Audit Partners' Role in Material Misstatement Resolution: Survey and Interview Evidence

Eldar Maksymov
W. P. Carey School of Business
Arizona State University

Mark Peecher
Gies College of Business
University of Illinois at Urbana-Champaign

Andrew Sutherland
Sloan School of Management
Massachusetts Institute of Technology

Joseph Weber
Sloan School of Management
Massachusetts Institute of Technology

March 2023

We thank Andy Call, Will Ciconte, Michelle Hanlon, Christian Leuz, Lauren Matkaluk, Mike Minnis, Kurt Pany, Nemit Shroff, Rodrigo Verdi, Regina Wittenberg-Moerman (Editor), an anonymous reviewer, and participants at Arizona State University, MIT Sloan, and the *Journal of Accounting Research* Second Registered Reports Conference for their helpful comments. We also thank the anonymous audit partners, CFOs, and audit committee members for their valuable feedback and discussions. We are grateful to Isaac Lord Yamoah for his research assistance. Our survey and interview instruments have been reviewed by the IRBs at our universities and were deemed exempt.

Audit Partners' Role in Material Misstatement Resolution: Survey and Interview Evidence

ABSTRACT

Auditors are expected to identify and resolve material misstatements (MMs) in management's financial statements. However, the audit process is opaque, providing limited public information beyond the audit opinion. While prior studies reveal some correlates of MMs, there is scant evidence about how auditors resolve them and the consequences to the partner or audit relationship. To address this, we survey 462 audit partners and interview 20 audit partners, CFOs, and audit committee members on how partners assess and address MM risk, how MMs are resolved, and the consequences of MMs. Partners report identifying MMs on 9% (15%) of public (private) engagements, and that about one-third of potential MMs are ultimately not actual MMs. In terms of circumstances that most often threaten audit effectiveness, partners point to lack of integrity and expertise on the client's team, ineffective internal controls, and time pressure from both the client and audit firm. Soft factors and negotiations that are often difficult to study archivally play a key role in how MMs are resolved: partners often rely on their rapport with management and involve the national office and audit committee in the resolution process. Compensation changes little when the partner takes a stand against management that a MM exists or following a restatement. Our results provide new insights into the auditor's role in corporate financial reporting at public and private companies that are relevant to academics, practitioners, and regulators. This project was subject to and published through a registered report process. Any tests that were not included in the accepted proposal are marked as unplanned analyses.

1. Introduction

Interest in the auditor's oversight role in the financial reporting process has grown over the past two decades. This growing attention stems in part from major audit failures in the early 2000s, which triggered both scholarly examination of auditor independence (Frankel, Johnson, Nelson 2002; Healy and Palepu 2003) and unprecedented legislative and regulatory overhauls of the public company audit standard setting and oversight functions (Ball 2009; Coates and Srinivasan 2014; Leuz and Wysocki 2016). Persistent opacity around the audit process has also fueled this growing interest. Despite ongoing efforts to identify audit quality indicators (e.g., AE 2016; CAQ 2016; CPAB 2018), academics, investors, and regulators ordinarily learn little about auditors' work, except in the rare instances when auditor litigation or regulatory enforcement is public. It is perhaps not surprising that there are such varied perspectives on the pervasiveness of fraud and how much auditors do to prevent it (Ball 2013; Zakolyukina 2018; Bertomeu et al. 2021; Dyck, Morse, and Zingales 2023).

We address this gap by surveying 462 audit engagement partners (henceforth "partners") about their role in the corporate financial reporting process of public and private companies and by conducting 20 semi-structured interviews with partners, CFOs, and audit committee members. Research suggests that auditors influence reporting quality through the identification of audit adjustments, only some of which management subsequently records (Lennox, Wu, and Zhang 2016; Choudhary, Merkley and Schipper 2019; Lennox, Wang, and Wu 2020). We therefore organize our survey around three topics focused on how auditors assess material misstatement ("MM") risk, how MMs are resolved, and the consequences of MMs.[1]

[1] Based on our review of auditing standards and our discussions with partners, we define an MM as an individual or aggregate material difference identified between (1) an account balance or disclosures as *reported* in management's financial statements and (2) an account balance or disclosures that are *required* for them to be in accordance with the

Our first topic examines the factors affecting the perceived probability that a client will have an MM and the auditor's ability to address MM risks. Our second topic studies the auditor's role in resolving MMs. Our final topic examines the partner and audit relationship consequences of identifying and resolving an MM. Our central focus for all three topics is exploring risk factors, resolution tactics, and MM consequences that are not easily codified and have been difficult for archival work to study. A related focus is identifying associations and variables that archival audit and reporting researchers can use to build on our findings.

Much of the evidence we produce has been impracticable for academics to obtain archivally. Publicly observable signals, including auditor engagement and dismissals, fee disclosures, and audit report modifications are laden with boilerplate discussion and thus limited in their informativeness. Regulator-provided data offers an inside, albeit limited, perspective on how often management records or waives proposed adjustments. Evidence from these sources indicates a range of estimates around the frequency with which audits identify proposed adjustments, depending on the nature of the engagement (Kinney and Martin 1994; Lennox, Wu, and Zhang 2016; Choudhary et al. 2019).[2] In terms of consequences, Dechow, Ge, and Schrand (2010) explain: "While the basic premise that auditors could mitigate misstatements is straightforward, compelling empirical evidence is limited because *auditor effort/effectiveness and incentives are unobservable, and data to create proxies for these constructs are often unavailable*" (p. 383; emphasis added).

We designed and conducted our survey using the registered report methodology, which

---

applicable financial reporting framework. This definition acknowledges that there are often multiple acceptable ways for management to meet these requirements.

[2] As Choudhary et al. (2019) explain, "inspected audits are selected based on expert judgments of ex post audit risk" (p. 1305), and therefore figures from PCAOB inspected audits may not generalize. Further, how the MM resolution process unfolds remains opaque to regulatory inspectors to the extent their work occurs with a significant lag from audit fieldwork and relies on auditors' stylized documentation of MM resolutions (Peecher et al. 2013).

allowed us to receive extensive survey expert, partner, audit committee member, CFO, researcher, reviewer, and editor feedback on our survey *before* conducting it. We then submitted a registered report proposal in which we committed to using a specific survey instrument. Having made this commitment, we did not add, remove, or alter any survey questions relative to our proposal. To our knowledge, our survey is the first conducted via a registered report process in a top social sciences journal.

Our survey includes both recently retired partners, who have experience in auditing public and private companies but whose participation and responses are unconstrained by firm policies, and current partners, because of their understanding of the most recent audit practices and trends. Inviting these partners to confidentially participate in our survey allowed us to obtain a broad firm- and regulator-independent sample of responses from partners at a variety of audit firms. Additionally, our more sensitive questions were framed to provide participants "plausible deniability," which helps elicit truthful responses about auditor culpability (Bradburn et al. 2004; Griffith, Hammersley, and Kadous 2015; Vannette and Krosnick 2018; Cade, Gunn, and Vandenberg 2021).

Responses to our demographic questions indicate that partners are four times more likely to assess inherent risk as high for public than private clients (27% vs. 6%) and over three times less likely to assess inherent risk as low (13% vs. 43%). On the other hand, respondents report less frequently identifying MMs at public than private clients: roughly 9% (15%) of public (private) engagements identify an MM, and 35% (32%) of the potential MMs that auditors identify are ultimately not actual MMs. These findings likely reflect public companies facing stricter internal control requirements, more controls testing, and undergoing interim audit work that helps prevent, detect, and correct MMs before they enter into financial statements. Fifty-nine percent of

respondents indicate that they have identified an MM, such that the client had to restate previously filed financial statements and notify investors that the previously filed financial statements could not be relied upon.

We highlight the key results from our three topics here, and provide a more comprehensive and detailed discussion in Section 4. Partners report increasing their MM risk assessment most for clients close to breaching a covenant, indicating that debt contracting has an important effect on engagements. While there is a large literature on covenant design and violation resolution (see Armstrong, Guay, and Weber 2010 and Christensen, Nikolaev, and Wittenberg-Moerman 2016 for reviews), there is significantly less work on how violations affect engagements. Other leading factors include going concern doubts, executive compensation being tied to aggressive targets, and executives having aggressive personalities.

When we pose the Graham, Harvey, and Rajgopal (2005) scenario about what choices managers could make at the end of the quarter when their company might come in below its desired earnings target, partners report increasing MM risk in unaudited earnings most for accounting-related decisions (altering assumptions, postponing charges, recognizing more revenue early) and rarely for real-earnings management (decreasing discretionary spending, delaying projects, and repurchasing shares). This indicates that partners perceive accounting- and real-earnings management to not necessarily be complements, and suggests auditor oversight plays an important role in disciplining end-of-quarter earnings management.

We also ask what circumstances most often threaten audit effectiveness. Although a majority of partners report that ineffective internal controls threaten audit effectiveness every time, two soft factors—a lack of integrity and a lack expertise on the client's finance/accounting team—are cited even more frequently. In terms of auditor-driven issues, partners cite insufficient

professional skepticism, lack of expertise among the non-partner members of the engagement team, and undersampling and undertesting as significant threats to audit effectiveness. Both client- and auditor-driven time pressure also threaten audit effectiveness, notable because "busy season" is a defining characteristic of audit work given the fiscal-year end clustering for both public and nonpublic clients (Duguay, Minnis, and Sutherland 2020; Beardsley, Imdieke, and Omer 2022).

As for our second topic, MM resolution, roughly half of partners report that management pushes back on correcting an MM when doing so requires reissuing financial statements (i.e., a "Big R" restatement). Interestingly, the resistance is largely insensitive to whether the restatement would decrease versus increase income. There is slightly less resistance to "little R" restatements (not requiring reissuance), and once again whether the restatement increases or decreases income has only minor bearing on management's reaction.

Soft factors and negotiations that are often difficult to study archivally play a key role in how MMs are resolved. Partners report that the most commonly used tactic for successfully resolving MMs is reliance on strong rapport with client management (Kwon and Yi 2018; Guan, Su, Wu, and Yang 2016; Jeanjean, Marmousez, and Sirois 2013). There is also significant heterogeneity across partners, client types, and circumstances: many resolution tactics register high responses for both "every time" and "never." This evidence motivates further work on understanding partner-specific "styles" and individual characteristics and contexts that are associated with these styles (Knechel, Vanstraelen, and Zerni 2015). That said, many partners also report involving the audit committee and the firm's national office in negotiations, indicating that there are limits on the extent to which partners can exert their "style" and that more research is needed to understand interactions between partners, client management, the national office, and audit committee. Last, a majority of partners indicate that in successful resolution of MMs they

never threaten resignation or not renewing the audit relationship, and never receive threats from the client to not rehire the auditor the next year, suggesting that a successful MM resolution process is usually a constructive one.

Quantitative materiality thresholds do not appear to be "hard lines in the sand." Between 13 and 22% of partners report treating errors above quantitative materiality as immaterial *every time* when the errors affect only the management discussion and analysis, only the balance sheet classification, only a note to the financial statements, or only the supplemental schedules accompanying the financial statements. This is surprising because the audit guidance provides for auditors using qualitative factors in deciding whether a quantitively immaterial error is material, but not whether a quantitatively material error is immaterial.

Responses to questions in our third topic provide new evidence on the consequences of MMs. When partners and the national office conclude that there is an MM in the unaudited financial statements and the client management challenges this conclusion, partners report regularly issuing an adverse opinion on the effectiveness of internal control over financial reporting. Fifty-five percent of partners report never being rewarded for taking an uncompromising position in such scenarios, while just 15% of partners report being rewarded every time. While these disagreements often lead to clients giving a poor satisfaction rating in the client survey and complaining to the partner's superiors, partners report that their firm rarely ceases the audit relationship or rotates them out early. When an MM is identified, most partners say that the inherent risk, control risk, use of experienced personnel and firm specialists, and time budget in next year's engagement increase.

Our final question explores the consequences of restating previously filed financial statements. The consequences most likely to follow restatements include the partner's subsequent

engagements being selected for internal quality control review or PCAOB inspection. Compensation declines, but not frequently—only 16% report pay decreasing very much. Likewise, only a small share of partners say that promotion prospects and career opportunities outside the firm decline every time. Combined with partners rarely being financially rewarded for taking an uncompromising position against management challenging whether an MM exists, the responses indicate that many partners do not face particularly strong financial incentives to prevent restatements. Partners we interviewed offered two explanations. First, audit firms are hesitant to be too punitive, to avoid deterring partners from coming forward when they uncovered MMs they missed on previous engagements. Second, the degree of punishment for a restatement depends critically on whether this is the partner's first versus if they have a history of quality problems.

One limitation inherent to our study is that partners may not be forthcoming or their engagement recollections may not be complete or accurate. To address this, we compare current and former partners' responses to questions about threats to audit effectiveness that may not shed the most favorable light on auditors. If our survey design, extensive safeguards, and assurances of confidentiality were not compelling to participants, then we would expect current partners to be more guarded in responding to our most sensitive questions. However, we find similar responses in terms of the auditor-driven threats from insufficient professional skepticism, lack of expertise among the non-partner members of the engagement team, undersampling and undertesting, and time pressure from the auditor. We also fail to find current and former partner differences in the relative importance of client- and auditor-driven threats to audit effectiveness. This response pattern, in addition to partners admitting that errors above quantitative materiality are commonly treated as immaterial, suggest that partners were forthcoming about their experiences. Nevertheless, we view our evidence as a first step to understanding partners' role in MM detection

and resolution, and encourage archival work that seeks to confirm or extend our findings.

Our survey helps overcome impediments to researchers observing MMs, which have constrained understanding of auditors' role in the reporting process (for reviews, see Beyer et al. 2010 and DeFond and Zhang 2014). Our investigation of circumstances and outcomes that are not easily codified brings new evidence to multiple longstanding questions and debates in the audit and reporting literatures. As one example, many studies point to fraud and earnings management being a pervasive feature in U.S. capital markets (recent work includes Zakolyukina 2018; Dyck et al. 2023), a long-held claim that has been challenged by Ball (2013) and others who raise questions about plausibility and measurement. Our results provide estimates of the base MM rate that is lower than that implied by the earnings management literature, and detail how auditors identify and resolve MMs.

Second, when an adjustment is proposed, management is far more sensitive to whether it requires a Big-R restatement than to whether it decreases versus increases income, a different pattern than earlier work (Kinney and Martin 1994). Third, while the literature on auditor independence tends to focus on the costs of close auditor-client relationships, multiple aspects of our results point to an upside: strong rapport makes it easier for the auditor to convince the client to address MMs. Fourth, partners report facing weak financial incentives for taking a stand against management that an MM exists, or for avoiding restatements on their engagements. Fifth, soft factors—including the auditors' rapport with management, and the integrity and expertise of the management team—are more important to MM risk and audit effectiveness than frequently studied factors such as internal control effectiveness or whether the client is close to missing its earnings guidance.

Our survey evidence also motivates several avenues for archival researchers to build on

our findings. For example, partners report client- and auditor-driven time pressure posing a serious threat to audit effectiveness, and researchers can proxy for time pressure using fiscal year ends, partners' engagement workload, and management distractions. Second, given partners rely heavily on rapport with management, future work can also examine how social and professional ties between auditors and management affect audit outcomes. Third, we also document considerable heterogeneity in how partners resolve MMs, and that MM resolution commonly involves the national office and audit committee. Future research can investigate partner- and CFO-specific traits using publicly available data, and model the audit process more broadly to consider the role of the audit committee and national office.

Our results are also relevant to regulators and practitioners. Standard setters seek to incorporate academic research into their agendas (e.g., Geoffroy and Lee 2021), particularly with respect to detecting, failing to detect, and resolving MMs (Christensen et al. 2016). For example, the PCAOB's website prominently defines the regulator's key objective as "driving continuous improvement in audit quality."[3] Regulators are also likely to be interested in the consequences of MMs to partners, insofar as these consequences affect partner judgment. In terms of practitioners, our results provide an ordinal ranking of both the MM factors partners look for and the tactics they rely upon to resolve MMs. Therefore, our survey could inform firms' audit methodologies, MM resolution tactics, and partner incentives.

2. Motivation

2.1. Assessing and Addressing Material Misstatement Risks

Our first topic examines how audit engagement partners (henceforth "partners") assess and address MM risk. Research on MMs can be categorized into streams of literature examining three

[3] See https://pcaobus.org/ (visited on July 12, 2021).

types of MMs: (1) nonwaived adjustments (MMs detected and corrected during the engagement, henceforth "adjustments"), (2) adjustments waived by management (MMs detected but not corrected during the engagement), and (3) restatements (MMs either undetected or waived during the engagement and detected and corrected afterward).

The first stream of literature explores drivers and consequences of audit adjustments and can be subdivided into pre- and post-SOX research. Pre-SOX work on nonwaived adjustments focused on the determinants of these adjustments, typically using audit working papers provided by an individual audit firm (see Kinney and Martin 1994 for a review). A key finding from this work is that adjustments typically reduce income and assets, suggesting auditors discipline management's desire to overstate performance. Post-SOX, as data from the PCAOB and international sources have become more readily available, researchers have revisited key questions related to the determinants of audit adjustments. For example, Choudhary et al. (2019) study a sample of U.S. audits selected for PCAOB inspection and find looser materiality thresholds are associated with both fewer proposed adjustments and a greater incidence of restatements.[4] Lennox, Wu, and Zhang (2016) examine engagement data from audits in China and report that 68% of engagements contain nonwaived adjustments. Further, they find income-decreasing adjustments are far more common than income-increasing ones and that adjustments reduce earnings volatility. Using similar data from audits in China, Lennox, Wang, and Wu (2018) show that partners' equity incentives are negatively or insignificantly associated with audit adjustments, consistent with audit quality being harmed by pressure to satisfy clients.

The second stream of literature explores circumstances surrounding waiving proposed audit adjustments. When auditors conclude that proposed adjustments are not material, they may

[4] See also Asare, van Buuren, and Majoor (2019), who find that 65% of audits in the Netherlands uncovered an MM.

allow management to waive them by not conditioning an unqualified opinion on requiring management to record the proposed adjustments. Kinney and Martin (1994) report that, pre-SOX, roughly half of all proposed adjustments were waived, and Choudhary, Merkley, and Schipper (2022) find that, post-SOX a larger percentage of PCAOB-inspected firms' waived adjustments is associated with restatements. Keune and Johnstone (2012) find that audit committee financial expertise and auditor reputation concerns are associated with fewer waived adjustments by management.

The third stream of literature explores drivers and consequences of restatements. While a lack of data limits the first two streams of research (on auditor proposed adjustments and on booked-versus-waived adjustments), the literature on restatements is much larger because restatements are publicly disclosed. This research has investigated the association between restatements and audit committee expertise and independence, auditor effort, non-audit fees, management compensation, and firm fundamentals (e.g., Abbott, Parker, and Peters 2004; Agrawal and Chadha 2005; Burns and Kedia 2006; Larcker, Richardson, and Tuna 2007; Armstrong, Jagolinzer, and Larcker 2010; Dechow et al. 2011; Lobo and Zhao 2013). Restatements are often followed by management turnover and share price declines (Srinivasan 2005; Palmrose and Scholz 2004) but occur relatively infrequently compared to adjustments. In recent years, there have been several hundred restatements annually, affecting roughly 5% of publicly held firms (CAQ 2021), while the above work suggests that a much larger number of engagements—roughly two-thirds—involve adjustments that are not publicly observable.

Overall, existing research provides estimates of the preponderance of MMs and correlates board and auditor characteristics and firm fundamentals with MM risk. Our survey both extends this work, by examining unexplored MM risk factors that are not typically recorded in archival

data, and permits researchers to triangulate prior findings with our responses from the current audit environment in the U.S. First, as Choudhary et al. (2019) emphasize, the regulatory environment has changed significantly over the past two decades, providing an opportunity to revisit findings from the pre-SOX and pre-PCAOB inspection era. For example, both interview (e.g., Johnson, Keune, and Winchel 2019) and survey (e.g., Hanlon and Shroff 2021) evidence points to auditor public oversight affecting audit planning, procedures, and effort. Then, some archival findings may not generalize to the current environment, warranting a follow-up examination.

In terms of more recent work studying either non-U.S. engagements or accessing data from audits selected for PCAOB inspection, our approach of surveying a broad cross-section of U.S. partners allows us to triangulate evidence across settings. In particular, our research adds to evidence from China by investigating waived adjustments and by focusing on qualitative determinants of MMs that require significant judgment and are therefore likely to be influenced by institutional features. For example, there is significantly lower civil litigation risk and a higher prevalence of state-owned enterprises in China than in the United States. Demand for audit quality is greater and audit regulation is stricter in the United States than in China, though evidence points to these differences shrinking over the past several decades (for further discussion, see Lennox and Wu 2021). Our survey also adds to the recent evidence using PCAOB data by accessing a broader sample of engagements (i.e., privately held as well as publicly held clients, regardless of whether they are selected for inspection).

A second important objective of topic 1 is to develop evidence on factors affecting (1) MM risk and (2) auditors' ability to address this risk, which are not easily codified due to their nature and have been (and will likely continue to be) difficult for archival work to study. Datasets covering audit adjustments are more amenable to exploring objective characteristics (e.g., board

composition, client size, or profitability) than softer factors, such as the nature of the auditor-client relationship or the auditor's perception of a client's behavior. We extend the archival research that identifies observable correlates of adjustments by examining how some of these key factors affect MM risk assessment that itself is not easily accessible archivally but determines auditor effort.

Last, in topic 1 we examine engagement choices—such as the involvement of the national office or a valuation specialist—that could help address MM risk but have been understudied due to lack of data. Behavioral research has used qualitative and experimental methods to examine the auditor-client relationship and the auditor-client dynamics that affect audit quality (see reviews by Nelson and Tan 2005, Trotman et al. 2011, and Knechel et al. 2013). We extend this literature by directly examining partners' views about the determinants of MM risk and factors affecting their ability to address this risk.

In sum, a key objective of topic 1 is to extend prior research on MMs by using direct insights from U.S. partners to triangulate evidence from prior archival research on MMs and to examine waived adjustments and qualitative determinants of MMs that are not easily accessible by archival methods.

2.2. Resolution of Material Misstatements

Our second topic focuses on the auditor's role in resolving identified MMs. Compared to estimating MM risk and the correlates of identified MMs, far less archival research addresses this topic. A key barrier is that relevant data are not publicly available and mechanisms for resolving MMs are generally observable only to the participants in the resolution process—particularly partners themselves. Thus, examination of this process lends itself particularly well to qualitative methods. For example, surveys provide evidence that auditor-client negotiation issues are typically about material items (Gibbins, Salterio, and Webb 2001) and that most CFOs report participating

in negotiations with auditors over accounting issues (Gibbins, McCracken and Salterio 2007). Joe, Wright, and Wright (2011) report that audit adjustments are more likely to be waived when auditors have had a longer relationship with the client, although the authors conclude that this higher rate of waiving adjustments does not arise from favoring these clients.

As Lennox and Wu (2018) discuss, there is a burgeoning literature on partner- and office-level research, which raises new questions about the organizational design of audit firms and the degree of partner autonomy.[5] However, archival research is limited in its ability to examine how and when partners interact with the national office.[6] Topic 2 of our survey explores national office-partner interactions and audit committee-partner interactions surrounding MM resolution that are not recorded in public or regulator datasets.

2.3. Consequences of Material Misstatements

A sizable literature examines the consequences of MMs that are discovered after the audit is completed, leading to a restatement. The public availability of restatement information and restatement outcomes enables archival research on this topic. An influential pre-SOX study on this topic finds that most booked adjustments are income-decreasing and that these adjustments sometimes make it more difficult for the firm to meet earnings expectations and can lead to lower management compensation (Kinney and Martin 1994). This evidence suggests that the client may challenge whether an adjustment is necessary. Our survey examines this topic further by providing evidence on how often clients threaten to dismiss the auditor, complain to the partner's superiors, or negatively evaluate the auditor in post-audit evaluations when MMs are proposed.

Post-SOX archival research on this topic tends to examine the associations between observable audit quality metrics and client retention (e.g., Barton 2005; Weber et al. 2008; Skinner

---

[5] See Gul, Wu, and Yang (2013), Knechel et al. (2015), and Mowchan (2016).
[6] For interview-based evidence, see Aghazadeh et al. (2021).

and Srinivasan 2012; Haislip et al. 2017; Chen et al. 2021). For example, Haislip et al. (2017) examine revisions of unaudited earnings numbers and find that these revisions are associated with auditor dismissals. Recent work also examines this question in the setting of audits in China and finds evidence that partners whose clients restate are more likely have their opinion signing privileges revoked (Chen et al. 2021). Additionally, how MMs are resolved could affect not only compensation and opinion signing privileges but also the partner's promotion prospects, how they plan for the next engagement, and whether partner rotation occurs (Gipper, Hail, and Leuz 2021). We complement this work by investigating the consequences of MMs that are identified and resolved *during the engagement*.

Several studies using behavioral methods examine constructs not easily accessible to archival methods, and have illuminated the consequences auditors may face when resolving MMs. For example, Sanchez et al. (2007) conduct an experiment and find that auditors perceive greater client satisfaction and retention prospects when they allow management to waive immaterial adjustments. McCracken et al. (2008) provide questionnaire-based evidence that partners view themselves as being responsible for keeping the client happy and that firms remove partners with poor client relationships from their engagements. Interviews conducted by Christensen, Schmardebeck, and Seidel (2022) reveal that partners' materiality assessments on prior misstatements depend on partners' incentives to please clients.

Overall, prior research suggests that partners may perceive personal career risk to taking a strong stand against management when an MM arises. Conversely, partners may believe that their firm's leadership will support high-integrity stands on accounting issues. How partners perceive these risks and firm support speaks to auditor independence. Topic 3 of our survey investigates these possibilities in detail.

3. Survey Methodology and Interviews

3.1 Survey Instrument

Why a survey? Although the topics we examine are central to both audit practice and the audit literature, substantive examination has proved elusive primarily due to the difficulty of accessing relevant audit working paper or archival data, particularly in the U.S. Bloomfield, Nelson, and Soltes (2016) note that accounting research on some topics is at the point where studies based on collection of original data, such as those using a survey method, can be paramount to moving the literature forward. In discussing the need for more work that uses original data, they cite Vatter (1966):

> One of the real limitations of empirical research is that we tend to work on problems we are able to study because data are available; we thereby tend to overlook problems that we ought to study, if data for such problems are not easy to obtain. … Gathering direct and original facts is a tedious and difficult task, and it is not surprising that such work is avoided. (p. 232)

In recent years, multiple original data studies published in top accounting research journals, including influential surveys of experts, have deepened understanding of issues less conducive to examination by other methods (e.g., Dichev et al. 2013, Brown et al. 2015; Brown et al. 2019). Importantly, survey studies ordinarily do not develop or test theory—they instead provide new evidence that is useful for interpreting theory and aiding theory development and testing.

Generally, the survey method is the most suitable approach to obtaining views of a select group of experts on a subject of interest in a quantifiable form—an objective that is exceedingly difficult to accomplish using other research methods (Dillman, Smyth, and Christian 2014; Lune and Berg 2017). In addition, a long stream of research suggests that auditor knowledge of event frequencies experienced during their careers likely is accurate, especially their knowledge of comparative frequencies—e.g., which survey response options occur more often than others in the

same question (Zacks et al. 1982; Ashton 1991; Nelson 1993; Hertwig and Hoffrage 2002; Zacks and Hasher 2002; Kochetova-Kozloski et al. 2010; Mathews et al. 2011; Woltz et al. 2012; Nelson and Skinner 2013; Vannette and Krosnick 2018; De la Rosa and Tully 2020; Mayne 2021).

Having settled on the survey method, we faced the decision to pursue a partnership with another organization (e.g., the Center for Audit Quality, PCAOB, or a large audit firm) to develop and administer the survey, or operate independently. For example, the Center for Audit Quality engages with the audit profession in multiple ways, including via its "Audit Partner Pulse Survey" first launched in 2022. Our discussions with audit firms also indicate that they occasionally poll partners and employees on trends in engagements, reporting practices, and client performance and risk factors.

Despite these established lines of partner communication, we elected to design and administer the survey independently. Our overarching reason is that several of our questions explore sensitive issues, and partners may feel uncomfortable participating or truthfully reporting their experiences to an organization like the Center for Audit Quality, a regulator like the PCAOB, or their own employer. As examples, we ask about how often partners waive MMs, audit team-driven threats to audit effectiveness, and whether partners are financially rewarded or punished for taking a strong stand against a client when disagreements about MMs arise. Exploring these issues is central to our contribution, so obtaining a sufficient number of credible responses is important.

We developed our survey instrument in four stages to ensure that we covered the key topics of interest to academics and professionals. First, we established three main survey topics and drafted questions after reviewing the literature to identify the areas where evidence on MMs is lacking and surveys could provide new insights. Second, we interviewed five experienced, recently retired partners to gather their feedback on our three topics and questions. These interviews

enabled us to obtain context relevant to the evidence we assembled from academic research. Using partners' feedback, we refined the preliminary survey questions and response options. Then we asked five partners to complete the preliminary survey questionnaire, recording their comments as they completed the questionnaire. We had a Zoom call with each partner to discuss their impressions, confusion, and suggestions. We then revised the survey.

Third, we presented our survey and proposal in academic workshops at Arizona State University and MIT and refined our questions based on feedback, in particular from audit and reporting researchers and survey methodology experts, as well as from our Editor and an anonymous reviewer. Fourth, we presented our proposal at the *Journal of Accounting Research* Second Registered Reports conference and collected feedback from participants and the Editor. This led us to conduct four interviews with CFOs and audit committee members to ensure our survey asks the most relevant questions about MMs, revise several questions, and add a new question that explores ways in which auditors miss or mishandle MMs. Overall, this process allowed us to design a survey instrument that explores relevant topics, is clearly worded, and is likely to elicit truthful responses.

Because some parts of our survey explore potentially deviant behavior on the part of auditors, we developed our questions using the "plausible deniability" approach to make participants comfortable sharing their insights. This approach involves asking participants in ways that allow them to be able to deny plausibly that they were involved in any wrongdoing. For example, we ask participants how often certain circumstances "pose a meaningful threat to audit effectiveness" rather than how often they experienced such circumstances. Related work (Griffith et al. 2015; Cade, Gunn, and Vandenberg 2021) and methodological guidance (Bradburn et al.

2004; Vannette and Krosnick 2018) suggest this approach can elicit truthful responses because it can reduce the tendency to respond in a socially desirable but misleading way.

When deploying the survey, we randomized the order of questions within each topic and options within each question. Our instrument also includes 15 short questions on the respondent's audit background, demographics, and administrative matters: 10 shown before the primary questions and five shown at the end, including two administrative questions (charity preference and willingness to interview). These short questions allowed us to conduct cross-sectional analyses. Our cross-sectional specification is as follows:

$$Survey\ Response = \beta_0 + \beta_1 Current\ Partner + \beta_2 Big4 + \beta_3 Restatement\ Experience + \beta_4 Late\ Survey\ Taker + \beta_5 Only\ Public\ Clients + \alpha_i + \alpha_{exp} + \alpha_{size} + \epsilon. \quad (1)$$

where *Survey Response* is the partner's response to the survey question. *Current Partner* is an indicator for current partners, *Big 4* is an indicator for partners who gained most of their experience as an engagement partner at Big 4 audit firms, and *Restatement Experience* is an indicator for partners who report having identified an MM such that the client had to restate previously filed financial statements. *Late Survey Taker* is an indicator for partners who completed the survey in September or October. *Only Public Clients* is an indicator for partners who report having zero private firm engagements in a typical year.[7] α_i are fixed effects for each of the seven industry categories. α_{exp} are fixed effects for each experience level (1-5 years, 6-10 years, 11-15 years, 16-20 years, and >20 years). α_{size} are fixed effects for each client size category (<$25 million, $25-$99 million, $100-$499 million, $500-$999 million, $1-$4.9 billion, $5-$9.9 billion, and >$10 billion of annual revenue for the partner's primary audit clients).

[7] The holdout category is *Public and Private Clients*, an indicator for partners reporting having both client types in a typical year. The third category (*Only Private Clients*) is collinear with *Restatement Experience* (no partners with restatement experience reported having only private clients).

3.2 Participant Pool

We developed our participant pool in four steps. First, we obtained the list of 861 public accounting firms registered with the PCAOB as of 2021 from the PCAOB's website.[8] From this list, we eliminated all but the top 50 audit firms based on revenue (Accounting Today 2021). Second, we hired research assistants (RAs) to access a professional networking website and search for "audit partner" in conjunction with three built-in filters: "People," "Company," and "Location." The People filter does not require specification. For the other two, we specified each of the top 50 audit firms on the list obtained in the first step and "United States" as the location. Using this process, the RAs identified 8,161 current and former partners using the professional networking website. Third, we hired a separate team of RAs to compare each partner to their professional networking profile, and remove partners whose role appears to focus on tax, information technology consulting, mergers and acquisition advisory, wealth management, or other non-audit work. Fourth, we obtained matching email addresses for 4,824 of the remaining partners, using a survey marketing service.[9]

We emailed our first batch of 50 survey invitations in a small pilot on May 19, 2022, to ensure the survey was functioning properly. See Appendix A for an example invitation, and Appendix B for the enclosed consent form. Over the subsequent weeks, we sent additional first-round invitations (in the interest of time, we concurrently collected new partner emails and contacted partners we had previously identified). We sent several reminders to partners who did not yet complete the survey or respond that they were contacted in error or not interested in participating. When invitations bounced back (e.g., in cases when the partner had retired or moved

[8] See https://pcaobus.org/oversight/registration/registered-firms?firmcountry=United%20States

[9] Several highly cited surveys related to ours employ a similar approach of contacting participants via the web (e.g., Nelson et al. 2002; Brav et al. 2005; Graham et al. 2005, 2014; Brown et al. 2019).

to another firm), we forwarded the invitation to any alternative email address listed in the automated response, and if none was provided we messaged the partner our invitation on the professional networking website.[10] We sent our final email reminder on September 20th, 2022, and closed survey access on October 14th.

The survey link directed partners to an MIT-hosted Qualtrics page, and no one outside the co-author team could access this page or view participants' identity or responses. In addition, our invitation (reproduced in Appendix A) assured participants of the confidentiality of their responses. Partners were invited to "participate in a 20-minute confidential survey" and we assured them that "our survey does not ask participants to identify themselves, their audit firm, or their clients." Section 3.2 details additional steps we took to minimize nonresponse bias.

We ultimately obtained 462 usable responses, where the partner responded to at least one non-demographic question, compared to our list of 4,824 partners receiving invitations.[11] Thus, our response rate of 9.6% is comparable to prior surveys of highly experienced professionals.[12] Published audit surveys regularly have 100–150 participants (Gibbins, McCracken, and Salterio 2007; Christensen et al. 2016; Frank et al. 2021). Additionally, we conducted the formal power

---

[10] In September 2022, one Big 4 firm included our invitation in one of their U.S. partner weekly newsletter emails. We had emailed multiple invitations to most of these partners prior to September using our email list. Thus, these firm efforts served as reminders, and in all cases, we retained control of the survey (the questions did not change), the Qualtrics survey website, and the invitation language including assurances of confidentiality of results was the same as for other invitations. As an additional step, we include a control variable in our cross-sectional tests for September participants, and find this variable is significant in just 16% of the responses.

[11] Our Qualtrics link allowed partners to complete the survey over multiple sittings if doing so was more convenient for them. Excluding partners who took more than one hour to complete the survey (as in Brown et al. 2015), likely because they started and finished in different sittings, the mean (median) time to complete the survey was 19 (17) minutes.

[12] Brav et al. (2005) report an 8% response rate in their survey of Financial Executives International members. Similarly, Graham, Harvey, and Rajgopal (2005) report an 8% response rate on the portion of their survey of executives administered on the web. Graham et al. (2014) emailed 2,794 members of Tax Executives International and received 744 usable responses (27% response rate). Dichev et al. (2013) emailed 10,333 executives and received 558 responses for their earnings quality survey. Brown et al. (2015) emailed 3,341 potential participants and received 365 responses (11% response rate) for their sell-side analyst survey. Brown et al. (2019) emailed 4,213 investor relations professionals and received 610 responses (14% response rate). Nelson et al. (2002) partnered with a Big-N audit firm to administer a survey to partners and managers and reported a 16% response rate.

analysis described by Land and Zheng (2010) and recently applied by Tomy and Wittenberg-Moerman (2021). As detailed in Appendix C, under standard assumptions about power and significance (power of 0.8 and significance of 5%), a sample size of 300 allows us to detect even small effects. The response count for all our tables exceed 300.

We developed our survey and planned analyses to minimize nonresponse bias, which occurs "when those who do not respond are different from those who do respond in a way that influences the [response]" (Dillman et al. 2014, p. 3). Meta-analyses of survey studies have provided evidence that nonresponse bias does not tend to associate with nonresponse rates, suggesting that it is more important to minimize nonresponse bias than to minimize the nonresponse rate (Groves 2006; Groves and Peytcheva 2008). Thus, we identified multiple design features and analyses from best practices suggested in seminal methodological survey research to minimize nonresponse bias in our study (Dillman et al. 2014; Miles, Huberman, and Saldana 2018; Vannette and Krosnick 2018).

First, in addition to inviting current partners, we also invited former partners because their participation is not constrained by their (former) audit firm. Second, we sent nonrespondents multiple reminders to reduce potential nonresponse bias due to busyness, reluctance to participate, etc. Third, we compared the responses of partners who participated early to the responses of those who participated late, and found little difference in their responses. Fourth, we conducted 9 post-survey interviews to contextualize and gain deeper understanding of our survey results. Fifth, we sent the initial draft of our paper to all survey participants to give them an opportunity to identify potentially spurious results. Sixth, we examined where participants worked. We found that 71% of our respondents obtained most of their experience at Big 4 firms, whereas the Big 4 employs

61% of the partners in the top 50 firms we included in our email contact list. Thus, our sample is broadly representative.

4. Results

We group our survey questions into a set of background questions, followed by survey questions grouped into three topics. The background questions cover biographical information including aspects of the partner's experience (their firm type, client characteristics, and restatement experience) and how frequently they identified MMs in their engagements (Table 1). Our first topic focuses on the factors affecting the perceived probability a client will have an MM and the auditor's ability to address MM risks by conducting an effective audit (Tables 2-6). Our second topic focuses on the auditor's role in resolving MMs (Tables 7-10). Our third topic explores the consequences of MMs to partners, their clients, and future audit engagements with these clients (Tables 11-13).

Tables 2 through 13 have four columns each. Column 1 reports the average rating for each response item. The response items in each table are ranked and reported in decreasing order of this average rating. Column 2 reports how frequently the average rating for each item exceeds the average ratings of other items in the table. For example, if column 2 reports Significantly Greater than "3-14" for a given response item, then its average rating is significantly greater than that for each of response items 3-14 at the 5% level. To correct for multiple comparisons, we use Bonferroni-Holm adjusted p-values. Columns 3 and 4 report percentages of respondents who rate a given item at or near the top and bottom of the scale, respectively. For brevity, we report cross-sectional results in the online appendix, and limit our discussion in the text to those results we find most interesting.

4.1 Demographics

Table 1 describes the 462 partners who participated in our survey, as well as key

characteristics of their audit engagements. Most respondents (71%) report their age as 40-59, and one-fifth are female. The majority are currently equity partners in audit (77%) and have over 10 years of experience as an audit engagement partner (62%). Seventy-one percent obtained this experience primarily at Big 4 firms. Partners most frequently report covering the manufacturing (44%), technology (33%), and retail and wholesale (32%) sectors (partners could select multiple sectors). Most respondents describe the average annual revenue of their primary audit clients as $1 billion to $4.9 billion (25%), followed by $100 million to $499 million and $10 billion+ (17% each). Most partners (over 80%) cover both public and private clients. In terms of workload, the most typical response is 1-4 public (private) clients each year: 73% (42%) report serving as a partner on 1-4 public (private) clients each year.

4.2 Material Misstatement Risk Environment

We asked respondents about their restatement experience, inherent risk assessments for their clients, how often MMs were identified in engagements, and how often the MMs were dismissed. Fifty-nine percent of respondents indicate that they have identified an MM, such that the client had to restate previously filed financial statements and notify investors that the previously filed financial statements could not be relied upon. For context, the annual restatement probability for SEC registrants has averaged 7% over the past decade, and many restatements are considered technical rather than stemming from malfeasance (Audit Analytics 2022).

Partners report that the average inherent risk at their public (private) clients is medium 60% (52%) of the time. The inherent risk assessment is more likely to be high for public than private clients (27% vs. 6%) and less likely to be low (13% vs. 43%). On the other hand, respondents report less frequently identifying MMs at public than private clients. About one-tenth (one-third) of respondents reported that they identified at least one MM on 11% or more of their public

(private) client engagements. Using the midpoint of each probability range (e.g., 5% for 0-10%, etc.) to calculate the weighted average probability of an MM from our responses, partners indicate 9% (15%) of public (private) engagements identify one or more MMs. Public clients having both higher inherent risk assessments and lower MM frequencies likely results from public companies having superior internal controls, auditors testing these controls, and interim audit work that helps prevent, detect, and correct MMs before they enter into financial statements.

One partner we interviewed explained:

> Public companies in general tend to have a lot more complexity in the type of accounting that they're performing. [At the same time] the incentive to invest in the amount of talent needed to have that effective control environment is a lot higher for public companies than private companies. Private companies tend to run very lean accounting functions and aren't as focused [on controls]. I don't have a single private company where we rely on controls to reduce our substantive audit testing.

Interestingly, about half of respondents indicate that when examining potential MMs, they conclude that they were not actual MMs in 11% or more instances. Nineteen percent (13%) indicate arriving at such a conclusion practically every time they examine potential MMs at public (private) audit clients. Once again using the midpoint of each probability range, partners say that 35% (32%) of potential MMs at public (private) clients are not actual MMs. These findings suggest that the partners were forthcoming in their responses, as they were willing to admit that identified MMs are commonly dismissed.

4.3 Assessing and Addressing Material Misstatement Risk

4.3.1 How often do the following factors increase your assessment of MM risk in the client's unaudited financial statements?

Table 2 shows that over half of partners say they increase their MM risk assessments every time when the client is close to breaching a loan covenant (62%) or faces doubts about its ability to continue as a going concern (63%). One partner we interviewed provided additional context:

> One of my clients last year had a very close call on goodwill impairment. We pushed back pretty hard and we said you [have to] change your methodology… Part of the reason why they didn't want to do that is because they failed their covenant and they had to go negotiate back with the bank and do an amendment to their debt agreement. I think they ended up having to pay the bank $30,000 or something in bank fees, which in the grand scheme of thing wasn't a lot, but it wasn't fun for the CFO to have that conversation with the CEO about why we had to pay the bank this money. Then they have to go through this onerous process of re-amending their debt, getting new debt covenants drafted because they wanted to have non-cash items no longer considered part of the covenant calculation on a going forward basis.

Roughly half of partners also report increasing MM risk assessments every time when executive compensation is tied to aggressive performance targets (54%) or when executives have aggressive personalities (41%). The former finding provides support for work arguing that compensation is a major driver of reporting incentives (Baker, Collins, and Reitenga 2003; Cheng and Warfield 2005; Bergstresser and Philippon 2006). The latter finding is consistent with the empirical literature finding manager fixed effects on firm reporting (Benmelech and Frydman 2015; Biggerstaff; Cicero, and Puckett 2015; Davidson, Dey, and Smith 2015; Hanlon, Yeung, and Zuo 2022).

Interestingly, partners rated executives' personalities and incentives as being significantly more impactful than the signals of unmet performance expectations. One partner explained how personalities and incentives are tied to risk: "Aggressive personalities oftentimes come with a high tolerance of risk. It's the high tolerance of risk tied with whatever that ego and reward is, those are the [executives] you really need to look out for."

Only a minority of partners indicated increasing MM risk every time the client is close to missing its analysts' earnings expectations (35%), faces a decrease in their credit rating (37%), is likely to miss its own earnings guidance (33%), or is close to reporting a loss (22%).

The nature of the client relationship matters little to our respondents: partners report that having a tenuous relationship or a strong rapport with the client has little effect on MM risk

assessment, as does the client size and the non-audit service revenue they provide. One general response themes was that non-audit service revenues have little effect on their judgments. One partner explained that this is a result of changed partner incentives and increased independence requirements in the post-Enron era: "[The non-audit revenue] is not going to me. Its impact to me is minuscule [so] that doesn't remotely [affect] my audit… We've gone so far in independence [since the Enron days that] there's no way for that to happen…. I get no credit for the non-audit service revenue on my accounts."

4.3.2 Assume the final unaudited earnings narrowly beat the client management's desired annual earnings target. To what extent would your observing the following actions by management prior to year-end increase the MM risk in the unaudited earnings?

This question was motivated based on a similar question Graham et al. (2005) posed to Chief Financial Officers: "*Hypothetical scenario: Near the end of the quarter, it looks like your company might come in below the desired earnings target. Within what is permitted by GAAP, which of the following choices might your company make?"* Our idea is to evaluate how partners respond to the various actions that managers in the Graham et al. study report undertaking at the end of the quarter to meet targets.

Table 3 indicates that partners would increase MM risk the most when they observe management alter accounting assumptions (73%) or postpone taking an accounting charge (69%). By contrast, only 21% of CFOs in Graham et al. indicate a willingness to postpone taking an accounting charge, and only 8% indicate a willingness to alter accounting assumptions. One candidate explanation for this juxtaposition of findings is that when faced with earnings pressure, managers are least likely to engage in behavior that attracts the closest scrutiny by auditors.

By contrast, partners in our survey indicated that they would be least concerned if management used the two classic real earnings management methods: decreasing discretionary

spending and delaying starting a new project even if this entails a small sacrifice in value. A significant percentage of our respondents indicated that these factors would not at all affect MM risk assessments (41% and 43%, respectively). At the same time, Graham et al. (2005) report that these are the two most likely actions that executives will take when facing earnings pressure (80% and 55% of CFOs indicate a willingness to decrease discretionary spending and delay a project, respectively). One partner elaborated on auditors' limited consideration of these factors in MM risk assessments: "If we see a pullback in discretionary spend, we'll probably ask questions about what's going on with your backlog, what's happening with revenue, any impact of the macroeconomic environment that they're operating in… We do definitely consider things like that in our risk assessment. [But these factors] don't necessarily trigger concerns [about financial statement] fraud." Of course, auditors do not have a direct responsibility to monitor real earnings management, but the fact that partners do not seem to alter their MM risk assessments significantly in response to real earnings management suggests that it is often not a complement to accounting-based earnings management.

4.3.3 How would the following circumstances affect the likelihood that you will conclude an MM exists when uncorrected misstatements at the end of your audit engagement are close to, but not quite quantitatively material to the client's unaudited financial statements?

Table 4 explores qualitative factors that auditors consider in concluding that an MM exists. Partners overwhelmingly report increasing the likelihood that they will conclude a misstatement is qualitatively material even when it is not quantitatively material when the misstatement is due to a dishonest irregularity, regardless of whether the irregularity increases (88%) or decreases (80%) income. By comparison, when the misstatement is due to an honest error that increases (decreases) income, only 21% (14%) of partners report increasing very much the likelihood of concluding an MM exists. Public ownership is the next most influential factor (36% of partners

said public ownership increases very much the likelihood of concluding an MM exists, compared to just 7% for private ownership), consistent with auditor concern about litigation risk being greater for public client engagements.

4.3.4 When you audit accounts that are subject to a significant degree of estimation, how often are the following circumstances present?

Table 5 explores MM risk in accounts with a significant degree of estimation, motivated in part by pre-survey interviews in which partners report that such accounts have the highest MM risk. Partners noted that most MMs occur in estimates, consistent with the suggestions in prior research that audits of estimates are particularly challenging (Martin et al. 2006; Griffith et al. 2015; Cannon and Bedard 2017): "I would say almost 90% of [MMs] were estimates." As one partner explained, "The areas that we spend most of our time on are usually around estimates. They're difficult to audit. It's hard to know more than the client does in certain areas of estimation."

Fifty-five percent (35%) of partners indicate that when they audit accounts with a significant degree of estimation, the audit engagement team (the client) involve a valuation specialist every time. Potentially as a result of this valuation specialist involvement, many partners report never seeing larger misstatements in estimates than in other areas (50%), inadequate support for estimates (45%), or the estimate being at the more aggressive end of the acceptable range (33%). One partner explains, "The vast majority of my clients engage outside experts to assist them [with estimates] as opposed to doing it on their own. As a result of that, generally, we do not have [significant] issues." Together, these findings indicate that while estimates have the highest ex-ante risk of MM, efforts by both auditors and management substantially mitigate the possibility of this risk materializing in a large uncorrected MM.

4.3.5 When the following circumstances are present, how often do they pose a meaningful threat

to audit effectiveness?

Last, Table 6 examines circumstances that prevent auditors from effectively addressing MM risks. Most partners report that lack of integrity and expertise on the client's finance/accounting team, as well as ineffective internal controls, pose a meaningful threat to audit effectiveness every time they are present (75%, 54%, and 54%, respectively). One partner elaborated on the importance of client's accounting team: "If the client doesn't do their job, we can't do ours... Private companies are much more challenging than public companies when it comes to this… If we don't get effective [client] support, management assessment, them putting a real effort into the accounting, it's very difficult for us to audit it. It's a huge issue." In terms of the audit team, 42% of partners view a lack of professional skepticism as threating audit effectiveness every time, while 23% say the same about a lack of expertise among non-partner team members. That ineffective internal controls are more threatening to audit effectiveness than these team factors suggests that it is very hard to overcome bad controls, even with heightened skepticism and an experienced engagement team.

Partners also report time pressure harming audit effectiveness: slightly more so when it is client-driven (about half of the time based on the average rating) than when it is auditor-driven (less than half of the time). Time pressure is commonplace for both clients and auditors. "Busy season" is a defining characteristic of audit work given the clustering of fiscal year ends: Beardsley, Imdieke, and Omer (2022) report that over 70% of public clients have a December fiscal year end, and Duguay, Minnis, and Sutherland (2020) find a similar pattern for nonpublic clients. Our evidence suggests that client and auditor busyness has important effects on accounting quality and is worthy of further archival investigation.[13] Undersampling/undertesting is also an

[13] McDaniel (1990) and Braun (2000) provide experimental evidence consistent with time pressure having important effects on auditor behavior.

important threat to audit effectiveness (posing a meaningful threat to audit effectiveness about half of the time).

The fact that partners report multiple auditor-side factors (and not just client-side factors) as significantly threatening audit effectiveness provides further comfort that they were forthcoming in their responses. Additionally, in Appendix Table D1 Panel A we compare current and former partners' responses. If our survey design and assurances of confidentiality were not compelling to participants, then we would expect current partners to be more guarded in their responses. However, we find similar responses in terms how often auditor-driven factors including insufficient professional skepticism, lack of expertise among the non-partner members of the engagement team, undersampling and undertesting, and time pressure from the auditor threaten audit effectiveness. Likewise, in Panel B we find no statistical difference between current versus former partners' propensity to report auditor- vs. client-driven factors threatening audit effectiveness. The experience level fixed effects in this regression are not significant either (nor are interactions between *Current Partner* and experience levels), providing comfort that recall issues associated with retired partners forgetting details of their engagements are not affecting the response pattern.

In this light, partner responses about which factors are least likely to pose a meaningful threat to audit effectiveness are also informative. Partners rarely report audit relationship length or significant audit or non-audit revenue as threatening audit effectiveness, though responses by former partners are higher for these factors.

4.4 Resolution of Material Misstatements

4.4.1 How often does the successful resolution of an MM involve the following?

Table 7 reveals that in successful resolution of MMs partners observe only one of the

factors we examined being present more than half the time: reliance on strong rapport with management. Over one-third (36%) of partners indicated that this factor is present every time they successfully resolve an MM. While the auditor independence literature emphasizes the downsides of auditors' strong rapport with management, our survey results highlight how such rapport can be crucial for resolving MMs. In interviews, partners differentiate between rapport and personal relationships with the client:

> We're very mindful of not having what we would call close personal relationships with management. That's different than having good rapport with management in my view. …Good rapport is just like, they respect your point of view and you work well with them. In my view, you've got to have that… the regulator sometimes doesn't understand that, but I tell you, if you don't get along with management, they won't bring stuff to your attention because they're afraid you won't handle it correctly. When you have the right relationship, you get all the stuff and you get it in time to actually deal with it appropriately... That's why I think that good rapport is really critical to good auditing.

The table also identifies common strategies auditors use when resolving MMs. A substantial percentage of partners indicate that every time they successfully resolve MMs they involve the audit committee (21%) and the firm's national office (18%) in resolving MMs. Thus, successful resolutions of MMs regularly involve parties beyond the partner and client management. This finding motivates further work on the interactions between partners, client management, the national office, and audit committee, and the organizational structure of audit firms more generally.

Interestingly, a majority of partners also indicate that successful resolution never involves negotiation about which misstatement they will correct (59%) or concessions that the management does not need to correct small misstatements (63%). These findings indicate that successful resolutions of MMs primarily involve consultations among parties and reporting to the audit committee. One partner elaborated on the rarity of negotiations in MM resolutions:

I've never personally had a negotiation, [saying] "well, if you block this entry, we're fine

> with these entries" kind of thing. …Even if they record it, we still report it to the audit committee if it's something that the audit team found. It still comes out as an audit adjustment. I have not had a lot of negotiation about what they book and what they [do] not book. Usually, it's pretty straightforward if we find something.

Twenty-four (seventeen) percent of partners report that resolving an MM involves explaining to management that if management does not correct the misstatement they may have to issue a qualified or adverse opinion (that the client will face a greater risk of investigation by a regulator) every time. A majority of partners indicate that in successful resolution of MMs they never threaten resignation or not renewing the audit relationship (67% and 71%, respectively) and never receive threats from the client to not rehire the auditor the next year (89%), suggesting that a successful MM resolution process is typically a fairly constructive one. One partner explained:

> You can never, ever have a situation where a client feels the auditor just crammed down an adjustment they didn't agree with. …It's imperative that a client challenges …meaning that they should seek to understand it. They should seek to make sure the facts are aligned. …The client has a right to challenge their judgement against the auditor's judgement because it's the client's financial statements not the auditor's.

Finally, while some MM resolution strategies appear more frequently than others, we note considerable heterogeneity in partners' responses: some for example are more inclined to rely on their rapport with management and are willing to negotiate ("the carrot") whereas others commonly take a more forceful approach and highlight the potential negative consequences of not correcting the MM ("the stick"). Related, we note that many resolution tactics register nontrivial responses for both "every time" and "never", with variation across both client types and engagement context. To illustrate, eight of the thirteen tactics we ask about received a 30% or higher response rate for "some of the time" (i.e., at least 30% of respondents did not say "Every Time" or "Never"). This response heterogeneity motivates further archival research on partner-specific styles and individual characteristics and contexts that are associated with these styles.

4.4.2 How do the following factors affect the difficulty of resolving an MM with client

management?

Table 8 explores factors that obstruct MM resolution. Most partners indicate that the client having already released its earnings guidance increases difficulty of MM resolution very much (66%). In addition, a significant share of partners indicate that the client being close to missing analysts' earnings expectations or missing its own earnings guidance also increase this difficulty very much (46% and 42%, respectively). These findings indicate a significant aversion to bad publicity on the part of the client. One partners explains::

> Emotion [in accounting] oftentimes comes from an expectation gap. Someone promised something, or someone's expecting something, and the numbers come out differently than that. …There's a whole host of individuals who rely on those expectations... [So] gaps [between] actual performance [and] the expectation of others is a major influence [on] difficulty of resolving [MMs with management].

Interestingly, significantly more partners identify the client being close to breaching a loan covenant as a factor that increases the difficulty of resolving MMs with management very much (65%) compared to most other factors, including the client facing doubts about its ability to continue as a going concern (56%) or the credit rating being close to decreasing (36%). Partners explain that covenant breaches are difficult to deal with because they typically require involvement of multiple third parties:

> When I can keep it in house [and resolve] an issue [just] between myself and my client we have confidence that between the two of us, we're going to work our way through it. The minute you have to …rely on someone else on a timeline, the bar goes up [in] difficulty [of resolving a potential MM with the management]. [Management has] to bring in lawyers, …bankers, …et cetera… That process is not easy, [especially] if I'm up against a [reporting] deadline.

Moreover, partners note that breaching a loan agreement typically leads to doubts about the client's ability to continue as a going concern: "There're downstream ripple effects from [breaching a loan agreement, as it] is generally going to potentially cause a going concern issue. [After] you say that the debt becomes current, [next] you're evaluating how are they going to be able to settle this."

Notably, more partners identify strong rapport with client management as the factor that decreases difficulty of resolving an MM very much (47%) compared to any other item. This result is consistent with partners' responses in Table 2 (one of the factors least likely to increase MM risk) and Table 7 (the factor most partners indicate is involved in successful resolution of MM). These combined findings support the notion that partners paid attention and provided thoughtful consistent responses throughout the survey. These findings also underscore the importance of auditors having a strong rapport with management in identifying MM risk and resolving MMs.

4.4.3 In the following scenarios, how often does client management challenge a proposed audit adjustment relating to an MM?

Table 9 suggests that the key driver of management's pushback on a proposed audit adjustment is the adjustment's publicity level. Partners identify adjustments that require reissuance of the financial statements (i.e., "Big R" restatements) as the most likely factors to cause management's pushback. About half of the partners say that they expect management to push back on a proposed adjustment every time the adjustment would have high publicity—i.e., lead to reissuance of the financial statements. Interestingly, the responses vary little with whether the adjustment decreases (50%) or increases (45%) income. Partners indicate that Big R restatements are the only examined circumstances when management pushes back more than half the time.

When the adjustment involves less publicity—i.e., "Little r" restatement without reissuance of financial statements or the adjustment is made in the financial statements being audited—partners indicate again suggest that the adjustment's net income effect is not a major driver of management's pushback. Interestingly, the partners indicate that management prefers adjustments that increase income to be made in the current financial statements but adjustments that decrease income to be made in the prior financial statements (using "Little r" treatment), with a substantial percentage of partners indicating that management never pushes back against these

adjustments (39% and 26%, respectively).

In interviews, partners explain that income-increasing restatements create problems for clients with growth-based targets: “If you increase last year's income, taking out of current-year income, you're changing the base you're comparing to and your performance looks worse.” Partners also note that starting in 2024, management’s pushback on income-decreasing restatements is likely to increase starting in 2024:

> [If the restatement decreases prior NI] under the new clawback requirements, companies will be even more concerned because there [will be] a clawback compensation [requirement starting] from 2024. If they change a metric that’s included in the margin compensation determination, and those are typically revenue and income, [the company will now] need to claw back compensation from [management].”

4.4.4 When an error that is just above quantitative materiality has one of the following characteristics, how often can the error be appropriately treated as being immaterial?

Table 10 explores circumstances when partners dismiss potential MMs. The results indicate that in some circumstances partners are open to treating errors above quantitative materiality as immaterial. Partners indicated that they would be particularly likely to do so for errors affecting only the management discussion and analysis, only the balance sheet classification, only a note to the financial statements, or only the supplemental schedules accompanying the financial statements. A nontrivial percentage of partners reported treating such errors as immaterial every time (22%, 13%, 13%, and 14%, respectively). While none of the average ratings for these items were above the “half the time” point, all were significantly higher than the next point below (2 on the scale of 0 to 6, where 0=never, 3=half the time, and 6=every time), conveying partners’ belief that it would be appropriate to waive such errors in many cases. In addition, partners indicated that they would deem quantitively material errors as immaterial some of the time when the error affects only classification in the statement of equity, cash flows, or income statement, an error in an account or area which the investors in the client’s industry typically do not pay much

attention, or an error that would not need to be discussed in a critical audit matter paragraph.

Overall, these results convey that partners are routinely willing to dismiss some quantitively material adjustments based on certain qualitative factors. This finding is surprising because the audit guidance provides for auditors using qualitative factors in deciding whether a quantitively immaterial error is material, but not whether a quantitatively material error is immaterial. This provides further support that partners were forthcoming about their experiences.

One partner explained:

> The way the SEC wrote the [SAB 99] rule, it's supposed to be that qualitative [consideration] only goes one way. …But preparers and practitioners have adopted over the years [an approach where they] look at the qualitative factors [going the other way] also. If we think there are no negative qualitative factors and there are strong [positive] qualitative factors that we don't think a user would consider as being material, …we're going to use those. Over the years I've had several discussions with clients where we've said, "We will support you if you want to argue that this is not material, [but] realize that if the SEC comes and challenges it they may tell you to restate." In a number of cases, the clients have [still] said, "Okay, well, we're just going to restate it [if it comes to that].

Partners who audit only public companies report being less willing to dismiss quantitatively material errors, likely reflecting stricter regulatory oversight and greater litigation risk. A finding that further supports this notion is that partners are more likely to waive adjustments related to estimates compared to non-estimates, although the difference is not striking (as highlighted above, the effect of the error seems to matter more than whether the error pertains to an estimate). In interviews, partners explain that management is more likely to push back on auditors' suggested adjustments when these adjustments relate to estimates because it is a judgmental area that allows for more leeway. For example, one partner noted that the degree of judgment involved makes it easier for management to push back: "An estimate… is where most of the issues come up and that's where they feel they have the best chance of persuading you."

Another partner explained that clients will often use qualitative factors to get auditors to

dismiss an MM: “No public company believes they have a MM because they will always attempt to justify it no matter how [large the misstatement is] quantitatively, they will try to justify it qualitatively as immaterial.” This partner then explained how in some cases auditors may sometimes allow clients to use such rationalization to avoid a “Big R” restatement:

> There [comes] a point that quantitatively, [the misstatement] is just too big, but the reason that you see so many “small r” [restatements] as opposed to “Big R” [restatements] is because the relatively large quantitative error gets rationalized based on qualitative characteristics under SAB 99 as not material, and so it gets fixed prospectively.

Another partner shared:

> I've had some times where [misstatement] numbers are big, but qualitatively no one's going to care about this number. And so, quantitatively, it maybe exceeds a [materiality] threshold you would’ve had in that prior audit, [but] when you weigh the factors of what matters, and considering all the facts and circumstances you sit back and say, “I can see how this can be kind of a small r restatement,” meaning you can just disclose it in the notes. Sometimes it's things as simple as some classification issue in the, in the statement of cash flows.

Overall, partners express awareness of the SEC’s stance: “[The SEC said that] if an area is quantitatively material, it’s material. You can’t use qualitative characteristics to overcome quantitative materiality.” Despite this awareness, partners convey that their perspective on the issue is more judgment-based:

> We would first focus on what do the users care about? Then in most instances that would be an income statement metric. … If the error has no impact [on] …the income statement, [if] it’s a classification issue [or] a cash flow issue [or] a footnote disclosure issue... those are [the situations] when …[an audit partner] would still say well we don’t think a user would think this is material.

These findings provide an important context for understanding prior research on dismissals of MMs (Wright and Wright 1997; Joe, Wright, and Wright 2011; Choudhary et al. 2022), and are relevant to discussions of SAS 99.

4.5 Consequences of Material Misstatements

4.5.1 When you and the national office conclude that there is an MM in the unaudited financial

statements and the client management challenges this conclusion, how often do the following consequences arise?

Table 11 explores the consequences of a partner taking a firm stand on an issue involving a potential MM. Our results reveal more than half of the time partners issue an adverse opinion on the effectiveness of internal control over financial reporting, with a significant percentage of them indicating that they do it every time the management challenges their conclusion (38%). In interviews, partners clarify that given a MM, an adverse opinion on ICFR is not an automatic outcome: "[If] management has reached a position [and] they've given us their final …answer and …they got it wrong [then] yes, we would issue a material weakness. [But if] we are working together, they are not [finished], they are wanting our input as they reach conclusion[s], we probably wouldn't issue a[n MW] finding in that situation." Moreover, partners explained that they would not issue an adverse opinion on ICFR if a MM was detected during the interim testing and the associated control issue was subsequently corrected:

> A distinction that's very, very important to keep in mind is the period of time. The opinion on financial statements is over the entire period of the financial statements [while] the opinion on internal controls is [a] one-day opinion… Let's say you had [a Q1] material magnitude …fact-based error. Everybody agreed with it. …[Subsequently], let's say [the company was] very mindful of the …mistake they made in Q1 [and fixed the control before year-end]. That's an example where you have a very clear basis of saying the internal control opinion was clean [though there was] a material mistake [in Q1].[14]

The two other most frequent consequences that occur slightly less than half of the time are the client giving the partner a poor satisfaction rating in a client survey (16% say it happens every time that management challenges the MM) and complaining to the partner's supervisors (12%). Partners report that their firm rarely ceases the audit relationship or rotates the partner out early when management challenges the MM (70% and 74% report this never happening in such

[14] A report on financial statements typically opines on a "period covered by, each financial statement" (AS 3101), while a report on ICFR opines "as of the date specified in management's assessment" (AS 2201).

situations, respectively). In addition, over half (54%) of partners also report never having a more senior partner added to the engagement following disagreement. Most partners (55%) also report never being rewarded for taking an uncompromising position, while relatively few (15%) report being rewarded every time. Thus, partners appear to face weak financial incentives to push back against management when disagreements around MMs arise. One partner we interviewed said:

> I wouldn't say that we are directly rewarded for finding errors. The way we get rewarded is, "Are you servicing your client well? Is your client happy? Good engagement economics. Not having, I'll call it prior year issues all the time and really being on top of it, passing inspections we get, again, qualitatively rewarded for. I don't know that I feel there is direct reward for, "You found an error," like, "Good for you." I don't even know that I don't put that in my evaluation.

4.5.2 How would identifying an MM in the unaudited financial statements affect the following aspects of your subsequent year's audit?

Table 12 examines the consequences of partners identifying an MM in the unaudited financial statements. The results indicate that identifying an MM has significant consequences for subsequent year's audit efforts in the relevant area. A majority of partners indicate that identifying an MM affects the subsequent year's control risk, the use of experienced audit personnel, the inherent risk, and the use of firm specialists (63%, 63%, 61%, and 51% of partners, respectively, report increasing these factors very much).

Partners expect the audit time budget to increase significantly more than the audit fees, indicating heightened pressure on audit engagement profitability following MM identification. This pressure is likely to be pronounced, given that partners report that their willingness to outsource the relevant audit work to the firm's service center or the client's internal auditors will decrease very much (23% and 46%, respectively). One partner explains: "If I know that management has problems in their processes and controls… by fact of them having screwed it up in the prior year, in the next year, …I want my own eyes on that. …Similarly, you could argue that for our own shared service centers if I've decided that this is of that importance level, I'm going

to pull that work back in closer to me."

At the same time, partners explain that despite lower costs, use of service centers typically increases audit quality: "What's really interesting about the service center concept is it actually improves our audit quality quite a bit. There is no question that all the firms got into it from a cost perspective [but] when you get somebody that consistently does something, the consistency and the repetitive nature of it increases the quality quite a bit."

A large percentage of partners also indicated that the audit time budget, the likelihood of the controller/CFO vetting key accounting judgments with the partner, the frequency of consultations with the national office, and the audit fees increase very much (42%, 44%, 26%, and 24%, respectively). Our combined results indicate that following MM identification, auditors expect to increase their efforts significantly but do not expect the increase in the audit fees to necessarily offset these increased efforts, raising the possibility that increases in audit efforts could be temporary. In interviews, partners elaborate: "I'm going to do what I have to do to make sure that the financial statements are fairly stated. …Then I'm going to separately try to figure out how much money I can get for the extra hours." Another partner added:

> Anytime you're finding a material error in a current year audit …you have to assess the impact on a future audit, which generally means I need to go do more audit work in that area, because I have lack of trust with the controls and processes that are happening. …As far as then bringing profitability into that, …I'm going to be able to negotiate the increase, but the extent of what is required from the standards of how much more work I need to do, I'm never going to convince a client that's value enough because they're going to get the same freaking opinion the next year that they got this year.

4.5.3 How would restatements of previously filed financial statements (i.e., a "Big R" restatement") for which you had signed an unqualified audit opinion affect the following?

Last, Table 13 focuses on examining the consequences of "Big R" restatements of financial statements that were audited by the partner. The results tend not to significantly differ between partners who indicated they have experienced a "Big R" restatement and partners who indicated

they have not, suggesting that all partners are aware of these consequences. Following a restatement, roughly half of all partners expect the likelihood of their subsequent audit engagements being selected for internal quality control review (57%) and a PCAOB inspection (49%) to increase very much. A substantial percentage of partners expect their reputation within the firm, rapport with the client management, and client survey satisfaction ratings to decrease very much (22%, 24%, and 33%, respectively).

However, partners expect such restatements to affect their compensation and career prospects only modestly. A relatively small percentage of partners expect their compensation, prospects for promotion, ability to continue being assigned as a partner on the audit, and career opportunities outside the firm to decrease very much (16%, 16%, 13%, and 5%, respectively). In interviews, partners elaborated that firms are cautious about being too punitive for restatements:

> We have spent a lot of time …messaging to partners, [that] we have your back. …If we lose a client over doing the right thing, then we lose a client. In fact, we highlight people that stand tall and do that as examples because the worst thing you could do is say, do the right thing, but then every time somebody has a problem they're punished. …I do agree that it could be very stressful... That being said, I've never felt as a practitioner… that I should do anything other than try and get what I think is an answer that I could put on the front page of the Wall Street Journal and feel good about.

Another partner echoed this point:

> In order to promote a system of quality controls, we've got to allow people to make the right calls... If a restatement needs to be made, a restatement needs to be made, and that's the right call. We've got to protect integrity and not create an environment where it's so punitive that you're actually creating a barrier to integrity.

At the same time, partners explain that their firms investigate causes of restatements, noting that a partner's compensation will be affected if the firm concludes that the restatement was caused by negligence, or if there is a pattern of quality issues:

> Whenever there's a Big R restatement, the following year, we call our …audit methodology folks at our national office [and] they will do a root cause analysis to figure out what happened, what caused this restatement. If it's something [like] a very complex accounting issue that just was messed up or there was some nuanced issue that triggered it, that's fine.

> [On the other hand,] if the root cause analysis [concludes it] was something that was just disregarded for an audit area, or accounting area, or just some type of negligence, by all means, that partner[’s] compensation would be [negatively affected].

A second partner explained:

> I will say [if the restatement] happens once, normally more times than not, no harm, no foul. But when you have more than one restatement, particularly if it's in a short period of time, regardless of the circumstances, that's not going to look good on you. We've taken away partners' pens to where they can't sign opinions because of quality issues. Now, more times than not, what happens more frequently in our firm, it's when you get reviewed. Either you get reviewed internally or you get reviewed [by] peer review, or you get reviewed by the PCOAB, and if you have multiple failures through one or combination of those reviews, that's where you can get your pen taken away, and certainly, compensation is adversely affected by that.

Other partners provided broader descriptions that were useful for understanding partner evaluation and compensation practices:

> We really get evaluated on quality number one and then other things like coaching and mentoring and that kind of stuff. Do we do other things like recruiting and things like that? When it comes to quality, we look at a lot of different things. You've got your inspection results both internal and external and they certainly would look at a restatement that would be documented, but they would look at the degree of it. Is it a really unique, narrow technical accounting issue that everybody missed, and it's been missed for many years? That's a situation where there wouldn't be too much repercussion for that. Or was it a restatement that came out of something that should have easily been detected and it looks like the team, including the partner, was just totally asleep at the wheel? That would result in notable financial implications.

A second partner explained:

> Because at the end of the day, it's not errors in our own work. It's management's financial statements. I think for auditors get very protective over that. We’re not restating our work. It's management's financial statements that are getting restated... There are times when, in all good faith and doing all the right work, we're there. We cannot catch everything and we could have missed something. It's not negligence. I think those are looked at, candidly, very differently. Thank goodness, right? We want to put those things when we're evaluating a partner into very different buckets or multiple buckets.
>
> There's no direct mathematical equation that says, "You have a restatement minus this many shares equals this number"... There are other knock-on effects that are not reflected on there, for example, that means you are more likely to get a fail on inspection, internal or external. That causes a lot of anxiety for all of us. That is probably the thing that is on people's minds a lot.

5. Conclusion

Auditors are expected to identify and resolve MMs in management's financial statements. However, academics, investors, and regulators ordinarily learn little about auditors' work, except in the rare instances when auditor litigation or regulatory enforcement is public. To address this, we survey 462 audit partners on how they assess and address MM risk, how MMs are resolved, and the consequences of MMs. We also conducted 20 semi-structured interviews with partners, CFOs, and audit committee members to design our survey and gather context to understand our findings. Our main objective was to develop new evidence on MM risk factors, resolution tactics, and MM consequences that are not easily codified and have been difficult for archival work to examine. Our study was conducted using the registered report process, which allowed us to receive extensive researcher and practitioner feedback on our survey *before* conducting it. As part of this process, we committed to using a specific survey instrument and did not add, remove, or alter any survey questions relative to our proposal.

Partners report identifying MMs on 9% (15%) of public (private) engagements, and that about one-third of potential MMs are ultimately not actual MMs. In terms of circumstances that most often threaten audit effectiveness, partners point to lack of integrity and expertise on the client's team, ineffective internal controls, and time pressure from both the client and audit firm. Partners differ considerably in how they approach MM resolution, indicating a partner-specific style. The most common tactics include leaning on rapport with management and involving the national office and audit committee in the resolution process. Following restatements, the partner's subsequent engagements are likely to be selected for internal quality control review or PCAOB inspection. Compensation declines, but not frequently—only 16% report pay decreasing very much.

Overall, our survey helps overcome impediments to researchers observing MMs, which

have constrained understanding of auditors' role in the reporting process, and motivates several avenues for archival researchers to build on our findings.

References:

Abbott, L. J., Parker, S., & Peters, G. F. (2004). Audit committee characteristics and restatements. *Auditing: A Journal of Practice & Theory, 23*(1), 69-87.

Accountancy Europe (AE). (2016). Overview of audit quality indicators initiatives. Downloaded on June 11, 2021, from https://www.accountancyeurope.eu.

Accounting Today. (2021). The 2021 top 100 firms. Downloaded on September 10, 2022. https://www.accountingtoday.com/the-2021-top-100-firms-data

Agrawal, A., & Chadha, S. (2005). Corporate governance and accounting scandals. *The Journal of Law and Economics, 48*(2), 371-406.

Aghazadeh, S., Dodgson, M. K., Kang, Y. J., & Peytcheva, M. (2021). Revealing Oz: Institutional work shaping auditors' national office consultations. *Contemporary Accounting Research* (forthcoming).

Armstrong, C. S., Jagolinzer, A. D., & Larcker, D. F. (2010). Chief executive officer equity incentives and accounting irregularities. *Journal of Accounting Research, 48*(2), 225-271.

Armstrong, C. S., Guay, W. R., & Weber, J. P. (2010). The role of information and financial reporting in corporate governance and debt contracting. *Journal of Accounting and Economics*, *50*(2-3), 179-234.

Asare, S. K., van Buuren, J. P., & Majoor, B. (2019). The joint role of auditors' and auditees' incentives and disincentives in the resolution of detected misstatements. *Auditing: A Journal of Practice & Theory*, *38*(1), 29-50.

Ashbaugh, H., LaFond, R., & Mayhew, B. W. (2003). Do nonaudit services compromise auditor independence? Further evidence. *The Accounting Review*, *78*(3), 611-639.

Ashton, A. H. (1991). Experience and error frequency knowledge as potential determinants of audit expertise. *The Accounting Review*, 218-239.

Audit Analytics. (2022). Financial restatements: A twenty-one-year review.

Ball, R. (2009). Market and political/regulatory perspectives on the recent accounting scandals. *Journal of Accounting Research*, *47*(2), 277-323.

Ball, R. (2013). Accounting informs investors and earnings management is rife: Two questionable beliefs. *Accounting Horizons*, *27*(4), 847-853.

Baker, T., Collins, D., & Reitenga, A. (2003). Stock option compensation and earnings management incentives. Journal of Accounting, Auditing & Finance, 18(4), 557-582.

Barton, J. (2005). Who cares about auditor reputation? *Contemporary Accounting Research, 22*(3), 549-586.

Beardsley, E. L., Imdieke, A. J., & Omer, T. C. (2021). The distraction effect of non-audit services on audit quality. *Journal of Accounting and Economics*, 71(2-3), 101380.

Benmelech, E., & Frydman, C. (2015). Military ceos. Journal of Financial Economics, 117(1), 43-59.

Bergstresser, D., & Philippon, T. (2006). CEO incentives and earnings management. Journal of Financial Economics, 80(3), 511-529.

Bertomeu, J., Cheynel, E., Li, E. X., & Liang, Y. (2021). How pervasive is earnings management? Evidence from a structural model. *Management Science, 67(8), 5145-5162.*

Beyer, A., Cohen, D. A., Lys, T. Z., & Walther, B. R. (2010). The financial reporting environment: Review of the recent literature. *Journal of accounting and economics*, *50*(2-3), 296-343.

Biggerstaff, L., Cicero, D. C., & Puckett, A. (2015). Suspect CEOs, unethical culture, and corporate misbehavior. Journal of Financial Economics, 117(1), 98-121.

Bloomfield, R., Nelson, M. W., & Soltes, E. (2016). Gathering data for archival, field, survey, and experimental accounting research. *Journal of Accounting Research*, *54*(2), 341-395.

Bradburn, N. M., Sudman, S., & Wansink, B. (2004). *Asking questions: the definitive guide to questionnaire design--for market research, political polls, and social and health questionnaires*. John Wiley & Sons.

Braun, R. L. (2000). The effect of time pressure on auditor attention to qualitative aspects of misstatements indicative of potential fraudulent financial reporting. Accounting, Organizations and Society, 25(3), 243-259.

Brav, A., Graham, J. R., Harvey, C. R., & Michaely, R. (2005). Payout policy in the 21st century. *Journal of Financial Economics*, *77*(3), 483-527.

Brown, L.D., A.C. Call, M.B. Clement, and N.Y. Sharp. (2015). Inside the "black box" of sell-side financial analysts. *Journal of Accounting Research* 53 (1): 1-47.

Brown, L.D., A.C. Call, M.B. Clement, and N.Y. Sharp. (2019). Managing the narrative: Investor relations officers and corporate disclosure. *Journal of Accounting and Economics* 67 (1): 58-79.

Burns, N., & Kedia, S. (2006). The impact of performance-based compensation on misreporting. *Journal of Financial Economics, 79*(1), 35-67.

Cade, N., Gunn, J., and Vanderberg, A. (2021). Measuring the incidence of earnings manipulations: A novel approach. Working paper.

Canadian Public Accountability Board (CPAB). 2018. *Audit Quality Indicators Final Report.* Downloaded on June 11, 2021, from https://www.cpab-ccrc.ca.

Cannon, N. H., & Bedard, J. C. (2017). Auditing challenging fair value measurements: Evidence from the field. *The Accounting Review*, *92*(4), 81-114.

Center for Audit Quality (CAQ). (2016). *Audit Quality Indicators: Journey and Path Ahead*. Downloaded on June 11, 2021, from http://www.thecaq.org.

_______. (2021). *Value of the Audit: A Brief History and the Path Forward*. Downloaded on October 20, 2021, from http://www.thecaq.org.

Chen, K. C., Chen, T. Y., Han, W., & Yuan, H. (2021). Auditors under fire: The association between audit errors and the career setbacks of individual auditors. *Journal of Accounting Research* (forthcoming).

Cheng, Q., & Warfield, T. D. (2005). Equity incentives and earnings management. *Accounting Review*, 80(2), 441-476.

Choudhary, P., Merkley, K., & Schipper, K. (2019). Auditors' quantitative materiality judgments: Properties and implications for financial reporting reliability. *Journal of Accounting Research*, *57*(5), 1303-1351.

Choudhary, P., Merkley, K., & Schipper, K. (2022). The costs of waiving audit adjustments. Journal of Accounting Research, 60(5), 1813-1857.

Christensen, B. E., Glover, S. M., Omer, T. C., & Shelley, M. K. (2016). Understanding audit quality: Insights from audit professionals and investors. *Contemporary Accounting Research*, *33*(4), 1648-1684.

Christensen, B., Schmardebeck, R., & Seidel, T. (2022). Do auditors' incentives affect materiality assessments of prior-period misstatements? *Accounting, Organizations and Society*, 101332.

Christensen, H. B., Nikolaev, V. V., & Wittenberg-Moerman, R. (2016). Accounting information in financial contracting: The incomplete contract theory perspective. *Journal of Accounting Research*, *54*(2), 397-435.

Coates, J. C., & Srinivasan, S. (2014). SOX after ten years: A multidisciplinary review. *Accounting Horizons*, *28*(3), 627-671.

Davidson, R., Dey, A., & Smith, A. (2015). Executives'"off-the-job" behavior, corporate culture, and financial reporting risk. Journal of Financial Economics, 117(1), 5-28.

Dechow, P., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, *50*(2-3), 344-401.

Dechow, P. M., Ge, W., Larson, C. R., & Sloan, R. G. (2011). Predicting material accounting misstatements. *Contemporary Accounting Research, 28*(1), 17-82.

DeFond, M., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, *58*(2-3), 275-326.

De La Rosa, W., & Tully, S. M. (2020). The impact of payment frequency on consumer spending and subjective wealth perceptions. *Journal of Consumer Research*.

Dichev, I.D., J.R. Graham, C.R. Harvey, and S. Rajgopal. (2013). Earnings quality: Evidence from the field. *Journal of Accounting and Economics* 56 (2-3): 1-33.

Dillman, D. A., Smyth, J. D., & Christian, L. M. (2014). *Internet, phone, mail, and mixed-mode surveys: the tailored design method*. John Wiley & Sons.

Duguay, R., Minnis, M., & Sutherland, A. (2020). Regulatory spillovers in common audit markets. Management Science, 66(8), 3389-3411.

Dyck, A., Morse, A., & Zingales, L. (2023). How pervasive is corporate fraud?. *Review of Accounting Studies, 1-34.*

Frank, M., Maksymov, E., Peecher, M., & Reffett, A. (2021). Beyond risk shifting: The knowledge-transferring role of audit liability insurers. *Contemporary Accounting Research*, 38(3), 2224-2263.

Frankel, R. M., M. F. Johnson, and K. K. Nelson. (2002). The relation between auditors' fees for nonaudit services and earnings management. *The Accounting Review* 77 (s-1): 71-105.

Geoffroy, R. and H. Lee. (2021). The role of academic research in SEC rulemaking: Evidence from business roundtable v. SEC. *Journal of Accounting Research* 59(2): 375-435.

Gibbins, M., McCracken, S. A., & Salterio, S. E. (2007). The chief financial officer's perspective on auditor-client negotiations. *Contemporary Accounting Research*, *24*(2), 387-422.

Gibbins, M., Salterio, S., & Webb, A. (2001). Evidence about auditor–client management negotiation concerning client's financial reporting. *Journal of Accounting Research*, *39*(3), 535-563.

Gipper, B., Hail, L., & Leuz, C. (2021). On the economics of mandatory audit partner rotation and tenure: Evidence from PCAOB data. *The Accounting Review*, *96*(2), 303-331.

Graham, J. R., Hanlon, M., Shevlin, T., & Shroff, N. (2014). Incentives for tax planning and avoidance: Evidence from the field. *The Accounting Review*, *89*(3), 991-1023.

Graham, J.R., C.R. Harvey, and S. Rajgopal. (2005). The economic implications of corporate financial reporting. *Journal of Accounting and Economics* 40 (1-3): 3-73.

Griffith, E. E., Hammersley, J. S., & Kadous, K. (2015). Audits of complex estimates as verification of management numbers: How institutional pressures shape practice. *Contemporary Accounting Research*, *32*(3), 833-863.

Groves, R. M. (2006). Nonresponse rates and nonresponse bias in household surveys. *Public Opinion Quarterly*, *70*(5), 646-675.

Groves, R. M., & Peytcheva, E. (2008). The impact of nonresponse rates on nonresponse bias: a meta-analysis. *Public Opinion Quarterly*, *72*(2), 167-189.

Guan, Y., Su, L. N., Wu, D., & Yang, Z. (2016). Do school ties between auditors and client executives influence audit outcomes?. *Journal of Accounting and Economics*, *61*(2-3), 506-525.

Gul, F. A., Wu, D., & Yang, Z. (2013). Do individual auditors affect audit quality? Evidence from archival data. *The Accounting Review*, *88*(6), 1993-2023.

Haislip, J. Z., Myers, L. A., Scholz, S., & Seidel, T. A. (2017). The consequences of audit-related earnings revisions. *Contemporary Accounting Research*, *34*(4), 1880-1914.

Hanlon, M., & Shroff, N. (2021). Insights into auditor public oversight boards: Whether, how, and why they 'work'. Working paper.

Hanlon, M., Yeung, K., & Zuo, L. (2022). Behavioral economics of accounting: A review of archival research on individual decision makers. Contemporary Accounting Research, 39(2), 1150-1214.

Healy, P. M., & Palepu, K. G. (2003). The fall of Enron. *Journal of Economic Perspectives*, *17*(2), 3-26.

Hertwig, R., & Hoffrage, U. (2002). Technology needs psychology: How natural frequencies foster insight in medical and legal experts. In *Etc.: Frequency Processing and Cognition* (pp. 285-302). Oxford University Press.

Jeanjean, T., Marmousez, S., & Sirois, L. P. (2013). Social networks, auditor independence and earnings quality. In *36th EAA Annual Congress, Paris, France*.

Joe, J., Wright, and, A., & Wright, S. (2011). The impact of client and misstatement characteristics on the disposition of proposed audit adjustments. *Auditing: A Journal of Practice & Theory, 30*(2), 103-124.

Johnson, L. M., Keune, M. B., & Winchel, J. (2019). US auditors' perceptions of the PCAOB inspection process: A behavioral examination. *Contemporary Accounting Research, 36*(3), 1540-1574.

Keune, M. B., & Johnstone, K. M. (2012). Materiality judgments and the resolution of detected misstatements: The role of managers, auditors, and audit committees. *The Accounting Review*, *87*(5), 1641-1677.

Kinney, W. R., & Martin, R. D. (1994). Does auditing reduce bias in financial reporting? A review of audit-related adjustment studies. *Auditing*, *13*(1), 149-156.

Knechel, W. R., Krishnan, G. V., Pevzner, M., Shefchik, L. B., & Velury, U. K. (2013). Audit quality: Insights from the academic literature. *Auditing: A Journal of Practice & Theory, 32*(Supplement 1), 385-421.

Knechel, R., Vanstraelen, A., & Zerni, M. (2015). Does the identity of engagement partners matter? An analysis of audit partner reporting decisions. *Contemporary Accounting Research*, *32*(4), 1443-1478.

Kochetova-Kozloski Natalia, W. Messier, Jr., & A. Eilifsen. (2010). Improving auditors' fraud judgments using a frequency response mode. *Contemporary Accounting Research*, *28*(3), 837-858.

Kwon, S. Y., & Yi, H. S. (2018). Do social ties between CEOs and engagement audit partners affect audit quality and audit fees?. *Auditing: A Journal of Practice & Theory*, *37*(2), 139-

161.
Land, K. C., & Zheng, H. (2010). Sample size, optimum allocation and power analysis. In P. Marsden, & J. Wright (Eds.), *Handbook of Survey Research* chapter 7. (pp. 199-219). Bingley, UK: Emerald Group Publishing.
Larcker, D. F., Richardson, S. A., & Tuna, I. R. (2007). Corporate governance, accounting outcomes, and organizational performance. *The Accounting Review, 82*(4), 963-1008.
Lennox, C. S., & Wu, J. S. (2021). A review of China-related accounting research in the past 25 years. Working paper.
Lennox, C. S., & Wu, X. (2018). A review of the archival literature on audit partners. *Accounting Horizons*, *32*(2), 1-35.
Lennox, C., Wu, X., & Zhang, T. (2016). The effect of audit adjustments on earnings quality: Evidence from China. *Journal of Accounting and Economics*, *61*(2-3), 545-562.
Lennox, C., Wang, Z. T., & Wu, X. (2018). Earnings management, audit adjustments, and the financing of corporate acquisitions: Evidence from China. *Journal of Accounting and Economics*, *65*(1), 21-40.
Lennox, C., Wang, C., & Wu, X. (2020). Opening up the "black box" of audit firms: The effects of audit partner ownership on audit adjustments. *Journal of Accounting Research*, *58*(5), 1299-1341.
Leuz, C., & Wysocki, P. D. (2016). The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. *Journal of Accounting Research*, *54*(2), 525-622.
Lobo, G. J., & Zhao, Y. (2013). Relation between audit effort and financial report misstatements: Evidence from quarterly and annual restatements. *The Accounting Review, 88*(4), 1385-1412.
Lune, H., & Berg, B. L. (2017). *Qualitative research methods for the social sciences*. Pearson.
Maksymov, E., Pickerd, J., Wilks, J., & Williams, D. (2021). The "black box" of the ICFR process: Perspective of accounting executives at large public companies. Working paper.
Martin, R. D., Rich, J. S., & Wilks, T. J. (2006). Auditing fair value measurements: A synthesis of relevant research. *Accounting Horizons*, *20*(3), 287-303.
Mathews, R. C., Tall, J., Lane, S. M., & Sun, R. (2011). Getting it right generally, but not precisely: learning the relation between multiple inputs and outputs. *Memory & Cognition, 39*(6), 1133-1145.
Mayne, Z. (2021). Frequency judgment: The relationship between judged and actual frequency. Available at SSRN 3859779.
McCracken, S., Salterio, S. E., & Gibbins, M. (2008). Auditor–client management relationships and roles in negotiating financial reporting. *Accounting, Organizations and Society*, *33*(4-5), 362-383.
McDaniel, L. S. (1990). The effects of time pressure and audit program structure on audit performance. *Journal of Accounting Research*, 28(2), 267-285.
Miles, M. B., Huberman, A. M., & Saldaña, J. (2018). *Qualitative data analysis: A methods sourcebook*. Sage publications.
Mowchan, M. (2016). *Office Managing Partners, Non-Audit Services, and Audit Quality* (Doctoral dissertation, Arizona State University).
Nelson, K. (1993). The psychological and social origins of autobiographical memory. *Psychological Science, 4*(1), 7-14.

Nelson, M. W., Elliott, J. A., & Tarpley, R. L. (2002). Evidence from auditors about managers' and auditors' earnings management decisions. *The Accounting Review*, *77*(s-1), 175-202.

Nelson, M., & Tan, H. T. (2005). Judgment and decision-making research in auditing: A task, person, and interpersonal interaction perspective. Auditing: *A Journal of Practice & Theory, 24*(s-1), 41-71.

Nelson, M. W., & Skinner, D. J. (2013). How should we think about earnings quality? A discussion of "Earnings quality: Evidence from the field". *Journal of Accounting and Economics*, *56*(2-3), 34-41.

Palmrose, Z. V., & Scholz, S. (2004). The circumstances and legal consequences of non-GAAP reporting: Evidence from restatements. *Contemporary Accounting Research, 21*(1), 139-180.

Peecher, M. Solomon, I., & Trotman, K. T. (2013). An accountability framework for financial statement auditors and related research questions. *Accounting, Organizations & Society* 38(8), 596-620.

Sanchez, M. H., Agoglia, C. P., & Hatfield, R. C. (2007). The effect of auditors' use of a reciprocity-based strategy on auditor-client negotiations. *The Accounting Review*, *82*(1), 241-263.

Skinner, D. J., S. Srinivasan. (2012). Audit quality and auditor reputation: Evidence from Japan. *The Accounting Review* 87 (5): 1737-1765.

Srinivasan, S. (2005). Consequences of financial reporting failure for outside directors: Evidence from accounting restatements and audit committee members. *Journal of Accounting Research, 43*(2), 291-334.

Tomy, R. E., & Wittenberg Moerman, R. (2021). Community membership and reciprocity in lending: Evidence from informal markets. Working paper.

Trotman, K. T., Tan, H. C., & Ang, N. (2011). Fifty-year overview of judgment and decision-making research in accounting. *Accounting & Finance, 51*(1), 278-360.

Vannette, D. L., & Krosnick, J. A. (Eds.). (2018). *The Palgrave Handbook of Survey Research*. Springer.

Vatter, W. J. (1966). Critical synthesis of conference papers. *Journal of Accounting Research*, 228-233.

Weber, J., Willenborg, M., & Zhang, J. (2008). Does auditor reputation matter? The case of KPMG Germany and ComROAD AG. *Journal of Accounting Research*, *46*(4), 941-972.

Woltz, D. J., Gardner, M. K., Kircher, J. C., & Burrow-Sanchez, J. J. (2012). Relationship between perceived and actual frequency represented by common rating scale labels. *Psychological Assessment, 24*(4), 995.

Wright, A., & Wright, S. (1997). An examination of factors affecting the decision to waive audit adjustments. Journal of Accounting, Auditing & Finance, 12(1), 15-36.

Zacks, R. T., & Hasher, L. (2002). Frequency processing: A twenty-five year perspective. *Frequency Processing and Cognition, 6*, 21-36.

Zacks, R. T., Hasher, L., & Sanft, H. (1982). Automatic encoding of event frequency: Further findings. *Journal of Experimental Psychology: Learning, Memory, and Cognition, 8*(2), 106.

Table 1. Demographic characteristics of survey respondents

What is your age?	%	**What best describes the average annual revenue of the primary audit clients you had as an audit partner?**	**%**
<30	0.00	<$25 million	6.3
30-39	7.37	$25 million to $99 million	9.57
40-49	35.58	$100 million to $499 million	17.39
50-59	35.26	$500 million to $999 million	14.35
60-69	18.27	$1 billion to $4.9 billion	24.57
70+	1.92	$5 billion to $9.9 billion	10.43
Prefer not to say	1.60	$10 billion+	17.39
Gender		**Which industries did you cover as an audit engagement partner?**	
Female	20.83	Retail and Wholesale	32.47
Male	75.96	Tech (Software/Biotech)	33.12
Let me specify	0.00	Bank/Finance/Insurance	26.41
Prefer not to say	3.21	Manufacturing	43.94
		Public Utility	4.55
What is your role as an audit engagement partner?		Transportation/Energy	16.45
Currently an equity partner in audit	77.06	Other	42.86
Currently a non-equity partner or director in audit	3.90		
Retired 0-5 years ago as an equity partner in audit	11.69	**Have you ever identified an MM, such that the client had to restate previously filed financial statements and notify investors that the previously filed financial statements could not be relied upon?**	
Retired 0-5 years ago as a non-equity partner or director in audit	0.43	Yes	58.66
Retired more than 5 years ago as an equity partner in audit	6.71	No	41.34
Retired more than 5 years ago as a non-equity partner or director in audit	0.22	**What is your experience outside of public accounting?**	
Never was a partner/director in audit	0	Corporate accounting executive (CFO, Director of Finance, Controller, Director of Internal Audit, etc.)	39.60
Never worked in audit	0	Audit committee member or chair	60.40
How many years of experience as an audit engagement partner do you have?			
1-5 years	17.32		
6-10 years	21.00		
11-15 years	14.94		
16-20 years	17.97		
Over 20 years	28.79		

Where did you get most of your experience as an audit engagement partner?	
Big 4 firms	70.56
Large non-Big-4 firms (over $250 million in annual revenues)	24.03
Midsize firms ($25 million to $250 million in annual revenues)	4.33
Small firms (up to $25 million in annual revenues)	1.08

In how many engagements did you serve as an audit partner in a typical year?

	% of Respondents Who Answered	
Responses	*Public* audit clients	*Private* audit clients
0	19.61	9.98
1-4	73.42	42.08
5-9	4.58	19.31
10-14	1.09	10.85
15+	1.31	17.79

What best describes the average inherent risk of the primary audit clients you had as an audit partner?

	% of Respondents Who Answered	
Responses	Public audit clients	Private audit clients
High Risk	26.56	5.30
Medium Risk	60.16	51.81
Low Risk	13.28	42.89

What percentage of the engagements where you served as an audit partner identified one or more MMs?

Responses	% of Respondents Who Answered *Public* audit clients	 *Private* audit clients
0-10%	88.54	64.72
11-20%	4.95	16.87
21-30%	2.17	5.52
31-40%	0.62	3.37
41-50%	1.24	2.76
51-60%	0.31	2.76
61-70%	0.31	0.61
71-80%	0.31	0.61
81-90%	0.93	0.61
91-100%	0.62	2.15

Sometimes potential MMs arise during an audit, such as unusual journal entries or aggressive estimates, etc. What percentage of potential MMs did you conclude were not actual MMs?

Responses	% of Respondents Who Answered *Public* audit clients	 *Private* audit clients
0-10%	53.19	51.23
11-20%	5.26	8.13
21-30%	3.32	4.43
31-40%	2.77	3.69
41-50%	2.77	4.19
51-60%	1.94	3.94
61-70%	1.39	1.97
71-80%	3.32	2.96
81-90%	6.93	6.40
91-100%	19.11	13.05

Topic 1. Assessing and Addressing Material Misstatement (MM) Risks

Table 2. Survey responses to the question: How often do the following factors increase your assessment of MM risk in the client's unaudited financial statements? [0=never, 3=half the time, 6=every time]

				% of Respondents Who Answered	
	Responses	Average Rating	Significantly Greater Than	Every Time (5 or 6)	Never (0 or 1)
1	The client is close to breaching a loan covenant	4.38	3-14	62	9
2	The client faces doubts about its ability to continue as a going concern	4.36	3-14	63	12
3	Executive compensation is tied to aggressive performance targets	4.11	4-14	54	11
4	The client's executives have aggressive personalities	3.76	5-14	41	13
5	The client is close to missing its analysts' earnings expectations	3.51	9-14	35	16
6	The client's credit rating is close to decreasing	3.38	9-14	37	22
7	The client is likely to miss its own earnings guidance	3.35	9-14	33	19
8	The audit committee is weak	3.26	9-14	31	20
9	The client is close to reporting a loss	2.77	10-14	22	31
10	Your relationship with the client management is tenuous	2.35	12-14	18	41
11	You consult with the national office about an audit-related matter	2.28	12-14	16	42
12	The client is large	1.31	13-14	4	65
13	You have strong rapport with the client management	1.12	14	3	70
14	The client provides significant non-audit service revenue to the firm	0.58	--	2	86
	Total possible N = 374				

Column 1 reports the average rating, where higher values correspond to greater likelihood. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating likelihood of 5 or 6 (0 or 1).

Table 3. Survey responses to the question: Assume the final unaudited earnings narrowly beat the client management's desired annual earnings target. To what extent would your observing the following actions by management prior to year-end increase the MM risk in the unaudited earnings? [0=not at all, 3=somewhat, 6=very much]

				% of Respondents Who Answered	
	Responses	Average Rating	Significantly Greater Than	Very Much (5 or 6)	Not at All (0 or 1)
(1)	Alter accounting assumptions (e.g., allowances, pensions, etc.)	4.77	3-9	73	6
(2)	Postpone taking an accounting charge	4.65	3-9	69	10
(3)	Draw down on reserves previously set aside	4.43	4-9	61	9
(4)	Book revenues now rather than next quarter (if justified in either quarter)	4.18	5-9	52	10
(5)	Provide incentives for customers to buy more product this quarter	3.18	6-9	27	19
(6)	Sell investments or assets to recognize gains this quarter	2.44	7-9	11	31
(7)	Decrease discretionary spending (e.g., R&D, advertising, maintenance, etc.)	2.04	8-9	6	41
(8)	Delay starting a new project even if this entails a small sacrifice in value	1.88	9	2	43
(9)	Repurchase common shares	1.37	--	1	59
	Total possible N = 371				

Column 1 reports the average rating, where higher values correspond to greater likelihood. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating likelihood of 5 or 6 (0 or 1).

Table 4. Survey responses to the question: How would the following circumstances affect the likelihood that you will conclude an MM exists when uncorrected misstatements at the end of your audit engagement are close to, but not quite quantitatively material to the client's unaudited financial statements? [-3=decrease very much, 0=no effect, +3=increase very much]

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered: Increase Very Much (+3 or +2)	% of Respondents Who Answered: Decrease Very Much (-3 or -2)
(1)	The misstatements appear to be due to a dishonest irregularity increasing income	2.52	2-8	88	1
(2)	The misstatements appear to be due to a dishonest irregularity decreasing income	2.30	3-8	80	1
(3)	The client is a public company	1.08	4-8	36	1
(4)	The misstatements appear to be due to an honest error increasing income	0.55	5-8	21	3
(5)	The misstatements appear to be due to an honest error decreasing income	0.23	6-8	14	8
(6)	The client is large	0.08	7-8	6	3
(7)	The client provides significant non-audit service revenue to the firm	-0.10	--	2	5
(8)	The client is a private company	-0.16	--	7	8
	Total possible N = 364				

Column 1 reports the average rating, where higher values correspond to greater likelihood. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating likelihood of 5 or 6 (0 or 1).

Table 5. Survey responses to the question: When you audit accounts that are subject to a significant degree of estimation, how often are the following circumstances present? [0=never, 3=half the time, 6=every time]

				% of Respondents Who Answered	
	Responses	Average Rating	Significantly Greater Than	Every Time (5 or 6)	Never (0 or 1)
(1)	Your engagement team involved a valuation specialist to assist in the audit	4.27	2-6	55	6
(2)	The client hired a valuation specialist to help develop the estimate	3.57	3-6	35	12
(3)	The controls around the estimate were less effective than other controls	2.45	4-6	14	35
(4)	Management's estimate was at the more aggressive end of the acceptable range	2.23	5-6	7	33
(5)	Management's support for the estimate was inadequate	2.05	6	9	45
(6)	There was a larger misstatement in the estimate, compared to other misstatements identified during the audit	1.86	--	5	50
	Total possible N = 376				

Column 1 reports the average rating, where higher values correspond to greater likelihood. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating likelihood of 5 or 6 (0 or 1).

Table 6. Survey responses to the question: When the following circumstances are present, how often do they pose a meaningful threat to audit effectiveness? [0=never, 3=half the time, 6=every time]

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered: Every Time (5 or 6)	% of Respondents Who Answered: Never (0 or 1)
(1)	Lack of integrity on the client's finance/accounting team	4.80	2-12	75	14
(2)	Lack of expertise on client's finance/accounting team	4.33	4-12	54	5
(3)	Ineffective internal controls	4.18	4-12	54	9
(4)	Insufficient professional skepticism	3.67	5-12	42	18
(5)	Lack of expertise among the non-partner members of the audit engagement team	3.16	7-12	23	15
(6)	Time pressure from the client (e.g., to report earnings)	3.10	8-12	26	21
(7)	Undersampling or undertesting	2.89	9-12	28	32
(8)	Time pressure from the auditor (e.g., busy season)	2.72	9-12	16	26
(9)	Reliance upon a non-US audit affiliate during the engagement	1.84	10-12	4	48
(10)	Long audit firm tenure	0.80	--	0	82
(11)	Significant audit revenue	0.78	12	2	81
(12)	Significant non-audit service revenue	0.71	--	2	83
	Total possible N = 368				

Column 1 reports the average rating, where higher values correspond to greater increase in likelihood. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating an increase in likelihood of 5 or 6 (0 or 1).

Topic 2. Resolution of Material Misstatements (MMs)

Table 7. Survey responses to the question: How often does the successful resolution of an MM involve the following? [0=never, 3=half the time, 6=every time]

				% of Respondents Who Answered	
	Responses	Average Rating	Significantly Greater Than	Every Time (5 or 6)	Never (0 or 1)
(1)	Reliance on strong rapport with management	3.48	2-13	36	19
(2)	Explanation that if management does not correct the misstatement, the auditor may have to issue a qualified or adverse opinion	2.55	6-13	24	43
(3)	Involvement of the audit committee in negotiations	2.44	6-13	21	43
(4)	Involvement of the firm's national office in negotiations	2.41	6-13	18	39
(5)	Explanation to management that if management does not correct the misstatement, the client faces greater risk of investigation by a regulator	2.33	6-13	17	41
(6)	Explanation to management that if management does not correct the misstatement, to outside observers the client will stick out as an outlier among its peers	1.76	9-13	9	56
(7)	Negotiation with the management about which misstatements they will correct	1.65	10-13	9	59
(8)	Explanation to management that if management does not correct the misstatement, the auditor may have to resign	1.61	11-13	13	67
(9)	Explanation to management that if management does not correct the misstatement, the management could eventually face negative personal consequences	1.41	13	8	66
(10)	Negotiation involving strategic concessions that the management does not need to correct small misstatements	1.39	13	3	63
(11)	Explanation to management that if management does not correct the misstatement, the auditor may not be able to renew the audit relationship the following year	1.37	13	9	71
(12)	Negotiation with the management about the period(s) in which they will make corrections	1.30	13	5	67
(13)	Threat from the client to not rehire the auditor the next year	0.53	--	1	89

Total possible N = 318

Column 1 reports the average rating, where higher values correspond to increased focus on a given audience. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating focus on a given audience of 5 or 6 (0 or 1).

Table 8. Survey responses to the question: How do the following factors affect the difficulty of resolving an MM with client management? [-3=decrease very much, 0=no effect, +3=increase very much]

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered Increase Very Much (+3 or +2)	Decrease Very Much (-3 or -2)
(1)	The client has already released its earnings guidance	1.81	4-15	66	1
(2)	The client is close to breaching a loan covenant	1.79	4-15	65	0
(3)	The client's executives have aggressive personalities	1.78	5-15	67	1
(4)	The client faces doubts about its ability to continue as a going concern	1.59	8-15	56	1
(5)	Executive compensation is tied to aggressive performance targets	1.42	9-15	47	1
(6)	Your relationship with the client management is tenuous	1.42	9-15	52	3
(7)	The client is close to missing its analysts' earnings expectations	1.41	8-15	46	0
(8)	The client is likely to miss its own earnings guidance	1.26	11-15	42	2
(9)	The MM pertains to an estimate	1.20	11-15	43	2
(10)	The client's credit rating is close to decreasing	1.15	11-15	36	0
(11)	The client is close to reporting a loss	0.96	12-15	27	0
(12)	The client is large	0.00	14-15	6	10
(13)	The audit committee questions or expresses skepticism about management's position	-0.04	14-15	29	30
(14)	The client provides significant non-audit service revenue to the firm	-0.30	15	2	14
(15)	You have strong rapport with the client management	-1.14	--	4	47
	Total possible N = 318				

Column 1 reports the average rating, where higher values correspond to greater importance. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of

the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating importance of 5 or 6 (0 or 1).

Table 9. Survey responses to the question: In the following scenarios, how often does client management challenge a proposed audit adjustment relating to an MM? [0=never, 3=half the time, 6=every time]

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered Every Time (5 or 6)	Never (0 or 1)
(1)	Correcting the MM would decrease net income in the prior fiscal year and would require reissuance of the financial statements (i.e., a "Big R" restatement)	3.83	2-6	50	17
(2)	Correcting the MM would increase net income in the prior fiscal year and would require reissuance of the financial statements (i.e., a "Big R" restatement)	3.69	3-6	45	18
(3)	Correcting the MM would decrease net income in the financial statements being audited	2.87	4-6	20	26
(4)	Correcting the MM would decrease net income in the prior fiscal year and would not require reissuance of the financial statements (i.e., a "Little r" restatement)	2.62	5-6	16	30
(5)	Correcting the MM would increase net income in the prior fiscal year and would not require reissuance of the financial statements (i.e., a "Little r" restatement)	2.55	6	14	30
(6)	Correcting the MM would increase net income in the financial statements being audited	2.16	--	10	39
	Total possible N = 316				

Column 1 reports the average rating, where higher values correspond to greater importance. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating importance of 5 or 6 (0 or 1).

Table 10. Survey responses to the question: When an error that is just above quantitative materiality has one of the following characteristics, how often can the error be appropriately treated as being immaterial? [0=never, 3=half the time, 6=every time]

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered Every Time (5 or 6)	Never (0 or 1)
(1)	It is an error affecting only the management discussion and analysis	2.75	3-13	22	32
(2)	It is a classification error affecting only the balance sheet	2.51	7-13	13	31
(3)	It is an error affecting only a note to the financial statements	2.46	8-13	13	34
(4)	It is an error affecting only the supplemental schedules accompanying the financial statements	2.38	8-13	14	37
(5)	It is a classification error affecting only the statement of equity	2.37	8-13	12	35
(6)	It is an error in an account or area to which the investors in the client's industry typically do not pay much attention	2.29	8-13	13	41
(7)	It is a classification error affecting only the statement of cash flows	2.26	8-13	8	36
(8)	It is a classification error affecting only the income statement	1.88	10-13	4	47
(9)	It is an error related to an estimate	1.79	10-13	3	47
(10)	It is an error not related to an estimate	1.46	12-13	3	62
(11)	It is an error that would not need to be discussed in a critical audit matter paragraph	1.43	12-13	3	64
(12)	The client is large	0.64	13	2	84
(13)	The client provides significant non-audit service revenue to the firm	0.34	--	1	91
	Total possible N = 319				

Column 1 reports the average rating, where higher values correspond to increased focus on a given audience. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating focus on a given audience of 5 or 6 (0 or 1).

Topic 3. Consequences of Material Misstatements (MMs)

Table 11. Survey responses to the question: When you and the national office conclude that there is an MM in the unaudited financial statements and the client management challenges this conclusion, how often do the following consequences arise? [0=never, 3=half the time, 6=every time]

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered: Every Time (5 or 6)	% of Respondents Who Answered: Never (0 or 1)
(1)	Your firm will issue an adverse opinion on the effectiveness of internal control over financial reporting	3.19	2-9	38	32
(2)	The client management will give you a poor satisfaction rating in a client survey	2.68	3-9	16	27
(3)	The client management will complain to your superiors	2.48	5-9	12	36
(4)	You will discuss the issue in a critical audit matter paragraph	2.34	5-9	17	41
(5)	Your firm will reward you for taking an uncompromising position in this case	1.86	7-9	15	55
(6)	Your firm will maintain the audit relationship but add a more senior partner to the engagement	1.7	7-9	5	54
(7)	Your firm will cease all relationships with this client	1.4	8-9	5	70
(8)	Your firm will maintain the audit relationship but rotate you out of the engagement early	1.1	--	2	74
(9)	Your firm will cease the audit relationship with this client and allow the consulting practice to pursue the client for projects	1.04	--	1	76
	Total possible N = 307				

Column 1 reports the average rating, where higher values correspond to greater likelihood. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating likelihood of 5 or 6 (0 or 1).

Table 12. Survey responses to the question: How would identifying an MM in the unaudited financial statements affect the following aspects of your subsequent year's audit? [-3=decrease very much, 0=no effect, +3=increase very much]

				% of Respondents Who Answered	
	Responses	Average Rating	Significantly Greater Than	Increase Very Much (+3 or +2)	Decrease Very Much (-3 or -2)
(1)	The control risk in the relevant area	1.71	4-13	63	1
(2)	Use of experienced audit personnel in the affected area	1.67	4-13	63	1
(3)	The inherent risk in the relevant area	1.65	5-13	61	1
(4)	Use of firm specialists in the affected area	1.50	6-13	51	0
(5)	Audit time budget	1.39	7-13	42	1
(6)	The likelihood of the controller or the CFO vetting key accounting judgments with you going forward	1.26	7-13	44	1
(7)	The frequency of your consultations with the national office	1.02	9-13	26	0
(8)	The client's audit fees	1.00	9-13	24	2
(9)	The quantitative materiality threshold in the affected area	0.37	10-13	29	12
(10)	Your rapport with the client management	-0.20	11-13	6	8
(11)	The rating you receive from the client in the client satisfaction survey	-0.44	13	4	17
(12)	Your willingness to outsource the relevant audit work to the firm's service center	-0.56	13	6	23
(13)	Your willingness to outsource the relevant audit work to the client's internal auditors	-1.07	--	8	46
	Total possible N = 309				

Column 1 reports the average rating, where higher values correspond to greater increase in likelihood. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating an increase in likelihood of 5 or 6 (0 or 1).

Table 13: Survey responses to the question: How would restatements of previously filed financial statements (i.e., a "Big R" restatement") for which you had signed an unqualified audit opinion affect the following? [-3=decrease very much, 0=no effect, +3=increase very much]

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered: Increase Very Much (+3 or +2)	Decrease Very Much (-3 or -2)
(1)	Your subsequent audit engagements being selected for internal quality control review	1.62	2-11	57	4
(2)	Your future audit engagements being selected by the PCAOB for inspection	1.49	3-11	49	4
(3)	The combined audit fees of your audit client portfolio	0.04	4-11	6	3
(4)	Your career opportunities outside of the firm	-0.16	5-11	3	5
(5)	Your ability to continue being assigned as a partner on the audit	-0.41	8-11	6	13
(6)	Your firm's ability to stay on as the auditor of the client	-0.49	10-11	6	14
(7)	Your prospects for promotion	-0.52	11	6	16
(8)	Your compensation	-0.59	11	5	16
(9)	Your reputation within the firm	-0.62	11	8	22
(10)	Your rapport with the client management	-0.66	11	8	24
(11)	Your client survey satisfaction ratings for the client	-0.83	--	9	33
	Total possible N = 306				

Column 1 reports the average rating, where higher values correspond to greater interest. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating interest of 5 or 6 (0 or 1).

Appendix A: Survey Invitation

Hi <Partner First Name>,

I am an accounting professor at MIT collecting current and former audit partners' experiences for a new paper my colleagues and I are working on about material misstatements. Our goal is to better understand the causes and consequences of material misstatements. We will share the resulting academic paper with all participants. Academics can use our paper to help prepare the next generation of auditors and managers for their professional careers.

I wanted to invite you to participate in a 20-minute confidential survey. Our survey does not ask participants to identify themselves, their audit firm, or their clients.

We will donate up to $10,000 to charity, depending on our survey's response rate. For example, if 60% of invited partners complete the survey, we will donate $6,000.

To take the survey, please click the link below or copy and paste it into a new browser window:

<Link redacted>

Many thanks for your willingness to participate in my research.

Andrew G. Sutherland
Ford International Career Development Professor
Associate Professor of Accounting
MIT Sloan School of Management

MIT Faculty Profile: https://mitsloan.mit.edu/faculty/directory/andrew-gordon-sutherland
LinkedIn: https://www.linkedin.com/in/andrew-sutherland-a247b32/
Google Scholar: https://scholar.google.com/citations?user=YMi6bSgAAAAJ&hl=en&oi=ao
SSRN: https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=837383

Appendix B: Survey Consent Form

Purpose of the Survey: In this study we intend to examine how audit partners detect and resolve material misstatements and what consequences material misstatements have.

Participation: By taking part in this survey, you indicate your agreement to participate and for us to be able to see your responses. Your participation is completely voluntary, and we anticipate that it will take approximately 30 minutes. As a token of appreciation for your completing the survey, we will donate to a charity you select at the end of the survey up to $10,000, depending on the response to our survey. For example, if 60% of invited partners complete the survey, we will donate $6,000 to charity. Your participation in the survey will result in a larger donation to the charity of your choice.

Option at the End of the Survey: At the end of the survey, you will have **the option** to agree to be considered for a **confidential** follow-up 30 min phone conversation with the researchers. If, at the end of the survey, you agree to be considered for this confidential interview and are selected for the interview, one of us will contact you to schedule an interview time that is convenient for you.

Researcher: Researchers for this study are Eldar Maksymov, Associate Professor at Arizona State University (eldar.maksymov@asu.edu); Mark Peecher, Professor at University of Illinois-UC (peecher@illinois.edu); Andrew Sutherland, Associate Professor at MIT (ags1@mit.edu); Joseph Weber, Professor at MIT (jpweber@mit.edu).

Questions: If you have any questions or concerns regarding your rights as a participant in this study, you may contact ASU's Institutional Review Board (IRB) at (480) 965-6788, email at research.integrity@asu.edu, or access their website at

https://researchintegrity.asu.edu/humans/participants.

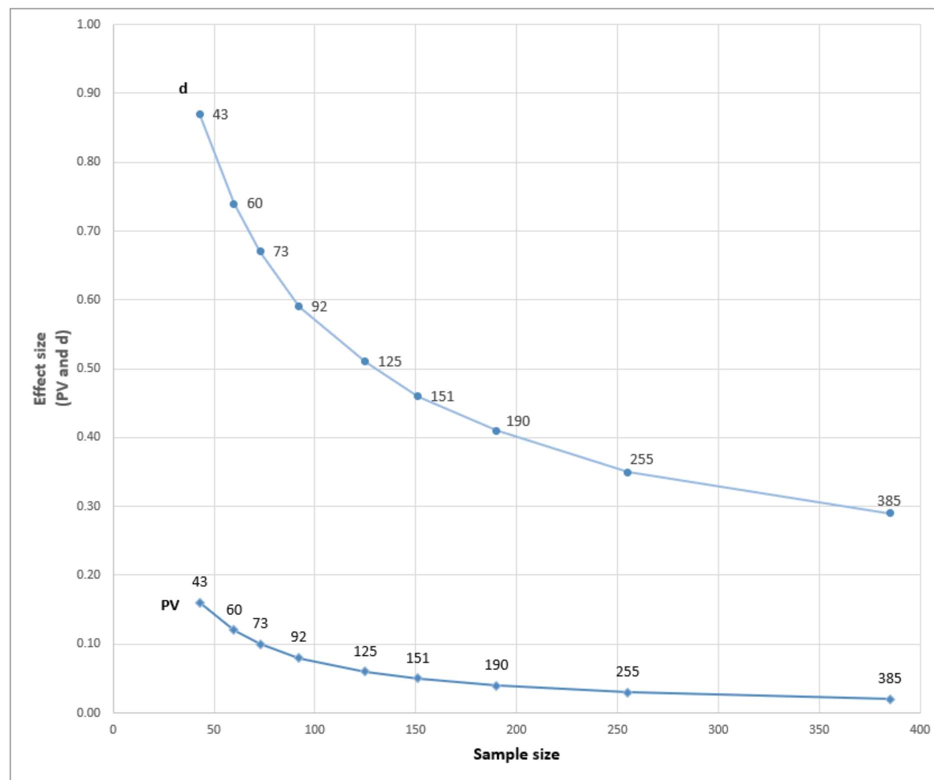
If you agree to participate in the survey, please go to the next screen to begin

Appendix C: Power Analysis

Following Tomy and Wittenberg-Moerman (2021), we conduct the power analysis from Land and Zheng (2010) to develop estimates of the sample size needed to reduce the likelihood of Type II errors to an acceptable level. Land and Zheng emphasize four factors:

(1) the desired statistical power;
(2) the significance criterion;
(3) the degrees of freedom of the planned test; and
(4) the estimated effect size.

Land and Zheng note that "an adequate statistical power is often set to 0.8" (p. 207), so we use this assumption. We set the significance criterion at 5%, consistent with the norm in empirical accounting research. Since our tests will primarily involve comparisons of pairs of responses, we use degrees of freedom of 1. Using these inputs, we plot minimum sample sizes for nine effect sizes, represented by separate curves for the standardized mean difference (d), and nine levels of the proportion-of-variance explained (PV):



We obtained over 300 responses to all of our questions. Then, as the above graph shows, the required sample size would approach our expected response range only if effects are very small—*d*=0.29 or smaller and PV=0.02 or smaller. The required samples to detect such effect sizes with 0.8 power are 385 or above. For the other 87.5% of effect sizes analyzed by Land and Zheng (2010), the required sample sizes are well below 300.

Appendix D: Cross-Sectional Analysis

Table D1: Client- vs. Auditor-Driven Threats to Audit Effectiveness

Panel A models survey responses to the question "When the following circumstances are present, how often do they pose a meaningful threat to audit effectiveness?" [0=never, 3=half the time, 6=every time]. The dependent variable is the partner's response [0=never, 3=half the time, 6=every time]. *Current Partner* is an indicator variable for current partners. *Big 4* is an indicator variable for partners who obtained most of their experience as an audit engagement partner at Big 4 firms. *Restatement Experience* is an indicator variable for partners who have identified an MM, such that the client had to restate previously filed financial statements and notify investors that the previously filed financial statements could not be relied upon. *Late Survey Taker* is an indicator variable for partners who completed the survey in September or October. *Only Public Clients* is an indicator variable for partners who reported only having public clients in their engagements. Panel B models the difference between the sum of responses for client-driven factors (columns 1-4 of Panel A) and the sum of responses for auditor-driven factors (columns 5-9 of Panel A). Our regressions include fixed effects for each industry, experience level, and size category reported in our demographic questions. Reported below the coefficients are *t*-statistics calculated with robust standard errors. *, **, and *** indicate significance at the two-tailed 10%, 5%, and 1% levels, respectively. See Appendix A for variables definitions.

Panel A: Individual Responses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Client-Driven				Auditor-Driven					Relationship-Driven		
	Time Pressure	Team Lacks Integrity	Ineffective Controls	Team Lacks Expertise	Time Pressure	Undersampling, Undertesting	Team Lacks Expertise	Insufficient Skepticism	Non-US Affiliate	Sign. Non-Audit Rev	Sign. Audit Rev	Long Tenure
Current Partner	-0.138	0.259	-0.347	-0.047	-0.085	-0.015	-0.092	-0.108	-0.672**	-0.411**	-0.280	-0.260
	[-0.44]	[0.82]	[-1.30]	[-0.19]	[-0.31]	[-0.05]	[-0.34]	[-0.36]	[-2.41]	[-2.29]	[-1.39]	[-1.64]
Big 4	-0.360	0.087	-0.034	-0.456*	-0.509*	0.057	-0.370	-0.045	-0.406*	-0.632***	-0.577***	-0.594***
	[-1.30]	[0.27]	[-0.13]	[-1.83]	[-1.95]	[0.19]	[-1.48]	[-0.15]	[-1.76]	[-3.40]	[-2.82]	[-3.07]
Restatement Experience	-0.044	0.086	0.149	-0.195	-0.054	0.097	-0.295	0.050	-0.169	-0.180	-0.045	0.010
	[-0.21]	[0.37]	[0.71]	[-1.14]	[-0.28]	[0.39]	[-1.56]	[0.22]	[-0.88]	[-1.31]	[-0.32]	[0.10]
Late Survey Taker (Sept or Oct)	0.135	0.622***	-0.155	0.337*	0.161	0.412*	0.255	0.570**	0.070	0.037	-0.012	0.056
	[0.69]	[2.73]	[-0.76]	[1.96]	[0.85]	[1.68]	[1.30]	[2.37]	[0.43]	[0.27]	[-0.09]	[0.52]
Only Public Clients	-0.436	-0.341	-0.366	-0.103	0.035	0.172	-0.063	-0.161	-0.410	-0.194	-0.212	0.144
	[-1.64]	[-1.00]	[-1.39]	[-0.43]	[0.14]	[0.58]	[-0.26]	[-0.57]	[-1.63]	[-1.07]	[-1.06]	[0.80]
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Experience Level FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Client Size Category FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	325	325	326	326	326	326	326	326	324	324	324	326
R2	0.103	0.115	0.087	0.076	0.108	0.066	0.050	0.052	0.070	0.146	0.151	0.202

Panel B: Combined Responses

	(1) Client- Minus Auditor-Driven
Current Partner	0.707
	[1.08]
Big 4	0.547
	[0.89]
Restatement Experience	0.327
	[0.59]
Late Survey Taker (Sept or Oct)	-0.605
	[-1.14]
Only Public Clients	-0.760
	[-1.24]
Industry FE	Yes
Experience Level FE	Yes
Client Size Category FE	Yes
Observations	322
R2	0.099