

# **Auditor-Client Relationship Building in the Auditor**

## **Selection Process:**

### **An Examination of Trust and Commitment**

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## **Abstract**

In this paper, we investigate auditor-client relationship development by applying Social Exchange Theory (SET) constructs to the interpersonal dynamics of auditor selection processes. Regulators have introduced requirements related to auditor selection to address the familiarity threat in long-standing auditor-client relationships. However, there are benefits to strong relationships because financial statements result from joint efforts by clients and their auditors. We conducted a field study of auditor selection processes at eight large Dutch companies from 2019 to 2022 through semi-structured interviews with 29 key stakeholders and analysis of relevant documents. Our findings reveal that clients and auditors value a cooperative auditor-client relationship, and during the selection process they evaluate the potential quality of this relationship based on observed demonstrations of trust and commitment. We find that clients and auditors use the selection process to build the relationship by engaging in interpersonal, reciprocal social exchanges that start before the tender and continue until the client selects their auditor. Clients and auditors rely on signals of credibility and compatibility to make decisions throughout the selection process. This study contributes to literature and practice by shedding light on how auditor-client relationships develop before the audit starts.