How Valuation Specialists Influence Fair Value Measurements

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ABSTRACT

We interview audit firm-employed valuation specialists (specialists) in major global financial markets to understand how they influence the estimation of fair values for complex financial instruments. Audit-firm specialists occupy two primary but distinct roles in fair value estimation, with different clients in each role. In the evaluation role, they assist auditors – an internal client – in attesting to company financial statements. In the preparation role, they help management – an external client – to prepare financial reporting estimates. The accountability-role theoretic framework holds that felt accountability differs based on the role you serve and that it shapes actions at work. In line with accountability-role theory, specialists face different rewards (e.g., fees), penalties (e.g., risk of client loss), and regulatory authorities across the two roles. We find that the subjectivity inherent in fair value estimation eases the path for specialists to prepare and evaluate fair value measurements to meet their clients' preferences. Notably, our results show that specialists' behaviors can introduce bias in the fair value measurements reported in financial statements and occur in ways that are unobservable to external agents. Thus, financial statement users and regulators are unaware of the degree of potential bias in the estimates.

KEY WORDS: Firm-employed specialists, accountability, role duality, role theory, complex estimates, role senders, audit quality, financial reporting quality, valuation specialists

I. Introduction

Fair value measurements (hereafter FVMs) are increasingly complex, prominent in, and material to financial statements. However, financial statement preparers (hereafter, management) and auditors lack the requisite expertise and must rely on assistance from valuation specialists (Bratten, Gaynor, McDaniel, Montague, and Sierra 2013; Cannon and Bedard 2017; PCAOB 2018).[1] Specialists, therefore, are integral to audited FVMs, and their expertise is particularly critical for complex, low-liquidity financial instruments (e.g., collateralized debt obligations or mortgage-backed securities). In addition, because the significant risk of opportunism and bias in complex estimates is well-documented (e.g., Hilton and O'Brien 2009; Choudhary 2011; Ramanna and Watts 2012), specialists are seen as a means to enhance valuation quality. Auditing standards imply that using specialists can reduce bias in estimates and FVMs (e.g., AS 2401 and AS 2501) and reduce misstatement risk (Munter 2022). Nevertheless, we know little about how specialists fulfill their vital functions. For example, "most prior research reports auditors' views *about* specialists" (Boritz, Kochetova, Robinson, and Wong 2020, 4), auditors' interactions *with* specialists, and auditors' *use of* the work of specialists (e.g., Hux 2017). However, the literature largely omits the specialist's perspective.

This study examines the process and approach used by audit firm-employed valuation specialists (hereafter, specialists) in producing and evaluating fair values. Understanding how these specialists contribute to fair value reporting is especially relevant because of their potential to both enhance or impair the quality of FVMs. They serve a unique dual role: an *evaluation role* assisting auditors on financial statement audits (an internal client base) and a *preparation role*

[1] Securities Industry and Financial Markets Association (2020) estimates the global debt and global equity markets at about $106 Trillion and $95 Trillion, respectively. McKinsey (2020) estimates that private equity and debt markets are $6.5 trillion, and MSCI Inc./Teuben and Neshat (2020) estimate the professionally managed market at $9 trillion.

supporting the management of non-audit clients in preparing estimates (an external client base).[2]

Twenty partner- and manager-level specialists employed, typically in the consulting practice, by global network and national public audit firms and domiciled in the North American, European, and Asia-Pacific offices served as our participants. Prior to the interviews, we provided a sample complex financial instrument (CFI) to calibrate participants' responses about their FVM preparation and evaluation roles (see details in Section III). We use a semi-structured interview approach because it allows a rare opportunity for direct exploration into the dual roles specialists occupy in audit firms and their relationships with distinct types of clients (auditors who are within the firm and management who are external). These clients are the primary stakeholders with decision control over the FVMs presented in audited financial statements. Our approach enables us to develop a richer, more comprehensive understanding of the specialists' roles and how these roles influence audit and financial reporting quality. We gain new insights into factors influencing specialists' behaviors and their contribution to FVMs that appear in audited financial statements.

In an initial thematic analysis of specialists' responses, the accountability role-theoretic framework emerged as best-suited to interpreting specialist behaviors when performing valuation tasks because their actions differed depending on the role they inhabited. Frink and Klimoski (2004) first advanced the understanding that a person's functional role impacts their felt accountability to specific individuals and constituents who have authority over them (which they label the role sender). A person's felt accountability (i.e., the individual's expectation of evaluation by others who can impose rewards and penalties on them), in turn, shapes their on-the-job behavior and feelings (e.g., satisfaction, job-stress, and organizational commitment) about their job (Frink and Klimoski 2004; Hall, Frink, and Buckley 2017). Research suggests that felt accountability can

[2] Other sources of valuation expertise available to auditors and management include valuation consulting firms and company-employed specialists who only work with management (PCAOB Staff Consultation Paper No. 2015-01).

have positive or negative organizational consequences and influence the individual's affective state, actions, cognitions, or decisions (Hall et al. 2017).

We apply insights from the joint role-accountability theory framework to analyze how specialists' felt accountability behaviors manifest within each role and how these behaviors influence audit and financial reporting quality. Our focus on specialists offers new insights into how accountability shapes behaviors in the audit setting and advances the literature previously focused on auditor accountability to supervisors, clients, and regulators (see Donnelly and Donnelly 2023).

Our interviews yield that specialists engage in four behavioral responses to felt accountability found in prior research: attitude shifting, coping, satisficing, and backfire reactions.[3] First, attitude shifting manifests through specialists adopting different approaches to meet client preferences across roles. When serving in the preparation role, specialists focus on ensuring managers can understand and explain the valuation method and that it is defensible to the client's auditors and financial reporting regulators. Specialists are acutely aware that management's estimates must withstand the scrutiny of a financial statement audit.

Because the specialists we interviewed have dual role responsibilities, serving auditors and managers, they are able to apply the knowledge and experience gained in the evaluation role to prepare estimates that are acceptable to auditors. Additionally, they connect with the client's auditor during preparation to limit the risk of a negative evaluation outcome during the year-end audit. In the evaluation role, specialists focus on delivering a strong evidence audit trail for auditors and strong support and documentation of professional judgment. Also, they exert more effort on valuation when they anticipate the audit engagement has a higher likelihood of PCAOB inspection.

[3] We label these behaviors based on their description in prior research. Some labels are taken from the prior literature and others are based on their descriptions in the literature (e.g., Hall et al. 2017).

Second, coping occurs when individuals proactively develop techniques that help to mitigate conflict with a role sender. Prior research notes that specialists prefer preparation services over evaluation services because it is more lucrative (e.g., Barr-Pulliam, Joe, Mason, and Sanderson 2022, hereafter BJMS 2022). Extending BJMS' findings, our interviews reveal that the increased financial reward and prestige specialists enjoy in the preparation role makes them more likely to adopt indirect conflict avoidance coping strategies when serving managers but more direct strategies when serving auditors. In the preparation role, a commonly discussed conflict avoidance tool is reliance on management's auditor to "approve" their valuation approach before the year-end review of the financial statements. Specialists also report that to maintain their unit's economic viability within the firm, they leverage interactions with auditors to obtain future valuation work. In the evaluation role, the coping strategy most discussed is finding opportunities to "upskill" (i.e., train) auditors to address perceived deficiencies in auditors' valuation knowledge and educating auditors on appropriate ways to engage specialists.

Third, satisficing occurs when individuals adopt interpretations that benefit and are consistent with the role sender's preferences. Specialists acknowledge that the subjectivity inherent in fair value estimation readily allows for valuation methods that meet client preferences. In the preparation role, when specialists are concerned that management's preferred estimates skew on the aggressive end of the range, they often acquiesce to management's preference but seek to protect their legal exposure by documenting the client's responsibility for the underlying inputs and assumptions in the estimate(s) in the valuation report. They also insert legal disclaimers into the contract with management and their supporting documentation. In the evaluation role, specialists meet auditors' preferences to avoid material differences between client balances and the valuation estimate. They do so by developing independent estimates to test the client's FVM because this technique allows for more flexibility in “stretching” the inputs and assumptions.

Last, backfire reactions occur when individuals perceive the role sender’s preference as illegitimate or that accountability pressures from the role sender are excessive. Consistent with role and felt accountability theories and the preparation role being more economically valuable to the specialist unit, specialists described more direct backfire reactions in the evaluation relative to the preparation role. Outright refusal to conform to auditor preferences likely occurs more in the evaluation role because specialists view that work as necessary (i.e., essentially an annuity) but insufficient (because the revenue margins are lower). In the preparation role, specialists adopt indirect methods to counter management. As in our discussion of coping behaviors, specialists leverage the client’s auditor as an ally to bring clients into conformity with an estimate that they perceive to be more acceptable to all parties. However, some specialists are adamant that they ‘walk away’ from aggressive clients, whether managers or auditors.

Our findings inform academics, regulators, and financial statement users in several ways. First, several studies have focused on auditors’ use of the work of specialists and the difficulties auditors encounter when using the work of specialists (e.g., Cannon and Bedard 2017; Glover, Taylor, and Wu 2019; Boritz et al. 2020; Griffith 2020). These studies focus on auditors’ actions as the potential source of audit deficiencies (e.g., Zimmerman, Barr-Pulliam, Lee, and Minutti-Meza 2022) or as the key drivers in auditor-specialist interactions. Our results show that specialists can be sources of audit deficiencies. Second, FVMs are highly subjective and susceptible to management bias and opportunism (e.g., Chandar and Bricker 2002; Dechow et al. 2010; Choudhary 2011). Conventional expectations are that specialist usage will reduce bias. We provide new evidence describing how specialists' felt accountability results in behaviors that, at times, can counter bias but, at other times, can introduce and add bias in FVMs. These behaviors can (negatively) impact financial reporting and audit quality around FVMs and are unobservable to users, standards setters, and regulators.

Last, our research is relevant to regulators whose focus has primarily targeted holding auditors accountable for (insufficient/inappropriate) use of specialists and specialists' evidence. We offer new evidence that while specialists report feeling accountable to justify their work in anticipation of regulatory review, they engage in form-over-substance documentation to meet regulatory scrutiny. Further, while regulators and financial statement users have strong desires to gain more insights into the subjectivity around accounting estimates (Fuller, Joe, and Luippold 2021), specialists report a focus on documentation to support rather than to improve clarity in the measurement uncertainty and subjectivity of FVMs. Of potential concern to users and regulators is that specialists in this study describe behavioral responses that could bias accounting estimates and occur behind the scenes when producing financial statements. Stakeholders who access only publicly available information are not privy to this phenomenon.

II. Fair Value Accounting and the Need for Specialists

Although standard-setters codified fair value accounting over 15 years ago, regulators continue to express concerns about the accounting for and assurance of FVMs and the use of specialists in these processes (IFIAR 2020; SEC 2020; PCAOB 2020).[4] FVMs are highly subjective and susceptible to management bias and opportunism (e.g., Chandar and Bricker 2002; Dechow et al. 2010; Choudhary 2011).[5] Christensen, Glover, and Wood (2012) illustrate that the estimation uncertainty inherent in FVMs can exceed multiples of a company's quantitative audit materiality threshold. In addition, experimental evidence shows managers can "opinion shop" for

[4] In the U.S., for example, the passage of fair value reporting standards occurred in 2006 (FASB 2006).

[5] Chandar and Bricker (2002) show income smoothing. Dechow, Myers, and Shakespeare (2010) find managers exploit the FVM subjectivity to reap higher compensation and Choudhary (2012) finds that managers manipulate the estimate of employee stock option price by as much as 7% and equivalent to a 3.2% impact on absolute net income.

preferred FVMs (Salzsieder 2016). These recurring concerns about audited FVMs and the misspecification of asset balances around the Global Financial Crisis of 2008-2009 prompt questions about how specialists contribute to financial reporting quality.

Several prior studies have examined how and whether auditors contribute to financial reporting and governance failures when servicing the same client in multiple roles (e.g., audit and consulting, Francis 2006; Joe and Vandervelde 2007). Other research investigated whether corporate board members experience role conflict from serving as fiduciary agents for investors and as advisors to the management team (e.g., Laux and Laux 2009; Kang 2019). Similarly, Maas and Matejka (2009) provide evidence that conflict arising from segment controllers' dual roles as information providers to satisfy local decision-making (local responsibility) and agents of corporate control (functional responsibility) contribute to the prevalence of segment-level misreporting. These factors, coupled with the prominence of specialists in the production of FVMs, warrant further examination of specialists' roles. We contribute to the literature by examining whether specialists serving in roles to assist both management and auditors of FVMs can negatively impact FVM estimation (financial reporting quality) and audit quality.

III. Research Method

Approach and Participants

Twenty valuation specialists employed by global network and national audit firms registered with the PCAOB participated in our study.[6] Our sample approximates 10% of the global population of specialists who possess the skills required to value illiquid or complex financial instruments for financial reporting purposes (BJMS 2022). We recruited these participants through

[6] Approval for this study was granted by the Institutional Review Board (IRB). Our sample size is similar to that of accounting studies on related issues (e.g., Griffith et al. 2015a; Westermann et al. 2015; Jenkins, Negangard, and Oler 2018; Griffith 2020; Barr-Pulliam et al. 2021).

contacts at audit firms and professional associations and networking at global valuation conferences. [7] As noted in Table 1, participants are highly experienced, and all work for audit firms inspected annually by the PCAOB. Nine (45%) have at least 11 years of valuation experience, six (30%) have prior auditing experience, and nine (45%) previously worked as in-house valuation specialists at financial institutions. Consistent with the demographics of high-ranked personnel in valuation and accounting, most (95%) participants identify as male (Barr-Pulliam et al. 2020). Fifteen participants (75%) hold at least a master's degree, one (5%) has a Ph.D. and 16 (80%) hold at least one professional credential (i.e., ASA (15%), CFA (45%), or CPA (35%) designations.

At the time of the interviews, all participants were valuation specialists at the manager level or above, with 13 (65%) in senior-level positions at their firms, such as Senior Manager, Director, or Partner (Table 1). Our participants provide a global valuation perspective as they prepare and evaluate illiquid and CFIs on engagements worldwide and are geographically located in North America, Europe, and Asia-Pacific. Participants report preparing an average of 195 Level 3 financial instruments annually for non-audit clients and evaluating a mean of 281 such instruments annually for auditors (not tabulated). Overall, participants have the requisite experience to inform our research on how specialists' roles and accountability influence behaviors.

[Insert Table 1 Here]

Procedures

We conducted semi-structured interviews to examine how specialists' perceptions of and interactions with their clients (auditors and management) differ across roles (Miles and Huberman

[7] This study was funded jointly by a grant sponsored by the International Association for Accounting Education and Research (IAAER) and the Institute of Chartered Accountants of Scotland (ICAS). The report we developed was designed to inform the International Auditing and Assurance Standards Board's (IAASB) standard-setting agenda. Representatives from the IAAER, ICAS, and the IAASB (collectively the "PAC") with fair value expertise reviewed the progress of and provided feedback on the grant report we developed but did not direct the project scope.

1994; Lillis 1999). Best practices inform our approach in field study research (e.g., Power and Gendron 2015; Malsch and Salterio 2016) and qualitative accounting research (e.g., Covaleski, Dirsmith, Heian, and Samuel 1998; Trompeter and Wright 2010; Westermann, Cohen, and Trompeter 2019). We developed the interview protocol by leveraging informational interviews with non-participant valuation practice leaders employed by the largest global network firms and members of professional valuation organizations. We also examined themes from prior research in accounting and auditing and surveyed U.S. and international regulatory releases to ensure we framed questions from a global perspective. Valuation leaders (non-participants) helped to refine our final protocol and ensure questions were practice relevant. We designed the questions to be broad-based to encourage participants to provide detailed responses without researcher intrusion (Huber and Power 1985; Lillis 1999). See questions in Appendix 1.

We invited participants to provide their perspectives as audit firm-employed specialists based on their valuation experience for complex securities. Before each interview, we provided participants with a sample CFI based on an actual Level 3 collateralized debt obligation. The sample CFI was secured by commercial and residential mortgages with various credit ratings, subordination, and margin percentages.[8] The non-participant valuation leaders who reviewed the interview protocol also reviewed the sample CFI and suggested edits to enhance the instrument's mundane realism. We did not ask the participants to provide a valuation for the CFI. Instead, we used the instrument to calibrate participants' responses about their interactions with management (auditors) in their FVM preparation (evaluation) role. We gave participants an informed consent document in advance to allow them time to review it and obtain any necessary clarification.

We began interviews by reiterating the study's purpose and obtaining participants' verbal

[8] The sample CFI is agnostic regarding the type of firm or valuation specialist that prepared the estimate.

informed consent. We established credibility and rapport with our participants by sharing the professional background of the research team. We also encouraged participants to provide candid responses by emphasizing that their responses would be anonymous in our reports and kept confidential (e.g., Huber and Power 1985; Miles and Huberman 1994). At least three members of the research team participated in each interview. We conducted the interviews both in person and via telephone. Interviews lasted 64 minutes on average. One researcher served as the lead interviewer to ensure a consistent tone and ensure we developed an accurate record of each interview. The remaining team members independently recorded detailed notes of the conversation. After the interview, we developed a single transcript, which we made available for participants to review. No participants suggested changes. We interviewed until we reached saturation – when additional interviews provided no new insights and were qualitatively similar (e.g., Morse 2000; Sandelowski 2008).

Analysis

We used Nvivo to extract, code, and analyze our interview transcripts. We independently engaged in an iterative review of six sampled interview transcripts. We used an open coding approach to identify general response patterns (Layder 1998) as well as responses that represent "key, essential, striking, odd, interesting things people say or do" (Rapley 2011, 277). We then grouped responses into "themes" for each response pattern identified (Patton 2015). We also identified and coded participant sentiments representing alternate viewpoints (e.g., Silverman 2010). As a team, we compared our coding analyses, taking steps to ensure a fit between our themes and the finalized theoretical framework (Yin 2014). We also explored several theories that could potentially explain the pattern of responses (e.g., Pratt 2008, 2009), including alternate viewpoints (Malsch and Salterio 2016). Our participants' responses show that serving in dual roles and having to justify their decisions to different client types prompt differing behavioral responses tied to each role, making the integrated role-accountability theory (Frink and Klimoski 2004) particularly well-suited to interpreting our results.

Alternative theories considered did not satisfactorily match the experiences specialists described. For example, motivated reasoning, which posits that, within reasonableness constraints, directional goals bias and distort information processing (Kunda 1999), does not incorporate key elements present in the specialist's setting (i.e., having to justify one's beliefs and being subject to sanctions; Boiney, Kennedy, and Nye 1997; Russo, Meloy, and Wilks 2000). These elements, however, are central to accountability, and evidence shows that accountability can mitigate the information processing distortions that arise from motivated reasoning effects (Russo et al. 2000).

Three researchers coded the randomly assigned interviews using the joint role and accountability theoretical lens. The whole team met to reconcile differences. We then combined our coding files to create a consolidated dataset of quotes. The following two sections describe our theoretical lens and discuss the findings. In both sections, we include quotes that the research team agreed were 'power quotes' that succinctly articulate participants' insights or 'proof quotes' that represent salient sentiments among all participants on a particular theme or theory tenet (Pratt 2009). This approach demonstrates the breadth of our data and how the applied theory operates in our valuation-specific setting (e.g., Pratt 2008, 2009)

We utilize deviant analyses and respondent validation to ensure the integrity of our results and analyses. We include participant sentiments consistent and inconsistent with the overall themes to enhance our theoretical framework (e.g., Rapley 2011) and ensure integrity and trustworthiness in our analyses (e.g., Lincoln and Guba 1985). To validate the themes and insights we identify from participants' responses and to enhance trustworthiness, we follow Torrance

(2012, 114) and review preliminary drafts of the results with "key stakeholders" (i.e., academic and practitioner members representing the study's funding agencies).

III. Theoretical Framework and Proof of Theory

We interpret our results using the Frink and Klimoski (1998) role-accountability theory framework and felt accountability research. These theories are appropriate in our setting because interactions between specialists and their clients occur in a social context and involve the expectations of at least two people (specialist and client). Below we discuss the relevant components of the theories and include proof quotes from our interview data as illustrative examples (e.g., Pratt 2009). Table 2 summarizes key elements and evidence of the theory applied.

[Insert Table 2 Here]

Role Theory and Evidence of Role Theory

A role is a "standardized pattern of behavior required of all persons playing a given part in a functional relationship" (Katz and Kahn 1978, 43). Each role includes specific rights, responsibilities, expectations, cultural or performance norms, and behaviors individuals face and must satisfy (Biddle 1986). Central to the theory is that an individual's behavior is context-specific and predictable, and social systems are structured and operate through roles (Biddle 1986). This study examines differences in the two primary roles valuation specialists serve – preparer or evaluator of FVMs reported in financial statements. There are three distinct differences between these two roles. First, each role has a different role sender – a distinct primary client. In the preparation role, the primary clients are financial reporting entities (represented by management). Specialists compete with other valuation service providers to prepare FVMs for these external clients. Conversely, in the evaluation role, the specialist's primary clients are auditors (internal clients employed by the same firm) whom they support for financial statement audit engagements.

Because audit firms typically use their firm-employed specialists to support the audit function, specialists enjoy a reliable internal market "annuity." To maintain economic viability, they must balance external and internal client demands as summarized below:

> I'm trying to build my Channel 2 [preparation] work, but the firm maintains the valuation practice for Channel 1 [evaluation work]. So [while] I have Channel 2 work, you cannot forget your Channel 1 focus. P18 (Big4 – INTL)

Second, the roles differ in compensation structure. Audit firms routinely house the valuation practice in the advisory or consulting unit (BJMS 2022). Since audit firms base partners' compensation on their book of business (Donelson, Ege, Imdieke, and Maksymov 2020), specialists have more control over and incentives to increase the client base in their role as preparers relative to their audit support role. Specialists perceive the preparation role as more prestigious because it is more profitable and has a direct relationship with management. These external relationships are essential to maintaining and growing a specialist partner's book of business because specialists obtain preparation work primarily through direct outreach to non-audit clients and referrals from management, financial institutions, and their client's auditors. In contrast, in the evaluation role, the audit partner receives revenue credit for that engagement and access to external market opportunities. Specialists have no direct incentive to maintain client relations in the evaluation role. While the audit-support function is important to the specialist unit's economic viability, they lack control over their pro-rata share of the audit fee. Specialists shared:

> I'm just going to say prestigious. There's a reason for that. Rainmaking is always more prestigious…. for non-audit work when I do work for clients directly. The client can hire and fire me; the client makes the decision. I have to bring in that work. P2 (Big4 – US)

> If we have an audit, we've already won the [business]. My performance can influence how happy the client is with the overall audit, but it's not going to be the primary influence. And I wasn't the one who sold the thing in the first place. P2 (Big4 – US)

Third, the control that specialists have over their work differs across roles. In the preparation role, specialists control the scope of service, client contracts, and solicitation of clients.

They have greater latitude in structuring the task based on their assessed task complexity. One specialist described the preparation role as follows:

> Our fee really depends on our view of how complex an instrument is. If it's a complex instrument, of course, we would budget for more time because we need to build a model." P5 (Big4 – INTL)

However, in the evaluation role, the auditor pre-determines the scope of the specialist's work, which, in turn, controls the fees that specialists can receive for their service. For example, prior research finds that auditors prefer reviewing and testing management's valuation process rather than developing an independent estimate (e.g., Griffith, Hammersley, and Kadous 2015). One specialist described working with auditors as follows:

> We don't make the selection of which contracts to use or to analyze. … It's always up to the auditor, not us, to explain how they arrived at their sample, how big the sample was, and why it's sufficient for them to give comfort on the full position. P17 (Big4 – EU)

Evidence of Felt Accountability

Accountability components

Generally, accountability is "a process in which a person has a potential obligation to explain his/her actions to another party who has the right to pass judgment on those actions and to administer potential positive or negative consequences in response to them" (Vance, Lowry, and Eggett 2015, 347). Felt accountability, however, is based on the perceptions of the actor (Frink and Klimoski 1998) as opposed to the attributions of accountability that an audience imposes on an actor (cf. Folger and Cropanzano 2001; Koonce, Anderson, and Marchant 1995; Lord 1992). Felt accountability is a complex phenomenon that includes distinct but related elemental components (Lerner and Tetlock 1999). We find evidence of four components in our interviews: awareness of monitoring, reputation risk, expectation of evaluation, and need for justification.

Awareness of Monitoring: Felt accountability manifests when an individual expects another to observe their performance (Guerin 1993; Zajonc and Sales 1966). Specialists are keenly aware that clients monitor their work, but the level of monitoring differs across their roles. In the evaluation role, auditors exert more control over the task, while management (in the preparation role) is either hands-off or collaborative. In both roles, however, the awareness of monitoring is also driven by a fear of review of the specialist's work by regulators – the SEC (preparation role) or the PCAOB (evaluation role).

> [*Preparation Role*]: We always keep in mind that it has to be dependable. That's the most important thing. P18 (Big4 – APAC)

> [*Evaluation Role about a specific engagement*]: Our fear was that it was going to be selected for [PCAOB] review, and it was. P20 (Big 4 – US) [Emphasis Added]

Reputation Risk: Felt accountability can also arise when one expects their work is not anonymous because it can be linked to them personally (Reicher and Levine 1994a, 1994b). Specialists interact directly with their clients and, thus, always know the role sender. In interviews, specialists frequently mentioned performing their work according to generally accepted industry norms and maintaining quality. They also noted that poor quality valuation work impacts their reputation in the tight-knit community of specialists who value CFIs. Specialists frown upon members of their profession who perform work they perceive to be of low quality.

> [*Preparation Role*]: We may have to push them to perform the valuation to be something more in line with what we would see in the market practice. We also deal a lot with incompetent valuation companies overseas. D6 (Big4 – INTL)

> I believe in the quality of the work that I do...I don't want to be the low-cost provider, so I'll walk away from it [i.e., bid requesting price match]. D22 (Other Annually-Inspected – US)

> [*Evaluation Role*]: … sorry to keep saying it like that, but firms where the specialists are math men or auditors, they do what they're told. They are not able to check if the question that the audit team asks them is the correct thing. P12 (Big 4 – EU)

Expectation of Evaluation: When an individual expects that the evaluator of their work can impose rewards or sanctions based on a set of normative, explicit, or implied expectations, such expectations can trigger felt accountability (Sanna, Turley, and Mark 1996; Kimble and Rezabek 1992). Lerner and Tetlock (1999) hold that accountability influences behavior when the evaluator is in the position or has the power to control resources that the accountable party values. The reward or penalty most salient to specialists in our setting is the fee they can extract from an engagement. In the preparation role, management contracts specialists, and these specialists are keenly aware of the financial consequence if their valuation service does not meet management's expectations or otherwise exposes management to risk. Similarly, in the evaluation role, auditors enlist specialists' assistance on engagements. The auditors directly control the allocation of the audit fees to specialists and can constrain specialists' involvement in future audits.[9] Considering this economic incentive, specialists focus on ensuring their clients are happy with their work.

> [*Preparation Role*]: If something goes wrong, the damn client wants to sue us. We are very mindful of that fact in what we do. P5 (Big4 – APAC)

> [*Evaluation Role*]: People here know what they want to see and what our firm needs to have for our records, and we really make sure that we have sufficient documentation for them and sufficient documentation for ourselves going forward. P9 (Other Annually-Inspected – US)

Need for Justification: Lastly, anticipation that one will have to give an "accounting," report, or explanation to others enhances felt accountability (Wilson and LaFleur 1995). In the preparation role, specialists describe that knowing the client's external auditor will review their prepared FVM in the financial statement audit makes them carefully question their work. In the evaluation role, specialists frequently mentioned a need to justify differences in their independent estimate and the client-prepared FVM. The following quotes illuminate these views.

[9] While second-order accountability effects can apply in some settings, this study examines the first order effects attributable to the primary role sender (i.e., auditors or management) to whom specialists are accountable.

> [*Preparation Role*]: It's challenging. It's challenging. It's challenging. While you try to use a [valuation] method that seems to comply with the standards…the client…says, "it doesn't seem to make sense for my new series and the old series…." It seems to say that I'm stupid. Then you need to juggle with the auditor whether they are able to accept a certain methodology. It's a balancing act altogether. P18 (Big4 – APAC)

> [*Evaluation Role*]: If we have one price and their (audit client) specialist has a different price, we say, okay, what's the reason for the difference, and if they come up with a reasonable explanation for an assumption, then we can revalue the price using a different assumption or something and then come up with a different price. P8 (Big4 – US)

Accountability Behaviors

Prior research categorizes felt accountability outcomes as affective states, behaviors, cognitions, or decisions (Hall et al. 2017). Of interest in our study is specialists' behavioral response to felt accountability. The accountability literature documents both positive (e.g., compliance with rules and expectations) and negative (e.g., lower job satisfaction, turnover) behavioral outcomes in response to felt accountability (Hall et al. 2017). These consequences are often context-specific. We identified four behavioral outcomes in our valuation setting.

Attitude Shifting: This describes an individual's behavior of altering their attitudes and preferences toward the role sender's (i.e., management or auditors in this setting) preferences when those preferences are known and when social approval is important (e.g., Donnelly and Donnelly 2023). Attitude shifting occurs in settings like valuation where a decision (e.g., the reported estimate) must be made or defended. The actor demonstrates conformance to a role sender's known views by adopting positions and approaches that are more likely to gain favor with the role sender (Lerner and Tetlock 1999; Gibbins and Newton 1994). This strategy leads to a low effort but easily defensible response (e.g., Tetlock, Skitka, and Boettger 1989).

Coping: The second behavior describes the design and use of strategies to limit conflict with evaluators. These response types occur when individuals proactively engage in role-making behaviors to shape interactions with a role sender. The goal is to increase alignment of the role senders' and their own preferences (Frink and Klimoski 2004). These coping responses could improve coordination and attenuate tensions with the role sender.

Satisficing: The third behavior describes an actor's tendency to develop interpretations that benefit the role sender and conform to the role sender’s preference. Conforming to the role sender’s views is a cognitively easier decision path and preserves the actor’s cognitive effort to generate defensible positions (Quinn and Schlenker 2002). This behavioral response differs from attitude shifting because individuals first develop a position (attitude shifting) and then take additional steps (satisficing) to achieve and justify their response to demands from the role sender. Knowing role senders’ preferences lead actors to alter task performance and execution by (1) engaging in biased information processing, (2) altering the frame of the task, and (3) changing the standards they use to evaluate outcomes (Pennington and Schlenker 1999). Valuation of financial instruments is fraught with significant judgment and measurement uncertainty (Bratten et al. 2013; Joe et al. 2015; Barr-Pulliam et al. 2019). The accountability role-theory framework suggests that specialists likely harness the subjectivity in valuation to meet their sender’s preferences.

Backfire Reaction: The fourth behavior describes individuals’ reactions to demands from a role sender that differs from and likely is the opposite of the sender’s preference. This behavior occurs primarily when the individual perceives accountability pressures from the role sender as illegitimate. Tyler (1997) suggests that when an individual perceives accountability pressures as illegitimate, the pressures not only fail to produce the desired effects (e.g., compliance with the role sender's expectations) but sometimes boomerang. The demands are seen as intrusive and an attempt to control the role receiver's (specialists in our setting) behavior. Accountability theory holds that when people view a role sender as seeking to control their behavior, they perceive it as a threat to their autonomy and respond by asserting their own views (Lerner and Tetlock 1999).

IV. RESULTS

Attitude Shifting

Recall that attitude shifting occurs when felt accountability causes individuals to feel their judgments and decisions must be defended. Consistent with that, specialists report adopting an approach to valuation that meets the interest of their role senders (management or auditor). Table 3 summarizes accountability behaviors and their implications for FVM quality.

[Insert Table 3 Here]

Preparation role

In the preparation role, we observe that specialists shift their attitudes toward supporting management's preferred point estimate because they assert that there can be "reasons to be aggressive" (P2, Big 4). The complexity and the subjectivity inherent in FVMs provide opportunities to develop estimates that arrive at a particular outcome.

> There is no one single absolute way to value…the complex stuff…No two valuators will come up with the exact same answer because of the difference in terms of their methodology. ...At the same time, there's no right or wrong. P5 (Big4 – APAC)

Specialists, however, are aware that external parties will scrutinize the estimates they prepare for management (e.g., auditors and financial reporting regulators) and that it is in their client's best interest to pass that external review. Consequently, the specialist's orientation when preparing FVMs for management focuses on ensuring their prepared estimates will also be justifiable to the constituents who scrutinize them. Specialists achieve this objective by exploiting their experience gained from working with auditors (evaluating the fair presentation of FVMs) for management's benefit. For example, if management wants a point estimate that falls outside the range the specialist believes is defensible, they guide the client toward an acceptable outcome.

> We already understand what the audit specialist thinks…Usually, when the client says that the value [should be higher], we say, "Look, your auditors are going to test this. They're going to test it the same way we would if we were auditing." If we were to adjust things to

> something that the clients had in mind, then the auditors wouldn't be able to get comfortable with it, and it wouldn't benefit anyone to do that. P11 (Other Annually Inspected – US)

Specialists also report that expectations about the level of scrutiny over the client's estimate drive their preparation approach. They will plan an increased scope of services to ensure that the client can withstand any anticipated increased level of scrutiny by an oversight authority:

> There's a lot of scrutiny around it, so that will have a significant impact on the scope. P1 (Big4 – US)

Specialists shared a second example of how they apply knowledge gained in the evaluation role to the preparation role. When they believe the client's FVM will be subject to a more rigorous audit review, they plan for increased documentation to help pass that audit.

> Through our experience, we know that a Big 4 auditor is going to expect more robust documentation around all assumptions, where a smaller shop that's less sophisticated is not going to require that degree of documentation. P1 (Big4 – US)

Not surprisingly, specialists also increase their fees when they anticipate intense auditor scrutiny:

> …Yes… we price it in [i.e., the anticipated review] ... I'd be lying if I said I didn't expect more scrutiny from a Big 4 firm than a smaller shop. P1 (Big4 – US)

In task planning, specialists are aware that it is important that management's estimates be supported. Accounting rules require that management have a reliable process, evidence, and data when developing estimates (e.g., AU §342.05). Accordingly, when developing a work plan, specialists focus on having sufficient support that enables clients to both understand and explain the FVM to others. They want the client to "have a good handle" on how they determined the amount and ensure that the work they prepare will pass SEC review:

> …help them package it [the FVM] into a format that will be acceptable. We basically take them from the trading desk and make it accessible to the controller's office, then go to the SEC. So they have a good handle on value. P20 (Big4 – US)

In planning their preparation work, specialists proactively seek to mitigate management's potential to inflict penalties on them (Mitchell 1993; Lerner and Tetlock 1999). Specialists are cognizant of the litigation risk associated with their valuation choices if the client receives an SEC Comment Letter, has a restatement, or faces negative financial reporting or audit outcomes. Thus, even as they attempt to accommodate management, specialists take steps to incorporate liability protections in their contracts and enact appropriate review processes to make their work defensible.

> What are all the, I call them my legal terms like if somebody makes a mistake or if there's a ... What's the level of liability? We put that together in this contract, and it's reviewed by the people on the valuation side of the client, by the legal side, and we come to an agreement. P3 (Other Annually Inspected – US)

> …we undergo a couple of levels of internal reviews before they release stuff to the clients, just to make sure. Any issues get documented. P5 (Big4 – APAC)

Evaluation role

Just as specialists in the preparation role take advance precautions when anticipating increased scrutiny, specialists in the evaluation role prepare for scrutiny but with a different focus. Consistent with the auditors' documentation goal of ensuring that their work is defensible to a post-audit oversight audience (e.g., Cohen, Joe, Thibodeau, and Trompeter 2020), in the evaluation role, specialists plan for more detailed documentation when anticipating increased scrutiny. Specialists indicate that they think about developing a "more extensive" audit trail to support their evaluation of estimates when they anticipate increased regulatory oversight. Further, the specialist's response that the documentation should be "stand-alone" mirrors auditors' views of the documentation approach necessary to withstand PCAOB inspections (Westermann et al. 2019).

> Well, if your file gets to be picked for review, that file needs to be a stand-alone document; that if you read the document, then all of the decisions need to be documented in that file.…. some sort of an audit trail so we could prove … what we have done three months later, but that process is much more extensive. You will need to store every single screenshot, every single data quantity used. You need to be really, really certain that you are able to prove where that data has actually come from. P15 (Big4 – EU)

In the evaluation role, specialists also report consulting the audit client's preparing specialist to gain insights into how they developed the FVM.

> [T]here's usually discussions with their specialist *upfront* to talk through anything about how they're going to value it. Usually, they can give us a high-level overview. P11 (Other Annually Inspected – US)

Research examining the specialist's role in evaluating the reasonableness of client FVMs finds that specialists are keenly aware of auditors' focus on materiality when testing client balances (e.g., BJMS 2022). Our participants report adopting an approach that supports auditors' preference for estimates that are not materially different from the audit client's number. Such an approach benefits auditors on two fronts. First, it helps maintain a positive auditor-client relationship, and second, it helps auditors to prepare defensible workpapers.

> Differences mean problems. Problems are not appreciated in this world. P17 (Big4 – EU)

> Usually, we will work together to get your [the client's] right answer. P9 (Other Annually Inspected – US)

Implications of Attitude Shifting Behaviors

Involving the client's auditor as early as the planning phase of a preparation engagement can have negative implications for both financial reporting quality and audit quality. Tetlock (1992) suggests that pre-decisional accountability can lead to reliance on and use of the acceptability heuristic whereby individual decisions reflect the most easily defensible outcomes. This heuristic bias is a stabilizer in accountability settings because it turns social interaction into social order (Donnelly and Donnelly 2023). However, seeking the auditor's pre-approval of the valuation approach (in the preparation role) might be efficient, but ultimately it can be ineffective. This approach could drive an inappropriate focus on defensible point estimates for a financial instrument whose facts and circumstances necessitate a more novel approach. Ultimately, it can cause specialists to engage in premature commitment to a specific approach sanctioned by the audit team. Related to the evaluation role, audit standards and best practices suggest auditors should exercise caution when providing accounting assistance or advice to their audit clients to avoid the perception that they are auditing balances they helped prepare (Levy 2018). When managers are the first movers in financial reporting, the risk of incentivized management bias and undue influence on the audit is higher (e.g., Earley, Hoffman, and Joe 2008).

The specialists' examples of their adjustments to the valuation approach (attitude shifting) to meet client preferences are troublesome because, in both roles, the behaviors occur behind the scenes and are unobservable to external users and regulators. In the evaluation role, for example, when specialists plan for workpapers and evidence that reduce material differences, they restrict downstream review (e.g., second partner review) of the client's assumptions. Similarly, if specialists focus on designing documentation to help management's estimates pass review, they limit auditors and auditors' specialists from fully examining the facts and circumstances of the client's estimates. Specialists' admission that expectations of review influence their work more so than the risk level of the transaction itself can lead to biased estimation. If so, then inspections and transaction risks are not fully correlated, rendering inspections less effective in improving audit and financial reporting quality.

Coping

BJMS (2022) documents that specialists report feeling pressured to sustain economically viable and self-sufficient units within an audit firm. That pressure imposes responsibility on specialists to balance the demands of being a service unit with a primary duty to support audits (the evaluation role) against the demands of being entrepreneurs who generate fees from the external market (the preparation role). Balancing these competing roles requires that specialists maintain harmonious relationships with both types of clients – particularly their external clients (management), who are the more lucrative revenue source. Because specialist units are evaluated and rewarded based on their book of business, specialists will adopt coping strategies to limit conflict imposed by their dual role within audit firms.

Preparation role

Consistent with felt accountability theory, participants' discussions revealed more coping strategies (e.g., client relationship management and conflict reduction) in the preparation versus evaluation role. Specialists reported having a conflict avoidance toolkit with two typical strategies – using the client's auditors as a foil and maintaining calculated silence. Using management's auditor is the most effective and pervasive of the two strategies. Specialists solicit support from management's auditor in four ways. First, specialists indicate that reaching out to the auditor is an important part of the preparation role, despite how early they seek auditors' "blessings."

> I always… get the audit team on the phone upfront to avoid any sort of contentious review process. P4 (Other Annually Inspected – US)

> I would say we interact with the client's auditors 95% of the time. P1 (Big4 – US)

Research finds that the high subjectivity in FVMs makes them susceptible to management bias and opportunism (e.g., Chandar and Bricker 2002; Dechow et al. 2010; Choudhary 2011), and the estimation uncertainty inherent in FVMs can exceed multiples of a company's quantitative audit materiality (Christensen et al. 2012). Consequently, specialists astutely ascertain whether their planned valuation approach would meet the auditor's approval.

> We go through our entire process with the client's auditors, what we kind of expect, to get any feedback from them on whether or not they think that we might be going down the wrong path altogether. P1 (Big4 – US)

The second reason specialists seek input from their client's auditor before finalizing their estimates is to avoid incurring negative financial outcomes (for specialists) from preparing FVMs that auditors subsequently deem unacceptable. Such outcomes require additional specialist effort for adjustments or recalculations – time that they might not be able to charge back to the client.

> If we develop a question that we think is pretty subjective, we say, "Look, we would waste a lot of time if we went down a certain path … that it's not out of the question that your auditors are going to say this is wrong."…[I]t makes sense to get everybody on the same page before we spend that time. P1 (Big4 – US)

The third reason specialists involve the client's auditor as a coping mechanism is to strategically counter management pressure for an aggressive estimate. This strategy is particularly useful when management prefers an estimate outside the range the specialist advises. Specialists' desire to maintain positive client relations with management leads them to adopt an indirect approach. That is, they use the auditor to bring the client towards a value consistent with their professional judgment. Specialists are reasonably confident that they have an ally in the auditor or the auditor's specialist because, as noted earlier, they usually dialogue with management's auditors early during the valuation task.

> …it can get very tricky ... It's sometimes necessary to go get audit and valuation involved. P4 (Other Annually Inspected – US)

Fourth, and unrelated to the current preparation client, specialists view their interactions with the client's auditors as an opportunity to build relationships that lead to referrals for future work. These relationships help address the pressure specialists feel to maintain economic viability by generating external revenues from preparation services in a competitive market.

> …To get to know other auditors at other firms…where their clients will need some assistance for valuation and [so they will] suggest, "Oh, well, call 'Paul' over at X. He can do this work, and we've reviewed his work in the past." It makes for an easy and smooth process. P4 (Other Annually Inspected - US)

> Usually, the work that we see on the CFI side, if we get recommended by an auditor, a lot of times that client is inclined to go with that recommendation. P11(Other Annually Inspected - US)

Although specialists have incentives to meet management's preferences, other countervailing accountability forces, such as their sense of professional responsibility to the valuation community, temper their willingness to acquiesce to extreme management preferences.

The second coping mechanism involves internalizing disagreement when dealing with clients who *"are fixated on a value…[because] they have no idea what is the right number…. They are the toughest because…they refuse to accept reality"* (P5, Big4 – APAC). Specialists acknowledged:

> We will listen to their thoughts, but we are not going to take their word. P6 (Big4 – APAC)

> To be honest, we deal with it …We really aren't going to get involved in an argument with them. P13 (Big4 – US)

> I don't say this out loud to them, but I say, "That's great, and I think I should be making $2,000,000 a year too." Right? P4 (Other Annually Inspected – US)

Evaluation role

Unlike the indirect approaches used in the preparation role, specialists employ more direct coping mechanisms in the evaluation role. Specialists adopt role-making behaviors that reduce conflict to proactively shape their interactions with auditors and align auditors more with the specialist's preferences (Frink and Klimoski 2004). For example, BJMS (2022) finds that tensions between auditors and specialists escalate when auditors delay retaining specialists and impose unrealistic deadlines for specialists to complete their work. Our participants report using outreach and education strategies to reduce this type of conflict. They dedicate time to "upskilling" auditors about fair values to foster better risk assessment, sample selection, and recognition of the need for greater specialist involvement as early as during audit planning and engagement scoping stages.

> We have spent quite some time educating our full audit practice on advanced contracts, swapping contracts; what they are, what the limits are, what you should look into, what you need to be careful of, to give them some more tools to assess the client's … contracts…[Now] they come to us….and ask us to make…an assessment. P17 (Big4 – EU)

Specialists were proud to report positive outcomes of the strategic steps taken to minimize the tensions they faced with auditors in the evaluation role. They suggest that their strategy fosters a more collaborative and reciprocal relationship, which improves their access to information and ability to support the audit of complex estimates.

> I have one of my audit teams I've been working with them for three years now, reviewing both derivatives and structured products for them. It's really nice because they understand what we are doing ... They understand the deadlines. They understand the products. It's very easy to work with them, and it is actually nice to work with them. P8 (Big4 – US)

> It builds the current relationships. …it is good when you try to help them and to highlight issues for them. P18 (Big4 – APAC)

Other specialists offer an alternative perspective by describing less collaborative contexts. They observe that auditors often fail to address significant risks for complex securities and can make flawed sampling decisions that undermine the evaluation of the client's FVMs.

> My chief concern, and something we keep coming back to, you cannot, in our view, you cannot let audit teams [do scoping alone]...you will end up with a sample of 10 instruments consisting of 12 CDOs [but] it was one drop in a bucket." P12 (Big4 – EU)

Implications of Coping Behaviors

Audit firms can consider whether specialists' descriptions of internalizing as a coping behavior are manifestations of work stress due to maintaining dual roles within an accounting firm. Response suppression might induce stress, dissatisfaction, and disengagement from the firm, ultimately prompting specialists to leave. The loss of this highly skilled technical workforce will likely negatively impact audit quality. Another audit quality and firm concern is that even though specialists are aware of the threat to auditor independence, they nonetheless persist in including auditors in preparing balances they will subsequently audit. Additionally, while not prohibited under the standards, specialists' use of expertise acquired during audits to assist non-audit clients in preparing estimates could be detrimental to audit and financial reporting quality if specialists apply their knowledge in ways that limit or circumvent auditor scrutiny.

In the evaluation role, specialists' actions to educate and coach (i.e., "upskill") auditors to engage specialist support during the early phase of the audit have the potential to enhance the audit quality of FVMs, thereby reducing the risk of process deficiencies in PCAOB inspection reports. Moreover, specialists' attempts to train and improve auditors' ability to identify and address risks in FVMs is consistent with the evidence in Zimmerman et al. (2022) that the mere use of auditor-employed (in-house) specialists impacts the audit *process* deficiencies noted in inspection reports. Regulators often identify deficiencies in auditors' tests of complex estimates and use of specialists (e.g., PCAOB 2015a, b; IFIAR 2020). Specialists' concerns, voiced around auditor reluctance to engage them early, suggest that the audit team's failure to acquire specialist expertise in the early phases of an audit might be a root cause of the deficiencies that regulators observe.

Satisficing

Recall that satisficing occurs when individuals make interpretations that benefit and are consistent with the preferences of the role sender (Hackenbrack and Nelson 1996; Lerner and Tetlock 1999; Kadous et al. 2003). Satisficing differs from attitude shifting because satisficing refers to actions in the execution of a valuation, whereas attitude shifting refers to mindset and judgment in task approach and planning. A shift in attitude can serve to prompt satisficing behaviors. With knowledge of their client's preferences, specialist attitude shifting manifests in strategic choices made in the execution of the valuation task (i.e., satisficing) to arrive at the preferred outcome (e.g., Peecher 1996; Brown, Peecher, and Solomon 1999; Wilks 2002). Below, we describe the techniques specialists employ to achieve valuations that meet client preferences.

Preparation role

Specialists acknowledge that the inherent subjectivity in fair value allows for "*five different ways that you could value some instruments and securities, and sometimes you can get very different values*" (P19, Big4 – US). Thus, satisficing occurs when specialists consider the client's preferred range to guide their valuation:

> [W]e'll have a high-level initial discussion on what the client expects the intangible assets are going to be, based on the nature of the target. P1 (Big4 – US)

If specialists perceive the preference as reasonable or within an acceptable range, they can justify adapting their estimates to meet the client's preference. Interestingly, specialists oppose being directed to follow client demands but are willing to be guided into the client zone of acceptance.

> I don't need to be tied exactly to their figure, but it helps me add some additional support…I definitely do not use just a number that management says, "We need it to be worth $100 million, and I really need you to hit that number." P4 (Other Annually Inspected - US)

However, when clients push towards an aggressive estimate that specialists are reluctant to accept, they employ self-preserving measures by emphasizing management's responsibility for the FVM inputs.

> There may be a section [in the valuation report]… where we say, "These are the assumptions that were provided to us by management, and we performed our calculation in accordance with these assumptions." We make sure that whoever is reading the deliverable understands exactly what we did or did not do and how that impacts our work. P11 (Other Annually Inspected – US)

Evaluation role

In other qualitative research, auditors indicate that persuading management to adopt their preferred approach is challenging when the issue involves high subjectivity and judgment (Cohen et al., 2020). The inherent subjectivity of FVMs compounded by auditors' preferences for estimates that do not differ materially from the client's numbers creates strong environmental pressures for specialists to make interpretations that meet the client's and, therefore, auditors' preferences. Specialists' descriptions of the process they apply in the evaluation role reveal that interpretations designed to meet auditor preferences are often hidden and unobservable to external reviewers.

For example, specialists indicate that of the two primary techniques available to evaluate audit client estimates ([1]: verifying model parameters and [2]: developing an independent estimate), they *"...prefer the second [technique]"* (P16, Big4 – EU). This second way allows for more flexibility in developing FVMs aligned with the client's estimate.

> In my experience, it's usually we're doing the highest-level review we can. *We are going to test their methodology by building a corroborative model.* If the value that we come up with is immaterially different from theirs, then we're done (emphasis added). P9 (Other Annually Inspected – US)

> [When there is disagreement], I really have to come up with my own methodology, and *I would say the input has to stretch a little bit. I need to deep dive a little bit on the input side in all this, see what could easily work...*What we're trying to achieve is, we try to be, in those numbers, try to be a bit more pragmatic in that sense that it has *to meet certain common value* [emphasis added]. P18 (Big4 – APAC)

Consistent with the desire to protect the role sender, specialists indicate that they prepare evidence to safeguard auditors from adverse outcomes in the event of regulatory scrutiny. If there is insufficient information in the workpapers, inspectors have a reduced opportunity to identify procedural deficiencies in the audit approach – which tends to be the most common specialist-related deficiencies noted in inspection reports (Zimmerman et al. 2022).

> I'm recalculating, and it's the Monte Carlo Simulation. I'm expecting that the number will come out pretty close, but I'm not expecting it will be the exact even if I'm using exactly their assumptions because it's a simulation, and simulations have simulation. Not that I'm ever going to call it an error because PCAOB might get confused. P2 (Big4 – US)

Audit standards and best practices require that auditors prepare and maintain detailed working papers to facilitate regulatory and peer reviews. Also, auditors' ability to exercise strong professional judgment is a hallmark value. Cognizant of auditors' responsibilities, specialists tailor their work product to ensure they provide detailed supporting documentation for auditors.

> Documentation is critical because it's important to explain the thought processes that you use to make your judgment" (P14, Big4 – US)

> …we have a document describing the model, describing why we chose that model, describing why we picked these different parameters… that type of discussion should be documented in your file. (P15, Big4 – EU)

In line with specialists adopting strategies that meet auditors' (role sender) preference for an audit trail that manages audit risk and inspection risk exposure, specialists help facilitate auditors' ability to add evidence to the audit workpapers and to verify the data used in calculating estimates.

> If we have some research papers that we can quote …they are uploaded in the system so every auditor can access these research papers. P8 (Big4 – US).

Implications of Satisficing Behaviors

The audit standards and regulators imply that the use of specialists on audits improves the risk of misstatement in valuations. For example, when providing guidance on detecting management fraud, AS 2401.54 suggests that "it may be appropriate to use the work of an auditor-employed specialist.…or develop an independent estimate for comparison to management's estimate" (PCAOB 2016). The specialists' satisficing behaviors we describe reveal that specialists can exploit the subjectivity inherent in fair values to create estimates consistent with management's preferences. Specialists' reports also lay bare how they can make independent estimates support management-preferred FVMs by allowing the "input … to stretch a little bit" and "building a corroborative model" [P18 (Big4 – APAC)].

Specialists' admission that they build "corroborating models" when in the evaluation role is especially troublesome. Auditors are more likely to use well-defined and objective approaches to validate management's quantitative model inputs in order to minimize client adjustments (Kadous et al. 2005; Commerford et al. 2022), whereas specialists adopt a more sophisticated approach, creating corroborating models that allow them to achieve the same desired objective. The corroborating model approach is also more efficient than validating the reasonableness of management's model assumptions. Thus, while specialists have the potential to counter management bias, they can also contribute to bias in the measurement and evaluation of fair value estimates, thereby impugning the quality of audited FVMs.

Backfire Reactions

When individuals perceive accountability pressures from a role sender as illegitimate, they respond in ways opposite to the role sender's expectations (Baer, Hinkle, Smith, and Fenton 1980;

Lerner and Tetlock 1999). Consistent with these findings, our interviews yield that, at times, specialists find ways to push back against client demands that they perceive to be unreasonable.

Preparation role

When preparing management FVMs, specialists report that third-party valuers can provide data to the client, which they believe will be seen as too aggressive by those having oversight authority over management. They fret that overly aggressive inputs can diminish the credibility and justifiability of their valuations. As a result, they push back against using such sources: *"For example, [when inputs are provided by] the bank that uses its own developed model*" to protect the client. Specialists indicate such scenarios "*…make me very, very suspicious*" (P12, Big4 – EU).

> There are at least...well, there's one boutique firm for...everything they come up with [valuation]...we have issues. Every single time when we see them, it's all over the place. P15 (Big4 – EU)

As presented in the discussion of coping mechanisms, specialists often use auditors to persuade management against preparing aggressive estimates. When persuasion and other indirect approaches are unsuccessful, specialists use a three-way dialogue with management and the client's auditors to force the client into accepting the prepared estimate.

> If the client is not comfortable with it, usually we would get on *the phone with them and their auditor's specialist*, talk through it, iron out any of those issues. Most of the times, the *client doesn't have much of an option.* P11 (Other Annually Inspected – US)

The ultimate backfire reaction occurs when management is unyielding in demanding an aggressive estimate. In those situations, some specialists report taking the extreme measure of 'walking away' from the engagement. Specialists perceive management's demands as a threat to their autonomy and respond by vigorously asserting their views (e.g., Baer et al. 1980).

> I always walk away if a client is trying to be too aggressive. I always have to leave through the *back door* because they just don't want to see me again. P15 (Big4 – EU)

Evaluation role

Specialists appear less concerned about client satisfaction and relationship management in the evaluation role than in the preparation role. As a result, they respond more directly to disagreements with auditors. Notwithstanding the auditor's willingness to please their clients, specialists report that when they feel a client's position is invalid, they ask auditors to arrange a meeting with the client. Specialists believe that unfettered access to the audit client facilitates more efficient specialist-to-specialist discussions that ultimately lead to a more effective resolution:

> Initially, they were a bit reluctant in taking us all along. As soon as they got us with the client, the client started to feel a bit more insecure. We ended up talking with their [the client's] specialist. The whole process went a lot smoother then. In the end, the auditor, as well as the client, were pretty happy with the end result. P17 (Big4 - EU)

As in the preparation role, backfire reactions occur when specialists hold significant opposing viewpoints in valuation disagreements with auditors, and they feel the auditors' expectations are unsupportable. They reject situations that they believe jeopardize their professional standard of practice, and some threaten to walk away:

> …but this is a reasonable estimate, and this is what I am willing to provide on paper. If this is not what you [auditor] like, then you go somewhere else…Every now and then, we come into those discussions. P16 (Big4 – EU)

Specialists also turn to backfire reactions over the perceived inadequate pro-rata share of the audit fee they receive from auditors. Zimmerman et al. (2022) find that using specialists decreases an audit engagement's profitability (realization rate) and that auditors are not always successful in gaining increased audit fees to cover the cost of using specialists. These findings underscore the auditors' budget trade-off calculus when deciding the nature, timing, and extent of specialist use. BJMS (2022) report that tensions over the allocation of the audit budget are the single most contentious relationship factor between auditors and specialists. Our participants report that one behavioral response to felt accountability in this scenario is to defiantly charge actual hours at the specialist's normal prescribed rate (i.e., no reductions) to the audit engagement.

> ...just put all our hours into our system. It's up to them to charge to the client or do whatever they want there. We just let them know what our fee would be for them, and it's up to them to make sure that they get that paid by the client. P17 (Big4 – INTL)

> Budget issues won't cause them to make us do a limited review. They'll try to assign less hours for us to do a full review. If that's the case, *we're still going to bill the time we spend on it because we're not going to do an eight-hour job in two hours and say that it's reasonable*. P9 (Other Annually Inspected – US)

Further, some specialists note that an alternative response to illegitimate pressure from auditors is to refuse outright to allow auditors to limit the scope of their work. They push back against auditors by referring the concern up the chain of command within the valuation unit.

> …. If I cannot design the scope and rely on this such that it is to my comfort level, then I will highlight to my department head and say that I'm not comfortable doing this. Maybe the audit team has to meet for someone else to do it. Get it? Some other resources or another specialist. P9 (Other Annually Inspected – US)

Specialists who push back and reject auditors' scope restrictions can be viewed as exhibiting a high level of accountability to the audit firm by prioritizing the minimization of the audit firm's risk exposure over individual auditor demands. Some specialists indicated that the anticipation of regulatory scrutiny was a key motivator behind their actions. One specialist described an audit where they "*fear[ed the client] was going to be selected for a review.*" (P20 Big4 – US). This fear elicited backfire reactions where the specialist insisted that the auditors increase their fees to accommodate the additional work the specialists performed.

> It was a bank acquisition the company had ... a very big bank. It had 25 material weaknesses. We ended up charging the client about $30,000-50,000 for a review because it was such a disaster what the third party did. They made errors. They did things wrong. (P20 Big4 – US).

Implications of Backfire Reaction

Specialists' willingness to engage in backfire reactions to felt accountability pressures from auditors indicates that they are capable of fulfilling the role envisioned in the standards and can enhance audit quality. They serve as a counter to auditor acquiescence to client pressures for aggressive estimates when they are motivated to "protect the audit firm first" (BJMS 2022, 25).

Although the standards are agnostic in auditor use of firm-employed vs. -engaged specialists, the motivation to protect the firm suggests that the use of firm-employed specialists has a stronger potential to enhance audit quality. Further, specialists' desire to reduce firm risk suggests that audit firms could consider ways to empower and strengthen specialists' efforts to minimize firm risk when auditors engage in irrational behaviors that exacerbate risk exposure. In light of regulatory concerns, it is also encouraging for both audit and financial reporting quality that specialists and auditors can work together to restrict management's overly aggressive estimates (PCAOB 2018). Audit committees can consider discussing with auditors the prevalence and tactics related to aggressive estimates and how to add interventions that constrain management aggressiveness.

IV. Conclusions and Implications for Research

We elicit the perspectives of 20 audit firm-employed valuation specialists who support the management of non-audit clients in their preparation of FVMs and auditors' evaluation of client-prepared estimates. They offer a unique window into how specialists help auditors and management to navigate the measurement uncertainty inherent in fair value. We apply a joint role-accountability theoretical framework to understand how specialists' interactions with their clients influenced the audited fair value estimates reported in financial statements. Consistent with theory, we find that specialists' felt accountability differed in their preparation (for management) and evaluation (for auditors) roles. Our interview data suggest that this difference in felt accountability manifests four behavioral responses: attitude shifting, coping, satisficing, and backfire reactions.

In the preparation role, specialists' attitudes shift by guiding the preparation of estimates that will withstand auditor scrutiny and ensure the client can defend the assumptions underlying their FVMs. They use insights gained from the evaluation role to help management arrive at balances that fall within the range they believe will be acceptable to management's auditor. In the evaluation role, specialists' attitude shifting manifests in them documenting evidence in a manner that creates an audit trail to help auditors withstand scrutiny from internal and external reviewers (e.g., peer inspections, PCAOB).

We find that the increased financial reward associated with preparation services results in specialists being generally more amenable to client preferences in the preparation relative to the evaluation role. Specialists' coping mechanisms and backfire reactions are indirect in the preparation role. They often use the influence of the client's auditor as a coping mechanism to facilitate difficult decisions with management. When management's demands are too aggressive, some specialists report walking away from the engagement, a backfire reaction. However, in the evaluation role, specialists are direct. Coping strategies focus on upskilling auditors to fill perceived knowledge or expectations gaps. Specialists push back against auditors' demands that they deem unreasonable and sometimes walk away from those engagements.

The valuation setting is conducive to satisficing behavior. Specialists understand that fair value is part-art-part-science. That is, they exploit the subjectivity inherent in fair value estimation to find ways to meet client demands. However, they do so while protecting their interests by including disclaimers (in the preparation role) or caveats (in the evaluation role) in their valuation reports. In the evaluation role, specialists often employ tactical strategies to minimize valuation differences in response to pressure from auditors to minimize conflict with the audit client.

Our study makes several contributions and should interest academics, regulators, audit firms, and preparers and users of financial statements. In response to increased regulatory scrutiny of auditors' use of specialists (PCAOB 2015b), researchers have attempted to peek further inside the black box of the valuation task. Most research to date uses the auditor's lens to evaluate specialists' contributions to the evaluation of FVMs, with a limited orientation toward the specialist's view. Apart from BJMS (2022), few studies have sought to gain specialists' perspectives on their interactions with auditors (e.g., Boritz et al. 2020; Barr-Pulliam et al. 2021) and management (e.g., Kjellevold 2019), yet challenges arise in these collaborations (e.g., Cannon and Bedard 2017; Glover et al. 2019). Our study complements and extends prior research examining auditor-specialist interactions (e.g., Griffith et al. 2015a; Griffith et al. 2015b; Boritz et al. 2020; Griffith 2020) by giving additional voice to specialists in the academic discourse.

We offer insights into the positive and negative consequences associated with the demands placed on specialists by auditors and management. Understanding specialists' behavioral response to these demands offers otherwise unobservable potential root causes of the deficiencies in fair value auditing noted by regulators, which also pose threats to financial reporting quality (e.g., Zimmerman et al. 2022; PCAOB 2022). For example, we identify that a potential root cause of auditors' deficiency in testing FVMs observed by regulators could lay in specialists' concerns that budgetary considerations motivate auditors to delay specialist involvement and limit the specialists' role in risk assessment, scoping, and the capacity to test complex estimates.

Specialists' reports suggest that auditors' lack of knowledge can be a root cause of deficiencies in FVM testing (e.g., inappropriate scoping and sampling) but that they can improve auditors' awareness through training. Additionally, the finding that being audit-firm employees encourages specialists to enhance auditor knowledge offers a new factor not previously considered in debates on the advantages and consequences of separating consulting practices from audit firms (e.g., Schumpeter 2022). Understanding these and other potential root causes of deficiencies in audited FVMs is an important first step to identifying, designing, and implementing interventions to improve audit and financial reporting quality. Further, understanding how specialists' performance in related but distinct roles influences their accountability complements prior research on role duality in auditing (e.g., Kowaleski, Mayhew, and Tegeler 2018; Barr-Pulliam 2019), tax

(Marshall 2021), and managerial accounting (Maas and Matejka 2009) settings. We extend the literature and provide future research opportunities in describing a more nuanced and contextual valuation setting.

Our research is not without limitations. First, we offer a descriptive approach to understand specialists' behavioral responses to felt accountability across their dual roles and cannot attribute cause or effect. Our participants value the most complex financial instruments, and the supply of their expertise is limited. While we offer a representative analysis of these specialists' lived experiences by integrating theory (Pratt 2009), we acknowledge that insights from our study, in some respects, could be context-specific. Second, as the initial study focused on valuation specialists, our work is introductory and does not explore interrelationships in the accountability behaviors described. Neither does it consider all the factors related to valuation specialists' roles that inform and influence their felt accountability. Future research can examine the extent to which, and in what contexts, the specialists' accountability behaviors and outcomes we identify manifest in the valuation task, as well as identify other important factors that impact specialists' performance in valuation estimates. Future research can also examine interventions to mitigate the identified negative accountability behaviors targeted at the specialist-, auditor-, and firm levels.

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TABLE 1: Interview Participant Demographics

Participant ID	Firm Type	Location	Title	Degree	Certification(s)	Experience		
						Valuation (in years)	Audit	In-House Valuation
P1	Big 4	US	Mgr	Bachelors	ABV, CPA	6 – 10	**Yes**	No
P2	Big 4	US	Mg Dir	Ph.D.	-	> 15	No	**Yes**
P3	Other Annually-Inspected	US	Dir	Masters	CFA	6 – 10	**Yes**	**Yes**
P4	Other Annually-Inspected	US	Dir	Bachelors	ASA	> 15	No	No
P5	Big 4	APAC	Assc Dir	Masters	-	> 15	No	**Yes**
P6	Big 4	APAC	Mgr	Masters	CFA, FRM, WSET	6 – 10	No	No
P7	Big 4	APAC	Mgr	Masters	CFA	6 – 10	No	**Yes**
P8	Big 4	US	Mgr	Masters	CAIA, CFA, CPA	6 – 10	**Yes**	No
P9	Other Annually-Inspected	US	Mgr	Bachelors	CFA	6 – 10	No	**Yes**
P10	Other Annually-Inspected	US	Mgr	Masters	CFA	6 – 10	No	**Yes**
P11	Other Annually-Inspected	US	Mgr	Bachelors	CFA, CVA	6 – 10	No	No
P12	Big 4	EU	Ptr	Masters	CPA	6 – 10	**Yes**	No
P13	Big 4	US	Ptr	Bachelors	CFA, CPA	11 – 15	No	No
P14	Big 4	US	Ptr	Masters	CPA	> 15	No	**Yes**
P15	Big 4	EU	Dir	Masters	ABV, ASA, CPA	11 – 15	**Yes**	No
P16	Big 4	EU	Ptr	Masters	-	6 – 10	No	No
P17	Big 4	EU	Ptr	Masters	-	11 – 15	No	**Yes**
P18	Big 4	APAC	Sr Mgr	Masters	ACT, CFA	6 – 10	No	No
P19	Big 4	US	Sr Mgr	Masters	CPA	11 – 15	**Yes**	No
P20	Big 4	US	Sr Mgr	Masters	ASA	> 15	No	**Yes**

Variable Definitions: Firm Type *includes* Big 4 and other firms inspected annually by the Public Company Accounting Oversight Board. **Location**: APAC-Asia Pacific; EU-European Union; US-United States. **Title**: Mgr-Manager; Sr Mgr-Senior Manager; Assc Dir-Associate Director; Dir-Director; Mg Dir-Managing Director; Ptr-Partner. **Certifications:** ABV-Accredited in Business Valuation; ACT-Certificate in International Treasury Management; ASA-American Society of Appraisers; CAIA-Chartered Alternative Investment Analyst; CFA-Certified Financial Analyst; CPA-Certified Public Accountant; CVA-Certified Valuation Analyst; FRM-Financial Risk Manager; WSET-Wine Spirit and Education Trust.

TABLE 2: Summary of Key Elements of the Role Theory Accountability Framework

Panel A: Distinctions of Role Theory Characteristics by Specialists' Roles

Role Characteristic	Preparation	Evaluation
Role Sender	• The client is the *management* of the firm's non-audit clients. They solicit specialist's assistance to ***prepare*** FVMs that are governed by FASB and SEC policies and regulations	• The clients are auditors, fellow employees of the audit firm. They solicit specialist's assistance to ***evaluate*** the reasonableness of audit clients' FVMs. PCAOB audit standards and regulations govern audits of large companies.
Compensation Structure	• The service provided is ***tied to the consulting practice.*** This results in higher fees (larger scope of service), year-round work, and higher billable rates.	• The service provided is ***tied to the audit practice.*** This results in thin profit margins, lower fees (smaller scope of service), high demand during the audit cycle, and lower capitation rates.
	• Role is viewed as ***more prestigious***	• Role is viewed as ***less prestigious***
	• Primary source of ***business is through referrals*** from clients (management) and the client's auditors.	• ***No market-making*** is required. Revenue stream comes from direct firm support and audits, which are seen as an annuity.
	• Must be more ***entrepreneurial*** to obtain clients.	• Reliant on accounting firm policy for servicing the audit client
Control Over the Valuation Task	• ***Specialists*** determine the scope and ***control*** the client relationship	• ***Auditors*** determine the scope and ***control*** communication (internal and with audit client)

TABLE 2: Summary of Key Elements of the Role Theory Accountability Framework

Panel B: Proof of Theory – Evidence of Felt Accountability by Specialist Role

Observed Component	**Description**	**Preparation**	**Evaluation**
Awareness of Monitoring	The expectation that another will observe your performance. *(Guerin 1993; Zajonc and Sales 1966)*	• We always keep in mind that it has to be dependable. That's the most important thing. P18 (Big4 – APAC)	• Our fear was that it was going to be selected for [PCAOB] review, and it was. P20 (Big 4 – US) [Emphasis Added]
Reputation Risk	The expectation that your work is not anonymous; it can be linked to you. *(Reicher and Levine 1994a, 1994b)*	• I believe in the quality of the work that I do...I don't want to be the low-cost provider, so I'll walk away from it [i.e., bid requesting price match]. D22 (Other Annually-Inspected – US)	• … sorry to keep saying it like that, but firms where the specialists are math men or auditors, they do what they're told. They are not able to check if the question that the audit team asks them is the correct thing. P12 (Big 4 – EU)
Expectation of Evaluation	The expectation that an evaluator can impose rewards or sanctions based on a set of expectations. *(Sanna et al. 1996; Kimble and Rezabek 1992)*	• If something goes wrong, the damn client wants to sue us. We are very mindful of that fact in what we do. P5 (Big4 – APAC)	• People here know what they want to see and what our firm needs to have for our records, and we really make sure that we have sufficient documentation for them and sufficient documentation for ourselves going forward. P9 (Non-Big4 – US)
Need for Justification	The expectation that one will have to give an "accounting" to others. *(Wilson and LaFleur 1995)*	• It's challenging. It's challenging. It's challenging. While you try to use a [valuation] method that seems to comply with the standards…the client…says, "It doesn't seem to make sense for my new series and the old series…." It seems to say that I'm stupid. Then you need to juggle with the auditor whether they are able to accept a certain methodology. It's a balancing act altogether. P18 (Big4 – APAC)	• If we have one price and their (audit client) specialist has a different price, we say, okay, what's the reason for the difference, and if they come up with a reasonable explanation for an assumption, then we can revalue the price using a different assumption or something and then come up with a different price. P8 (Big4 – US)

TABLE 3: Results – Summary of Accountability Behaviors and Implications for Audit and Financial Reporting Quality

Accountability Behavior	Preparation Role	Evaluation Role	Audit and Financial Reporting Quality Implications
Attitude Shifting	• The complexity and the subjectivity inherent in fair value measurements (FVMs) facilitate the preparation of estimates to meet a desired outcome. • Specialists leverage experience gained from the evaluation role to guide management to a point estimate that can withstand their auditor's scrutiny. • Specialists plan an increased scope of services when they expect greater scrutiny by an oversight authority. • Specialists charge higher fees when anticipating greater scrutiny, particularly when facing a Big 4 auditor • Specialists include time in their work plan to "coach" management – to help them to be more competent in explaining how the estimate was prepared. • Specialists include specific legal terms in the valuation report and conduct a rigorous internal review to mitigate the litigation risk associated with preparing FVMs	• Specialists plan for increased documentation and the creation of an audit trail when greater regulatory scrutiny is expected (specialists recognize characteristics of clients or FVMs that lend themselves to greater scrutiny by regulators). • Specialists consult with the audit client's (preparing) specialist "upfront" to reduce the risk of disagreements. • Specialists work to limit audit differences to help auditors maintain a positive relationship with the client.	• Involving the client's auditor early when preparing FVMs breaches auditor independence (the risk they audit estimates they "helped" to prepare) and induces pre-decisional commitment. • Strategic preparation of supporting documentation and evidence that reduces material differences from management's initial FVM [*in the evaluation role*] restricts upstream review (e.g., second partner review) of the client's assumptions. • Designing documentation to help management's estimates pass review [*in the preparation role*] limits management's auditors and the auditors' specialists from fully examining the facts and circumstances of management's estimates. • Admission that expectations of review influence the specialist's work can render inspections less effective in improving audit and financial reporting quality
Satisficing	• The client's preferred valuation range guides the valuation process • Specialists oppose being directed to follow client demands; can be "guided into the zone of acceptance"	• Specialists prefer developing independent estimates over other acceptable methods because it grants more flexibility to develop estimates closely aligned with the client's initial number. That is, they	• Auditors' use of specialists could improve their ability to assess and respond to the risk of misstatement inherent in valuation. However, *satisficing behaviors* describe how specialists can exploit the inherent

TABLE 3: Results – Summary of Accountability Behaviors and Implications for Audit and Financial Reporting Quality

Accountability Behavior	Preparation Role	Evaluation Role	Audit and Financial Reporting Quality Implications
	• Specialists are reluctant to accept aggressive behavior from management; they employ protective steps and emphasize management's responsibility for the inputs and their impact on the estimate	essentially build corroborative models. • Specialists document their work and models with the goal of limiting the likelihood of audit deficiencies (arising from PCAOB inspection). They minimize errors or issues in the audit workpapers • Specialists include additional supporting documentation (e.g., research papers) to strengthen the audit trail reviewed by regulators	subjectivity and contribute additional bias to estimates. • Satisficing behaviors occur "behind the scenes" and are not reflected in the workpapers [*both roles*]. As a result, regulators and other stakeholders are blind to the (potential) additional bias that can exist in the FVM.
Coping	• Specialists use management's auditor as a foil to 1) get pre-approval of valuation methods to prevent a contentious audit review; 2) to limit additional work (that can reduce their profit margin) to meet auditor demands or inquiries during the audit; 3) to counter aggressive behavior from management; 4) to preserve relationships with auditors that can result in referrals for future preparation work. • Specialists maintain calculated silence (e.g., expressing displeasure but not to the client directly)	• Specialists conduct outreach and education sessions to "upskill" auditors about valuation methods and to 1) increase and improve auditor-specialist collaborations; 2) increase access to information; 3) improve auditor risk assessment, scoping, and sample selection	• Response suppression (indirect responses) might induce stress, dissatisfaction, and disengagement from the firm and ultimately prompt specialists to leave the firm. All of the outcomes mentioned could negatively impact audit quality. • Involving the client's auditor early when preparing FVMs breaches auditor independence despite benefits to the specialist. • While not prohibited under the standards, the application of expertise acquired during audits [*in the evaluation role*] to assist non-audit clients [*in the preparation role*] could be detrimental to audit and financial reporting quality if done in ways that limit or circumvent auditor scrutiny.

TABLE 3: Results – Summary of Accountability Behaviors and Implications for Audit and Financial Reporting Quality

Accountability Behavior	Preparation Role	Evaluation Role	Audit and Financial Reporting Quality Implications
			• Proactive attempts to educate and coach auditors about valuation and to encourage earlier specialist engagement to support the audit could enhance the audit of FVMs. • Auditor reluctance to engage specialists in the early phases of an audit could be a root cause of the deficiencies that regulators (e.g., PCAOB) observe.
Backfire Reaction	• Specialists discount or question overly aggressive inputs from untrusted sources (e.g., banks and boutique valuation firms) • Specialists push for a three-way dialogue with auditors and management to persuade management to accept the specialist's preferred estimate. • Specialists walk away from the engagement with the understanding that they likely have potentially lost the client forever.	• Specialists ask auditors to arrange a meeting with the client to obtain unfettered access to the preparing specialist • Specialists threaten to walk away when auditor expectations are unsupportable or threaten specialists' professional standards of practice • Specialists bill auditors for actual hours worked and use the prescribed rate (without reductions) for the audit engagement • Specialists involve the valuation practice leader in disagreements; an outright refusal of scope limitations from the auditor • Specialists insist that auditors increase the specialist's pro-rata share of the audit fee to compensate for additional work required to respond to higher perceived regulatory scrutiny	• Backfire reactions serve as a counter to auditor acquiescence to client pressures for aggressive estimates. • A "protect the firm first" mentality suggests that using firm-employed (rather than firm-engaged) specialists has a stronger potential to enhance audit quality. • Focus on reducing risk suggests that audit firms could consider ways to empower and strengthen specialists' efforts to minimize firm risk when auditors engage in nonrational behaviors that exacerbate risk exposure. • Stronger auditor-specialist collaborations could restrict management's preference for overly aggressive estimates.

Appendix 1: Interview Protocol and Relationship to Quoted Responses

	Interview Question	**Proof of Theory Responses** *Role Theory*	**Proof of Theory Responses** *Accountability*	**Behavior Responses**
1	Explain *how auditors [management] engage* you to evaluate [prepare] a fair value measurement for financial reporting purposes.	X	X	
2	Do valuation specialists typically *specialize in practice lines* based on client type (*audit vs. non-audit*)?	X	X	
3	Do valuation specialists typically *specialize in practice areas* (*CFI vs Non-CFI*)?	X		
4	Explain your *FV estimation [evaluation] process* for a security.		X	X
5	Explain how you choose the *valuation methods and models*.			X
6	How do you *document the choices and the judgments* you make?			X
7	Share the most rewarding experience you had working with an audit team (management).		X	X
8	Share the least rewarding experience you had working with an audit team (management).		X	X
9	Describe a scenario that caused you to revise or adjust the initial FV estimate		X	X
10	Describe the extent of your involvement in the resolution of the audit differences			X
11	**Closing**: Is there anything else you would like to share with us about the role specialists play in financial reporting? Any topics you think we should be studying a little deeper?	X	X	X