner than CFOs in the reason condition.
H4b	CFOs in the higher authority condition will be less satisfied with the performance of the audit partner than CFOs in the coalition or reason conditions.
H5	CFO preferred auditor type, and type of auditor received will interact to affect the CFO's satisfaction such that the lowest satisfaction ratings will occur for CFOs who prefer accommodating-type auditors but are matched with expert crusader type auditors compared to the other pairings.

3.2 Experimental Design

My study aims to investigate the effect of communicating PPD involvement, auditor-type and CFO auditor preference on outcomes of the negotiation. I employ a 2 (CFO's preference for auditor-type) *2 (auditor-type)* 3 (communication) full factorial experimental case design in order to test the hypotheses.

3.3 Participants

The participants in my study are 169 CFOs, controllers and their equivalents who are members or contacts of FEI (Financial Executives International) - Canada, an all-industry professional association for senior financial executives.[26] My contacts at FEI-Canada, the CFERF (Canadian Financial Executives Research Foundation) sponsored my study and sent an email invitation to participate to their members and contacts across Canada.[27] All participation was anonymous and confidential: the request for participation was sent directly from FEI in a newsletter and no identifying information was collected. I received 276 clicks on the link and 169 participants completed the survey, resulting in a 61% click-through response rate.[28,29] Table 2 contains the participation breakdown. Participants were told that no identifying information would be collected and

[26] Data was collected in November/December 2010.

[27] A follow up email was also sent approximately one week after the first.

[28] 170 participants fully completed the case; however one respondent was removed due to unreasonable answers given throughout the case. This one respondent failed all the manipulation checks and clicked on the same number throughout the survey. Two participants did not fully complete a couple of the 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.

[29] Similar to many studies using notifications in newsletters or other advertisements (Jamal & 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% 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 & Schmidt (1988) had an overall response rate of 7% for CEOs, Graham and Harvey's (2001) was 8.8% for senior financial managers and Graham et al. (2005) study had an 8.4% response rate for an email survey of senior financial executives. Sanchez et al. (2007) had a mail-in response rate of 13.5% and Gibbins et al. (2005; 2007) had an excellent mail-in response rate of 15.1% and FEI (Canada) had explained this was the "the highest to date".

participation was anonymous.[30] The survey was conducted online through the Qualtrics survey software package. Once the participants clicked on the survey link, they were randomly assigned to one of the treatment groups to mitigate uncontrolled influences across treatment conditions.

As the internal validity of the study can be affected by the suitability of individual participants, the participants should be both knowledgeable and involved in the relevant practice. In audit negotiation, participants need to be at a very senior level, preferably CFOs or their equivalent, ideally having some experience with audit negotiations. Participants, based on job title are 86 CFOs (51%), 43 Vice President/Directors of Finance (25%), 19 controllers (11%) and 9 President/CEO/CAOs (5%) and 12 other senior job titles. The average reported revenue is $1.1 billion with a median of $200 million. The majority of the participants (77%) are male, most (97%) have a professional accounting designation, and 86% of them have greater than 15 years of business experience. 37% of the participants are employed at public companies, 25% at large private companies, 7% at non-traded subsidiaries of public companies and the remaining at other types of companies such as small and medium private companies. Participants took a median time of 24 minutes to complete the case

[30] On the very last page of the survey, the last question asked participants if they would like to receive a report on the outcome of the study. 98 participants (58%) voluntarily left their email address.

Table 3: Analysis of Participants

		Participants
Clicked on link		276
Unusable responses		
- did not view case, responded only to informed consent	(46)	
-viewed case, other than informed consent, did not respond (spent less than one minute)	(37)	
-viewed case, responded to three or fewer questions	(5)	
-viewed case, did not complete	(18)	
Total unusable data		(106)
		170
-removed due to inappropriate responses on reverse coded questions (preference - all questions answered with one answer)		(1)
Complete responses		**169**
Final Response rate of those who clicked		**61%**

3.4 Task and Procedure

The case begins with each participant reading a statement asking them to assume the role of CFO for WIEL Inc., a publically traded company which sells electronic equipment.[31] After reading the case specific to their experimental treatment, participants were informed 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 a specific importance to the CFO (Gibbins et al., 2005; Gibbins et al., 2007). All versions of the case began with a dialogue briefly discussing that had had a good relationship with the partner in the past, giving a positive frame to all participants. Negotiation literature

[31] Participants were asked to read and sign an informed consent statement before beginning the case.

suggests that framing significantly affects all aspects of the negotiation (Chang, Cheng, & Trotman, 2008; Elangovan, 2005; Neale & Bazerman, 1985; Neale, Huber, & Northcraft, 1987; Neale & Bazerman, 1992). The opening dialogue with the audit partner was presented where the adjustment was proposed (along with the rationale for the adjustment) as well as whether (and how) the PPD was involved (influence tactic). Participants could choose to view the company's financial statements at virtually any time during the study. Participants were then asked a series of questions about the adjustment, their satisfaction with the audit partner, and manipulation check questions. Lastly, participants were asked questions relating to their own preference of auditor-types and some demographic information. The full experimental instrument is included in Appendix A.

The case was adapted with permission from the 2007 *Accounting Review* publication by Sanchez et al. (2007). As in Sanchez et al. (2007), the significant adjustment involves 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, one issue was chosen (Brown-Liburd & Wright, 2011; Perreault & Kida, 2011; 2007; Tan & Trotman, 2010; Wang & Tuttle, 2009) for simplification purposes and because research shows that CFOs generally view negotiations as dealing with one issue only (although auditor's typically view an issue as one of a larger set) (Gibbins et al., 2005; Salterio, 2012). I chose a subjective adjustment because such items often entail 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; Brown-Liburd & Wright, 2011; Gibbins et al., 2001; Wright & Wright, 1997).[32] This is also consistent with much of the auditor-client negotiation research, where subjective, estimate adjustments such as inventory valuation (Brown-Liburd & Wright, 2011; Goodwin, 2002; McCracken, Salterio, & Schmidt, 2011; Trotman et al., 2005; Trotman et al., 2009), warranty accruals (Hatfield, Jackson, & Vanderveld, 2007; Hatfield et al., 2008; Perreault & Kida, 2011; Sanchez et al., 2007) and allowance for doubtful accounts (Hatfield et al., 2007; McCracken et al., 2011) have been used.

The case begins with the premise that the PPD has been consulted, agrees with the partner and the audit partner must now choose whether, and how to disclose this involvement to the client.[33] In McCracken et al. (2008), some audit partners suggested that the decision to disclose involvement of the technical research group explicitly is strategic and dependent on CFO preferences and requirements (McCracken et al., 2008). This strategic involvement was also suggested in Gibbins et al. (2005) where auditors

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[32] It is also interesting to study a subjective adjustment as estimates allow for a richer negotiation context as the *amount* can be negotiated, not only whether an adjustment should be booked at all. Ng (2007) also notes that auditors 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.

[33] This study is seeking to explore how communicating involvement of the PPD impacts the audit negotiation. Therefore, starting with the premise of an agreement between the audit partner and PPD allows me to focus on this objective. In practice, there may not be agreement between the audit partner and PPD; however, the discussions between the audit partner and PPD and how they reach their internal agreement are not the focus of this paper. See Ng & Shankar (2010) for the effect of PPD on the auditor's propensity to accept client-preferred accounting methods.

reported involvement of the PPD 100% of the time and the CFO reported being aware of their involvement only 50% of the time. Although sometimes the PPD can be in direct contact with the CFO (McCracken et al., 2008), this paper examines the typical context in which the partner acts as an intermediary between the CFO and the PPD.

3.5 Independent Variables

To examine my research questions and test my hypotheses I employ a 3 (influence tactic) × 2 (auditor-type) × 2 (CFO's preference for auditor-type) between-subjects complete factorial design. In all cases, the PPD has been consulted; however, the way in which the PPD involvement is communicated (if at all) to influence the client is manipulated. The three levels of influence tactics are: a) the PPD involvement is not communicated to the client (i.e. the client is unaware the PPD has been consulted) and therefore the audit partner relies on reason alone b) the PPD involvement is communicated to the client as a collaborative colleague (coalition), c) the PPD involvement is communicated to the client as a higher authority. The two auditor type manipulations are a) expert crusader and b) accommodator. The 2 CFO preference levels are a) preference for an expert crusader and b) preference for an accommodator. Influence tactic and auditor-type are manipulated variables while CFO preference for auditor type is a measured variable.

The first independent variable is CFO preference for auditor-type, which represents the preferred role the CFO would like the auditor to play. CFO preferred auditor-type has two levels, 'Expert Crusader' or 'Accommodator' and it is a measured variable. To distinguish between the two audit partner-types, 17 questions are posed relating to items identified by McCracken et al (2008). Participants report their own personal experience or views on how much they agree/disagree with statements (on a 6-point scale) designed to determine whether they prefer their auditor to be more like an 'expert crusader' or 'accommodator'. [34,35] This CFO preference for auditor-type variable was not manipulated as it is not reasonable to tell participants what type of auditor they should prefer.

The next independent variable; auditor-type, is manipulated throughout the case to differentiate between the 'expert crusader' type auditor and the more laid back accommodator auditor-type. The manipulations are based on both McCracken et al. (2008) and Beattie et al. (2004) auditor-types/roles described. These studies are based on interviews with CFOs and audit partners themselves. It is important to note that both of the auditor-types and the manipulations to portray them highlight the difference in how they perform their duties, not the quality of their work. Both auditor-types are portrayed as highly competent and knowledgeable both of the industry and of the client's company.

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[34] 1=strongly disagree, 6= strongly agree

[35] Approximately one half of the questions were posed so that participants would answer in agreement and the other half in disagreement. These responses were then reverse coded in the analysis. This resulted in a higher sum corresponding to individuals preferring an expert crusader type auditor and a lower total corresponding to individuals preferring an accommodating auditor-type. Furthermore, questions were presented in a random order to participants.

The third independent variable represents the influence tactic used (if/how the PPD's involvement is communicated). The three levels of influence are manipulated via a paragraph inserted into the partner's opening dialogue to the client. In the reason (no communication) version, the partner did not communicate the involvement of the PPD to the client and therefore the client is unaware that the PPD has been consulted. In the coalition version, the partner discloses to the CFO that the PPD has been contacted and presents them as a collaborative colleague who also agrees with the partner's recommendation to post the adjusting entry. In the higher authority version, the partner also communicates the involvement of the PPD, but this time presents them as a higher authority who agrees with the adjustment and that it is the PPD's opinion that the issue needs to be resolved.

Refer to Appendix A for the full instrument and Table 4 for a summary of the experimental conditions

Table 4: Summary of Experimental Conditions[36]

Auditor-type[37]	CFO[38] Auditor-type Preference	Influence Tactic[39]		
		Reason	Coalition	Higher Authority
Expert Crusader Auditor-type	CFO Preference for Expert Crusader	1	2	3
	CFO Preference for Accommodator	1	2	3
Accommodator Auditor-type	CFO Preference for Expert Crusader	4	5	6
	CFO Preference for Accommodator	4	5	6

3.6 Dependent Variables

The outcome to financial statements is measured by asking participants to record their willingness to post the adjustment on an 11 point-scale.[40] This measure is used to test H1 through H3. To test H4 and H5, data on participants' satisfaction with the auditor, also measured on an 11 point scale was used.[41] Both the willingness to post adjustment and the satisfaction with the audit partner were also used as dependent variables in Sanchez et al. (2007).

[36] Auditor-type is a manipulated variable with 2 levels, and Influence Tactic is a manipulated variable with 3 levels resulting in 6 versions of the case. The number indicated in the cell corresponds to the version number of the case. CFO auditor-type preference is a measured variable and thus does not impact the number of versions of the case.
[37] Manipulated variable, 2 levels (Expert Crusader /Accommodator)
[38] Measured variable, 2 levels (Preference for Expert Crusader/Accommodator)
[39] Manipulated variable, 3 levels (Reason/Coalition/Higher Authority)
[40] 1=Completely unwilling, 11=Very willing
[41] 1=Completely dissatisfied, 11=Very satisfied

3.7 Pretesting

Pretesting of the instrument was conducted in three phases.[42] In the first phase, the instrument was reviewed by 5 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 this three step pre-testing, a number of changes were made to both the case and question wording.

During verbal protocol, the experience of the audit partner was questioned and discussed as well as the amount of work done by the audit team versus the client by two of the CFOs. As a result, additional information on the experience of the partner and his familiarity with the client was incorporated into the case. Additionally, a sentence regarding the amount of work that the audit team had done on the proposed estimate was also added.

The wording of the case was also modified to make the CFO's experience be more conversational, as a 'dialogue' with the audit partner. As such, the 'Required' heading was removed and the paragraph below was reworded to reflect that they would be

[42] Pretesting was conducted in July 2010.

engaged in a 'meeting' with the audit partner the next day to discuss the outstanding issue.

The placement of the financial statements and the paragraph before the financial statements was modified based on the amount of time participants spent on analyzing the financial statements. In the paper version of the experiment which was used during pretesting, the financial statements were initially placed before informing the participants of the issue to be discussed and the paragraph before the financial statements directed the participants to 'familiarize' themselves with the financial statements. As a result, each of the CFOs spent a significant amount of time analyzing the financial statements before moving on to the issue identified in the case, and then returned again to analyze the financial statements after being informed of the issue. This resulted in the case taking more time than what was expected or what was reasonable to ask participants without adding any benefit. As a result, for the electronic version of the instrument, the financial statements were linked to the instrument and the link was available to the participants at any time they wished to view them. The paragraph was reworded to reflect their availability throughout the study.

Other minor wording and clarification issues were identified through the process and amended for the final version of the instrument.

4.0 Analysis and Discussion of Results

4.1 Manipulation Checks

Complete data were provided by 169 participants. Manipulation check questions for the two manipulated independent variables were provided to the participants to ensure their understanding and careful reading of the case. Manipulation checks for influence tactic were completed through a series of questions. Participants were asked to respond to an initial question on whether the PPD was involved and then two follow-up questions (using smart logic) regarding their degree of authority. One question had two choices on how the PPD was involved and one question was on an 11-point scale on how much authority they felt the PPD had over the audit partner (1= "no authority over partner" and 11="complete authority"). All participants in the Reason (no communication) condition correctly identified that the PPD was not involved. Three participants in the Higher Authority condition answered incorrectly that the PPD was not involved; however, two of the three participants correctly answered the follow-up questions regarding the degree of authority. Means for the follow-up question are significantly different and directionally consistent with the manipulation ($t_{(96)} = 9.373$, $p < .0001$). The mean responses are 5.82 (SD=2.375) and 9.69 (SD=1.703) for the coalition and higher authority condition respectively. I include the two participants who incorrectly answered the initial question because their follow-up questions were correctly answered (and exclude one participant). In addition to the two questions distinguishing between the influence tactics of coalition and higher authority, there was one question to test for auditor type. Three participants failed all three manipulation check questions; eight failed both questions regarding influence tactic; and one failed one of the influence tactic questions and the auditor-type question. A further two participants were removed as identified outliers as their answer to one of the manipulation questions was significantly outside of the normal range which may indicate a lack of understanding of the manipulations. As a result, 15 participants were removed, resulting in useable data from 154 participants[43, 44].

4.2 Auditor Preference

CFO preference for auditor-type has two levels, 'expert crusader' or 'accommodator'. It is a measured variable based on answers to 17 items relating to auditor-type identified by McCracken et al.'s (2008) interviews as distinguishing the two types of auditors and also follows a process similar to that in Gendron et al. (2006). Participants report their own personal experience or views on how much they agree/disagree with statements (on a 6-point scale) designed to determine whether they prefer their auditor to be more like an 'expert crusader' or 'accommodator'.[45] Aproximately one half of the questions were posed so that participants would answer in agreement and the other half in disagreement. These responses were then reverse coded in the analysis. This resulted in a higher sum corresponding to individuals preferring an expert crusader type auditor and a lower total

[43] Patterns of cell means and inferences are the same as those reported if these participants are included.
[44] 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.
[45] 1=strongly disagree, 6= strongly agree

corresponding to individuals preferring an accommodating type auditor. Questions were presented in a computer generated random order to participants. The items resulted in a Cronbach's alpha of .72, indicating a high degree of reliability of the measure, a result similar to that obtained by Gendron et al. (2006). A histogram of the sum of the items shows a bimodal distribution as predicted (corresponding to the two roles outlined in McCracken et al. (2008)) with a low point approximately at the median, also supporting its face validity.[46] Similar to the process used in Bame-Aldred & Kida (2007) and Brown & Johnstone (2009), I construct a dichotomous 'Prefered Auditor Type' variable by splitting the data at the median. The median was seen as a reasonable point to split the data both theoretically, and statistically. Therefore, participants will be divided along the median response and coded as either more inclined to prefer an 'expert crusader' auditor type or an 'accommodating' type auditor.

[46] Kurtosis of -.017. A necessary condition of bimodality is kurtosis less than zero (Muratov, 2010).

4.3 Testing Hypotheses

Testing of the five hypotheses will be divided into the two categories of willingness to post (H1-H3) and satisfaction with the audit partner (H4-H5)[47].

4.3.1 Willingness to post adjustment

The descriptive statistics for willingness to post are summarized in Table 5, and a 2 × 2 × 3 ANOVA model (CFO preference × Auditor-type × Influence tactic), with willingness to post adjustment as the dependent variable is presented in Table 6. H1 through H3 relate to the effects of the three factors on the CFOs' willingness to post an adjustment to the financial statements. H1 relates to the effect of CFOs preferred auditor-type on their willingness to adjust the financial statements. As can be seen from Table 6, and consistent with H1, there is a significant main effect for CFO's preference of auditor-type ($F_{(1,142)} = 9.293$, $p = .003$), which indicates that the CFO's auditor-type preference significantly affects their willingness to post the adjustment. The estimated marginal mean (standard error) of willingness to post was in the direction predicted, showing a greater willingness to adjust for those with an expert crusader auditor-type preference, 6.305 (.295) compared to CFOs with an accommodator auditor-type preference, 5.049 (.288). Thus, as predicted, CFOs who prefer more proactive, advising audit partners are more willing to adjust the financial statements than CFOs who prefer more reactive, accommodating audit partners. Thus H1is supported.

[47] Experience, current position, gender, designations and type of company were tested to ensure there was no impact of these variables on the dependent variables. None of the variables were significant (p-value >.324) and therefore were not included as covariates in the analyses.

Table 5: Descriptive Statistics: Means (standard deviation) of Willingness to Post Adjustment[48]

CFO Preference							Auditor-type total		Total
	Preference for Expert Crusader			Preference for Accommodator					
	Expert Crusader -type	Accommodator-type	Total	Expert Crusader -type	Accommodator-type	Total	Expert Crusader -type	Accommodator-type	
Reason	6.23	6.67	6.46	4.40	5.23	4.79	5.25	6.00	5.63
	(2.743)	(1.988)	(2.333)	(2.971)	(2.948)	(2.936)	(2.964)	(2.539)	(2.761)
	n=13	n=15	28	n=15	n=13	n=28	n=28	n=28	n=56
Coalition	5.60	6.00	5.79	5.00	5.53	5.32	5.30	5.71	5.52
	(2.221)	(2.550)	2.323	(1.886)	(2.295)	(2.116)	(2.029)	(2.349)	(2.194)
	n=10	n=9	n=19	n=10	n=15	n=25	n=20	n=24	n=44
Higher Authority	5.56	7.77	6.55	3.46	6.67	5.00	4.62	7.24	5.83
	(2.308)	(2.127)	(2.458)	(2.106)	(3.525)	(3.253)	(2.426)	(2.876)	(2.932)
	n=16	n=13	n=29	n=13	n=12	n=25	n=29	n=25	n=54
Column Total	5.79	6.89	6.33	4.24	5.77	5.03	5.03	6.31	5.67
	(2.397)	(2.233)	(2.369)	(2.454)	(2.904)	(2.787)	(2.534)	(2.647)	(2.662)
	n=39	n=37	n=76	n=38	n=40	m=78	n=77	n=77	n=154

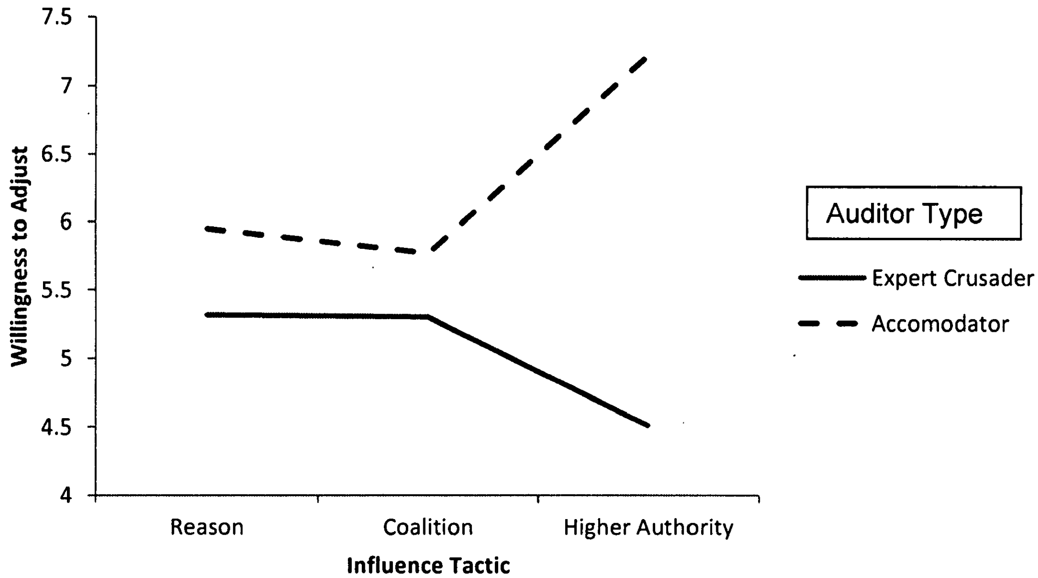
[48] Willingness to post adjustment where 1=Completely unwilling, 11=Very willing.

Table 6: ANOVA Results for Willingness to Post Adjustment

Independent Variable	df	F-Statistic	p-value	
CFO's Auditor-type Preference	1	9.293	.003	**H1**
Auditor-type	1	9.479	.002	
Influence tactic	2	0.226	.798	H2
Auditor-type × CFO Preference	1	0.381	.538	
Auditor-type × Influence Tactic	2	3.149	.046	**H3**
CFO Preference × Influence Tactic	2	0.708	.494	
Auditor-type × CFO Preference × Tactic	2	0.096	.909	

H2 relates to the effect of the reason and coalition influence tactic on the client's willingness to adjust the financial statements. As can be seen from Table 6, Influence tactic shows no significant main effect ($F_{(2,142)} = 0.226$, $p = .798$), with an estimated marginal mean (standard error) for reason 5.632 (.337), coalition 5.533 (.387) and higher authority 5.865 (.345). However, this result needs to be considered in light of the significant interaction of Auditor-type × Influence tactic ($F_{(2,142)} = 3.149$, $p = .046$). The graph of the interaction is shown in Figure 2.

Figure 2: Effect of Auditor-Type and Influence Tactic on CFO's Willingness to Post Adjustment[49]



The graph of the interaction in Figure 2 shows the effects are driven from the results in the higher authority condition. Following up on the interaction with a simple effects test results in a significant effect for auditor-type in the higher authority condition ($F_{(1,50)} = 15.075$, $p<.000$) and no significant effects for the other two conditions (both p-values >.382). This supports H3 which predicted an interaction in this most aggressive condition and supports results found in the traditional negotiation literature where aggressive tactics and aggressive negotiators can result in spirals downward toward ineffective negotiations.

[49] 1=Completely unwilling, 11=Very willing

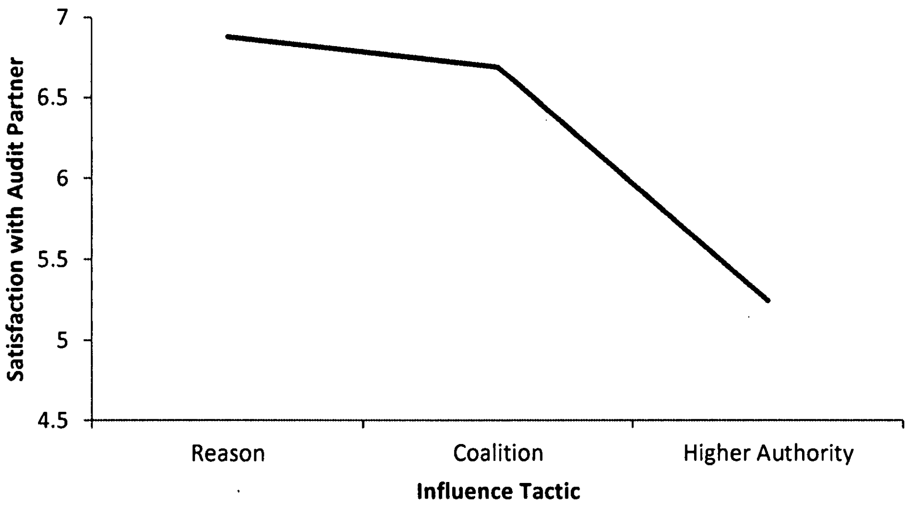
H2 predicted CFOs in the coalition condition would be more willing to adjust the financial statements than CFOs in the reason condition. Simple contrasts indicate that contrary to H2, there is no significant difference in the willingness to adjust the financial statements between the coalition and reason condition ($F_{(1,142)} = 0.04$, $p = .848$). Perhaps CFOs already believe that the PPD may have been contacted by the partner before coming to the CFO for an adjustment even in the reason condition, and thus no difference was found between the two conditions. An alternative explanation is that perhaps when the PPD's involvement is communicated in a more consultative fashion, CFOs view the PPD as an extension of the audit partner and thus no difference was detected.

Although not specifically hypothesized, auditor-type was explored to determine the relationship with the clients' willingness to adjust. The estimated marginal mean (standard error) for willingness to post was higher for those CFOs who were paired with an accommodator auditor-type, 6.311 (.291) than those CFOs who were paired with an expert crusader type auditor, 5.042 (.292). As can be seen from Table 5, there is a significant main effect for auditor-type ($F_{(1,142)} = 9.479$, $p = .002$), however, these results need to be interpreted in light of the significant higher order interaction. On the surface, these exploratory results suggest that accommodating auditor-types are more likely to be associated with a CFO's increased willingness to post adjustments than expert crusader auditor-types. However, as can be seen from Figure 2, the cells driving these results are those hypothesized in the interaction in H3. Post-hoc t-tests (using Tukey adjustment) show no significant differences between conditions other than those as hypothesized in H3 (all p-values >.061).

4.3.2 CFO satisfaction with the audit partner

The descriptive statistics for satisfaction with the audit partner are summarized in Table 7, and a 2 × 2 × 3 ANOVA model (CFO preference × Auditor-type × Influence tactic), with satisfaction with the audit partner as the dependent variable is presented in Table 8. H4 and H5 relate to the effects of the factors on the CFOs' satisfaction with the audit partner. H4a and H4b relate to the effect of influence tactic on the client's satisfaction with the audit partner. As reason and coalition are not aggressive influence tactics, and consulting in an audit environment is an institutional norm, it is hypothesized that there will be no difference between these two conditions. However, as the influence tactic increases in aggressiveness, it is hypothesized this will decrease a CFO's satisfaction with the audit partner. Estimated marginal means (standard error) for satisfaction with the audit partner of the reason condition and coalition condition are 6.876 (.323) and 6.689 (.370) respectively, and the estimated mean satisfaction (standard error) in the higher authority condition is 5.243 (.330). Contrast testing supports H4a and H4b and results are depicted in Figure 3. As hypothesized, there is no significant effect between the two influence tactics of reason and coalition ($F_{(1,142)} = 0.14$, $p = .704$) , and consistent with H4b, there is a significant effect for satisfaction between the higher authority conditions compared to the others ($F_{(1,142)} = 14.0$, $p < .000$) which indicates that using the most aggressive influence tactic decreases the CFOs satisfaction with the auditor.

Figure 3: Effect of Influence Tactic on CFO's Satisfaction with the Audit Partner[50]



H5 predicts an interaction between the CFOs preferred auditor type and type of auditor received. This hypothesis teases out the differences in matching a CFO with their preferred auditor-type. Role expectations are expected to manifest themselves in the satisfaction scores as matching an assertive, constantly advising expert-crusader auditor type with someone who prefers a more laid-back accommodating auditor is expected to have the lowest satisfaction ratings. This mismatch is only expected when the auditor is more *aggressive* than the CFO prefers and is not expected where the auditor-type is less aggressive. As such, it is hypothesized that CFO preference of auditor-type and actual auditor-type will interact to affect the CFO's satisfaction such that the lowest satisfaction

[50] Satisfaction with the audit partner where 1=Completely dissatisfied, 11=Very satisfied

ratings will occur for CFOs who prefer accommodating-type auditors but are matched with expert crusader type auditors compared to the other groups. Table 8 shows the results of the ANOVA. A significant effect is found for the interaction of Auditor Type × CFO Preference ($F_{(1,142)} = 5.258$, $p = .023$) . A graph of the interaction is shown in Figure 4.

Table 7: Descriptive Statistics: Means (standard deviation) of Satisfaction[51]

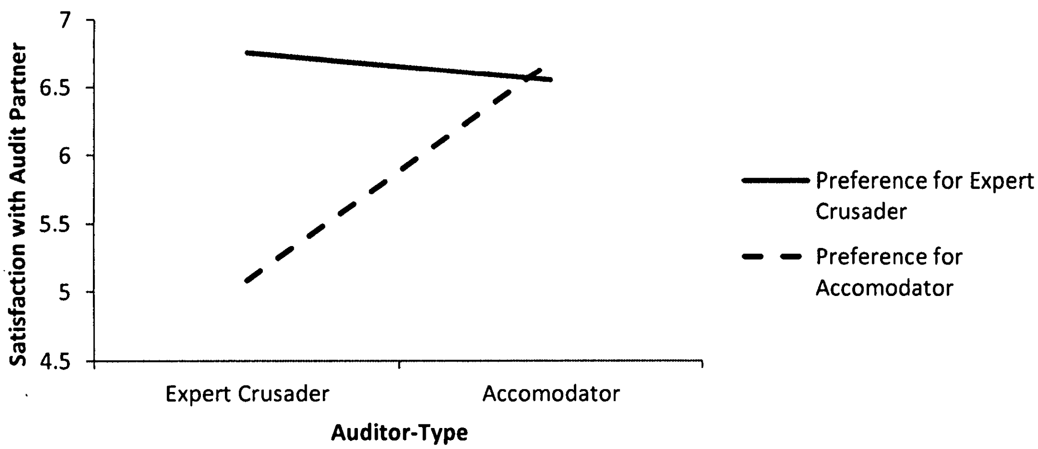
CFO Preference							Auditor-type total		Total
	Preference for Expert Crusader			Preference for Accommodator					
	Expert Crusader -type	Accommod ator-type	Total	Expert Crusader -type	Accommodator-type	Total	Expert Crusader -type	Accommodator-type	
Reason	7.85	6.67	7.21	6.07	6.92	6.46	6.89	6.79	6.84
	(2.075)	(2.127)	(2.149)	(2.520)	(2.253)	(2.396)	(2.455)	(2.149)	(2.287)
	n=13	n=15	28	n=15	n=13	n=28	n=28	n=28	n=56
Coalition	7.30	7.22	7.26	5.10	7.13	6.32	6.20	7.17	6.73
	(2.263)	(2.279)	2.207	(2.807)	(2.232)	(2.626)	(2.726)	(2.2)	(2.472)
	n=10	n=9	n=19	n=10	n=15	n=25	n=20	n=24	n=44
Higher Authority	5.13	5.77	5.41	4.08	6.00	5.00	4.66	5.88	5.22
	(2.778)	(2.242)	(2.529)	(2.565)	(2.629)	(2.723)	(2.690)	(2.386)	(2.604)
	n=16	n=13	n=29	n=13	n=12	n=25	n=29	n=25	n=54
Column Total	6.59	6.49	6.54	5.13	6.73	5.95	5.87	6.61	6.24
	(2.682)	(2.219)	(2.452)	(2.683)	(2.353)	(2.628)	(2.764)	(2.278)	(2.552)
	n=39	n=37	n=76	n=38	n=40	m=78	n=77	n=77	n=154

[51] Satisfaction with the audit partner where 1=Completely dissatisfied, 11=Very satisfied.

Table 8: ANOVA Results for Satisfaction with Audit Partner

Independent Variable	df	F-Statistic	p-value	
CFO's Auditor-type Preference	1	3.828	.052	
Auditor-type	1	3.150	.078	
Influence tactic	2	7.248	.001	
Auditor-type × CFO Preference	1	5.258	.023	
Auditor-type × Influence Tactic	2	1.349	.263	
CFO Preference × Influence Tactic	2	0.276	.759	
Auditor-type × CFO Preference × Tactic	2	.0117	.890	

Figure 4: Effect of Preferred Auditor-Type and Actual Auditor-Type on CFO's Satisfaction with the Audit Partner[52]



[52] Satisfaction with the audit partner where 1=Completely dissatisfied, 11=Very satisfied

The graph of the interaction shows the effects are driven from the results in the expert crusader auditor-type condition and shows CFOs who have a preference for an accommodating auditor-type are less satisfied when they are matched with a more aggressive auditor. Following up on the interaction with contrast tests results in a significant effect for CFO Preference for an accommodating auditor but matched with an expert crusader-type auditor compared to the other pairings ($F_{(1,142)} = 12.02$, $p=.001$)[53].

[53] An alternate potential dependent variable, "satisfaction with the way the audit partner handled the warranty adjustment" was also elicited. This variable is highly correlated (.815) with the variable used in the above analysis and inferences are the same as the variable used.

5.0 Discussion

Auditors must balance their duty to ensure 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 perception of the financial statements and the client's. To help ensure this quality, auditors often seek the advice of the PPD within their firm, and studies show their advice plays an important role in the audit negotiation (Gibbins et al., 2001; Gibbins et al., 2005; McCracken et al., 2008). However, little is known about how this department and their involvement in the negotiation affect either the financial outcome, or the satisfaction of the CFO with the resolution process. This is important as research shows that the PPD is deeply and frequently involved in the negotiation and their involvement is known by the client 50% of the time (Gibbins et al., 2005). Furthermore, negotiations take place within a continuing auditor-client relationship, and McCracken et al. (2008) find that it is the CFO who positions the auditor into a preferred type, either an expert crusader , or an accommodating-type, and the satisfaction of the CFO is affected by the appropriateness of the auditors' actions with respect to these preferred auditor-type. This study builds on this previous research and explores if/how different strategies of communicating the involvement of the PPD affects both the financial and relationship outcome of the negotiation while considering the clients preferred auditor type.

I find that the CFO's preferred auditor-type (expert crusader/accommodator) has a significant impact on both the financial outcome of the negotiation as well as an interactive effect with auditor type on the CFO's satisfaction with the auditor. Thus, overall, as hypothesized, clients are more likely to adjust their financial statements when they prefer expert-crusader type auditors, and less willing to accept changes when they prefer more accommodating audit partners. This supports the result suggested by interviews conducted in McCracken et al.'s (2008) study that CFOs who prefer accommodator-auditor types are more strongly committed to their position. CFO's preferred auditor-type also interacts with assigned auditor-type as hypothesized. CFOs that prefer an accommodating auditor-type but are matched with a more proactive expert-crusader auditor-type report the least satisfaction with the audit partner. This is consistent with the results from McCracken et al. (2008) who find that it is really the CFO who positions the auditor into an auditor-type, while the auditor is left to try and balance the relationship within this predefined position. If the auditor is more proactive and persistent than what the CFO prefers and expects, the CFO becomes dissatisfied with the audit partner. McCracken et al. (2008) find that this mismatch can often result in audit firms replacing the audit-partner to better match the CFO's preference, and in fact this happened in three of the eight dyads in their study, where expert-crusader type audit partners were replaced with more accommodating audit partners to match the CFO's preferred auditor-type. [54]

[54] In another dyad, an accommodating audit partner was removed because the CFO desired an expert-crusader auditor-type. The company was said to be concerned that the engagement partner was too accommodating of the company's wishes and worried the partner would not question their accounting. I

Interestingly, although I find results for involving the PPD, not all results were as hypothesized. Involving the PPD as colleagues in the firm who also supported the adjustment (coalition) was not found to have any influence on the CFO's willingness to post the adjustment, contrary to hypothesis two. Perhaps this was due to the highly consultative audit-environment, where involving the PPD could be seen as a normal procedure and thus the actual act of communicating their involvement had no impact in influencing the CFO, as they might already have known the PPD might be involved, whether or not that fact was communicated to them. However, involving the PPD as a higher authority had mixed results with respect to the CFO's willingness to adjust as hypothesized. For audit partners who are normally accommodating, bringing in the PPD resulted in increased CFO willingness to adjust. Higher authority has been found in prior studies to be effective in difficult negotiations settings, and auditors facing CFOs who prefer accommodating-type auditors would fit into this difficult setting. Furthermore, involving the PPD in this way would certainly highlight the issue to the CFO and show that the audit-partner is serious about the issue and will not easily back down. It also represents a change in strategy, from a more accommodating stance to a more contending stance. Strategy change has been found to be effective in negotiations (Olekalns & Smith, 2000). However, for audit partners who are more persistent and assertive on their own, adding this aggressive tactic resulted in the reverse response from CFOs. A more antagonistic response (significantly less willingness to adjust) and potentially the start of

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did not test a scenario similar to this in the present study, as even the accommodating auditor in my study was asking for an adjustment to be made.

a downward spiral as found in traditional negotiation literature resulted when involving the PPD in this way.

Although involving the PPD as a higher authority tactic resulted in the greatest amount of willingness to adjust the financial statements when paired with accommodating auditor types, *any* auditor who used this influence tactic suffered from the lowest satisfaction scores from the CFOs. As Weiss (2012) notes, overly 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. Therefore, although this tactic could be successfully used to persuade some clients to adjust the financial statements, its use could potentially damage the relationship between the CFO and audit-partner as suggested. In previous non-audit negotiation studies, both coalition and higher authority are seen as aggressive influence tactics, and result in poor performance reviews by the rater (Kipnis & Schmidt, 1988). However, in this audit negotiation setting, although higher authority is associated with the lowest satisfaction ratings (actually reporting dissatisfaction), there is no statistical difference between auditor satisfaction ratings who use coalition and reason influence tactics. Thus in an audit context, seeking support from the PPD, when communicated and presented as colleagues, has no negative outcome to the satisfaction reported by the CFO. This finding helps supports the claims that the audit negotiation contains various contextual features which makes the audit negotiation setting unique from a general negotiations setting.

Thus, as discussed by McCracken et al. (2008), and supported here, it would be beneficial for auditors to develop strategies to foster a change in CFOs preferences, and try to develop a proactive relationship where they desire the audit-partner to act in accordance with an expert-crusader. These CFOs consistently had the highest satisfaction rating and were more likely to adjust the financial statements when asked, regardless if the PPD was involved as a coalition or not involved at all (from their perception). However, when dealing with a CFO with an expert crusader auditor-type preference, it is important not to use overtly aggressive tactics, as this would likely result in an antagonistic response and both a decrease in willingness to adjust and decreased satisfaction ratings.

This study also highlights the pervasive impact of CFO's preference of auditor-type on negotiation outcomes. This was 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 offer a way to measure this key variable and find support for the McCracken et al. (2008) finding that the CFO's preference for auditor-type impacts their willingness to adjust the financial statements. I also find support for their conclusions that these preferences shape the expectations of what is perceived as an appropriate action, and show that operating outside of these preferences results in lower satisfaction ratings.

From a practical standpoint, these findings provide guidance to audit practitioners on how to maintain a good working relationship with the client in order to serve them in future years. This relationship is especially important as client management have substantial influence over issues such as auditor retention and compensation. Furthermore, it offers auditors insights on potential strategies to use during auditor-client negotiations. In previous research, it has been shown that auditors may not be very strategic in terms of planned negotiation strategies (Bame-Aldred & Kida, 2007) or opening bids (Brown & Johnstone, 2009), thus resulting in adjustments that may result in lower quality financial statements, as in Ng & Tan (2003). Part of this lack of strategy has been attributed to an auditor's perception that some tactics are unprofessional. For instance, Ng & Tan (2003) find that a tactic beginning with a high initial position with the intent to later lower this demand is unprofessional. Understanding strategies of communication of PPD involvement and how they impact the 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.

As well as audit practitioners, client management can benefit from this study in both an audit-negotiation setting and in a more general setting. Understanding the influence tactics used by the audit partner can help the CFO defend against the influence tactics and not be unduly persuaded by a particular tactic. For instance, involving the PPD as a higher authority resulted in some CFOs to be more likely to adjust the financial statements. By being aware that the audit partner is using this tactic to persuade and bringing it to the forefront of the negotiation will likely help offset its effectiveness, and then a decision can be made on the financial statements, independent of the tactic at hand. In general, understanding influence tactics and the difference between them can be valuable for anyone trying to persuade others. This research specifically examines two influence tactics involving others: understanding these tactics and the subtle distinctions among these tactics can help not only in an audit-negotiation setting, but within all settings in an organization. This research shows that there may be situations where one influence tactic is more effective than others and shows that the expectations of others can impact negotiated outcomes. Whether it is trying to motivate subordinates, peers or higher management, having well developed mental models of influence tactics can help anyone become more effective in influencing people whose support and cooperation they need.

5.1 Limitations and Future Research

As with all research, there are limitations that need to be addressed. This study was conducted electronically. Although matching of controller/CFO participant with an in-person negotiator would likely improve external validity, as most auditor-client negotiations are conducted in-person, this matching is logistically challenging. Also, the study presents results obtained from a single-negotiation context; however, utilizing a communication strategy in one-period would likely affect negotiations in later periods. Future research could explore the effect of communicating involvement of the PPD in a multi-period negotiation context. Furthermore, this study uses a single adjustment, whereas financial statement audits typically result in the detection of two or more misstatements. Although actual negotiation may have more than one adjustment, as discussed, 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 PPD on the amount of the estimate. Future research might focus on the impact of PPD 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 PPD involvement, especially in contexts where there is a preference for an accommodating auditor type. This paper finds support for the McCracken et al. (2008) conclusions that CFO auditor-type preference is a significant contextual feature of audit negotiations that should not be overlooked. Incorporating this variable and providing further support for the contextualization of the variable should be conducted in future research, as well as deepening our theoretical understanding of the interaction between the type of auditor and CFO preferences. This could be addressed through the use of additional theoretical perspectives, such as expectancy violation.

5.2 Concluding Comments

Through an interview based field study of CFO-audit partner dyads, McCracken et al. (2008) found that by investigating the 'shadow' negotiation, one could view the negotiation in a different light and revealed that it is the CFO who determines the type of relationship desired, and thus the type of auditor who fits within that relationship. The audit partner is delegated the task of managing the relationship within the CFO's expectations so that both viewed the relationship as 'good'. Within this ongoing relationship, the auditor must ensure the financial statements are acceptable in order to issue an unqualified report. If the financial statements require an adjustment, the auditor must influence the CFO to adjust the financial statements, and also must ensure his actions are within the CFO's expectations of acceptable actions. One way to influence the CFO would be to obtain and communicate support for the partner's recommendation by the PPD. In practice it is found that the PPD is frequently involved on the auditor side of the negotiation, but the client is not always aware of their involvement (Gibbins et al., 2001; Gibbins et al., 2005; McCracken et al., 2008). By incorporating tactics from the influence literature, I investigate how involving the PPD in different ways can affect not only the financial statements, but also how it can impact the CFO's satisfaction of the audit partner within their continuing relationship. With a better understanding of how the PPD impacts the negotiation process, partners can be better informed of how to effectively manage their relationship with the client while also ensuring high quality financial reporting. By investigating the dynamics of the auditor-client management relationship and its effects on negotiation outcomes, this helps answer a call by (Gibbins et al., 2010). This also answers a call for negotiation research to investigate how one negotiation party reacts to the tactics used by the other party (Bame-Aldred & Kida, 2007) and helps answer a call from McCracken et al. (2008) to investigate 'moves' that the auditor can use to help give themselves an upper hand in positioning during the negotiation.

Appendix A: Instrument

Instrument: Experiment with Controllers/CFOs as Participants

(The Effect of Auditors' Communication of the Professional Practice Department's Decision on Auditor-Client Negotiations)

Case Materials

Note: This is the Coalition /Expert Crusader condition. Differences between this and the other versions (No communication /Higher Authority & Accommodator) will be noted.

PLEASE NOTE - THIS SURVEY WAS CONDUCTED IN QUALTRICS USING SMART LOGIC. AS SUCH - THERE ARE FORMATTING DIFFERENCES.

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INSTRUCTIONS

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As you read the following short case study for WIEL Inc., please take the role of the CFO for this public company. You need no specific expertise in this industry to answer the questions.

Thank you for your participation.

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WIEL Inc. Case Information

Role and Background Information

Assume that you are the CFO of WIEL Inc., which sells electronic equipment. The company is a public company, based in Ontario; its stock is traded on the Toronto Stock Exchange. Over the past several years, WIEL Inc. has had consistent sales and pretax income growth in the range of 4-7% per year. These results are consistent with industry averages.

It is now two months after fiscal year-end and your company is going through its annual audit. You have prepared the financial statements and are content with their outcome. The CEO has expressed to you that he would like to issue the financial statements "as they are" and would prefer not to book any audit adjustments, but he will support your decision on any adjustments. You have communicated this to the audit partner.

Auditor-Client Relationship

Your company has engaged the current audit firm for many years and had the same audit partner for the past five years. However, since the beginning of this year's audit, you have a new partner as the previous partner has gone on sick leave and is not expected to return. This new partner is very familiar with both the industry you are in and your company in particular, as this partner was previously the partner in charge of reviewing your audit file. The senior manager and the rest of the audit team have remained consistent. Over the years you had developed a good and effective working relationship with the previous audit partner and the firm.

Since the new audit partner has been assigned to WIEL, 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 Audit "Preliminary Findings"

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. The new audit partner has been actively involved throughout the audit process and has been in constant contact with you throughout the audit. 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 additional 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. The audit team has communicated a major difference regarding your warranty estimate to you. You have been working on this estimate for a while now with your staff and believe it is reasonable based on other products and returns to date. The audit team has also been working on this difference for a while now. An adjustment was proposed by the audit team because of concerns about quality control in a new product line. The audit partner now wishes to discuss this particular difference with you. While the CEO would like to book no adjustment, the CEO has given you responsibility for deciding whether or not to book the auditors' adjustment and will support your recommendation.

A Meeting

You and the partner have arranged a meeting for tomorrow to discuss any outstanding issues. The financial statements for WIEL Inc. are included as a link on the following page and will be available throughout the survey if you wish to refer to them. You should assume that only the balance sheet and the income statement are relevant for this exercise. (The notes to the financial statements are not relevant to this study and have been omitted.)

[Note** The 'accomodator' version included the following two modified paragraphs to replace the third and second to last paragraph on the previous page.]**

Since the new audit partner has been assigned to WIEL, 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 Audit "Preliminary Findings"

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. The new audit partner seems thorough and detailed and has ensured that the financial statements were GAAP-compliant in all material respects. 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. 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. 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, all differences have been resolved or waived by the end of the fieldwork except one. The audit team has communicated a major difference regarding your warranty estimate to you. You have been working on this estimate for a while now with your staff and believe it is reasonable based on other products and returns to date. The audit team has also been working on this difference for a while now. An adjustment was proposed by the audit team because of concerns about quality control in a new product line. The audit partner now wishes to discuss this difference with you. While the CEO would like to book no adjustment, the CEO has given you responsibility for deciding whether or not to book the auditors' adjustment and will support your recommendation.

WIEL Inc.
Balance Sheet

(In thousands of dollars)

	12/31/09	12/31/08
Assets		
Current assets:		
Cash and cash equivalents	$17,176	$5,426
Receivables	8,064	4,459
Inventory	164,816	168,652
Prepaid advertising	15,824	7,506
Other prepaid expenses	5,295	3,713
Future income taxes	10,914	8,412
Total current assets	222,089	198,168
Property, plant and equipment, net	98,985	96,991
Intangibles, net	2,423	2,453
Total assets	$323,497	$297,612
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$62,380	$52,762
Reserve for returns	4,555	5,011
Accrued liabilities	25,234	27,678
Short-term notes payable	9,319	7,539
Income and other taxes payable	13,256	9,727
Total current liabilities	114,744	102,717
Long-term debt	7,212	5,379
Other long-term liabilities	349	388
Shareholders' equity:		
Common stock, 40,200,000 shares issued	402	402
Additional paid-in capital	34,565	34,565
Retained earnings	166,225	154,161
Total shareholders' equity	201,192	189,128
Total liabilities and shareholders' equity	$323,497	$297,612

WIEL Inc.
Income Statement
(In thousands of dollars)

	For the year ended 12/31/09	12/31/08
Net sales	$1,031,548	$992,106
Cost of sales	588,017	571,265
Gross Profit	443,531	420,841
Selling, general and administrative expenses	395,366	374,016
Income from operations	48,165	46,825
Other income (expense):		
Interest expense	(1,771)	(769)
Interest income	253	307
Other	4,278	1,300
Total other income (expense), net	2,760	838
Income before income taxes	50,925	47,663
Income tax provision	20,370	19,065
Net income	$30,555	$28,598
Net income per share	$0.76	$0.72

REVIEW FINANCIAL STATEMENTS

The audit partner has met with you to communicate a concern regarding the warranty audit adjustment. Below is part of the opening dialogue from your meeting.

Opening dialogue with the Audit Partner:

Thank you for taking the time to discuss the end of the audit with me. The audit procedures have progressed smoothly this year and your staff has been very helpful and has provided us with the requested information in a timely manner.

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 still needs to be resolved at this time. To help you in your analysis I have included an explanation below of why we believe an adjustment is necessary.

The following is the audit adjustment that needs to be resolved before we can issue an unqualified opinion:

Dr. Warranty expense	2,495,000	
Cr. Liability under warranties		2,495,000

To increase the warranty expense for the current year.

Rationale: WIEL Inc. offers a two-year warranty on all of its products. WIEL Inc. acquired a new product line during the year and applied the same percentage as it applies to its other product lines. However, due to substantial differences in quality control for this new product line, the audit team has determined that the applied percentage for this line is too low and thus the warranty liability is understated. Per review of current year sales and returns for the new product line and all other product lines, the audit team believes the Liability under warranties account balance should be approximately $8,100,000. It is currently $5,605,000 (The liability account is included as part of Accrued liabilities on the Balance Sheet and Warranty expense is included as part of Cost of Sales on the Income Statement.)

I would like to let you to know that I have also discussed this issue with some colleagues in our Professional Practice Department. I contacted them as I felt there may be some issues on which they could offer some guidance. I provided them with all of the same information that you have provided our engagement team. Our colleagues in the Professional Practice Department have significant experience in dealing with matters of this kind on a regular basis, and have helped provide guidance to other companies in the same industry in situations similar to yours. After reviewing all the information, our colleagues are in agreement with the assumptions and calculations used by our engagement team and feel the proposed adjustment is reasonable. It is our professional judgment that this issue needs to be addressed somehow before we can issue our audit report.

I know you and your staff have put in a lot of time on this issue as well, what are your thoughts?

****Note **Accomodator Version of 2nd paragraph.**

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. To help you in your analysis I have included an explanation below of why we believe an adjustment is necessary.

[Note** The No-communication (rational persuasion only) version did not include the second to last paragraph and the higher authority version included the following modified paragraph.]**

I would like you to know that I have consulted with the Professional Practice Department, which reports directly to our National Office regarding this adjustment. I contacted them as I felt there may be some issues on which they could provide their judgment. I provided them with the same information that you have provided our engagement team. These individuals in the Professional Practice Department have significant experience in dealing with matters of this kind on a regular basis, and have directed other companies in the same industry in situations similar to yours on how to adjust the statements. After consulting with these specialists, they were in complete agreement with the assumptions and calculations used by our engagement team and have approved the adjustment as outlined above. Now that the Professional Practice Department is involved, they have the final authority on signing off on the financial statements. It is their professional opinion that this issue needs to be addressed and resolved somehow before issuing the firm's unqualified audit report.

PART I You may refer back to the unaudited financial statements and other case material at any time while filling out Part 1 of this questionnaire.

Given the information communicated to you by the audit partner, please answer the questions regarding the warranty adjustment by clicking the number on the scale which best represents your views.

Dr. Warranty Expense	**2,495,000**	
Cr. Liability Under Warranties		**2,495,000**

1. How willing are you to post this adjustment?

1	2	3	4	5	6	7	8	9	10	11
Completely Unwilling					Neutral					Very Willing

What factors influenced your willingness to post or not post the adjusting journal entry?

____

____

____.

2. How agreeable do you think your CEO would be to the posting of this adjustment?

1	2	3	4	5	6	7	8	9	10	11
Completely Disagreeable					Neutral					Very Agreeable

3. How fair do you think this adjustment is?

1	2	3	4	5	6	7	8	9	10	11
Completely Unfair					Neutral					Very Fair

4. How satisfied are you with the way in which the audit partner involved the Professional Practice Department? (OMITTED in no communication)

1	2	3	4	5	6	7	8	9	10	11
Completely Dissatisfied					Neutral					Very Satisfied

5. What effect did the involvement of the Professional Practice Department have on your willingness to post the adjustment? (OMITTED no communication version)

1	2	3	4	5	6	7	8	9	10	11
No effect at all					Neutral					Very significant effect

6. How satisfied are you with the performance of the audit firm?

1	2	3	4	5	6	7	8	9	10	11
Completely Dissatisfied					Neutral					Very Satisfied

7. How satisfied are you with the performance of the audit partner?

1	2	3	4	5	6	7	8	9	10	11
Completely Dissatisfied					Neutral					Very Satisfied

8. How satisfied are you with the way this audit partner handled this warranty adjustment?

1	2	3	4	5	6	7	8	9	10	11
Completely Dissatisfied					Neutral					Very Satisfied

What factors influenced your degree of satisfaction with the audit partner during your discussion of the audit differences?

____

____

____.

9. How likely are you to recommend using this auditing firm next year for WIEL Inc.?

1	2	3	4	5	6	7	8	9	10	11
Completely Unlikely					Neutral					Very Likely

What factors would influence your recommendation to retain or not retain the auditing firm?

____

____

____.

10. How knowledgeable do you feel the audit partner is with respect to your company's warranty issues?

1	2	3	4	5	6	7	8	9	10	11
Completely Unknowledgeable					Neutral					Very Knowledgeable

11. In this study, your working relationship with the OLD audit partner was described in the case facts as a "good and effective working relationship". Do you feel your relationship with the NEW audit partner is better or worse?

1	2	3	4	5	6	7	8	9	10	11
Much Worse					No Change					Much Better

(If you indicated that there was a change (for better or worse), please answer part a) below, if you indicated "no change" please go to #12) SMART LOGIC

<u>IF</u> the working relationship changed, what factors influenced this change?

____

____

____.

12. Would you be inclined to *<u>post the full amount</u>* of the adjustment to the warranty expense ($2,495,000) or *<u>make a counter-offer</u>* less than the full amount? *(Please check one)*

Post full amount ($2,495,000) ☐
Make a counter-offer (less than $2,495,000) ☐
(please indicate your counter-offer below)

$__________________

PART II These questions test your careful reading of the case.

1. In this case, did the audit partner consult with his/her Professional Practice Department?

   (please check one box)

   Yes ☐ No ☐ No mention of the Professional Practice Department ☐

SMART LOGIC

IF YOU ANSWERED YES – Please check the box that would **best** describe *how* the Professional Practice Department was engaged in the warranty issue.

☐ the Professional Practice Department was engaged more as collaborative colleagues who had some input into the discussion of the warranty issue

☐ the Professional Practice Department was engaged more as specialists who have more of a final authority over the outcome of the warranty issue

2. Please indicate what degree of authority you felt the Professional Practice Department had over the audit partner to sign off on the financial statements.

(SMART LOGIC for no communication version)

1	2	3	4	5	6	7	8	9	10	11
No authority over partner					Equal authority					Complete authority over partner

The following two questions are related to the best practice and early adoption adjustments. Please do NOT consider the warranty adjustment when answering these questions.

3. To what degree do you feel the audit partner wanted you to have the highest quality financial statements, including adjusting for best practice and early adoption.

1	2	3	4	5	6	7	8	9	10	11
Not at all					Neutral					To a high degree

4. After the audit partner was satisfied the financial statements were GAAP compliant, to what degree do you feel the partner was willing to accommodate your preferred accounting choices relating to the best practice and early adoption adjustments.

1	2	3	4	5	6	7	8	9	10	11
Not at all					Neutral					To a high degree

PART III

The following questions are **NOT** related to the previous case, but should reflect **your own** personal experience or views. ***Circle the number*** in the chart below that best represents how much you agree with each statement.

	Strongly Disagree	Disagree	Slightly Disagree	Slightly Agree	Agree	Strongly Agree
a. I want to consult with the audit partner throughout the year on any potential financial reporting issues	1	2	3	4	5	6
b. I inform the audit partner about issues after year end, or after a transaction has taken place (rather than before)	1	2	3	4	5	6
c. When I develop a position that meets 'subjective' GAAP requirements , I want to maintain my position even if there are other GAAP-compliant positions that the audit partner prefers.	1	2	3	4	5	6
d. I want to ask for advice from the audit partner on accounting and disclosure treatments in the early stages of developing the company's view, rather than developing them on my own.	1	2	3	4	5	6
e. I prefer not to involve the audit partner in deciding how to account for a major transaction until after it has taken place.	1	2	3	4	5	6
f. I want the audit partner to find support within GAAP for my accounting policy choices	1	2	3	4	5	6
g. I want to give earnings guidance to the market analysts and/or senior executives without feeling compelled to consult with the auditor partner first	1	2	3	4	5	6

h. Assuming my position is GAAP-compliant, I only want to modify my decision on an issue if the audit partner finds my treatment to be too much within the "grey" area of GAAP.	1	2	3	4	5	6
i. I would consider alternate auditors/ending our relationship with the audit firm/audit partner to get my way	1	2	3	4	5	6
j. If I decide to use an aggressive, fully GAAP-compliant method, I want the audit partner to agree with my decision	1	2	3	4	5	6
k. I want to consult with the audit partner <u>before</u> entering into complex transactions	1	2	3	4	5	6
l. I consider the financial statements to be a joint product between the auditor and the company.	1	2	3	4	5	6
m. I want my financial statements to be beyond reproach in their adherence to GAAP, avoiding "grey" areas whenever possible.	1	2	3	4	5	6
n. I want to consult with the audit partner before making difficult estimates	1	2	3	4	5	6
o. I want the audit partner to support my decision if it is GAAP-compliant, even though there may be another method of recording a transaction that is consistent with best practices.	1	2	3	4	5	6
p. I want to work together with the audit partner to obtain the "best" financial reporting, even if this requires changing the statements when I disagree with the partner's opinion	1	2	3	4	5	6
q. I put a lot of weight on the audit partner's opinion	1	2	3	4	5	6

PART IV

1. Background Information:

   a. How many years of business experience do you have? Please check *one*:

      1-5 years ☐ 5-10 years☐ 10-15 years ☐ 15-20 years ☐ over 20 years ☐

   b. What is your current position at your company?

      CFO VP Finance Treasurer Controller Director of Finance

      Assistant VP Finance Assistant Treasurer Assistant Controller Other _____

      - How long have you held this position?

      1-5 years ☐ 5-10 years☐ 10-15 years ☐ 15-20 years ☐ over 20 years ☐

   c. Gender: Male ☐ Female ☐

   d. How many years have you had responsibility for or input to the financial statements?

      0 years☐ 1-5 years ☐ 5-10 years☐ 10-15 years ☐ 15-20 years ☐ over 20

e. Are you the person (or one of the people) in your company who is normally responsible for discussing the audit differences with the audit team? SMART LOGIC Yes☐ No☐

- If **yes**, how many issues have you discussed with the audit team?

Less than 5 issues ☐ 5-10 issues☐ 10-15 issues☐ 15-20 issues☐ over 20 ☐

- If **no**, have you been present for <u>or</u> participated in these discussions? Yes☐ No☐

If **yes** - How many issues have you been present for?

Less than 5 issues ☐ 5-10 issues☐ 10-15 issues☐ 15-20 issues☐ over 20 ☐

f. Have you personally ever been aware of the Professional Practice Department or Quality Control/Concurring Partner becoming involved in any issues at your current or previous workplace? SMART LOGIC Yes☐ No☐

- If **yes**, how many times were you aware of their involvement?_____________
- Overall, would you say the experience was a positive one? Yes☐ No☐

g. Do you feel you have an effective working relationship with **your** current audit partner?

1	2	3	4	5	6	7	8	9	10	11
Completely Disagree					Neutral					Strongly Agree

h. Do you hold any of the following accounting designations? CA ☐ CMA ☐ CGA ☐ CPA ☐

2. Company Information:
   a. Which box(es) best describe your company?:

      Public company ☐ Large Private company ☐ Non traded Subsidiary of Public

      company ☐ Public SectorCrown Corporation Other (eg. small private)________

   b. Does your company require an annual financial statement audit? Yes☐ No☐

   c. Will you be using IFRS to prepare your financial statements? Yes☐ No☐

   d. What are the (approximate) annual revenues at your current company?________

   e. Where is **your** office located? Canada ☐ US Other (specify)____________

3. Would you like to receive a summary of the results of this survey?

   Yes ☐ No ☐

   - If **yes**, please provide an email address for us to send it to you.

     ____

This concludes your participation in the research study. Thank you for your time.

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