

EFFECT OF AUDITOR QUALITY ON AUDITOR AUDITEE NEGOTIATION OUTCOMES

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Abstract

The purpose of this paper is to study the impact of some attributes of auditor quality such as: auditor tenure, auditor industry specialist, auditor experience and the audit firm size on auditor auditee negotiation outcomes. For the entire sample of 81 Tunisians firms, our results indicate positive and significant relationship between auditor tenure, auditor experience and the extent to which the auditee agreed with the auditor over the financial reporting issues. On the other hand, the results indicate a positive but non significant relationship between the auditor industry specialist and the negotiation outcome. For the audit firm size, we find that auditees are more likely to agree with big 4 audits firms. Indeed, we find no significant relationship between importance, size and performance of the auditee and auditor auditee negotiation outcome.

Keywords: Auditor auditee negotiation, Independence, Experience, Specialization, Big4, Tunisia

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1. Introduction

Audited financial statements are the joint product of the auditor auditee negotiation process (e.g., Antle and Nalebuff, 1991; Wright and Wright, 1997). According to Gibbins *and al.* (2001), auditor auditee negotiation is defined like the process of negotiation between the auditor and the auditee one to solve the conflict on the financial questions.

The very nature of the audit function necessitates negotiation between the auditor and the auditee to resolve disputed financial reporting issues. For example, before an auditor is willing to express an unqualified opinion on auditee's financial statements, any disputed accounting issues must be resolved. The resolution of these issues may result in a negotiation between the auditor and the auditee, where the auditee is likely to attempt to persuade the auditor to accept his/her position and vice versa.

Tunisia was not with the shelter of the economic scandals and the questioning of controllers profession (the business of 'Batam' company is only one example). Since, many conferences¹³ on the governance were organized and several legislative reforms have been just promulgated in particular law 2005-96 relating to financial safety. In his annual report of 2002, the governor of Tunisia Central Bank insisted on the need for a revalorization of the audit function through a reinforcement of the rules of legal

controllers' independence. Within sight of what precedes, it is interesting to study auditor quality in emerging capital market such as Tunisia.

Unlike prior studies of auditor auditee negotiation that use either an experimental design (Knapp, 1985; Gul, 1991; Goodwin, 2000; Brown, 2003) or a cognitive model (Gibbins and Salterio, 2000; Gibbins *and al.*, 2001, 2003; Windsor and Ashkanasy, 1995), or a cross-case analysis (Beattie *and al.*, 2004), the current study empirically tests whether auditor quality affect the outcome of auditor auditee negotiation based on Tunisian company responses as to the outcome of their negotiations with their audit firm.

Evidence about auditor auditee negotiation concerning financial reporting issues was collected through questionnaires sent to the chief financial officer (CFO) or chief accounting officer (CAO) of firms. Other financial data was drawn from the financial states of the firms.

According to Gibbins *and al.* (2001, 2003), negotiation begins with negotiation issues, followed by the negotiation process, and ends with the negotiation results. However, to obtain more useable responses our questionnaire is limited to issues related to financial statements adjustments and disclosures, and the outcomes are measured using a likert scale from 1 to 7 to represent the degree of auditee management's agreement with the adjustments or disclosures as recommended by the auditor.

Our study addresses gaps in the prior literature by empirically examining the relationship of auditor quality proxies and the outcomes of auditor auditee negotiation over financial reporting issues as to financial statement adjustments and disclosures. We

¹³ In particular, we quote the fifth international conference of the ITEC (Tunisian Institute of the countable experts) which took place the 13 and 14 May 2005.

construct an ordered logit model that regresses the outcome of auditor auditee negotiation on the proxies for auditor quality, controlling for additional factors that might affect auditor auditee negotiation over financial reporting issues.

We use the audit firm tenure to proxy for auditor independence, and find a significant positive relation between auditor tenure and the outcome of auditor auditee negotiation over financial reporting issues. The results are consistent with Chen *and al* (2005) in that auditors with longer tenure are more likely to be independent, and are consistent with Myers *and al*. (2003) in that longer auditor tenure is associated with higher quality of reported earnings.

We use auditor experience, industry specialization and audit firm size to proxy for auditor expertise. We find a significant positive relation between auditor firms experience and the degree to which the auditee agreed with the auditor over the financial reporting issues, suggesting auditor industry experience is an important factor to resist auditee management pressures over financial reporting issues.

However, we do not find a significant relationship between auditor industry specialization and the outcome of auditor auditee negotiation.

For the audit firm size, we find that auditees are more likely to agree with big 4 audits firms. Indeed, we find no significant relationship between importance, size and performance of the auditee and auditor auditee negotiation outcome.

The remainder of the paper is organized as follows. In the next section we describe the institutional setting in the Tunisian audit market and the motivation for our hypothesis. The sample-selection procedure is discussed in Section 3. In Section 4 we explain variable measurement and our research methodology. Results are presented in Section 5, and the summary and conclusion are presented in Section 6.

2. Motivation, the Tunisian audit market, and hypothesis

In Tunisia, accounting profession comprises mainly four professional bodies: experts, tax accountants, advisers, framing offices and tax assistance. Accountants and experts in accounting have the monopoly of the trades of behaviour and countable assistance as well as the Audit Office¹⁴.

During many years, the professional mode of the

audit function was under the monopoly of the countable experts. It is only with the promulgation of the law n°2002-16 that the audit function was extended to the technicians brought together under a second professional corporation known as Tunisia Accountants Company.

However, the examination of the table of the order proves that the majority of the professionals are individual audit firms of with dimensions and that a minority is made up large audit firms which are primarily either of the representatives of the «big 4» or of the firms of accountancy. These last years, it was recorded an increase unceasingly in the groupings of professionals in the form of limited liability firms.

As in the other countries of the world, large international audit firms since they were eight, were represented and dominate audit function in Tunisia. These audit firms belonging to the «club of the big» have a number of collaborators between 20 and 49, enjoy the legal entity and were entered with the order before 1990 with a strong geographical concentration with the capital.¹⁵

As for the legal framework governing the Audit Office, we specify that Tunisia has just undertaken many reforms of an economic and countable nature of which we quote primarily two events:

- The reform of the commercial law by the promulgation of the code of the commercial firms in 2000.
- The promulgation of law 2005-96 relating to the safety of the financial relations.

The principal axis of these two reforms undertaken is to increase financial information transparency, thing which cannot be reached if the statutory audit of the accounts is not present as it should be. From now on the statutory audit of the accounts is extended to the limited liability firms of a certain size whereas before the intervention of the auditor was limited to the limited firms. In addition, the Tunisian auditor under the terms of the law of 17th April 1995 relating to the recovery of the firms in difficulties and post the amendment of 29 December 2003 was charged to inform premises of the difficulties of their auditee. Lastly, the legal controller became a support for justice to reveal the crimes within the framework of the activities undertaken. From where, one should expect that the auditor cooperates and interacts more and more with the bodies of statutory control like the board of directors, the board of trustees and the audit committee. Actually, the legislative reforms concerning the external audit are integrated within a vaster framework related to a reorganization of governance practices of Tunisian firms. This last approach more to the international models and in

¹⁴ The first article of the law n°2002-16 of 4 February 2002, bearing organization of the profession of the accountants lays out " no one cannot exert the functions of accountant within the meaning of the first article of this law if it is not registered in the table of the company of the accountants of Tunisia envisaged by chapter 2 of this law. However, the countable experts registered in the table of the order of the experts countable of Tunisia and subjected to the provisions of the law n°88-108 of the 18 August 1988, bearing recasting of the legislation relating to the occupation of countable expert, are authorized to exert these functions ".

¹⁵ According to the national repertory of the companies (2003) worked out by the National Institute of the Statistics of Tunisia.

particular to the French model.

In addition, the audit Tunisian statute is characterized by a very strict system from legal incompatibilities envisaged by article 262 from the code from the commercial firms, intended to create a legal and financial environment protecting auditor independence. So, audit functions are prohibited to the administrators, to members of the directory, contributors in kind and all their parents and combined until the fourth degree inclusively. The Code of the Commercial Firms (2000) explicitly adds to these prohibitions the couple of the people concerned in order to reinforce auditor independence. More, the provisions of the same above mentioned code prohibit the auditor from perceiving an unspecified remuneration other as that envisaged by the law, nor to profit from any advantage by convention, to accept a mandate of administrator or member of directory of the firms which it controls during the five years which follow the suspension of its functions, and to receive wages or a remuneration of the administrators of the member of the directory, firms having the tenth of the capital of the auditee company.

With law 96-2005, the rules of independence are reinforced. We can summarize the news great provisions relating to auditors independence in three categories: those bearing on the separation of the services authorized by the professionals, those relating to audit mandate and finally those governing the fees.

The Tunisian legislator also founded the Co-police station in Tunisia for the credit institutions, the firms calling public upon the saving and the limited firms exerting a control on other firms and having the obligation to present group accounts. Without claiming with an exhaustive review of the new legal texts, we advance that as a whole the Tunisian legislation on the matter approaches that more and more French.

For the term of the office, according to article 13 bis of law 2005-96¹⁶, the auditor is indicated for one three years renewable period. However, the number of mandates, taking into account the renewal, cannot exceed for the commercial firms subjected to the obligation to appoint an auditor registers in the table of the order of the countable experts of Tunisia, three mandates when the auditor is an individual and five mandates if the auditor has the shape of a company of accountancy.

As for competence, in addition to the diploma and the three years training course at an independent professional which confer the possibility to him of being registered in the table of the order, the auditor must keep continuously up to date with the evolution with the profession in particular with regard to the

official standpoint of accountancy or audit. In Tunisia, the internal payment of the Order of the Countable Experts does not envisage any measurement of follow-up of the training of the professionals after their inscription. The only inscription among the members of the order, with our direction cannot be a guarantee of professional competence.

For the legal responsibility for the auditors, article 272 of the new code of the firms (2000) provides that the professional is responsible with regard to the thirds for the detrimental consequences of the negligence and facts made in the exercise of his profession. It is about a responsibility governed by the general rules for the mandate. So the legal proceedings against the auditors are not very current in Tunisia and are not also into detrimental and effective only those in the United States.

Negotiation research has been broadly conducted beyond accounting and auditing (Murnighan and Bazerman, 1990). However, this study limits auditor auditee negotiation to accounting and auditing. That is, following Gibbins *and al.* (2001), auditor auditee negotiation is defined as the process involving negotiation between the auditor and auditee to resolve financial reporting issues under dispute. When the auditor and auditee negotiate financial reporting issues, the auditor's sources of power relative to the auditee's sources of power determine the auditor's capabilities to resist auditee management pressure.

According to agency theory, the audit is regarded as being a reducing activity of the costs of agency and of which the auditor is a recipient in agency relations. Moreover, and in the model of transaction costs, the audit is supposed to reduce transaction costs resulting from the control carried out by the investors and this through the improvement of financial information reliability and the independent evaluation of firm financial standing.

However, the level of costs reduction, via the audit, depends on auditor quality. Thus, it is in the concept of quality that the stakes of the activities of the auditor crystallize. Generally, an auditor of quality has a capacity to reduce the existing anomalies and dysfunctions. Within the framework of their mandate, the auditors can enter with the auditee on negotiations.

In the same way and according to the general theory of negotiation, the negotiation is a process which consists in reconciling two different positions in only one unanimous and joint decision. It is a question of making a decision in a context where the single rule in force stipulates that any decision must be unanimous ((Murnighan and Bazerman, 1990; Pruitt, 1981; Montgomery and Benedict, 1989). Moreover, the quality of the negotiator affects the result of the negotiation (Bazerman *and al.*, 1985; Neale *and al.*, 1987; Montgomery and Benedict, 1989).

In practice, maintaining a good auditor auditee relationship is a win-win situation for both auditor and

¹⁶ The date of effect of these provisions is delayed at first January 2009.

auditee, because it saves costs for auditee and facilitates auditor engagement planning. When the auditor performs initial audit planning, the auditor should know the key audit accounts and has a preliminary understanding of both parties' negotiation ability. If any items needed to be adjusted, adjusting entries or reclassification entries are usually prepared by the staff or senior auditors. When there is disagreement with financial statement adjustments or disclosures, there are negotiations between audit manager or partner and auditee management (e.g., CAO or CFO), and the negotiation results must be recorded in the working papers.

Auditor auditee negotiation was the subject of several studies recent (Trotman *and al.*, 2005; Bame-Aldred and Kida, 2007; Brown and Johnstone, 2005; Gibbins *and al.*, 2005; Wang and Tuttle, 2005....). So we will try to examine the effect of auditor quality on auditor auditee negotiation by putting forward various aspects of this quality (auditor independence, auditor expertise, audit firm size).

***Auditor independence**

Auditor independence is in the heart of the integrity of audit process. As the auditors and the auditee ones negotiate the financial issues, the maintenance of audit function independence is obligatory for the auditors and required by the accounting profession standards. Auditor independence is often defined as the probability that the auditor will report an infringement discovered in the financial statements (Watts and Zimmerman, 1986). This suggests that auditor independence is synonymous with the objectivity and the ability of the auditor to resist auditee pressure. Jensen and Meckling (1976) concluded that managers are incited to reduce agency costs by the recourse to the independent auditors.

Auditor tenure is a factor that could affect auditor performance and independence. The term of the office is the period for which the relation between a company and its auditors is maintained. Several studies showed that the inspectors tend required a work slightly less effective during the first two years of their mandate than during subsequent years.

Over the years the need for mandatory auditor rotation has been debated by the accounting profession and academics. The auditor's due care may be reduced, and the auditor's independence could be impaired after long association with the auditee (Mautz and Sharaf, 1961; Shockley, 1981). Deix and Giroux (1992) found that audit quality based on quality control reviews for auditors of Texas school districts was decreasing in auditor tenure, which suggests that the ability to resist auditee's pressures could be decreased after long association with auditee.

If the duration of mandate were limited, the auditor will have more initiation to resist auditee pressures. In the same way, Meyers *and al.*, 2007; Moore *and al.*, 2004 advance that the seniority of the relation creates a certain attachment between the two parts, which affect auditor judgement and pushes it to certify the accounts according to auditee preferences.

On another side, Iyer and Rama (2004) highlighted that the auditors with a longer seniority of the mandate are most likely to be independent; suggesting that auditee pressure on the auditor will be in the first years of the relation. Geiger and Raghunandan (2002) suggest two reasons that new auditors are likely to be less aggressive in their oversight of management. One reason is that they are trying to recoup lower fees from lowballing, and the other is that they lack knowledge of auditee-specific risks. Chen *and al.* (2005) prove that there is no significant relation between the seniority of the mandate and the degree of agreement of auditee with the auditor. Gul and Jaggi (2007) provide evidence that non-audit fees impair auditor independence when auditor tenure is short (less than three years), whereas non-audit fees have no impact on auditor independence when the auditor tenure is long.

Hypothesis 1: *The ability of the auditor to resist auditee management pressures in negotiations over financial reporting issues is likely to be increasing as auditor tenure increases.*

*** Auditor expertise**

Auditor expertise is a concept not directly observable. Thus, the auditor carries several judgements and takes infinity of decisions.

Gibbins *and al.* (2001) analyzed the accounting contextual features that influence auditor auditee negotiation over financial reporting by gathering evidence from a field questionnaire to senior auditing partners with accounting negotiation experience. Three groups of contextual features identified in Gibbins *and al.* (2001) are the role of external conditions and constraints (defined by the presence or absence of clear standards, e.g., GAAP and GAAS), the interpersonal auditor auditee context, and the parties' capabilities, including accounting expertise. Based on the interviewees in the Gibbins *and al.* (2001) study, two dimensions of expertise beyond negotiation expertise in auditor auditee negotiation over financial reporting are differences in auditor expertise about the auditee's business/industry, and generally superior auditor expertise in financial accounting.

This auditor expertise, identified as central to auditor auditee negotiation over financial reporting, could be an important factor that increases the auditor's power to withstand auditee management power.

Gibbins *and al.* (2003) extend Gibbins *and al.* (2001) study by incorporating the perspective of the auditee's CFO, and find that the CFO's perception of the competence of the audit partner and the auditor's accounting expertise were among the top five features that were significantly associated with the outcomes of auditor auditee negotiation over financial reporting.

Auditor expertise can be appreciated through his industry specialization, experience and audit firm size.

Auditor specialization

Emby and Davidson (1998) find that services provided by auditor industry specialists have a

significant effect on auditor power in audit conflict, suggesting that auditor industry specialists have greater economic power to resist auditee management pressures in auditor auditee negotiation over financial reporting issues. Further, auditing professional standards require auditors to obtain a sound knowledge of their auditees' businesses and industries, and auditor industry specialization is also argued as a dimension of audit quality (Palmrose, 1986; Craswell *and al.* 1995; DeFond *and al.*, 2000; Balsam *and al.*, 2003; Krishnan, 2003; Boyle and Canning, 2005; Ferguson *and al.*, 2003; Francis *and al.*, 2006). This implies that auditors with higher (i.e., industry specialists) are more likely to resist auditee management pressures than auditors with lower audit quality (i.e., industry no specialists) when the auditor and auditee negotiate over financial statement reporting (Chen *and al.*, 2005).

Hypothesis 2: *Auditor industry specialists are more likely to resist auditee management pressures than auditor industry no specialists when the auditor and the auditee negotiate over financial reporting issues.*

Auditor experience

Research in both the psychology and accounting literatures suggests that experienced decision makers have more developed knowledge structures. For example, Shelton (1999) finds that experienced auditors are less likely to allow irrelevant information to influence their audit judgments in going concern decisions. Additionally, experienced auditors identify more errors, have more accurate error knowledge, and identify more atypical errors (Tubbs, 1992). In a pre-negotiation context, Johnstone *and al.* (2002) provides evidence that more knowledgeable auditors develop a greater number and range of alternatives when faced with auditees who want to report aggressively.

The findings of these studies suggest that experienced auditors perform audit because they have a greater knowledge base to draw from and are more adept at organizing their knowledge (i.e., more and stronger links between concepts). For example, when assessing the consequences of control weaknesses, Libby and Frederick (1990) find that experienced auditors form their judgments based on the relations between accounts and on the perceived causal correlation between weaknesses and accounting errors, as opposed to novice students who base their judgments only on the relationship between accounts.

Experience is also a significant factor in negotiations. Several empirical studies in the negotiation literature provide evidence that experience improves performance and negotiated outcomes (Thompson, 1990a; Thompson, 1990b; Neale and Northcraft, 1986). For example, Neale and Northcraft (1986) find that the improved performance of high experience negotiators can be attributed to the fact that they have greater skills with respect to the decision making process. In other words, high experience individuals have a common core of knowledge that they apply to solve problems with

which they are familiar.

According to Umar and Anandaryan (2004), performance improvement is allotted to the fact that the experienced auditor has more of capacities to solve the problem while respecting the preferences of different the parts. Brown (2003) and Brown and Johnstone (2005) showed that the experienced auditor is able to resist auditee pressure during the negotiation than that not tested. Thus, an experienced auditor has a great influence on the auditee one to accept the most conservative alternative. In the same way, Bhattacharjee and Moreno, 2002; Bierstaker and Cianci, 2006 find that more experienced negotiators performed audit more (earn greater profits) than less experienced negotiators.

Hypothesis 3: *The ability of the auditor to resist auditee management pressures in negotiations over financial reporting issues increases with the auditor experience.*

Audit firm size

DeAngelo (1981) proposed that audit firm size is positively associated with audit quality. Gul, 1991; Sori and Karbhari, 2006; McLennan and Park, 2003; Li *and al.*, 2004 found that the largest audit firms are more independent than smaller firms. In the same way, they noted that the large audit firms can solve audit conflict in their favour.

These arguments imply that the large audit firms will be more likely to resist auditee pressure than smaller ones during auditor auditee negotiation.

On the other hand, Chen *and al.* (2005) affirmed that audit firm size does not have any effect on auditor auditee negotiation.

Hypothesis 4: *Larger audit firms (i.e., Big 4) are more likely to resist auditee management pressures than smaller audit firms (i.e., Non-Big 4) when the auditor and auditee negotiate over financial reporting issues.*

3. Sample Selection

Our sample contains on the whole 81 Tunisian firms, of which 47 are listed on the Stock Exchange of Tunis and 34 are not listed. The integration of no listed firms in our sample of studies appears useful to us being given that this type of firms forms a major part of Tunisian economic fabric, that it quasi-was been unaware of by the researchers on the matter, and that a research out of transverse section requires a maximum of possible observations the data collected relate to the financial year enclosed the 31/12/2006.

The corresponding financial data are drawn from the Stock Exchange data bank. Evidence about the degree that auditee agreed with the adjustments or disclosures as recommended by the auditor for fiscal year 2006 was collected through questionnaires sent to the chief financial officer (CFO) or chief accounting officer (CAO) of the companies surveyed. The first part of the questionnaire asked for the overall outcome of the auditor-client negotiation over financial reporting issues. The second part of the

questionnaire requested background on the audit firm, including auditor tenure and specialization.

The questionnaire is included in the Appendix.

4. Research methodology and variable measurement

4.1 Model

We define the following model:

$$ACN = \beta_0 + \beta_1 DAUDTEN + \beta_2 INDSPEC + \beta_3 EXPE + \beta_4 Big4 + \beta_5 CIMPORT + \beta_6 LNTA + \beta_7 PERF + \varepsilon$$

Where:

ACN: Auditor-auditee negotiation measured on a continuous scale 1 to 7 indicating the extent that auditee management agreed with the adjustment or disclosure as recommended by the auditor.

DAUDTEN: The number of consecutive years that the audit firm has performed the audit.

INDSPEC: Indicator variable, 1 if the audit firm is perceived to be an industry specialist by the auditee's CFO or CAO; 0 otherwise.

EXPE: The number of consecutive years that the auditor execute audit

Big 4: 1 if the auditor is member of Big 4; 0 otherwise.

LNTA: Natural log of auditee's total assets.

CIMPORT: The ratio of the square root of total auditee fees to the square root of the audit firm's total revenue (Chung and Kallapur, 2003, 942)¹⁷.

PERF: The performance of auditee is measured by the countable performance measured by the output of the credit (benefit before interest and tax /total credits).

Have regard with the dependent variable, namely the negotiation between the auditor and the auditee one (ACN), which is measured according to a scale from 1 to 7, we thus plan to resort to the logistic regression multinomial to be able to test our model of the study. It makes it possible to take into account simultaneously the interactions between the exogenous variables and to evaluate the marginal contribution of each one on the endogenous variable. This model is estimated using STATA 9 which respectively gives the coefficient of each variable and its significance level.

4.2 Variables

Dependent Variable

The dependent variable in the auditor-auditee regression model is auditor auditee negotiation, ACN: is the degree of agreement of auditee with the auditor on the financial issues.

The concept of negotiation enriched research in social sciences considerably. Some research remained Likert scale to measure the negotiation. The

many scales suggested for its measurement testify to the interest granted to this concept. Saxony and Weitz (1982) are among the first to have developed research on negotiation process. A semantic scale at five issues is used for the evaluation of the negotiator perception.

With regard to the choice of the type and a number of issues of the scales, the authors do not seem to know a consensus. Indeed, some of them estimate that three issues are sufficient, others consider that this figure is too weak, which is thus the optimal number of the issues of a scale.

Normally, more the number of issues are high, more information obtained is precise. Positive relation is not indefinite since starting from a certain threshold, the number of issues becomes a source of error. Indeed, of the experiments showed that a differential semantic scale at five issues tends to frustrate the investigation and that a scale at nine issues under is used. Thus, Perrin, Cheron and Znis (1983) noticed that the optimal number of issues depends on the finality of a scale; they proposed a number of five more or less two.

Other studies (Chen *and al.*, 2005) considered the negotiation as a variable "dummy" which takes value 1 if there is agreement between auditor and auditee during the negotiation and 0 if not. They also measured it on a scale from 1 to 100 measuring the degree of agreement between auditor and auditee. Thus, this measurement takes only the extreme cases of the negotiation (agreement/dissension). It thus seems more relevant to use a scale for specifying well the degree of agreement between the auditor and the auditee one. A scale at 7 issues will thus be used to specify the result of the negotiation.

Independent Variable

The main research variables of interest are divided into two groups: auditor independence and auditor expertise. The proxy variable for auditor independence, DAUDTEN, is the number of consecutive years that the audit firm has performed the audit. As described in hypothesis 1, the coefficient of DAUDTEN is expected to be positive.

Auditor industry specialization (INDSPEC) is the first proxy for auditor expertise. Gibbins *and al.* (2003) provide evidence that the CFO's perception of the competence of the audit partner and the auditor's accounting expertise are among the top five features significantly associated with the outcomes of auditor-auditee negotiation over financial reporting. Therefore, INDSPEC is defined as the auditee's CFO or CAO perception of the industry specialization of the audit firm. We also use audit firm industry market share to measure auditor industry specialization as a sensitivity analysis. According to Gibbins *and al.* (2001, 2003), auditor industry expertise is central to auditor-auditee negotiation over financial reporting, which implies that auditor industry specialists will be more likely to resist auditee management pressures in auditor-auditee negotiation over financial reporting issues, or that the auditee will be more receptive to accounting issues raised by a specialist auditor.

¹⁷ In this study, we have measure as the weight of the auditee for the auditor

Accordingly, the sign for the industry specialist variable is predicted to be positive. The second auditor expertise proxy is EXPE, experience is the number of consecutive years that the auditor execute audit. The third proxy is BIG 4 defined as the Big 4 audit firms, and is based on the argument proposed by DeAngelo (1981) that larger audit firms have higher audit quality. Gul (1991) indicates it is more likely that a Big 5 auditor will be able to resist auditee management pressures than a non-Big 5 auditor in auditor-auditee negotiation over financial reporting issues. Therefore, the coefficient for the Big 4 variable is expected to be positive.

Control Variables

The natural log of the auditee's total assets (LNTA) is used to control for possible size effects impacting the outcomes of auditor-auditee negotiation concerning financial reporting issues. DeAngelo (1981) suggests that auditors' incentives to compromise independence are related to auditee importance. Auditors may be less likely to resist important auditees' pressure over the negotiated financial reporting issues since auditors have an incentive to maintain their important auditees. Following Chung and Kallapur (2003), the auditee importance proxy (CIMPORT) is measured as the ratio of the square root of total auditee sales revenue to the square root of the audit firm's total revenue to control for auditor incentives to compromise independence. Considering none the availability of these figures, this measurement is apprehended by the weight of the auditee one. The performance of auditee is measured by the countable performance measured by the output of the credit (benefit before interest and tax/total of the credits).

5. Empirical results

5.1. Descriptive statistics and univariate results

[Insert Table 1 About Here]

According to table 1, the mean level of the variable tenure is about 3.68; this implies a good relation auditee auditor. The standard deviation of the measurement of specialization enables us to note that this variable varies slightly inside our sample.

The majority of the auditors represent an average level of experiment about 19. Ce result highlights the good formation of our auditors and their best knowledge of audit function. Its standard deviation makes it possible to notice that this indicator is very volatile compared to the other variables of the study.

The examination of table 2 shows Fisher of about 13.674, which proves that the explicative variable has an explanatory capacity, the significativity is equal to 0; from where the total model is significant.

[Insert Table 2 About Here]

Table 3 tests the individual effect of each variable, the result shows that the variables big, tenure, experience

have a positively and significantly effect on the result of auditor auditee negotiation. The VIF (Variance Inflation Factor) one of all the variables is lower than 5, from where there are no problem of multicollinearity. Nevertheless, it proves to be interesting to carry out a multivariate analysis taking of account the simultaneous effect of the various studied variables.

[Insert Table 3 About Here]

5.2. Multivariate analysis

The multivariate analysis is used for the simultaneous treatment of a unit of variables (Evrard *and al.*, 2000).

[Insert Table 4 About Here]

Table 4 shows the results of the estimate of the ordered logistic regression. The positive coefficients (negative) indicate positive relations (negative) between the independents variables and auditor auditee negotiation.

In addition, it arises from the same table a positive and significant relation between the auditor tenure and the result of auditor auditee negotiation. This result infirm our assumption. Thus, the ability of the auditor to resist auditee pressure in a negotiation over the financial statements increases with auditor tenure. This result confirms Iyer and Rama (2004) which highlighted that the auditors with a longer tenure are most likely to be independent, suggesting that auditee pressure on the auditor will be in the first years of the relation.

Concerning the variable auditor industry specialization, there are a positive but non significant relation. This result can be justified by the Tunisian context which makes that the presence of an auditor specialist is seldom observed.

There is positive and significant relation between auditor experience and auditor auditee negotiation outcome. This shows that, in the Tunisian context, auditor experience exerts an influence on auditor judgement. This result reinforces those found by Bhattacharjee and Moreno, 2002; Bierstaker and Cianci, 2006.

Audit firm size has a positive and significant influence on auditor auditee negotiation. This result supports the results of Gul, 1991; Sori and Karbhari, 2006; McLennan and Park, 2003; Li *and al.*, 2004 which showed that the largest firms are seen like more independent than the small ones. They noted that the large audit firms are most likely to solve audit conflict in favour of the position of the audit firm, suggesting that this protection of the capital reputation is another reason for which the large firms are likely to be most independent. Concerning control variables, it appears that auditee importance, size and performance don't have any effect on auditor auditee negotiation thus joining the results obtained by the various researchers

on the matter (such as Reynolds and Francis (2000); Johnstone *and al.* (2002); Meyers *and al.* (2003); Ghosh and Moon (2005).

6. Summary, Implications, and Limitations

The purpose of our research was to examine the impact of some attributes of auditor quality (auditor tenure, specialization and experience and audit firm size) on auditor auditee negotiation outcomes, while controlling the effect of certain exogenic factors (auditee importance, auditee size and performance). Auditor auditee negotiation outcome was apprehended by the degree of agreement between the auditor and the auditee over the financial statements using a likert scale from 1 to 7. For tending towards our objective of research, we derived and tested an ordered logistic regression. The multivariate tests were led on a sample of 81 Tunisian firms. The results of our study reveal positive and significant relation between auditor tenure and the degree of agreement between auditor and auditee, a positive and significant relation between auditor experience and negotiation. We also revealed a positive but non significant relation between auditor industry specialization and auditor auditee negotiation and a positive and significant relation between audit firm size and the degree of auditee auditor agreement. However the variables relating to auditee importance, size and performance have no significant variations.

Our study provides initial empirical evidence as to actual auditor-auditee negotiation outcome over financial reporting issues. However, additional factors may influence the auditor's ability to resist auditee management pressures. For example, the auditor's level of moral reasoning (e.g., Windsor and Ashkanasy, 1995), the threat of litigation (e.g., Wright and Wright, 1997), the risk of losing the auditee (e.g., Farmer *and al.*, 1987), and the degree of competition in the audit market (e.g., Knapp, 1985) have not been incorporated in the current study. The current study did not incorporate the entire three-element process model described in Gibbins *and al.* (2001, 2003), but only divided financial reporting issues into financial statement adjustment, financial statement disclosure, and overall financial reporting to test the relation between the outcomes of auditor-auditee negotiation and empirical proxies of auditor independence and audit quality. Future empirical studies may need to incorporate those additional factors into auditor-auditee negotiation research. The results of this study should provide implications for regulatory policy makers.

Auditor independence is a crucial factor for auditor accountability that not only affects the results of auditor-auditee negotiations, but also affects the audit report users such as investors, creditors, and other related parties who rely on the audited financial statements.

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Appendices

A. CONFIDENTIAL QUESTIONNAIRE

Questions	Answers
I. Auditor-client negotiation for year 2006	
1) Do you perceive your auditor to be an industry specialist?	YES/No
2) When your company negotiated with your auditor over financial reporting issues, state the likelihood that you accepted the financial reporting issues recommended by the auditor. A seven point scales (were 1 equals “total disagreement” and 7 equals “total agreement”) were used to measure Responses	
II. Company Information	
1) The total number of consecutive years including 2006 that the same auditing firm has performed your audit.	_____
2) What is the name of the audit firm that signed the auditor’s report on the fiscal year 2001 financial statements?	_____

Table 1: Descriptive statistics

	MOY	Standard deviation	N
ACN	4.12	1.735	81
BIG	.38	.489	81
DAUDTEN	3.68	1.499	81
INDSPEX	.33	.474	81
EXPE	18.91	5.818	81
LNTA	-	-	81
CIMPORT	.0402	.07521	81
PERF	-	-	81

Table 2: Anova

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	136.593	7	19.513	13.674	.000
Residual	104.173	73	1.427		
Total	240.765	80			

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Banda	Tolerance	VIF	B	Std. Error
1	(Constant)	1.732	1.254		1.381	.171		
	BIG	1.652	.381	.466	4.337	.000	.514	1.946
	DAUDTEN	.371	.093	.321	3.988	.000	.917	1.091
	INDSPEC	.583	.389	.159	1.498	.139	.523	1.913
	EXPE	.053	.024	.179	2.243	.028	.934	1.071
	LNTA	-.049	.063	-.062	-.782	.437	.955	1.047
	CIMPORT	.460	1.853	.020	.248	.805	.919	1.088
	PERF	1.324	.952	.109	1.391	.168	.972	1.029

Table 4 - Results of the ordered logistic regression

Ordered logistic régression				Number of obs =	81
				LR chi2(7)	66.25
				Prob > chi2 =	0.0000
Log likelihood = -120.40591				Pseudo R2	0.2158
neg	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
big	2.511232	.7293173	3,44	0.001	1.081797 3.940668
anciennnbr	.574394	.1537206	3,74	0.000	.2731071 .8756809
speciali	.9305078	.7051186	1,32	0.187	-.4514993 2.312515
expérience	.1022928	.0364915	2,80	0.005	.0307707 .1738149
logtai	-.0836382	.095838	-0,87	0.383	-.2714773 .1042009
ict	.1446215	2.823047	0,05	0.959	-5.388449 5.677691
perf	2.037199	1.603246	1,27	0.204	-1.105106 5.179504