

ERRATUM

The publisher, American Accounting Association, regrets an error in “Characteristics of Managerial Tone Priced by Auditors: Evidence Based on Annual Letters to Shareholders of Large U.S. Firms” by Adam Greiner, Lorenzo Patelli, and Matteo Pedrini in the May 2020 issue (Volume 39, Number 2, pp. 139–161; doi: [10.2308/ajpt-52594](https://doi.org/10.2308/ajpt-52594)) of *AUDITING: A Journal of Practice & Theory*. The manuscript’s abstract was incorrectly duplicated in the acknowledgment section. The correct acknowledgment is:

We appreciate helpful comments and suggestions on earlier versions from Susan Scholz (editor), two anonymous reviewers, Ryan Casey, Lisa Victoravich, Mark Kohlbeck, Keith Robson, Tom Smith, and workshop participants at the University of Denver, 2017 American Accounting Association Annual Meeting (especially Kara Obermire the discussant), 2017 Western Region Meeting (especially Bill Heninger the discussant), the 2018 Second Annual Special Topics in Strategic and Emerging Technologies in Accounting Conference: Text Analytics in Accounting, and Travis Ringger and Steve Thompson for their practical insights.

The online version of the article has been corrected. The error exists only in the printed version. A corrected version of the title page, which can be printed and inserted in your print copy, can be found on the following page.

Characteristics of Managerial Tone Priced by Auditors: Evidence Based on Annual Letters to Shareholders of Large U.S. Firms

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SUMMARY: We examine the relationship between audit pricing and managerial tone as a proxy of source credibility. Prior research shows that source credibility influences auditors' perceptions of client risk. Textually analyzing annual letters to shareholders, we find that characteristics of managerial tone that reflect impaired source credibility are associated with higher audit fees. Additional tests, including a change analysis and controls for other managerial characteristics, future client performance, and aggressive accounting choices, corroborate and build on our inferences that managerial tone proxies for source credibility. Our study extends literature that uses corporate disclosures to measure managerial characteristics by showing that auditors price source credibility reflected in managerial tone. These findings are important because they empirically confirm that source credibility affects auditors' assessments of engagement risk and that analysis of tone can inform researchers, auditors, and investors who seek to enhance effectiveness and objectivity in assessing source credibility based on managerial tone.

JEL Classifications: G21; G34; M41.

Data Availability: The data in this study are available from public sources indicated in the paper.

Keywords: audit fees; source credibility; managerial tone; DICTION; optimism.

I. INTRODUCTION

A growing body of accounting research examines the influence of managerial characteristics on financial reporting and auditing environments (Gul, Khedmati, Lim, and Navissi 2018; Judd, Olsen, and Stelkelberg 2017; Krishnan and Wang 2015; Olsen, Dworkis, and Young 2014; Huang, Teoh, and Zhang 2014). Auditor pricing decisions offer a unique setting for examining managerial characteristics because auditors are privy to a wealth of financial and nonfinancial matters about client firms' management (Hackenbrack, Jenkins, and Pevzner 2014). Moreover, auditing standards require that auditors consider managerial characteristics as part of their audit assessments of client firms' control environments (AICPA

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Editor's note: Accepted by Susan Scholz.

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