

Does Auditor Assurance of Client Prosocial Activities Affect Auditor-Client Negotiations?

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Abstract: We draw on theory from moral licensing and image motivation to test the prediction that, when auditors become involved in an assurance-like capacity with reporters' prosocial activities, reporters become more aggressive in subsequent auditor-reporter negotiations. In Part 1 of a two-part interactive experiment, participants in the reporter role answer trivia questions. Our first manipulation is whether correct answers result in a donation to charity or a personal gain to the reporter. Our second manipulation is whether participants in the auditor role observe and verify reporters' Part 1 efforts. In Part 2, reporter/auditor pairs negotiate an estimate for an uncertain amount, with higher reported estimates increasing the likelihood that the reporter receives a bonus and the auditor incurs a penalty. We find that reporters propose more aggressive estimates and achieve more favorable negotiated outcomes in Part 2 only when the Part 1 condition combines a prosocial activity with auditor assurance.

Keywords: *audit negotiations; moral licensing; corporate social responsibility; charitable giving; audit quality; accounting estimates; experimental economics*