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# Auditor-Client Relationship: Interferences, Influences and Associations

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## Abstract

*Auditor-client relationship is a multifaceted interaction between the two parties, defined and influenced by several factors. This research delimitates and summarizes the eight relevant factors in literature in order to analyze them, as opposed to most previous research, in a synergic manner. The study does not limit to the qualitative part as it provides insight upon when and how interferences in the auditor-client relation appear. The most challenging associations among the two parties is the negotiation process that could occur during the audit mission, targeting auditor's opinion, thus generating pressure upon the professional and ethical core values. Based on the gathered data through the means of a developed questionnaire, the authors have indicated and analyzed the neuralgic point of the relation, its influencers and the interferences within.*

**Key words:** *auditor-client relation, factors of influence, negotiation, auditor's opinion, professional code, ethical code*

**JEL Classification:** *M40, M42*

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## Introduction

Besides conducting a research based on a theoretical approach of the auditor-client relationship (ACR), in order to understand in an adequate manner the factors related to this relationship, it is necessary to also approach this research from an empirical perspective. Having this dual approach provides insight upon the various facets of ACR. We found our research starting from the theoretical approach including the synergy of the factors of influence subtracted from literature. The relevance of the theme is determined by the fact that all of the interactions between the auditor and the client, along with the actions, exchanged information, applied auditing techniques are unfolded in the context of the ACR. Therefore, the manner in which the ACR shapes itself determines the very outcome of the audit mission and its main scope. As a consequence, the ACR and the interferences that occur inside it are a major determinant of the manner in which the audit unfolds, being a major area of interest and research.

The problem regarding this area of research is that there are few approaches that take into consideration all of the main eight factors of influences revealed by the existing literature. Without a holistic perspective, the influences present in the ACR are harder to be properly measured leading to unfit solutions that are unsuccessfully trying to improve the relation between the two parties and, in the end, the quality of audit. One of the most challenging interference in the ACR is the potential negotiation process that could occur regarding auditor's opinion, generating high pressures upon auditor's independence and audit quality. Therefore, our goal is to answer, through this paper, to the following research question:

*Which are the characteristics of the interferences and negotiation process in the ACR?*

In order to test the selected factors of influence of ACR, we considered that the most adequate instrument is the questionnaire. In accordance with an extensive literature research, having the goal to gather the necessary and proper data, both the construction and deployment of the questionnaire was made to the statistical relevant population of auditors. By measuring the ACR in the synergic context of the eight factors together brings a more pragmatic perspective upon the existence and measure of influence generated by the factors regarding the ACR and the potential negotiation process that could arise between the two parties.

## ACR debates

There are several terms used in literature when referring to the ACR, having two major directions due to its complex nature: in a more general approach auditor-client relationship, interaction or management relationship are the terms used by some authors, while others with a more focused perspective use auditor-client negotiation, disagreements or realignments, or even audit-client tenure (Ghosh & Moon, 2005; McCracken et al., 2008; Brown & Wright, 2008; Kleinman et al., 2010; Ye et al., 2011; Svanberg & Öhman, 2016; Grant, et al., 2018). In the context of ACR, provided it is primarily determined by a juridical contract, the parties usually experience negotiations regarding the client's financial reporting, leading to various material accounting and disclosure implications. One of the most significant reasons for such negotiations are the unclear regulations. It can be deducted that in such negotiations, the client tries to influence the auditor on the financial and contractual side as most of the cases where an agreement was reached, the reappointment of the auditor came soon afterwards (Gibbins et al., 2001). Of course, a negotiation once it has begun can lead to a determined type of solutions: agreement on one of the initially suggested financial reporting solutions which is usually based on concessions made by either party, lack of agreement or reaching common ground on a new solution (Salterio, 2012; Awadallah, 2018).

As deducted from the relevant literature, various factors influence and determine the ACR:

- *audit quality* (Chen et al. 2010; Lennox, 2016; Krishnan et al., 2017) – defined as the congruence of the chance the auditor has to detect a misstatement in the clients' accounting system (competence) and reporting that specific misstatement (independence), all of this evaluated by the market (DeAngelo, 1981);
- *auditor's independence* (Goldman & Barlev, 1974; Nichols & Price, 1976; Salterio, 2012; Dhaliwal et al., 2015) – represents the fundament of auditing as a profession, determining audit quality and differentiating "in fact" or "in appearance" (Ruddock et al., 2004);
- *audit partner/firm rotation* (Ghosh & Moon, 2005; Carey & Simnett, 2006; Bleibtreu & Stefani, 2018) – necessary measure in order to provide high audit quality, initiated with mandatory character (Chen et al., 2008);

- *non-audit services* (Ghosh et al. 2009; Carmona et al., 2015; Campa & Donnelly, 2016) – described as unanticipated fees which could potentially pose the biggest threats to auditors' independence (Kinney and Libby 2002);
- *the role of regulator's enforcement* (Brown & Wright, 2008; Guenin-Paracini & Gendron, 2010; Hatfield & Mullis, 2015) – Oversight bodies have been enforced as a counter-balance to accounting and auditing failures in present international regulatory environment, "created to watch the watchers" (Richardson, 2009) and having as a major role the improvement of public confidence towards financial reporting and auditing of the public companies (Cooper & Robson, 2006);
- *audit profession between public and private interest* (Carcello & Nagy, 2004; Newman et al., 2011; Guo, 2016) – this struggle is represented by the recent shift of the accounting profession towards a more commercialistic characteristic than a professional one (Suddaby et al. 2007);
- *trust and confidence between auditor and client* (Brown & Wright, 2008, Aschauer et al., 2015) – is mentioned to be of high importance at the moment when on one hand there is lack of guarantees while uncertainty and risk are present (Rennie et al., 2010);
- *competition and client pressure* (Collings, 2002; McMeeking, 2007) – is resumed by the fact that auditors comply through compromise to the pressures generated by the client, sustained by the accepted forceful accounting treatment (Hatfield et al. 2008, Hatfield et al. 2011).

On the course of the ACR unfolding the auditor has proved to be a full negotiator also motivated by self-interest in winning or losing (Gibbins et al., 2001). The ACR is of high complexity, thus literature analysing the relation from various perspectives. A perspective arising major interest is negotiation upon the audit contract object, in the context of classic models of negotiation, the most cited being the Gibbins model (Gibbins et al., 2001). In accordance to the perspective provided by the analysed literature we developed the questionnaire having as a main starting point the study employed by Gibbins, M., Salterio, S. & Webb, A. (2001), "Evidence about auditor-client management negotiation concerning the client's financial reporting" on one hand, and also the questionnaire used by Gibbins, M., S. McCracken & S.

Salterio (2003), "Auditor-client management negotiation concerning client's financial reporting: evidence from the client's side" on the other hand, as secondary source.

As presented above, taking into consideration all the eight factors during our survey strategy that we applied contributes to a proper answer to our research question. Our aim is to determine which are the influences in the ACR and the negotiation process that might occur and having our questionnaire developed according to the wholistic perspective upon literature is a major contributor to achieving our goal.

## Methodology

Neuman (2002) states that the research strategy which is carried out by researchers is directly determined by the nature of the research. Mainly, research strategies that have the purpose of ensuring a good quality of research outcome usually entail identifying the data collection sources that facilitate achieving the research goals. Based on previous statements, there are various approaches regarding research strategies that can be implemented, primarily, survey, experiment, case study, action research, ethnography, archival research and grounded theory (Saunders et al., 2011). Out of all the mentioned strategies, our further focus will be on the chosen one, which will be further developed below.

Survey research method targets the gathering of information that can be defined by: what, who, to what extent on one hand or even how many on the other hand (Saunders et al., 2011). Thus, we developed a questionnaire to answer our research needs containing 21 questions. We have structured our questionnaire to contain single and multiple questions. As for the nature of the answers, depending on the question, the respondents are kindly asked to provide yes or no answers, Likert scale pre-defined answers and open numeric answers. Our developed questionnaire contains demographic questions that determine the respondents' professional profile. Moreover, the questionnaire targets each of the eight previously presented factors of influence and the manner in which they interact in the ACR context. The questions also aim to measure the ACR and negotiation characteristics, the manner in which the two parties reach a common ground and the recurrence of past issues.

Afterwards, the questionnaire was distributed by e-mail to the potential respondents that were previously determined by us. In order to have a properly founded research, we

have determined the population of auditors with the help of the Romanian Chamber of Financial Auditors (CAFR-in Romanian abbreviation) which has provided, following an official request, a summary of the number of active auditors as independent practitioners and the number of active audit firms, based on their database. Moreover, the Chamber of Financial Auditors in Romania (CAFR), showed support even in the data gathering process by distributing an official e-mail, kindly asking the selected auditors to answer the attached questionnaire as an action of sustaining the research in the ACR domain. We have received 326 responses out of the total of 1220 sent e-mails. The number of 1220 represents the auditors and audit companies together, that are registered at Chamber of Financial Auditors in Romania and also reported to have conducted audit mission(s) in year, 2020. After the process of validation of the gathered data, 23 questionnaire answers were invalidated due to lack of completion for some questions or no selected answers at other question. This leads to a final database to be analyzed of 303 distinct responses that were validated. This study contains data

processing using SPSS program, meant to reveal the frequency of answers in order to provide an overview of the ACR and the interferences within it.

## Descriptive results analysis

The first analysis that we chose to make is based on the four demographic questions that we have developed in order to have an overall perspective of the manner in which the respondents are distributed according to certain defined characteristics.

The first question targets the position occupied in the audit company. From a demographic point of view our sample is formed out of partner/associate with 49.2% frequency, followed by senior – member in the mission team with 38.9%, the rest being executive director with 11.9% out of the total (Table no. 1). Therefore, the conclusion that most of the respondents of our questionnaire were either directly or indirectly involved in the negotiations with the client, as they held top positions.

**Table no. 1. The position held by the respondent within the audit firm**

What position do you currently hold in the audit firm?			
		Frequency	Percent
Valid	Senior, member of the mission team	118	38.9
	Executive Director	36	11.9
	Partner/Associate	149	49.2
	Total	303	100.0

Source: Authors' projection

High interest information can be drawn from the question measuring the experience of the respondents. The question contributes to developing a point of view upon the auditors that are involved in negotiations directly or not, correlated with their years of activity in this field. From Table no. 2 we deduced that the average experience of the respondents is of 13.25 years. This leads to the conclusion, that on average, the auditors that have accumulated a considerable experience and, consequently, have moved higher in the hierarchy, are those who are involved in and encounter negotiations with the clients.

**Table no. 2. The experience of the respondents**

Years of experience		
N	Valid	303
	Missing	0
Mean		13.25
Median		13.00
Mode		10 <sup>a</sup>
Std. Deviation		5.615
Range		34

Source: Authors' projection

The third question of the questionnaire target the sex of the respondents. To conclude, the respondents are relatively even distributed between male (46.5% out of

total) and female, that are a little more numerous totaling 53.5% share of the total answers (Table no. 3).

		Frequency	Percent
Valid	Female	162	53.5
	Male	141	46.5
	Total	303	100.0

Source: Authors' projection

Last question in the demographic section of the questionnaire provides an overview upon the frequency

and occurrence of negotiations in the ACR. This question provides a surprise, revealing the real extent of the negotiation phenomenon in auditing. The element of unexpected lies in the fact the majority of respondents (57.1%) have encountered negotiation to occur in more than 75% of the client interactions. Moreover, the next category of answers indicating that negotiation is present in over 50% of the cases has reached 24.4% out of the number of respondents. Naturally, there are only few respondents (9.9%) that have encountered negotiations in 25% to 50% of the client interaction cases and 8.6% of the respondents have declared to encounter negotiation in under 25% of the interactions (Table no. 4).

Have you participated in discussions with clients on the opinion in the audit report?			
		Frequency	Percent
Valid	< 25%	26	8.6
	25% – 50%	30	9.9
	50% – 75%	74	24.4
	>75%	173	57.1
	Total	303	100.0

Source: Authors' projection

Basically, these results validate of focus upon the matter of ACR considering that 81,5% of respondents do experience client negotiations in at least 50% or even over the threshold of 75% of the interactions. This is one major pillar sustaining our research as the high frequency of negotiation occurrence leads to increased potential infringements of professional standards or contractual clauses.

## Empirical results analysis

Our deployed questionnaire targeted further and more analytic aspects of ACR in order to provide a better perspective of the dynamics and interactions of the mentioned relation. There are various aspects that are relevant to the ACR, besides the factors of influence, all of these being presented and analyzed in the following. All data was analyzed through SPSS generating basic analysis in the first step and graphics to better reveal the data.

We targeted, through our questionnaire, to gather data regarding the type of audit company the respondents work in, thus it can indicate cultural and professional influences that could manifest in case of international companies opposite to the national audit companies. Table no. 5 shows that the majority of respondents have experienced negotiations with clients while they were working in an audit company with a Romanian majority capital acting individually (67.6%). Only 21.8% out of the total respondents have experienced negotiations while working in a Big 4 company, while 10.6% were employees of a national group or network. The balance incline in favor of respondents working in an audit company with a Romanian majority capital acting individually provides grounds for a supplementary separate and individual hypothesis analysis based only on this group of respondents in order to provide an insight upon the Romanian context and influence upon the researched subject.

**Table no. 5. The type of audit firm in which the respondents work**

Type of audit firm in which you experienced discussions with the clients on the opinion and other elements of the audit report		
	Frequency	Percent
Big 4 member: PricewaterhouseCoopers, Deloitte, KPMG and Ernst & Young	46	15.2
Member of another international group / network	20	6.6
Member of a national group / network	32	10.6
Company with Romanian majority capital acting individually	205	67.6
Total	303	100.0

Source: Authors' projection

After analyzing the company where the respondents were working when they experienced negotiations with clients, it is also of high importance to see which were the types of missions that mostly attracted to say so the negotiations. **Table no. 6** reveals, from a different perspective, that auditors have encountered negotiations with the clients most often during statutory audit missions (56.1%). Secondly, 31.4% of respondents state that negotiation has occurred during financial audit missions, while only 12.5% have encountered negotiations in other types of assurance missions.

**Table no. 6. The types of missions that attracted the negotiations**

Missions in which you have experience in discussions with clients on opinion and other elements of the audit report were for following type of audit			
		Frequency	Percent
Valid	Statutory	170	56.1
	Financial	95	31.4
	Other types of assurance missions	38	12.5
	Total	303	100.0

Source: Authors' projection

Besides the negotiation itself, in the ACR it is also importance the manner in which negotiation unfolds and the final result. It is of key importance to measure the effect of such discussions or negotiations because it is the effect that defines whether the phenomenon is worth of

further research. The biggest part of the respondents has divided their answers between two cases: issuing a qualified opinion to the detriment of the adverse opinion (36.6%) that could have stopped the client from getting financing or triggering other issues for the business and issuing an unqualified opinion (clean report) to the detriment of the qualified opinion (40.9%) which allows the client to access better markets and financing. The other two categories are minoritarians, with 14.9% out of the total answers in favour of issuing a qualified opinion to the detriment of disclaimer of opinion and 7.6% opted for an unqualified opinion (clean report) to the detriment of the adverse opinion which also represents the variant with the biggest span from one opinion to the other. **Table no. 7** shows how is distributed the change of opinion.

**Table no. 7. Opinion expressed by the auditor**

Following discussions with the client on the opinion and other elements of the audit report, you most often expressed:			
		Frequency	Percent
Valid	A qualified opinion to the detriment of the adverse opinion	111	36.6
	A qualified opinion to the detriment of disclaimer of opinion	45	14.9
	An unqualified opinion (clean report) to the detriment of the qualified opinion	124	40.9
	An unqualified opinion (clean report) to the detriment of the adverse opinion	23	7.6
	Total	303	100.0

Source: Authors' projection

A longer relationship between the auditor and the client leads to increased chances for the negotiation to occur as both of them can get to relate at a more personal level becoming comfortable with each other. Regardless of the initiator of the negotiation, we also focused on measuring the length of the relationship at the moment they encountered negotiation. Our questionnaire, through the collected data, shows a consistent majority of answers that indicate that it is when the relationship between the auditor and the client is of three years in length or more the most of the negotiation cases upon the opinion occur (61.72%). Only 18.15% of the total respondents state that the negotiation started to be initiated at a length of the relation of two years, while 20.13% have placed the moment of negotiation occurrence at one year

length (Table no. 8). Consequently, the negotiation upon the opinion has no exact timing regarding the initiative moment, but it is most likely to occur as the ACR evolves in time.

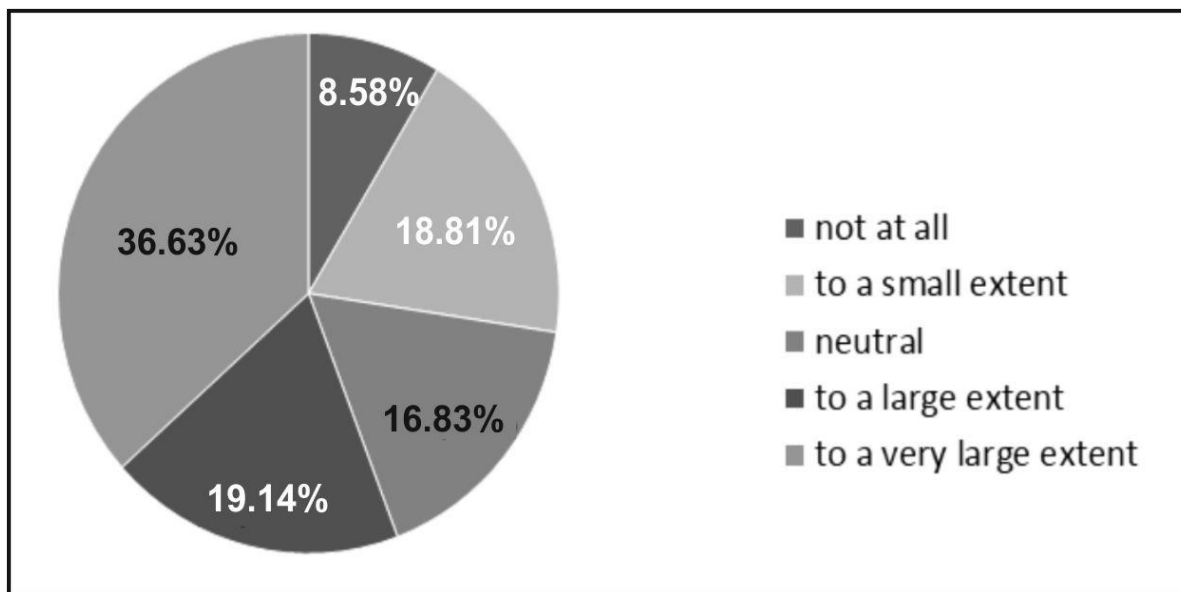
**Table no. 8. Duration of the relationship with the client at the time of discussions on the opinion and other elements of the audit report**

		Frequency	Percent
Valid	1	61	20.1
	2	55	18.2
	>=3	187	61.7
	Total	303	100.0

Source: Authors' projection

As for another factor influencing the evolution and the reached outcome is case of negotiations, there are more respondents who consider inherent risk to pose an influence, than the ones who do not: in a large extent (36.63%) or very large extent (19.14%). Of the total respondents 16.83% consider that inherent risk is neutral towards how negotiations turn out in the end. On the other hand, only 8.58% consider that inherent risk does not influence negotiations, while 18.81% think that this has had a minor influence upon the discussion they had with the clients upon the opinion and other elements of the audit report (Figure no. 1).

**Figure no. 1. To what extent do you consider that the inherent risk of clients has influenced discussions with them on the opinion and other elements of the audit report?**

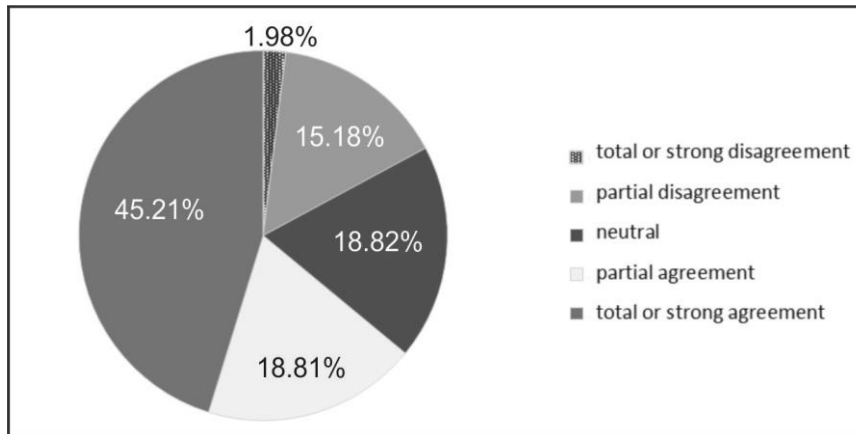


Source: Authors' projection

It is often said that the past is a good example for how the future will be. Therefore, the question whether the manner in which the auditor and the client have interacted in the past will influence the way in which they do in present negotiations is only natural. In accordance with the collected data, we can conclude that, as expected, more than a half of the respondents (18.81% are the one that fully consider and 45.21% those who

partially do) consider that the result of current discussions and negotiations is highly influenced by who past negotiations were settled. There is only a minority of respondents (1.98% out of respondents totally and 15.18% partly disagree) that feel that there is no influence generated by past negotiations upon the current ones, while 18.81% position themselves on a neutral position (Figure no. 2).

**Figure no. 2. The way in which recurring issues from previous missions were resolved influenced the outcome of current discussions with clients on the opinion and other elements of the audit report**

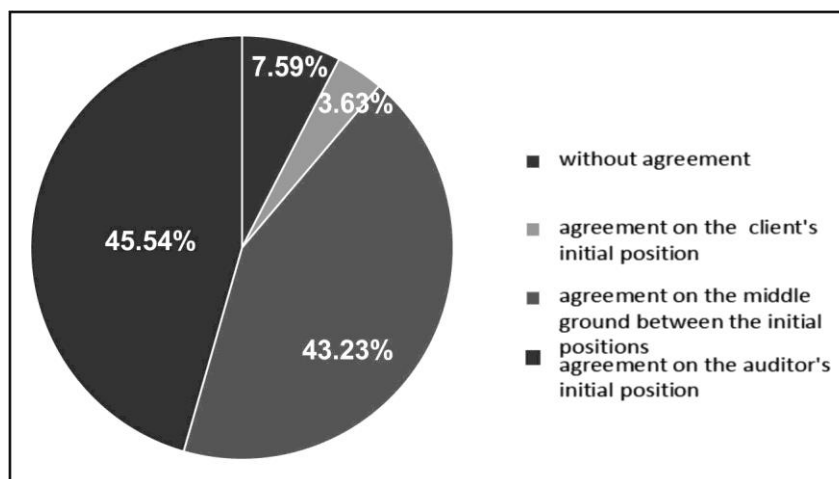


Source: Authors' projection

The process of negotiation and its characteristics are not the only aspects that raise the interest, but also the result of those discussions that the auditor and client have. The result of questionnaire data analysis reveals that the least of cases (3.63%) the client manages to convince the auditor during the negotiations to adopt its own initial perspective. On the other side, in 45.54% of the responses, the described situations have solved with the

auditor convincing the client to adopt the initially proposed solution. The way of both sided concession is met in 43.23% out of the total responses, when the auditor and the client manage to agree on a middle solution that is further defined at the moment. The cases when negotiations lead to a stalemate between the auditor and the client, resulting in no agreement, are encountered in 7.59% of the cases (*Figure no. 3*).

**Figure no. 3. The result of the discussions on the opinion and other elements of the audit report following the clarifications of some aspects by the clients**



Source: Authors' projection



Considering that only a small share (2.64%) of the auditors were sanctioned following a quality control made by the professional body, we can conclude that auditor's conduct in the negotiation process is at a proper ethical and professional level (Table no. 9).

**Table no. 9. Were you sanctioned following a quality control carried out by the professional body?**

		Frequency	Percent
Valid	No	295	97.4
	Yes	8	2.6
	Total	303	100.0

Source: Authors' projection

## Discussions and Conclusions

Overall, our findings underline one main idea, that the negotiation phenomenon is almost a constant in the ACR, having a high frequency and generating, together with the eight factors, complex interferences among the parties. Our research reflects, in a rather consistent manner, the national character of the influences among the ACR as almost 70% of the respondents are affiliated to a national auditing company, thus manifesting through their answers the local cultural influence. The deployed questionnaire, by following the main line of unfolding of the ACR and negotiation process, manages to capture the key points. We manage to reveal that the type of missions in which negotiation most often occurs are the statutory ones, providing upon where regulations and control must be improved. The resulting conclusions that we have drawn based on our data analysis are in line with the ones in the model that we followed in the development of our questionnaire, Gibbins, M., Salterio, S. & Webb, A. (2001), "Evidence about auditor–client management negotiation concerning the client's financial reporting". We both concluded that the longer the relationship between auditor and client gets, the more inclined they are to initiate negotiations encouraged by the personal relation that is achieved. The general perspective of both studies is that negotiation is highly present in the ACR leading in some cases to shifts of opinion on the auditor's behalf, in our case the shift towards an unqualified opinion (clean report) to the detriment of the qualified

opinion being the most encountered one. However, it appears that even in the context of negotiation the auditor seems to maintain close to the professional core values as in overwhelming number of cases the result of the discussions leads to an agreement either on auditor initial position or a middle ground solution. Therefore, we can deduct that following the discussion, the auditor still does not generally accept a solution that is exclusively developed by the client, having none of the auditor's personal and professional influence. Starting from the idea that the longer the relation is the more personal it becomes, it is clearly that this is not the only influence generated by the length of the ACR. Obviously, as the relation evolved through time it gathers experiences, disagreements, concessions and other such cases which further in time determine and influence how do the negotiations unfold and which is the result to where these are headed. Moreover, the auditor inherits not only the client's problems when signing a contract, but also the risk, which we found to influence the discussion in an extensive manner. Basically, our research results show that the Romanian market of audit is generally aligned with previous international findings regarding the nature of ACR, the interferences generated by the relation and negotiation process and the influence of factors such as independence, auditor rotation, audit quality and not only.

One of the main characteristics of the ACR and the negotiation process is the active and forceful one. As the ACR and negotiation unfold, several states are reached such as interaction, variation of ideas, shifts in opinion, as well as the manner in which the parties negotiate. These states are altered by the influence of the presented contextual factors. For such a dynamic and complex relation, it is only a well-structured and deployed survey which can measure the interferences that appear. We targeted through our paper provide a better and synergic perspective upon the neuralgic points of the ACR considering those are the generators for not applying the professional core values. Those neuralgic points that pose much influence and pressure upon the ACR are mostly that factors themselves that act as a whole mechanism by generating influence not only upon the relation, but among them as well.

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