Office Managing Partners, Non-Audit Services, and Audit Quality

by

Michael Mowchan

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Graduate Supervisory Committee:

Steven Kaplan, Chair
Phillip Lamoreaux
Andrew Call

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ABSTRACT

This study investigates the relation between the line of service (audit, tax, advisory) of Big Four office managing partners (OMPs) and both non-audit service fees and audit quality. Given that audit quality has been shown to vary across offices and because changes in office-level leadership can impact the office culture, I examine the impact of the OMP's line of service on non-audit service fees and audit quality. I find that when an accounting firm office changes leadership to an advisory OMP, non-audit service revenues increase while audit quality suffers. This finding is consistent with advisory partners encouraging an office culture that emphasizes selling non-audit services more than conducting quality audits. Overall, this study provides evidence consistent with regulators' concerns that the recent trend toward greater advisory services at the largest accounting firms reduces their focus on providing high-quality audits, thereby leading to decreased audit quality.

DEDICATION

To my family for their encouragement in choosing to pursue this wonderful opportunity. To my friends for their prayers, support, and understanding throughout this long journey. And most of all to my loving wife who has shared in all of the wonderful and challenging experiences over these five years, never hesitating to help me keep moving forward. Thank You.

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CHAPTER 1

INTRODUCTION

Big Four accounting firm offices generally provide three primary services: audit, tax, and advisory. For any individual office, top management can place relatively more or less emphasis on each of these lines of service. In doing so, office leaders exhibit a "tone at the top" through their communication of policies and procedures, compliance expectations, rewards systems, and the example set through their behavior (TAC 2007; PCAOB 2013a). While office-level management has a responsibility to disseminate organizational goals, these leaders can intentionally or unintentionally promote the norms of their functional area when communicating information to the local office. Wyatt (2004) and Hermanson (2009) suggest that these norms differ by functional area and, more specifically, that a culture shaped by an individual from the advisory function can potentially de-emphasize audit quality in favor of commercialism. Thus, I investigate whether a change in the office-level leadership of accounting firms influences non-audit services (NAS) and audit quality. Specifically, I examine whether the line of service (i.e., audit, tax, or advisory) in which an office managing partner (OMP) operates impacts non-audit service revenues and the quality of audits delivered by that office.

The Public Company Accounting Oversight Board (PCAOB) has raised concerns about the recent growth in advisory services, now the largest source of revenue for the Big Four accounting firms, and argues that this trend could lead to a decline in audit quality (PCAOB 2014b, 2015a). Failing to support these concerns, Lisic, Myers, Pawlewicz, and Seidel (2015) find that higher advisory revenues at the audit firm level does not impair audit quality. In contrast, Beardsley, Lassila, and Omer (2015) focus on

the effect of declining audit fees at the office-level and find that increased NAS result in lower audit quality, but only in the presence of audit fee pressures. Extending this research, I identify a setting in which an increase in NAS is likely to be observed and examine the corresponding impact on audit quality. I test whether a change in office-level *tone at the top* affects both the revenues generated from NAS and the quality of the audits provided. In doing so, I investigate the global chairman of PwC's statement that "culture is key to ensuring consulting does not harm audit quality" (Shubber 2015, ¶ 12). I use a change in the OMP's line of service as my variable of interest and provide evidence on one potential underlying mechanism (i.e., tone at the top) that shifts auditors' focus away from providing high-quality audits. In doing so, I remove noise inherent in utilizing measures of non-audit services alone as these services can be provided by personnel in any of the audit, tax, or advisory functions.[1]

Regulators have defined tone at the top to include a broad list of considerations such as policies, procedures, expectations, and incentives (TAC 2007, PCAOB 2013a).[2] Irrespective of the definition utilized, regulators have identified tone at the top to be a key indicator of the incentives that drive auditors to provide quality audits and one which can emphasize the auditor's responsibility to investors through accountability and adherence to professional standards (CAQ 2014, 2016). Consistent with this incentive definition, contracting theory and principal-agent models popularized by Holmstrom and Milgrom (1987, 1991) suggest that employees will engage in the activities that maximize their

[1] For example, the audit function can provide employee benefit plan audits and the tax function can provide tax planning services which are both categorized as non-audit services when provided to audit clients.

[2] Other considerations include culture, organizational environment, strategy, and norms that govern the practice.

utility function whether incentivized through explicit forms of compensation or social norms. They propose that employees perform activities for which they are more heavily compensated which leads to a reallocation of effort to these tasks (Holmstrom and Milgrom 1991). Because accounting firms are organized into local offices, a change in the OMP's line of service impacts the tone of messages communicated to partners and employees within that office. Further, the OMP's functional background will impact his/her focus and potentially affect the office's emphasis on providing high-quality audits. Given the desire of audit personnel to maximize personal wealth, I build on the propositions of Wyatt (2004) and propose that changing to an advisory OMP increases the influence of individuals that have a more limited understanding of the importance of audit quality. As such, when an office changes to an advisory OMP, audit personnel can be motivated to conform to the norms of the advisory practice, increasing their focus on selling non-audit services relative to audit quality. Thus, changing to an advisory OMP may impact the culture, business strategy, and behaviors of audit personnel within the office.

Any change in the office culture attributable to an advisory OMP must overcome multiple levels of oversight and ex post review in order to impact audit quality. Specifically, auditing standards require key judgments and critical audit areas to be reviewed by a second partner who has no direct client involvement. Also, audit firms conduct their own internal quality control reviews, have AICPA-sponsored peer reviews, and are subject to PCAOB inspections on their audits of public clients. Furthermore, irrespective of a cultural shift, audit partners may maintain their focus on performing high-quality audits to minimize reputation concerns and financial penalties.

Although audit partners are heavily incentivized to conduct quality audits, there are a number of reasons that changing to an advisory OMP can decrease their focus on audit quality. An emphasis on the advisory function can distract employees away from audit quality in favor of promoting NAS, explicitly or implicitly change employee evaluation and promotion criteria, and lead to independence impairment (PCAOB 2015a). In addition, advisory OMPs also have less personal regulatory exposure and a more limited understanding of regulatory risks than audit OMPs, which makes them less proficient in their management of audit personnel. Thus, based on the propositions of Wyatt (2004) and Hermanson (2009), I expect that offices changing to an advisory OMP will place less emphasis on audit quality relative to more compliance oriented non-advisory OMPs from the audit or tax practice.[3] Consequently, I anticipate that auditors will respond to the incentives promoted by the OMP leading to an increase in NAS fees and a decrease in audit quality for offices that change to an advisory OMP.[4]

To test the impact of a change in tone at the top on non-audit service revenues and audit quality, I hand-collect background information for OMPs at the Big Four accounting firms for 2003-2011 and identify each OMP's line of service (i.e., audit, tax, or advisory). Consistent with the trends suggested by regulators, I find that the proportion of advisory OMPs increases over the sample period from 12.5% in 2003 to 23.2% in

[3] Although tax partners can engage in both compliance and advising services (e.g., auditing the tax provision and tax planning, respectively), I have identified them as more compliance oriented non-advisory OMPs. For robustness, I drop all observations identified as a change to or from a tax OMP and find all inferences remain unchanged.

[4] Although the opposite prediction could be made for changes from advisory to non-advisory OMPs, the sample size for this group of changes was prohibitive in drawing inferences for those observations. In untabulated tests, these results are generally insignificant with the exception of both fee models which were consistent with expectations. Furthermore, to ensure my results are not driven by the inclusion of advisory to non-advisory OMP changes in the "other changes" sample I exclude these observations and find inferences remain unchanged.

2011. I next employ a difference-in-difference research design that compares *changes* in NAS fees and audit quality (i.e., going-concern reporting, restatements, and discretionary accruals) for an office that changes from a non-advisory to an advisory OMP relative to other changes in OMP. In utilizing a difference-in-difference analysis of only offices with OMP changes, I am able to better identify the effect of a change to an advisory OMP because this design limits concerns of omitted variables and selection bias (Hail and Leuz 2009; DeFond, Hung, Li, and Li 2015). Furthermore, additional tests provide little evidence that changes in OMP are associated with my dependent variables, office revenues and audit quality, suggesting the decision to change OMP is influenced by factors beyond office strategy alone. Lastly, in untabulated analyses, I utilize a second benchmark group of offices that do not change OMP to provide further evidence that the associations I find are distinct from the overall trends in the audit profession.

Prior to examining associations with audit quality, I first evaluate whether switching to an advisory OMP is associated with a change in office culture. Given my expectation that advisory OMPs are more focused on promoting NAS and less focused on audit quality relative to non-advisory OMPs, I predict that offices that change from non-advisory to advisory OMPs will have an increase in NAS fees relative to other offices. Correspondingly, because audit fees have been used to proxy for audit effort (Hogan and Wilkins 2008; Rice and Weber 2012; Lobo and Zhao 2013), this proposition also suggests offices that change from non-advisory to advisory OMPs have a non-positive association with audit fees relative to other offices. Consistent with expectations, I find an incremental increase in NAS fees for offices that change from a non-advisory to advisory OMP relative to other offices, with no corresponding association between

changes in audit fees. These results provide support for my proposition that switching to an advisory OMP promotes a culture that is more likely to emphasize selling NAS relative to other OMP changes.

Moreover, consistent with expectations, I find that changes from non-advisory to advisory OMPs are associated with incremental decreases in audit quality relative to other changes in OMP. I follow the suggestions of DeFond and Zhang (2014) and utilize multiple measures of audit quality (i.e., going-concern reporting, restatements, and discretionary accruals) in order to draw stronger inferences. I find that the decrease in going concern report issuance is greater for audit offices that change to an advisory OMP. Further, the likelihood of egregious (i.e., fraud-related) misstatements incrementally increases for offices that switch to advisory OMPs. Lastly, I find a greater increase in the absolute value of discretionary accruals among clients from offices that change to an advisory OMP. Overall, these findings provide evidence that offices which change from non-advisory to advisory OMPs exhibit incremental increases in NAS fees and incremental decreases in audit quality relative to other offices.

My study contributes to the auditing literature and has implications for accounting firms and regulators. Specifically, this study is the first to examine whether the line of service of the OMP impacts non-audit service revenues and the quality of audits delivered by their office. The results suggest that while accounting firm offices that switch to an advisory OMP enjoy increases in NAS revenues from their audit clients, the quality of audits suffer. This provides evidence that tone at the top likely underlies variation in auditors' focus on providing high-quality audits. These findings inform regulators as to the validity of their concerns with regard to the rise of advisory services

at the largest audit firms (PCAOB 2014a) and are potentially supportive of regulator efforts to have "audit only" service providers (EC 2010). Considering that the PCAOB is currently investigating the validity of empirical indicators of audit quality, this study also identifies a clear "tone at the top" indicator measured at the audit office-level, the OMP's line of service (PCAOB 2013b).[5] Lastly, as one of the first archival studies to examine the association between audit office tone at the top and audit quality, this study answers a call for future research on audit firm culture (Jenkins, Deis, Bedard, and Curtis 2008).

[5] In their recent concept release on audit quality indicators, the PCAOB acknowledged that analyses based on office-level characteristics and experience may be important to discussions of tone at the top (PCAOB 2015b).

CHAPTER 2

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background on Advisory Services

After notable accounting scandals in the early 2000s, the Sarbanes-Oxley Act (SOX) set regulations in place to restrict non-audit services. Specifically, SOX prohibits the provision of certain NAS to audit clients in an effort to enhance auditor independence. Although SOX has somewhat diminished auditor's reliance on NAS, these services still remain a substantial portion (21%) of the revenues that auditors receive from their *audit clients* (Whalen, McCoy, and Hannen 2014). Moreover, SOX does not regulate the provision of advisory services to non-audit clients which has provided an opportunity for accounting firms to continue growing this business. Raising concerns, advisory service fees for the U.S. Big Four firms totaled 39% of revenues in 2013 relative to only 36% for audit fees (PCAOB 2014a).[6] Hermanson (2009, 8) states that if the advisory function generates a large portion of firm revenue, then it may have enough power to "drive the firm's culture toward commercialism and away from accounting professionalism." Accordingly, the PCAOB is troubled by what this trend signals about the culture for these firms and its potential impact on audit quality. Specifically, regulators are concerned that an emphasis on advisory services will distract firm leaders away from audit quality, potentially change employee performance measurement to emphasize new business, lead to independence impairment, and create conflicts between the audit and advisory practices (PCAOB 2014b, 2015a).

[6] Concurrent with this growth in advisory revenues, the Big Four firms have acquired a number of advisory firms (Sorkin 2009; De La Merced and Norris 2013) and more recently, KPMG promoted to CEO its former head of the firm's advisory practice (Rapoport 2015).

Although regulators have called attention to changes in culture concurrent with the rise in advisory services at accounting firms, much of the research to date has focused on the impact that non-audit services have on audit quality. Early research investigates the impact of NAS on audit quality at the *client level* through the lenses of knowledge spillover and independence impairment, providing mixed evidence (e.g., DeFond, Raghunandan, and Subramanyam 2002; Chung and Kallapur 2003; Kinney, Palmrose, and Scholz 2004; Reynolds, Deis, and Francis 2004; Nam and Ronen 2012; Koh, Rajgopal, and Srinivasan 2013). More recent research by Beardsley et al. (2015) and Lisic et al. (2015) examine the provision of NAS at the *office-level* and *audit firm-level*, respectively. Beardsley et al. (2015) analyze how audit offices respond when experiencing audit fee pressure. They find that audit offices increase NAS to offset lost audit revenues and that these increases in NAS only lead to a decline in audit quality when the audit firm is experiencing audit fee pressure. In contrast, Lisic et al. (2015) find no evidence that higher advisory revenues at the firm level impairs audit quality. Thus, these two studies further contribute to the mixed results.

A potential reason for this overall mixed evidence is that this research generally focuses on the provision of non-audit services as the catalyst to a change in audit quality and thus does not investigate changes to organizational culture that underlie an emphasis on NAS. Furthermore, the majority of this research fails to identify the operational level at which regulators concerns are prone to exist (i.e., the office-level). Although I take a similar approach to Beardsley et al. (2015) in testing my research question at the office-level, I differ from their study by focusing on how the functional area of office-level leadership as a proxy for tone at the top impacts audit quality. In doing so, I move beyond

the examination of when NAS lead to a decline in audit quality and instead provide evidence on one potential underlying mechanism that shifts auditors' focus away from providing high-quality audits.

Office-Level Leadership and Tone at the Top

Prior research suggests that decision making typically occurs at the local office-level for Big Four firms (e.g, Wallman 1996; Francis, Stokes, and Anderson 1999). Specifically, contracting with clients, hiring and staffing decisions, and the signing of the audit opinion are generally managed by the local office. Testimonies during the trial of Arthur Andersen even detailed how the Houston office disregarded and sometimes misrepresented advice from the national professional standards group at Andersen's headquarters (Schmidt 2002). Although the Enron scandal represents a single occurrence, Krishnan (2005) provides evidence that Andersen's Houston clients, on average, displayed lower financial reporting quality suggesting that the culture of the office may have been compromised. Furthermore, Jenkins et al. (2008) use Andersen's Houston office as a prime example to suggest that culture may differ across individual offices of large audit firms, and this is particularly relevant to my study as the OMP of the Houston office was an advisory partner (Batson, Enron Corp., and United States 2003).

Recent research has also shown the importance of office-level characteristics in examining audit quality and indicates that there are office-level differences in employee skills and expertise as well as corresponding variation in client portfolios (e.g., Francis and Yu 2009; Francis and Michas 2013; Francis, Michas, and Yu 2013). Given this variation in skills and expertise, it is not uncommon for offices to emphasize any one of the services they offer (e.g., audit, tax, or advisory). Moreover, the OMP's functional

background will likely impact his/her communications and thus can influence the auditors' attention toward performing high-quality audits. This should not be cause for concern however, as the global chairman of PwC recently stated that, "if the culture of the firm does not provide the glue that allows all the different capabilities [lines of service] to coexist under the same umbrella then I think you have some real issues" (Shubber 2015, ¶ 12). Thus, this study is the first to investigate how the tone at the top offered by the OMP impacts audit quality, even when they often have no direct impact on audit engagements, which is especially true of advisory OMPs.

Hypothesis Development

Contracting theory suggests that audit firm partners and employees have monetary and social incentives to take actions that will draw support from their OMP. Holmstrom and Milgrom (1987, 1991) suggest that employees will engage in activities to maximize their utility function. Specifically, their works suggest that employees perform tasks for which they are provided greater compensation which can lead to a reallocation of effort to those activities (Holmstrom and Milgrom 1991). Given this literature, it is important to understand whether the compensation method of audit firms makes audit personnel susceptible a change in the culture of the local office when changing to an advisory OMP. Although an OMP generally has *no direct impact* on audit engagements,[7] their functional background can influence the culture of the office including performance incentives and risk preferences.

[7] I acknowledge that an audit OMP can directly impact audit engagements for which he/she is in charge; however, these engagements only represent a small portion of the total audit engagements for which the office is responsible.

Prior research has engaged auditors in surveys and interviews (e.g., Trompeter 1994; Burrows and Black 1996) and more recently, gained access to proprietary records in understanding the compensation method of audit firms (Knechel, Niemi, and Zerni 2013). Trompeter (1994) finds that audit firms emphasize local office profitability in compensating partners while Burrows and Black (1996) find that partners share profits from all lines of service (audit, tax, and advisory).[8] Using Swedish data, Knechel et al. (2013) find that partner compensation is associated with a combination of audit firm level, office-level, and partner specific characteristics with acquisition of new business exhibiting a positive association with partner compensation. Although these studies span different regulatory regimes and time periods, their results are largely consistent with the anecdotal evidence from Byrnes (2007) which states that Deloitte compensates partners from one profit pool across all lines of service, and thus audit partners benefit indirectly from the provision of NAS.

While monetary incentives alone are likely sufficient to motivate audit partners to promote non-audit services, research also suggests that the desire to conform to social norms can sufficiently incentivize auditors at all levels of the firm. Specifically, Prendergast (1993, 1999) incorporates the desire to conform into the principal-agent model and finds that subjective evaluation in the context of promotions can motivate employees to engage in behaviors that draw the support of their supervisors. Drawing from this work, Fischer and Huddart (2008) develop a principal-agent model for a professional organization in which peer-established social norms influence the behavior

[8] More recently, Coram (2015) complements these results in finding that Big Four firms compensate partners from profit pools based on their personal level of performance measured by fees, new clients, and contribution to practice.

of individuals and suggest that public accounting firms are a prime example. The authors acknowledge that a social norm for high audit quality will influence partners to emphasize audit quality even if revenues are the primary performance measure. In contrast, if social norms instead discount audit quality (e.g., under an advisory OMP), then revenues will be promoted while audit quality suffers.

Correspondingly, there a number of reasons that changing to an advisory OMP will increase an office's emphasis on non-audit services and potentially detract from audit quality. First, given their personal incentives, advisory OMPs are more likely than their non-advisory counterparts to promote the selling of NAS which could distract audit partners from their core audit responsibility (Byrnes 2007; Fischer and Huddart 2008). Second, advisory OMPs can explicitly or implicitly change employee performance measurement and promotion criteria to emphasize new business (Hermanson 2009; McKenna 2011). Third, advisory OMPs can give preference to personnel that operate in or promote their line of service which can affect staffing or hiring practices (Wyatt 2004). Fourth, advisory OMPs have a more limited understanding about the regulatory risks that audit partners face and thus are less proficient in their management of audit personnel. Lastly, advisory OMPs have less personal regulatory exposure making them less concerned with risks of audit failure and PCAOB sanctions (Dey, Robin, and Tessoni 2012). Following the implications of contracting theory, audit partners and employees have incentives to curry favor with their local OMP. Consequently, changing to an advisory OMP, audit personnel are more likely to allow the provision of NAS at their audit clients. Thus, I present my first hypothesis, as follows:

H1: Changing to an advisory OMP is positively associated with changes in non-audit fees.

Consistent with the above arguments, audit partners and employees are also more likely to allow audit quality to diminish, whether intentionally or unintentionally, when changing to an advisory OMP. Thus, I present my second hypothesis, as follows:

H2: Changing to an advisory OMP is negatively associated with changes in audit quality.

Although changing to an advisory OMP may impact office culture, the accounting firm is required by regulators to observe certain quality control mechanisms which govern the audit profession. Specifically, auditing standards require key judgments and critical audit areas to be reviewed by a second partner who has no direct client involvement. Also, audit firms conduct their own internal quality control reviews, have AICPA-sponsored peer reviews, and are subject to PCAOB inspections on their audits of public clients. Moreover, there are additional reasons that changing to an advisory OMP may not impact audit quality or the provision of NAS. First, although changing to an advisory OMP does exert some influence over office culture, audit engagement partners may reject the increased emphasis on NAS revenues to minimize reputation concerns and financial penalties. Second, given that SOX limited the types of NAS which can be provided to audit clients, it may be that audit partners are already permitting an appropriate level of NAS at their clients. Lastly, advisory OMPs may not differ from audit OMPs in their desire to provide high-quality audits as a failure to do so could be detrimental to future audit and non-audit business.

CHAPTER 3

SAMPLE SELECTION AND DESCRIPTIVES

Sample Selection

To construct my sample, I hand collect background data on office managing partners for each of the Big Four audit firms during the period from 2003-2011. Focusing on this time period allows me to ensure that the sample includes the additional regulatory and reporting requirements imposed by SOX while also allowing sufficient time for restatement disclosures. I utilize a social networking site for professionals to obtain OMP information for 287 of the 390 Big Four auditor-office locations as identified in the Audit Analytics population.[9] To mitigate concerns over the reliability of this data, I examine alternative data sources (e.g., local industry journals and state CPA society press releases) to substantiate the information for each OMP. In doing so, these sources allow me to identify and/or verify the effective date of the OMP's appointment, the individual they succeeded, the line of service in which they operate, and limited information describing their previous experience.[10] I then utilize an iterative process to collect the same characteristics for each preceding OMP, where these individuals are identifiable. Appendix A details the hand collection process, providing examples of information from both data sources.

Pairing with the audit office data from Audit Analytics, my initial sample includes 783 unique auditor-city-OMP observations with roughly equal representation of each

[9] I recognize that some audit offices represent small satellite office locations or regional groupings in which the OMP resides in another location (e.g., Dayton, OH is sometimes a satellite office for Cincinnati, OH). In an untabulated analysis, I drop observations for satellite offices and find all inferences remain unchanged.

[10] The press releases improve the accuracy of the effective date of the OMP's appointment as the social networking site does not always delineate the years in which each job title is held.

audit firm (i.e., between 23.6% and 29.0%). For each OMP, I identify the line of service in which they operate in order to develop my key variable of interest, as well as, other individual characteristics which may impact audit quality in their office (e.g., number of years as OMP, number of years as partner, etc.). Table 1, Panel A provides descriptive statistics for other OMP characteristics at the auditor-city-OMP level showing that advisory OMPs are longer tenured partners and more likely to be female than non-advisory OMPs. In addition, Table 1, Panel B provides more detail of the raw annual frequency of unique auditor-city-OMP-years partitioned by their line of service. Figure 1 plots the proportions of audit, tax, and advisory OMPs for the Big Four firms from 2003 through 2011. While the percentage of audit partners holds relatively constant between 65% and 70% for the entire period, the trends for advisory and tax partners show meaningful changes. Specifically, the proportion of OMPs identified as advisory partners increases from 12.5% in 2003 to 23.2% in 2011 while the proportion of tax partners decreases from 19.3% to 10.8%.[11]

Within this initial sample of auditor-city-OMP-years, I identify 165 changes in OMP of which 34 (20.6%) represent changes from a non-advisory OMP to an advisory OMP while 131 (79.4%) represent other changes in OMP.[12] In limiting the sample to only offices with a change in OMP, the difference-in-difference design provides a stronger test by holding constant unobserved attributes specific to offices where a change in OMP occurs. Table 2, Panel A describes how I arrive at the final sample for each

[11] Slight variation across these groupings was observed when analyzing each Big Four firm separately. Specifically, the greatest aggregate percentage of advisory OMPs was 24% while the lowest was 11%, respectively.

[12] Of these other changes in OMP, 13 (7.9%) represent changes from an advisory to a non-advisory OMP, 5 (3.0%) represent changes between advisory OMPs, and 113 (68.5%) represent changes between non-advisory OMPs.

regression model. First, I identify 8,541 client-year observations for years -2 to +2 surrounding the year of OMP change.[13] After dropping all changes in OMP which do not have at least two full years between OMP changes, the sample is reduced to 8,068 observations for 147 OMP changes. This requirement ensures no overlap in client-year observations when subsequently requiring at least one year in both the pre- and post-change periods. I then drop 1,612 observations for the year the OMP change occurs (Year 0) in order to remove any concerns related to differences in the timing of the change during the fiscal year by completely delineating between years in which the predecessor and successor OMPs managed the office. Arriving at a sample of 6,456 observations, I further limit the sample for each of my dependent variables separately to ensure that I have the necessary Compustat financial data, CRSP returns data, Audit Analytics fee and reporting data, and Thomson Reuters institutional holdings data. After removing client-year observations that do not have the required data, I delete all observations for clients without at least one observation in both the pre- and post-OMP change periods to mitigate concerns that results are due to differences in client portfolios. These requirements result in final samples of 2,777 observations for non-audit fee regressions, 2,623 for going concern reporting regressions, 3,335 for restatement regressions, and 3,381 observations for discretionary accrual regressions. All variables are defined in Appendix B and all continuous variables are winsorized at the 1st and 99th percentiles.

Table 2, Panel B describes the annual frequency of OMP changes included in my discretionary accruals sample as well as the proportion of changes which represent a

[13] In untabulated tests, I limit the sample to only the year immediately before (-1) and after (+1) the year of OMP change and find inferences remain unchanged with the exception of regressions for *nasfees* and *abs_dacc* where the coefficients for *non_to_adv*post* are directionally consistent but fall out of significance due to a reduction in power.

change from a non-advisory OMP to an advisory OMP. Approximately 21% of the changes in OMP are categorized as a change from a non-advisory to an advisory OMP with that percentage ranging from 12% to 41% over the period of the sample. The high percentage in 2007 may coincide with audit firms anticipating increased fee pressures during the recession years and therefore, compensating by increasing their emphasis on provision of NAS as suggested in Beardsley et al. (2015). Furthermore, this table also describes the annual frequency of client-year observations and the proportion of observations associated with offices that change from non-advisory to advisory OMPs. Based on my sample construction procedures and the choice to exclude the OMP change year, it is unsurprising that approximately 23% of the sample relates to changes from non-advisory to advisory OMPs with the largest proportion of those observations occurring in 2005-2009.

Sample Descriptives

Table 3 presents descriptive statistics in the pre- and post-change periods for non-advisory to advisory OMP changes and other changes in OMP, along with differences in means between the pre- and post-change periods. For both types of OMP changes, NAS fees are not significantly different ($p > 10\%$) between the pre- and post-change periods. Though not significant, these findings are directionally consistent with H1 as NAS fees are increasing from the pre- to post-change period for non-advisory to advisory OMP changes while decreasing for other changes in OMP. With respect to H2, I find that audit quality, as measured by the absolute value of discretionary accruals (*abs_dacc*) and negative discretionary accruals (*neg_dacc*), decreases from the pre to post period ($p < 10\%$) for clients of offices that change from a non-advisory to advisory OMP while not

significantly different for other OMP change offices. Additionally, I find that audit quality, as measured by going concern reporting (*gc*) and egregious restatements (*restate_egreg*), increases from the pre to post period ($p < 1\%$) for clients of offices with other OMP changes while not significantly different for offices that change from a non-advisory to advisory OMP. Given these results, I find that the mean difference-in-difference values for *abs_dacc, neg_dacc,* and *restate_egreg* (untabulated) are significant suggesting that clients of offices that change from a non-advisory to advisory OMP experience a greater decrease in audit quality relative to clients of offices with other OMP changes. Lastly, among the control variables, clients of offices that change from non-advisory to advisory OMPs experience a greater decrease in the likelihood that they are audited by a local industry expert as well as greater increases in the likelihood of material weakness and prior year restatements relative to clients of offices with other OMP changes.

In analyzing whether these and, subsequent, multivariate findings are due to differences between the treatment (*non_to_adv*=1) and control group in the pre-change period, I investigate whether the means of the dependent variables differ between these groups. I find that the means of the dependent variables do not significantly differ between the non-advisory to advisory OMP change group and other OMP change control group with the exception of *abs_dacc* and *pos_dacc* ($p < 5\%$) (untabulated). Furthermore, I follow the recommendation of Atanasov and Black (2015) and perform untabulated analyses to investigate whether the pre-change period covariate balances differ across the treatment and control group. For the pre-change period, I cannot reject the null hypothesis that my regression models balance all of their respective covariates with the

exception of the models for *audfees*, *dacc*, and *abs_dacc*. I find the primary cause for this imbalance is the *yrs_omp* variable which is an individual OMP characteristic and thus a product of the treatment identification. Therefore, the findings in Table 3 provide preliminary evidence consistent with a positive (negative) association between changes from non-advisory to advisory OMPs and changes in NAS fees (audit quality).

CHAPTER 4

RESEARCH DESIGN AND RESULTS,

Non-Audit Service Fees

In evaluating the validity of my proposed explanation that a change to a more selling-oriented office culture underlies a negative association between changes from non-advisory to advisory OMPs and changes in audit quality, I test my first hypothesis (H1) by examining the relation between a change from a non-advisory to an advisory OMP and a change in client NAS fees relative to other changes in OMP. I estimate this relation using the following model:

$$\begin{aligned} nasfees = {} & \alpha + \beta_1 non\_to\_adv + \beta_2 post + \beta_3 non\_to\_adv*post + \beta_4 ln\_ta + \beta_5 roa \\ & + \beta_6 py\_car + \beta_7 leverage + \beta_8 inst\_own + \beta_9 mtb + \beta_{10} sqrt\_bsegs + \beta_{11} foreign \\ & + \beta_{12} short\_tenure + \beta_{13} ma + \beta_{14} fin\_ind + \beta_{15} sales\_growth + \beta_{16} cacl + \beta_{17} arinv \\ & + \beta_{18} loss + \beta_{19} std\_ret + \beta_{20} gc\_cy\_py + \beta_{21} xdops + \beta_{22} zscore + \beta_{23} restate\_gen \\ & + \beta_{24} indexpert + \beta_{25} yrs\_omp + \beta_{26} female\_omp + \beta_{27} firm\%audit + \beta_{28} firm\%mas \\ & + \beta_{29} audfees + \beta_j Industry\ FE + \beta_k Year\ FE + \beta_m AuditFirm\ FE + \varepsilon \quad \text{(Model 1)} \end{aligned}$$

The dependent variable, *nasfees,* is the natural logarithm of one plus the dollar value of client NAS fees as identified by the Audit Analytics database. In this model, the variable of interest is the *non_to_adv*post*. The variable *non_to_adv* is an indicator variable taking the value of one if the client year observation is associated with the years (-2, -1, +1, +2) immediately surrounding the year of change from a non-advisory OMP to an advisory OMP in the local office of the client's auditor, and *post* is an indicator variable taking the value of one if the client year observation relates to the two years after an OMP change (+1, +2). H1 predicts a positive coefficient on *non_to_adv*post* such that the change in client NAS fees is significantly more positive for clients whose auditor's

experience a change from a non-advisory to an advisory OMP relative to other changes in OMP.

I draw from prior research (DeFond et al. 2002; Whisenant, Sankaraguruswamy, and Raghunandan 2003) to identify other determinants of NAS fees for my regression model. These controls include variables which measure client financial and stock price performance, client complexity and risk, and the length of the auditor-client relationship. In addition to these variables, I also include a control for city-level industry expertise (*indexpert*), OMP characteristic controls for the number of consecutive years the OMP has been in charge of the local audit office (*yrs_omp*) and whether the OMP is female (*female_omp*), and audit firm controls for proportion of total U.S. revenues from audit services (*firm%audit*) and advisory services (*firm%mas*). I include the control for industry expertise as Ferguson, Francis, and Stokes (2003) and Francis, Reichelt, and Wang (2005) provide some evidence that the industry expertise premium that an auditor is able to charge is due to office-level industry leadership. Controls for other OMP characteristics are included to ensure that results are not driven by other (omitted) characteristics of the OMP while controls for audit firm revenues mitigate concerns that a national audit firm strategy drives the results. I also include a control for the level of audit fees charged to the client (*audfees*) as prior research suggests there is a significant association between audit and non-audit fees when using a single equation specification (Bell, Landsman, and Shackelford 2001; Craswell and Francis 1999; Whisenant et al. 2003).[14] Industry, audit firm, and year fixed effects are included to control for variation in

[14] As the purpose of this test is not to investigate the relationship between audit and non-audit fees, I do not utilize a simultaneous equation specification to control for the joint determination of audit and non-audit fees as suggested in Whisenant et al. (2003). However when utilizing this approach for the estimation of

NAS fees across industry, audit firm, and over time, though these coefficients are not reported. Lastly, in both models I cluster standard errors by year and audit client to control for cross-sectional and time-series dependence (Gow, Ormazabal, and Taylor 2010).

Table 4 presents the results for my estimation of Model 1 with *nasfees* as the dependent variable. The results provide evidence consistent with H1 such that *non_to_adv*post* is positive and significant ($p < 1\%$). When evaluated at the sample mean for *nasfees*, the marginal effect for the estimated coefficient on the interaction indicates that, all else equal, the change in NAS fees is approximately $60,000 (64%) greater for clients whose auditor's experience a change from a non-advisory to an advisory OMP relative to other changes in OMP.[15] This finding supports my proposition that changing to an advisory OMP promotes a culture that emphasizes selling NAS more than compliance-oriented non-advisory OMPs. I also find that a number of the control variables have significant ($p < 5\%$) coefficients consistent with prior research. Specifically, I find that client size and the client's level of audit fees have significant positive associations with *nasfees* while clients in the initial years of an auditor client relationship have a negative association. Somewhat surprisingly, I find that *py_car* has a positive and significant association with *nasfees* while prior research (DeFond et al. 2002; Whisenant et al. 2003) finds a negative association though this may be attributable

nasfees (untabulated), I find that the coefficient on *non_to_adv*post* remains positive and highly significant ($p < 1\%$) while the coefficient on the predicted value of *audfees* falls out of significance ($p > 10\%$).

[15] In an untabulated analysis I find that the increase in likelihood that a client receives NAS from their auditor is 1.7% greater for those whose auditor experiences a change from a non-advisory to advisory OMP relative to other changes in OMP. For further robustness, I exclude tax services from NAS fees and find inferences remain unchanged suggesting these results are driven by audit related and management advisory services.

to the significant difference in our samples. Specifically, both DeFond et al. (2002) and Whisenant et al. (2003) use a sample of clients from fiscal year 2000 which is prior to the additional regulations imposed by SOX, and the former also focuses only on financially distressed clients. Lastly, I find that clients whose auditor employs a female OMP exhibit significantly lower NAS fees.

Although the above results support H1 and confirm my proposition that changing to an advisory OMP increases the emphasis on selling NAS fees, it does not preclude the possibility that audit effort is also promoted. Using audit fees as my proxy for audit effort (Hogan and Wilkins 2008; Rice and Weber 2012; Lobo and Zhao 2013), I investigate this relationship. Specifically, consistent with an incentive shift, I expect that offices that change from non-advisory to advisory OMPs have a non-positive association with changes in audit fees relative to other offices. I estimate this relationship utilizing the same controls that were included in Model 1 except for the substitution of *nasfees* for *audfees* and the inclusion of a variable to measure the number of days between fiscal year-end and the 10-K filing date (*filing_lag*).

Table 5 presents the results of my regression to examine the impact of changes from non-advisory to advisory OMPs on changes in audit fees. Consistent with my prediction, the results show that *non_to_adv*post* is not significant ($p > 10\%$) in predicting audit fees. This finding provides some evidence that changes from non-advisory to advisory OMPs are not associated with an incremental decrease in audit effort at these offices; however, when combined with the results for NAS fees, it suggests that this change may shift auditors' focus away from audit quality. Similar to my model for NAS fees, I find that a number of the control variables have significant ($p < 5\%$)

associations with audit fees, consistent with prior research. Specifically, I find that *ln_ta*, *foreign*, *arinv*, *loss*, *filing_lag*, *std_ret*, *indexpert*, and *nasfees* all have positive associations with *audfees* while *roa*, *cacl*, and *zscore* have negative associations. Lastly, I find that clients whose audit office has a longer tenured OMP have lower audit fees while clients whose office employs a female OMP have higher audit fees.

Overall, the above results provide some evidence that changing to advisory OMPs increases the focus on promoting NAS and thus potentially decreases the focus on audit quality relative to other OMP changes. As such, these results provide a basis for investigation of whether changes to advisory OMPs are associated with incremental decreases in audit quality relative to other changes in OMP. In doing so, I follow the implication of DeFond and Zhang (2014) by using multiple proxies for audit quality to provide more robust evidence as to the impact on different dimensions of audit quality. I measure audit quality using three output-based measures of audit quality (i.e., going-concern reporting, restatements, and discretionary accruals) which can be categorized as auditor communications, material misstatements, and financial reporting quality, respectively. I chose these three measures as the auditor has direct influence over each of these proxies at a decreasing magnitude in the order presented above. Furthermore, these measures also provide variation as to the severity of audit issues with going-concern reporting and restatements being more severe than discretionary accruals. In utilizing these three measures of audit quality, I am able to provide a more comprehensive picture of whether changes in tone at the top (i.e., OMP) are associated with changes in audit quality.

Going Concern Reporting

In testing H2, I first examine the relation between changes from non-advisory to advisory OMPs and changes in auditor going concern (GC) reporting relative to other changes in OMP. A going concern report represents the auditor's assessment of whether there is substantial doubt about their client's ability to continue as a going concern. Prior research has shown that going concern reports impose unfavorable costs on clients and thus they are likely to pressure auditors to issue a clean opinion (Carson, Geiger, Lennox, Raghunandan, and Willekens 2013). Therefore, I investigate whether this change in OMP impacts the change in GC reporting (*gc*). I estimate this relation using the following logit model:[16]

$$\begin{aligned}\textit{Going Concern DVs} = {} & \alpha + \beta_1 \textit{non\_to\_adv} + \beta_2 \textit{post} + \beta_3 \textit{non\_to\_adv*post} + \beta_4 \textit{ln\_ta} \\ & + \beta_5 \textit{sales\_growth} + \beta_6 \textit{py\_car} + \beta_7 \textit{std\_ret} + \beta_8 \textit{long\_tenure} + \beta_9 \textit{litigation} \\ & + \beta_{10} \textit{gc\_py} + \beta_{11} \textit{zscore} + \beta_{12} \textit{cash} + \beta_{13} \textit{loss} + \beta_{14} \textit{roa} + \beta_{15} \textit{cfo} + \beta_{16} \textit{leverage} \\ & + \beta_{17} \textit{mtb} + \beta_{18} \textit{fin} + \beta_{19} \textit{std\_sales} + \beta_{20} \textit{nas\_ratio} + \beta_{21} \textit{indexpert} + \beta_{22} \textit{yrs\_omp} \\ & + \beta_{23} \textit{female\_omp} + \beta_{24} \textit{firm\%audit} + \beta_{25} \textit{firm\%mas} + \beta_j \textit{Industry FE} + \beta_k \textit{Year FE} \\ & + \beta_m \textit{AuditFirm FE} + \varepsilon \qquad \text{(Model 2)}\end{aligned}$$

The dependent variable, *gc*, is an indicator variable that takes the value of one if the client received a going-concern audit opinion for the year. As GC report issuance reflects more conservative reporting, H2 predicts a negative coefficient on *non_to_adv*post* such that the change in GC report issuance is significantly more negative (i.e., less conservative) for audit offices which experience a change in OMP from non-advisory to advisory relative to offices that experience other changes in OMP.

[16] According to recent research (e.g., Cornelli, Kominek, and Ljungqvist 2013), using a linear model could ease interpretation of coefficients and interaction terms in Models 2 and 3. Thus, in untabulated analyses, I run OLS regressions for these models and find qualitatively similar results for both GC reporting and restatements.

Consistent with prior research, my model includes a number of control variables which measure financial and stock price performance, leverage and financing, risk, and prior GC reporting behavior of the client (e.g., Dopuch, Holthausen, and Leftwich 1987; Mutchler, Hopwood, and McKeown 1997; Reynolds and Francis 2000; DeFond et al. 2002; Lisic et al. 2015). In addition to these controls, I also include a control for city-level industry expertise (*indexpert*), a control for NAS fees as a proportion of total fees at the client-level (*nas_ratio*), *yrs_omp* and *female_omp* to control for additional OMP characteristics, and *firm%audit* and *firm%mas* to control for audit firm level revenues. I include the control for industry expertise as Francis and Yu (2009) provide some evidence that the city-level industry expertise leads to a higher incidence of GC reporting. Furthermore, I include *nas_ratio* in my model to provide further evidence that the non-advisory to advisory OMP change indicator is not capturing the effects of impaired independence due to an increase in NAS. The controls for other OMP characteristics and audit firm characteristics are included to ensure that the results for my variable of interest are not driven by other (omitted) characteristics of the OMP and national audit firm strategies, respectively. Lastly, I include industry, audit firm, and year fixed effects as well as cluster standard errors by year and audit client in both models.

Table 6 presents the results of my regressions to examine the impact of changes from non-advisory to advisory OMPs on changes in GC reporting (*gc*). Column 1 includes all audit clients with the required data for variables in the going concern model. Column 2 includes only those audit clients that exhibit financial distress, defined as clients that exhibit negative net income and/or negative cash flows from operations (e.g., Reynolds and Francis 2000; DeFond et al. 2002). The results provide evidence consistent

with H2 such that *non_to_adv*post* is negative and significant ($p < 5\%$) in both columns.[17] Evaluated at the means of the control variables for the distressed client sample, the marginal effects indicate that in the sample of other changes in OMP, *post* is associated with an increase of 1.7% in the probability of *gc*, but a decrease of 0.2% in the sample of changes from non-advisory to advisory OMPs, and that the difference of 1.9% is economically meaningful given that only 5.4% of the distressed sample receive GC reports.[18] Thus, the findings for GC report issuance suggest that changes from non-advisory to advisory OMPs reflect a move to less conservative reporting behavior.[19]

Lastly, I also find that a number of the control variables have significant ($p < 5\%$) coefficients consistent with prior research. I find that prior year GC reporting and current year loss have significant positive associations with *gc* while Altman (1968) Z-score has a negative association. Furthermore, consistent with DeFond et al. (2002), I find that *std_ret* has a positive ($p < 10\%$) association while *py_car* has a negative association with GC reporting, respectively.

Restatements

In my second test of H2, I next examine the relation between changes from non-advisory to advisory OMPs and changes in subsequent financial statement restatements relative to other changes in OMP. Prior literature has used restatements as a proxy for

[17] Given this result for *gc* and Carson et al.'s (2013) finding that over 98% of companies that receive a going concern report survive for at least a year, I unsurprisingly find that *non_to_adv*post* is also negative and significant ($p < 5\%$) for regressions of for Type I going concern reporting errors (*type1gc*). This result does not diminish the importance of my results for *gc*, whereby less conservative reporting is observed.

[18] Following Ai and Norton (2003), I also examine the interaction effects across the range of predicted probabilities (0 to 1) for each dependent variable in Models 2 and 3. I find that although statistical significance varies slightly across the range, all interaction effects are directionally consistent with the documented marginal effects.

[19] Inferences remain unchanged when focusing on only first-time GC reporting behavior.

audit quality as they represent clear and severe signals of low quality audits (Kinney et al. 2004; Chin and Chi 2009; Francis and Michas 2013). In cases where clients subsequently restate, it is likely that auditors failed in their responsibility to provide reasonable assurance that the financial statements are free of material misstatements. Following the suggestion of Hennes, Leone, and Miller (2008), I investigate multiple types of restatements that vary in severity while excluding clerical errors. I examine the association between changes from non-advisory to advisory OMPs and changes in the incidence of general restatements, core-account restatements (i.e., restatements in revenue, cost of sales, on-going operating expenses, and their related balance sheet accounts), and egregious restatements resulting from SEC investigations or fraud. I estimate these relations using the following logit model for each dependent variable:

$$\begin{aligned} \textit{Restatement DVs} = {} & \alpha + \beta_1 \textit{non\_to\_adv} + \beta_2 \textit{post} + \beta_3 \textit{non\_to\_adv*post} + \beta_4 \textit{ln\_ta} \\ & + \beta_5 \textit{sales\_growth} + \beta_6 \textit{py\_car} + \beta_7 \textit{long\_tenure} + \beta_8 \textit{litigation} + \beta_9 \textit{arinv} + \beta_{10} \textit{cash} \\ & + \beta_{11} \textit{roa} + \beta_{12} \textit{fin} + \beta_{13} \textit{std\_ret} + \beta_{14} \textit{restate\_gen\_py} + \beta_{15} \textit{mw} + \beta_{16} \textit{leverage} \\ & + \beta_{17} \textit{mtb} + \beta_{18} \textit{std\_sales} + \beta_{19} \textit{nas\_ratio} + \beta_{20} \textit{indexpert} + \beta_{21} \textit{yrs\_omp} \\ & + \beta_{22} \textit{female\_omp} + \beta_{23} \textit{firm\%audit} + \beta_{24} \textit{firm\%mas} + \beta_j \textit{Industry FE} + \beta_k \textit{Year FE} \\ & + \beta_m \textit{AuditFirm FE} + \varepsilon \qquad \text{(Model 3)} \end{aligned}$$

The dependent variables, *restate_gen, restate_core,* and *restate_egreg*, are indicator variables that take the value of one if the financial statements for the year are subsequently restated, restated in one of the core accounts, and restated due to SEC investigations or fraud, respectively. As subsequent restatements reflect low quality audits, H2 predicts a positive coefficient on *non_to_adv*post* such that the change in subsequent restatements is significantly more positive for the clients of audit offices

which experience a change in OMP from non-advisory to advisory relative to the clients of offices that experience other changes in OMP.

Consistent with prior research, my model includes a number of control variables which measure financial and stock price performance, leverage and financing, client risk and internal control reporting, and prior restatements (e.g., Blankley, Hurtt, and MacGregor 2012; Lobo and Zhao 2013; Amel-Zadeh and Zhang 2014; Lisic et al. 2015). As with the GC reporting model, I also include controls for city-level industry expertise, NAS fees as a proportion of total fees at the client-level, additional OMP characteristics, and audit firm level revenues. Lastly, the models include industry, audit firm, and year fixed effects as well as cluster standard errors by year and audit client.

Table 7 presents the results of my regressions to examine the impact of changes from non-advisory to advisory OMPs on changes in subsequent restatements. Column 1 presents the results for general restatements (*restate_gen*), Column 2 presents the results for core-account restatements (*restate_core*), and Column 3 presents the results for egregious restatements (*restate_egreg*), respectively. Column 3 provides evidence consistent with H2. Specifically, the results show that *non_to_adv*post* is positive and significant ($p < 5\%$). Evaluated at the means of the control variables, the marginal effects indicate that in the sample of other changes in OMP, *post* is associated with a decrease of 0.3% in the probability of *restate_egreg*, but no variation (0.0%) in the sample of changes from non-advisory to advisory OMPs, and that the difference of 0.3% is economically meaningful given that only 1.1% of my sample subsequently restate their financial statements because of fraud or SEC investigations. For Column 2, the coefficient on *non_to_adv*post* is positive but insignificant ($p > 10\%$) suggesting that the

change in audit quality as proxied by core account restatements does not differ for the clients of audit offices which experience a change in OMP from non-advisory to advisory relative to the clients of offices that experience other changes in OMP.

Somewhat surprisingly, Column 1 provides evidence inconsistent with H2 in that audit quality improves for offices that change from non-advisory to advisory OMPs as the likelihood of general restatements decreases more for these offices. Specifically, the results show that *non_to_adv*post* is negative and marginally significant ($p < 10\%$). Evaluated at the means of the control variables, the marginal effects indicate that in the sample of other changes in OMP, *post* is associated with an increase of 1.7% in the probability of *restate_gen*, but a decrease of 0.1% in the sample of changes from non-advisory to advisory OMPs, and that the difference of 1.8% is economically meaningful given that 9.7% of my sample are required to subsequently restate their financial statements. Although this result is inconsistent with my prediction in H2, I examine the relationship further and find that among clients with prior year restatements the likelihood of general restatements increases 1.3% more for offices that change from non-advisory to advisory OMPs (untabulated). Although these results provide somewhat mixed evidence as to the association between changes from non-advisory to advisory OMPs and changes in restatements, overall the findings suggest that these offices are less likely to find *more serious and more persistent misstatements* during the audit and therefore provide lower audit quality.

Regarding the control variables, I find that *restate_gen_py* is positive and highly significant ($p < 1\%$) across all three regressions. Furthermore, I find that the majority of control variables are insignificant ($p > 10\%$) in all regressions likely due to the significant

predictive power of prior year restatements which has largely been ignored in prior research with the exception of Lobo and Zhao (2013).[20] Interestingly, I find that both *firm%audit* and *firm%mas* are both negative and significant in Columns 1 and 2 while positive and significant in Column 3 suggesting that higher proportions of audit and advisory services decrease the likelihood of general and core-account restatements and increase the likelihood of egregious restatements. Furthermore, I find some evidence that clients with a greater proportion of NAS fees relative to total fees exhibit a lower likelihood of core-account restatements, though the negative coefficient is only marginally significant ($p < 10\%$).

Discretionary Accruals

In my final test of H2, I examine the association between changes from non-advisory to advisory OMPs and changes in discretionary accruals relative to other changes in OMP. Prior literature has used measures of financial reporting quality that proxy for earnings management as another measure of audit quality (Francis and Yu 2009; Francis and Michas 2013; Hope, Thomas, and Vyas 2013). As discussed in DeFond and Zhang (2014), measures of financial reporting quality are less directly influenced by auditors and less severe relative to restatements or GC reporting, as fluctuation in accruals may not indicate failures to follow GAAP or substantial doubt about a client's ability to continue operation. However, given the parallel nature of financial reporting quality and audit quality, there is likely some within GAAP variation in financial reporting quality which may result as a product of both management's and

[20] Upon excluding *restate_gen_py* from my model, the coefficient on *non_to_adv*post* is positive for all three models and significant for core-account and egregious restatements at $p < 10\%$ and 5%, respectively. However, its exclusion reduces the area under the ROC curve to approximately 0.70 suggesting a relatively poor model.

the auditor's input with regard to the financial statements. As such, I measure discretionary accruals (DACC) using the Modified Jones Model (Jones 1991; Dechow, Sloan, and Sweeney 1995). I examine the association between changes from non-advisory to advisory OMPs and changes in signed DACC, the absolute value of DACC, income-increasing (positive) DACC, and income-decreasing (negative) DACC given that each can be indicative of opportunistic earnings management behavior. I estimate these relations using the following model for each dependent variable:

$$\begin{aligned}\textit{Discretionary Accruals DVs} = {} & \alpha + \beta_1 \textit{non\_to\_adv} + \beta_2 \textit{post} + \beta_3 \textit{non\_to\_adv*post} + \beta_4 \textit{ln\_ta} \\ & + \beta_5 \textit{long\_tenure} + \beta_6 \textit{litigation} + \beta_7 \textit{(Prior Year DA measure)} + \beta_8 \textit{arinv} + \beta_9 \textit{cash} \\ & + \beta_{10} \textit{roa} + \beta_{11} \textit{leverage} + \beta_{12} \textit{mtb} + \beta_{13} \textit{fin} + \beta_{14} \textit{std\_sales} + \beta_{15} \textit{nas\_ratio} \\ & + \beta_{16} \textit{indexpert} + \beta_{17} \textit{yrs\_omp} + \beta_{18} \textit{female\_omp} + \beta_{19} \textit{firm\%audit} + \beta_{20} \textit{firm\%mas} \\ & + \beta_j \textit{Industry FE} + \beta_k \textit{Year FE} + \beta_m \textit{AuditFirm FE} + \varepsilon \qquad \text{(Model 4)}\end{aligned}$$

The dependent variables, *dacc*, *abs_dacc*, *pos_dacc* and *neg_dacc*, represent signed DACC, the absolute value of DACC, income-increasing DACC, and income-decreasing DACC, respectively. As greater discretionary accruals reflect lower financial reporting quality and thus audit quality, H2 predicts a positive coefficient on *non_to_adv*post* such that the change in discretionary accruals is significantly more positive for the clients of audit offices which experience a change in OMP from non-advisory to advisory relative to the clients of offices that experience other changes in OMP.

Consistent with prior research, my model includes a number of control variables which measure financial and stock price performance, leverage and financing, client risk, and prior discretionary accruals (e.g., Francis and Yu 2009; Francis and Michas 2013). As with the previous models, I also include controls for city-level industry expertise,

NAS fees as a proportion of total fees at the client-level, additional OMP characteristics, and audit firm level revenues. Lastly, the models include industry, audit firm, and year fixed effects as well as cluster standard errors by year and audit client.

Table 8 presents the results of my regressions to examine the impact of changes from non-advisory to advisory OMPs on changes in discretionary accruals. Column 1 presents the results for signed DACC (*dacc*), Column 2 presents the results for the absolute value of DACC (*abs_dacc*), Column 3 presents the results for income-increasing DACC (*pos_dacc*), and Column 4 presents the results for income-decreasing DACC (*neg_dacc*), respectively. Column 1 does not support H2. Specifically, the results show that *non_to_adv*post* is postitive but insignificant ($p > 10\%$) suggesting that changes from non-advisory to advisory OMPs do no impact audit quality as proxied by signed DACC. In contrast, Column 2 supports H2 as *non_to_adv*post* is both positive and significant ($p < 5\%$). The marginal effect for the estimated coefficient indicates that, all else equal, the change in the absolute value of discretionary accruals is 0.020 greater for clients whose auditor's experience a change from a non-advisory to an advisory OMP relative to other changes in OMP. When evaluated at the sample mean for *abs_dacc* (0.126), this change is economically significant.

The remaining columns investigate where this increase in the *abs_dacc* lies, whether due to income-increasing or income-decreasing discretionary accruals. Column 3 shows that *non_to_adv*post* is positive yet insignificant ($p > 10\%$). Therefore, the association between changes in the absolute value of DACCs and changes to advisory OMPs is not driven by income-increasing DACC. However, Column 4 shows that *non_to_adv*post* is positive and marginally significant ($p < 10\%$) suggesting that

income-decreasing DACC may drive this association. Specifically, the marginal effect for the estimated coefficient indicates that, all else equal, the change in the negative DACC is 0.038 greater for clients whose auditor's experience a change from a non-advisory to an advisory OMP relative to other changes in OMP. Thus, these results suggest that offices that change from a non-advisory to advisory OMP are no more willing than other offices to allow their clients to engage in income-increasing earnings management, but will allow the client to take a big bath (i.e., income-decreasing earnings management). Overall, these results provide some evidence that a change from a non-advisory to an advisory OMP is associated with a greater reduction in audit quality relative to other changes in OMP.

I also find that some control variables have significant ($p < 5\%$) coefficients consistent with prior research. I find that the prior year discretionary accruals measure is positive and significant across all regressions except for *neg_dacc*. Furthermore, I find that return on assets and leverage have significant positive associations with *dacc* and *pos_dacc* while client size has a negative association with those dependent variables, consistent with prior research (e.g., Francis and Michas 2013; Lisic et al. 2015). Lastly, I find that both financing and leverage load positively with all dependent variables and are significant for both *dacc* and *pos_dacc*.

CHAPTER 5

ADDITIONAL ANALYSES

Endogeneity in OMP Selection

In additional analyses, I examine the possibility that the decision to replace a non-advisory OMP with an advisory OMP is a strategic choice; however, I argue that this is unlikely to be the case. First, my results are robust to the inclusion of audit firm level controls for the proportion of total U.S. revenues from audit services and advisory services. Second, although the results for my analysis of NAS fees are consistent with a strategic choice explanation, the explanation fails to adequately explain a decline in audit quality. Specifically, given the trend of increased oversight and more rigorous standards for accounting firms over my sample period (Ernst & Young [EY] 2012), the explanation that accounting firms make a strategic choice to provide lower audit quality seems unreasonable. Instead, I would expect the accounting firms to strategically emphasize audit quality improvement and thus observe an increase in audit quality over my sample period. Nonetheless, in order to mitigate concerns that my results are due to a strategic choice, I regress OMP changes on a number of audit office revenue and office-level audit quality related variables that are likely associated with a strategic decision to change OMP.

Table 9 presents the results of my regressions to examine the influence of prior year measures of audit office revenues (e.g., audit, tax, MAS, audit-related) and office-level audit quality (e.g., DACC, restatements, GCs) on the likelihood that an audit office changes OMP. In utilizing prior year measures, I investigate whether local office levels of revenues and audit quality are associated with a change in OMP in the subsequent

year. Columns 1 and 2 present the results for all OMP changes (*omp_change*) and changes from a non-advisory to advisory OMP (*non_to_adv*) for the full sample of audit-office years in which data was available. Column 3 presents the results for changes from a non-advisory to advisory OMP (*non_to_adv*) for only those 147 office change years which are included in my primary analyses. I find the area under the ROC curve for each regression is less than 0.70 suggesting relatively poor models based upon these strategy-focused office-level measures. Furthermore, across all regressions, I find only one coefficient to be significant. In Column 2, the coefficient representing the total audit-related fees at the local audit office is positive and significant ($p < 5\%$) suggesting that as the prior year level of audit-related fees at the local office increases the likelihood of a change from a non-advisory to advisory OMP increases. Thus, based on these regressions, I find little evidence that changes in OMP occur non-randomly (strategically) in relation to measures of office-level revenues and audit quality.

Non-Change Control Group

For further robustness, I utilize a second benchmark group of offices that do not change OMP to provide further evidence that the associations I find are distinct from the overall trends in the audit profession. Specifically, I identify 77 offices with at least six consecutive years without an OMP change and generate a pre/post split at the end of the median year of the OMP's tenure for each non-change office in order to perform difference-in-difference analyses.[21] In doing so, I simulate a change in OMP for the non-change control clients and thus control for contemporaneous effects that are unrelated to

[21] Alternatively, I perform a levels comparison in which all clients of non-change offices are classified as pre-OMP change observations. In doing so, I find that after changes from non-advisory to advisory OMPs, clients are less likely to receive a GC report, more likely to have a core restatement, and exhibit greater absolute value of DACCs relative to all clients prior to an OMP change.

other changes in OMP. These untabulated results show that the coefficients for *non_to_adv*post* are generally consistent with my primary findings with the exception of the tests for restatements, where I do not find significance. Furthermore, I also find that *non_to_adv*post* is negative and marginally significant ($p > 10\%$) in my test of audit fees when utilizing the non-change control sample. The marginal effect indicates that audit effort decreases as the change in audit fees is approximately $103,000 (8%) lower for clients whose auditor's experience a change from a non-advisory to an advisory OMP relative to those that do not change OMP. Overall, these results further strengthen my findings that offices that change from non-advisory to advisory OMPs exhibit incremental increases in NAS fees and incremental decreases in audit quality relative to other offices.

Detailed Non-Advisory to Advisory Splits

I also repeat my analyses using a more detailed identification of non-advisory to advisory OMP changes. I partition the treatment group between audit to advisory changes and tax to advisory changes. I then replace *non_to_adv* with an indicator for each detailed group as well as interactions with the *post* variable. The interaction terms for both groups show results qualitatively consistent with those of my primary tests with the exception of *restate_gen* and *neg_dacc* for tax to advisory changes which are both insignificant. Furthermore, these findings suggest my main results are largely due to changes from an audit to advisory OMP; however, this is likely due to the additional power associated with this group as it represents 84% of non-advisory to advisory OMP changes.

Office Size

In supplemental analyses, I examine whether the OMP's effect on audit quality varies with the size of the audit firm office because the OMP's influence over office culture likely differs with the size of the office. In doing so, I contribute to prior research examining the influence of audit office size on audit quality (Francis and Yu 2009; Choi, Chansog, Kim, and Zang 2010). I partition the sample by identifying the fifty largest Big Four offices based on the total fees for the most recent year in my sample and assigning them to the large office group and all other offices to the small office group. Ex ante, it is unclear whether the association between the change to an advisory OMP and audit quality will be stronger at large or small offices. On one hand, large offices contain the greatest proportion of advisory resources and their OMPs are typically more influential within accounting firms increasing their ability to incentivize advisory opportunities at the expense of audit quality. On the other hand, OMPs in small offices may have greater visibility and, thus, any cultural changes understating the importance of audit quality may be more easily disseminated in a small office. The results provide evidence consistent with the former explanation. That is, my findings for going concern reporting and subsequent restatements are primarily driven by large audit offices. Overall, these results suggest that changes to advisory OMPs are more influential in large offices, exhibiting a greater negative effect on audit quality.

CHAPTER 6

CONCLUSION

Given the recent emphasis on growth in advisory services at the Big Four accounting firms, regulators and academics are expressing concerns about the potential for impaired audit quality. PCAOB board members have suggested that a culture shaped by the advisory function could be detrimental to audit quality (PCAOB 2014b, 2015a). Therefore, this study investigates how changes in an accounting firm's tone at the top, as measured by changes in OMP, impact non-audit service fees and audit quality. Moreover, this study is the first to examine whether the OMP's line of service impacts non-audit service revenues and the quality of audits delivered in their office. Overall, my findings suggest that clients in offices that change from non-advisory to advisory OMPs have incremental increases in non-audit service revenues and incremental reductions in audit quality relative to other changes in OMP.

My study contributes to the auditing literature by providing evidence on one potential underlying mechanism (i.e., tone at the top) that shifts auditors' focus away from providing high-quality audits. Thus, the results of this study inform regulators that audit quality does in fact suffer when non-audit services are a larger focus, as indicated by the functional background of the OMP. These results are also informative for discussions of "audit only" service providers (EC 2010). Additionally, this study identifies an easily obtainable measure of "tone at the top" which the PCAOB has recognized as one potential indicator of audit quality. Lastly, this study answers a call for future research on accounting firm culture as one of the first archival studies to examine

the association between an audit firm's office-level leadership and audit quality (Jenkins et al. 2008).

While this study leaves open for future research how and why certain office managing partners are appointed, the results are likely to be of interest to accounting firms, regulators, investors, and researchers as the OMP's line of service is associated with both non-audit fees and audit quality. Although I do provide initial models of OMP changes, future research can build upon these by examining other aspects and influences on OMP selection. The inferences of this study are also subject to a few important caveats. First, while the difference-in-difference research design and use of multiple control groups does mitigate some concerns about causality, my study is still limited to an association. Second, the potential for sampling bias exists because I hand collect data on OMP changes from external sources; however to the extent that it does exist, it is unlikely that it would differentially impact my treatment and control groups. Overall, though, it is important to recognize that this study represents a first attempt at examining the influence of accounting firm office managing partners and provides evidence that these individuals have a significant impact on the audit environment.

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APPENDIX A

HAND COLLECTION PROCESS DETAILS

Steps followed in hand collection process

1. I Identified Big Four audit-office locations from the Audit Analytics population.

2. Utilizing the advanced search feature for the social networking site, I searched for keywords "managing partner" while limiting my search to the auditor and city of the office using the company and location fields.

3. This would provide a list of users sorted by relevance with titles and locations similar to my search criteria. I would investigate each users profile to identify the audit office OMP.

4. In doing so, I gathered relevant background information for the identified OMP as underlined in the following example of a profile from social networking site (John Smith, Assurance Partner for Audit Firm A in City A, Effective Date: July 2002).
    - It should be noted, that some profiles contain an abundance of information while others are sparsely populated. Given this variability in the amount of information provided, other information sources were also utilized.

5. For each OMP, I then examined alternative data sources (e.g., local industry journals and state CPA society press releases) to substantiate the information and mitigate concerns over the reliability of the social networking site data. I did so by using a search engine to search for keywords including the OMP's name, audit firm, and office location. The following PR Newswire press release is an example of the data source utilized (John Smith, Assurance Partner for Audit Firm A in City A, Effective Date: July 2011).
    - Although, the name and information has been generalized, the PR Newswire press release and social networking site profile represent the same OMP.

6. I then compare the background information obtained from each data source, identifying any discrepancies. The example sources provided show inconsistency with regard to the effective date that the OMP began managing the office. In these instances of conflicting information, I utilize the background information as provided in the alternative data source.
    - Information contained in news articles are evaluated for credibility prior to printing, whereas social networking sites contain user submitted information.

7. Alternative data sources also provide valuable additional information. The example provided includes the name of the OMP succeeded ("James Jones"). Upon identifying the succeeded OMP, I return to Step 2 and gather background information for the prior OMP.
    - As the hand collection moves further into the past, the likelihood of a social networking profile for the OMP decreases. Thus, when no profile is present, I instead return to step 5.

Profile from social networking site for professionals

John Smith
US Assurance Partner at Audit Firm A LLP,
Managing Partner – City A Office

Current: Audit Firm A LLP
Previous: Audit Firm B LLP
Education: University A

Summary
I have been with Audit Firm A since 2002 and have been an assurance partner since 2000. Prior to joining Audit Firm A, I spent 12 years in the accounting profession with Audit Firm B. My career has largely been focused on serving large, multi-national clients in the Region A region. I also serve as the Office Managing Partner for Audit Firm A's practice in City A.

Experience
Partner - Managing Partner
Audit Firm A
July 2002 – Present (12 years 11 months)City A, State Area

As a partner in our industrial products sector, I am largely responsible for delivering audit and audit related services to our large complex manufacturing clients. In this role, my main focus is on clients with large manufacturing and distribution operations, including leading numerous international Audit Firm A teams in the delivery of Audit Firm A's global services.

I have handled numerous special projects across a variety of industries including aerospace, transportation, medical device and medical technologies, health industries, automotive and retail and consumer. These projects have included initial public offerings, public and private debt offerings, mergers and acquisitions, spin-off transactions, divestitures and various complex tax projects including international tax restructurings. I am familiar with a variety of financing structures and related accounting and reporting considerations.

Former
Audit Firm B
1990 – 2002 (12 years)
.
.
(Further information when available)

*underlines are included for emphasis to highlight the background information collected

PR Newswire press release

Audit Firm A Announces Leadership Appointments in City A and Region A Market
John Smith Named Managing Partner of Firm's City A Office; Joe Rogers Named Region A Advisory Leader

City A, June 21, 2011 /PRNewswire/ -- Audit Firm A US announced today that John Smith has been named managing partner of the firm's City A office, effective July 1, 2011. He will direct the strategy and operations of Audit Firm A in the State A market. Mr. Smith succeeds James Jones, who is joining Company A this month as the senior vice president and chief financial officer of the company's operating unit.

In a related development, Joe Rogers will assume the new role of Audit Firm A's Region A Market Advisory leader. In this position, Mr. Rogers will continue to provide consulting services to clients in the City A market and lead the Advisory practice in State B and State C, as well.

Mr. Smith is an assurance partner who has served as global engagement partner for a number of Audit Firm A's private and public company clients. He began his career in 1990 with Audit Firm B in City A and was admitted to the Audit Firm A partnership in 2002. Mr. Smith has extensive client service experience having worked on numerous equity and debt offerings, including initial public offerings, mergers and acquisitions, spin-offs and other types of transactions. Mr. Smith is also Audit Firm A's firm-wide relationship partner for University A, his alma mater.

Commenting on his strategic vision for the practice, Mr. Smith said "We thank James for his service and hope to build on his legacy of success and growth in the market. We will continue to seek opportunities to grow the careers of our talented people, maintain a strong presence in the local community and provide distinctive service to companies in the region. The State A business community is vibrant and we look forward to helping our clients compete better in the dynamic global economy."

(Further information when available)

SOURCE Audit Firm A

*underlines are included for emphasis to highlight the background information collected

APPENDIX B

VARIABLE DEFINITIONS

Variable	Description
Variables of Interest	
non_to_adv	An indicator variable taking the value of one if the client year observation is associated with a change from a non-advisory OMP to an advisory OMP, and zero otherwise.
post	An indicator variable taking the value of one if the client year observation relates to the two years after an OMP change, and zero otherwise.
nasfees	Natural logarithm of one plus the dollar value of client non-audit service fees as identified by the Audit Analytics database.
audfees	Natural logarithm of one plus the dollar value of client audit fees as identified by the Audit Analytics database.
gc	An indicator variable taking the value of one if the client received a going-concern audit opinion for the year, and zero otherwise.
type1gc	An indicator variable taking the value of one if the client received a going-concern audit opinion for the year and does not subsequently file for bankruptcy in the next year, and zero otherwise.
type2gc	An indicator variable taking the value of one if the client received a clean audit opinion for the year and then subsequently files for bankruptcy in the next year, and zero otherwise.
restate_gen	An indicator variable taking the value of one if the financial statements for the year are subsequently restated (excluding clerical errors), and zero otherwise.
restate_core	An indicator variable taking the value of one if the financial statements for the year are subsequently restated (excluding clerical errors) in one of the core accounts (i.e., revenue, cost of sales, on-going operating expenses, and their related balance sheet accounts), and zero otherwise. This definition is consistent with Lisic et al. (2015).
restate_egreg	An indicator variable taking the value of one if the financial statements for the year are subsequently restated due to fraud or an SEC investigation (excluding clerical errors), and zero otherwise.
dacc	Discretionary accruals computed using the Modified Jones Model (Jones 1991; Dechow et al. 1995).
abs_dacc	The absolute value of discretionary accruals.
pos_dacc	Positive (income-increasing) discretionary accruals.
neg_dacc	The absolute value of negative (income-decreasing) discretionary accruals.

Financial Statement Controls	
ln_ta	Natural logarithm of total assets.
arinv	Ratio of accounts receivable and inventory relative to total assets.
cash	Ratio of cash relative to total assets.
roa	Ratio of income before extraordinary items relative to total assets.
leverage	Ratio of total debt relative to total assets.
mtb	Ratio of market value of equity relative to book value of equity.
fin	Ratio of total stock and debt issuances relative to total assets.
std_sales	Standard deviation of client sales over the past three years.
dacc_py	Prior year discretionary accruals (*dacc*).
abs_dacc_py	Prior year absolute value of discretionary accruals (*abs_dacc*).
litigation	An indicator variable set equal to one if the client operates in a high litigation industry (SIC codes of 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370), and zero otherwise.
sales_growth	The percentage growth in sales for the year.
cacl	Ratio of current assets relative to current liabilities.
zscore	Z-score as measured by the Altman (1968) Z-Score.
loss	An indicator variable equal to one if net income was negative for the year, and zero otherwise.
ma	An indicator variable set equal to one if client engaged in mergers or acquisitions during the year, and zero otherwise.
fin_ind	An indicator variable set equal to one if client issued stock or debt during the year, and zero otherwise.
foreign	An indicator variable equal to one if the client engages in foreign transactions during the year, and zero otherwise.
xdops	An indicator variable equal to one if the client reported extraordinary items or discontinued operations, and zero otherwise.
sqrt_bsegs	The square root of the number of business segments.
cfo	Ratio of cash flows from operations relative to total assets.
Market Based Controls	
py_car	The excess return from a one-factor model of expected daily returns. Parameters of the model are estimated for each Compustat client-year from two years before fiscal year end to one year before fiscal year end (-504,-252). Abnormal returns, the error from the one factor model, are summed across the current fiscal year from the beginning

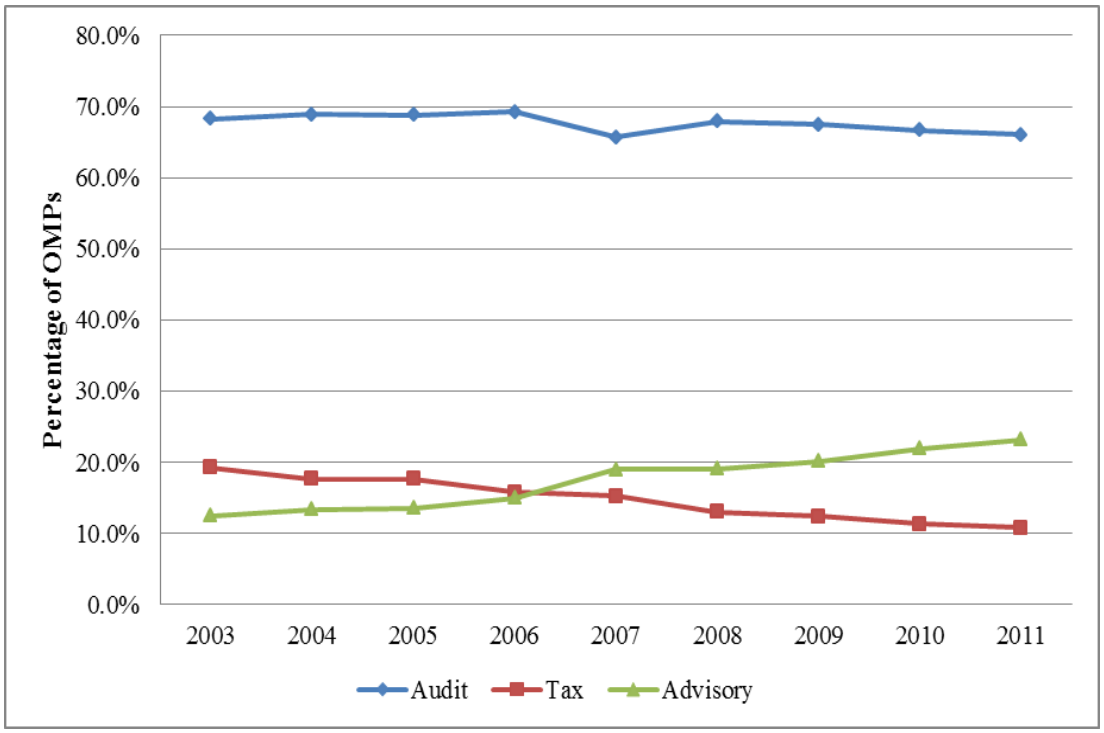
	of the fiscal year to the end of the fiscal year (-251,0). A minimum of four months of data (85 observations) is required for estimation and event windows.
std_ret	Standard deviation of daily returns over the twelve month period ending as of the fiscal year-end date. I require at least 85 non-missing daily return observations during the measurement period.
inst_own	Institutional ownership percentage at the quarter of the client's fiscal year-end (QYE) or the most recent calendar quarter prior to the client's fiscal year-end.
Audit Related Controls	
long_tenure	An indicator variable set equal to one if the current auditor-client relationship has been in place for four or more consecutive years.
nas_ratio	Ratio of client non-audit service fees relative to client total fees.
indexpert	An indicator variable set equal to one if the audit office is an industry specialist, defined as an audit office whose audit fee market share in the 2-digit SIC code exceeds 30 percent in the local Metropolitan Statistical Area (MSA), and zero otherwise.
restate_gen_py	An indicator variable taking the value of one if the financial statements for the prior year are subsequently restated (excluding clerical errors), and zero otherwise.
mw	An indicator variable taking the value of one if the client reports a material weakness for the year, and zero otherwise.
short_tenure	An indicator variable set equal to one if the current auditor-client relationship has been in place for two or fewer consecutive years.
filing_lag	The number of days between fiscal year-end and the 10-K filing date.
gc_cy_py	An indicator variable equal to one if the client received a going-concern audit opinion in either the current or prior year, and zero otherwise.
gc_py	An indicator variable taking the value of one if the client received a going-concern audit opinion in the prior year, and zero otherwise.
Office Managing Partner and Audit Firm Controls	
yrs_omp	The number of consecutive years the OMP has been in charge of the local audit office.
female_omp	An indicator variable set equal to one if the current audit office OMP is female, and zero otherwise.

firm%audit	From Accounting Today, the proportion of U.S. audit and attest to U.S. total revenues for the accounting firm.
firm%mas	From Accounting Today, the proportion of U.S. management advisory and other fees to U.S. total revenues for the accounting firm.

APPENDIX C

FIGURE AND TABLES

FIGURE 1
Percentage of Office Managing Partners Identified as Audit, Tax, and Advisory for the Big Four Audit Firms (2003-2011)



This figure presents the annual sample distribution for all auditor-city-OMP-years partitioned by line of service.

TABLE 1
Office Managing Partner Descriptive Statistics

Panel A: Office Managing Partner Descriptive Statistics by Line of Service

	Audit	Tax	Advisory	Total
Years Experience	23.41	23.42	23.79	23.48
	(24.00)	(23.00)	(24.00)	(24.00)
Years Partner	12.82	12.99	13.64	13.00
	(13.00	(13.00)	(14.00)	(13.00)
Years OMP	6.08	4.87	5.16	5.72
	(5.42)	(3.75)	(4.51)	(5.00)
Female OMP	0.15	0.10	0.20	0.15
	(0.00)	(0.00)	(0.00)	(0.00)
Observations	515	125	143	783

Panel B: Office Managing Partner Line of Service by Year

Year	Audit	Tax	Advisory	Total	% Advisory
2003	131	37	24	192	12.5%
2004	144	37	28	209	13.4%
2005	152	39	30	221	13.6%
2006	162	37	35	234	15.0%
2007	159	37	46	242	19.0%
2008	167	32	47	246	19.1%
2009	174	32	52	258	20.2%
2010	170	29	56	255	22.0%
2011	171	28	60	259	23.2%
Total	1,430	308	378	2,116	17.9%

This table presents the descriptive statistics for various OMP characteristics at the auditor-city-OMP level partitioned by line of service (Panel A) and the annual sample distribution for all auditor-city-OMP-years which were identified from my hand collection process (Panel B). *Years Experience* is the number of years of accounting experience the professional had before being assigned as the OMP. *Years Partner*[a] is the number of years the individual has been identified as a partner. *Years OMP* is the number of years the individual has been in the position of OMP for identified location. *Female OMP* indicates whether the OMP is female.

[a] *Years Partner* was not always identified in the materials from which background data was hand collected (475 observations were missing). In populating this table, I relied on the assumption that the individuals are able to become partner after 10 years of accounting experience. This assumption seems reasonable as the average number of years is 9.55 years for *Years Partner* observations where the data is non-missing.

TABLE 2
Sample Selection and Distribution by Year

Panel A: Sample Selection

Sample	Frequency
Unique Big Four auditor-city-office managing partner observations with required audit office data from Audit Analytics, 2003-2011	783
Unique changes in OMP identified	165
- Changes in OMP which do not have at least two full years between OMP change years	(18)
Final sample of changes in OMP	147
Observations for years -2 to +2 surrounding the year of OMP change for all clients audited by the office in which the change occurred	8,541
- Obs for changes in OMP which do not have at least two full years between OMP change years	(473)
- Obs for the year of OMP change (Year 0)	(1,612)
Non-audit Fees Sample	
- Obs without Compustat financial data, CRSP returns data, Audit Analytics fee and reporting data, and Thomson Reuters institutional holdings data	(3,306)
- Obs for clients without at least one client year obs in both the pre- and post-OMP change periods	(373)
Sample for non-audit fees	2,777
Going Concern Reporting Sample	
- Obs without Compustat financial data, CRSP returns data and Audit Analytics fee and reporting data	(3,406)
- Obs for clients without at least one client year obs in both the pre- and post-OMP change periods	(427)
Sample for going concern reporting	2,623
Restatements Sample	
- Obs without Compustat financial data, CRSP returns data and Audit Analytics fee and reporting data	(2,527)
- Obs for clients without at least one client year obs in both the pre- and post-OMP change periods	(594)
Sample for restatements	3,335
Discretionary Accruals Sample	
- Obs without Compustat financial data, CRSP returns data and Audit Analytics fee and reporting data	(2,515)
- Obs for clients without at least one client year obs in both the pre- and post-OMP change periods	(560)
Sample for discretionary accruals	3,381

Panel B: Sample Distribution by Year

Year	Changes in OMP	Non to Adv Changes	% of Non to Adv	Client-Year Observations	Non to Adv Client Yrs	% of Non-Adv to Adv
2003	-	-	-	92	38	41.3%
2004	15	2	13.3%	229	34	14.8%
2005	8	1	12.5%	434	126	29.0%
2006	34	7	20.6%	393	142	36.1%
2007	27	11	40.7%	625	108	17.3%
2008	24	4	16.7%	573	126	22.0%
2009	25	3	12.0%	421	122	29.0%
2010	14	3	21.4%	372	57	15.3%
2011	-	-	-	242	33	13.6%
Total	147	31	21.1%	3,381	786	23.2%

This table presents the sample selection procedure (Panel A) and the annual sample distribution for office managing partner (OMP) changes and the full sample of audit clients[a] (Panel B). Panel B also provides details of the annual incidence and percentage of changes identified as offices that change from non-advisory to advisory OMPs (the treatment group where *non_to_adv* = 1) within these samples.

[a] Sample is based on the audit clients included in the discretionary accruals sample.

TABLE 3
Descriptive Statistics Partitioned by OMP Change Type and Period Relative to the Change

	Non_To_Adv OMP Change				Other OMP Change			
	Pre		Post		Pre		Post	
	N	Mean	N	Mean	N	Mean	N	Mean
Variables of Interest								
nasfees	321	11.244	339	11.413	1082	11.591	1035	11.369
audfees	321	14.068	339	14.225*	1082	14.091	1035	14.196**
gc	303	0.013	316	0.013	1022	0.010	982	0.029***
type1gc	303	0.013	316	0.013	1022	0.010	982	0.024**
type2gc	303	0.000	316	0.000	1022	0.000	982	0.002
restate_gen	377	0.114	397	0.131	1303	0.085	1258	0.092
restate_core	377	0.061	397	0.076	1303	0.044	1258	0.033
restate_egreg	377	0.011	397	0.015	1303	0.016	1258	0.006***
dacc	381	0.034	405	0.035	1314	0.041	1281	0.042
abs_dacc	381	0.112	405	0.130*	1314	0.132	1281	0.123
pos_dacc	207	0.133	230	0.145	696	0.162	696	0.152
neg_dacc	174	0.086	175	0.112*	618	0.098	585	0.088
Financial Statement Controls								
ln_ta	381	6.920	405	7.017	1314	6.870	1281	7.024**
arinv	381	0.261	405	0.254	1314	0.264	1281	0.260
cash	381	0.253	405	0.244	1314	0.191	1281	0.192
roa	381	-0.017	405	-0.046*	1314	-0.015	1281	-0.031*
leverage	381	0.219	405	0.213	1314	0.237	1281	0.241
mtb	381	3.030	405	2.610	1314	2.914	1281	2.313***
fin	381	0.150	405	0.151	1314	0.148	1281	0.134
std_sales	381	375.773	405	449.285	1314	383.609	1281	405.645
dacc_py	381	0.027	405	0.033	1314	0.047	1281	0.038
abs_dacc_py	381	0.108	405	0.118	1314	0.125	1281	0.118
litigation	381	0.247	405	0.249	1314	0.205	1281	0.205
sales_growth	377	0.197	397	0.097***	1303	0.172	1258	0.083***
cacl	321	3.062	339	2.766	1082	2.662	1035	2.547
zscore	321	4.399	339	3.293***	1082	4.132	1035	3.188***
loss	321	0.255	339	0.274	1082	0.271	1035	0.276
ma	321	0.405	339	0.440	1082	0.465	1035	0.454
fin_ind	321	0.981	339	0.979	1082	0.978	1035	0.949***
foreign	321	0.620	339	0.664	1082	0.626	1035	0.674**
xdops	321	0.206	339	0.209	1082	0.238	1035	0.229
sqrt_bsegs	321	1.168	339	1.213	1082	1.262	1035	1.254
cfo	303	0.062	316	0.050	1022	0.056	982	0.057
Market Based Controls								
py_car	377	0.124	397	0.084	1303	0.051	1258	0.044
std_ret	377	0.027	397	0.034***	1303	0.028	1258	0.033***
inst_own	321	0.686	339	0.710	1082	0.685	1035	0.710**
Audit Related Controls								
long_tenure	381	0.803	405	0.923***	1314	0.804	1281	0.928***
nas_ratio	381	0.171	405	0.141***	1314	0.163	1281	0.147***
indexpert	381	0.643	405	0.620	1314	0.664	1281	0.717***
restate_gen_py	377	0.111	397	0.146	1303	0.111	1258	0.085**
mw	377	0.050	397	0.063	1303	0.060	1258	0.035***
short_tenure	321	0.106	339	0.012***	1082	0.074	1035	0.022***
filing_lag	321	69.508	339	65.581*	1082	69.494	1035	63.450***
gc_cy_py	321	0.019	339	0.021	1082	0.015	1035	0.033***
gc_py	303	0.010	316	0.016	1022	0.010	982	0.015
firm%audit	381	56.958	405	46.635***	1314	56.834	1281	48.496***
firm%mas	381	17.375	405	26.822***	1314	17.453	1281	25.189***

This table presents the number of observations and sample means for all regression variables partitioned by OMP change type (i.e., non-advisory to advisory or other changes) and period relative to the change (i.e., pre- or post-). *,**,***, on the values in the Post columns indicate that the mean differs at the 10%, 5%, and 1% (two-tailed) significance levels when compared to the mean in the Pre column for the respective OMP change type. Sample sizes are representative of the number of observations in the regression models for which each variable is used. When used in multiple models, the descriptives for the largest sample are reported. All variables are defined in Appendix B.

TABLE 4
OMP Changes and Non-audit Fees

	DV = *nasfees*	
	Coefficient	T-stat
Constant	2.689	(0.80)
non_to_adv	-0.486***	(-2.66)
post	-0.006	(-0.04)
*non_to_adv*post*	0.498***	(4.49)
ln_ta	0.453***	(5.59)
roa	-0.281	(-0.72)
py_car	0.317***	(2.67)
leverage	0.452	(1.27)
inst_own	0.471	(1.24)
mtb	0.011	(1.28)
sqrt_bsegs	-0.091	(-0.81)
foreign	0.677***	(2.65)
short_tenure	-1.514***	(-3.12)
ma	0.146	(0.93)
fin_ind	-0.302	(-0.69)
sales_growth	-0.100	(-0.54)
cacl	0.030	(1.00)
arinv	0.677	(1.10)
loss	0.041	(0.20)
std_ret	-6.218	(-0.95)
gc_cy_py	-0.510	(-1.64)
xdops	0.043	(0.31)
zscore	-0.015	(-0.82)
restate_gen	0.100	(0.74)
indexpert	-0.177	(-0.99)
yrs_omp	0.025	(1.21)
female_omp	-0.628***	(-2.62)
firm%audit	-0.032	(-0.67)
firm%mas	-0.039	(-0.78)
audfees	0.648***	(4.32)
Industry FE	Yes	
Year FE	Yes	
Audit Firm FE	Yes	
N	2777	
F	21.98	
Adj. R-squared	0.2626	

This table reports coefficient estimates from OLS regressions of non-audit service fees charged to audit clients. The dependent variable (*nasfees*) is the natural logarithm of one plus the dollar value of client non-audit service fees for the year as identified by the Audit Analytics database. The model includes cluster standard errors by year and audit client. T-statistics are reported in parentheses. See Appendix B for variable definitions. *,**,***, indicate significance at the 10%, 5%, and 1% levels respectively, based on two-tailed tests of significance.

TABLE 5
OMP Changes and Audit Fees

	DV = *audfees*	
	Coefficient	T-stat
Constant	9.165***	(12.09)
non_to_adv	0.130***	(3.66)
post	-0.106***	(-3.65)
*non_to_adv*post*	0.002	(0.05)
ln_ta	0.497***	(45.31)
roa	-0.373***	(-7.51)
py_car	0.036**	(2.58)
leverage	-0.111	(-1.51)
inst_own	-0.014	(-0.15)
mtb	-0.000	(-0.17)
sqrt_bsegs	0.019	(0.82)
foreign	0.338***	(8.99)
short_tenure	0.088*	(1.88)
ma	0.037*	(1.92)
fin_ind	0.047	(0.72)
sales_growth	0.003	(0.15)
cacl	-0.014**	(-2.10)
arinv	0.751***	(7.36)
loss	0.090***	(2.79)
std_ret	2.046**	(2.16)
gc_cy_py	0.117	(1.28)
xdops	0.124***	(4.28)
zscore	-0.010***	(-3.12)
restate_gen	0.018	(0.45)
filing_lag	0.002***	(4.61)
indexpert	0.085**	(2.44)
yrs_omp	-0.021***	(-3.28)
female_omp	0.114***	(2.93)
firm%audit	0.002	(0.20)
firm%mas	0.003	(0.27)
nasfees	0.016***	(4.40)
Industry FE	Yes	
Year FE	Yes	
Audit Firm FE	Yes	
N	2777	
F	260.38	
Adj. R-squared	0.8216	

This table reports coefficient estimates from OLS regressions of audit fees charged to clients. The dependent variable (*audfees*) is the natural logarithm of one plus the dollar value of client audit fees as identified by the Audit Analytics database. The model includes cluster standard errors by year and audit client. T-statistics are reported in parentheses. See Appendix B for variable definitions. *,**,***, indicate significance at the 10%, 5%, and 1% levels respectively, based on two-tailed tests of significance.

TABLE 6
OMP Changes and Going Concern Reporting

	Full Sample DV = *gc*		Distressed Client Sample DV = *gc*	
	Coefficient	T-stat	Coefficient	T-stat
Constant	-40.079***	(-2.83)	-33.233**	(-2.17)
non_to_adv	1.498	(1.58)	1.599	(1.52)
post	2.327***	(5.82)	2.654***	(4.47)
*non_to_adv*post*	-2.623**	(-2.17)	-3.643**	(-2.19)
ln_ta	0.136	(1.00)	-0.041	(-0.28)
sales_growth	0.124	(0.64)	0.190	(0.57)
py_car	-0.863	(-1.60)	-1.188***	(-3.01)
std_ret	38.047**	(2.25)	31.422*	(1.66)
long_tenure	0.811	(0.62)	0.790	(0.65)
litigation	-0.235	(-0.23)	-0.373	(-0.35)
gc_py	3.164***	(4.12)	2.238***	(2.58)
zscore	-0.155***	(-5.68)	-0.163***	(-6.71)
cash	-0.780	(-0.48)	-1.096	(-0.73)
loss	2.421***	(2.60)		
roa	-0.897	(-0.86)	-0.728	(-0.77)
cfo	-1.120	(-0.66)	-1.022	(-0.64)
leverage	0.840	(1.15)	1.185	(1.34)
mtb	0.046**	(2.22)	0.056***	(2.81)
fin	-1.077	(-0.94)	-0.493	(-0.48)
std_sales	-0.001	(-1.18)	-0.001	(-0.81)
nas_ratio	-2.681	(-1.26)	-2.501	(-1.36)
indexpert	0.102	(0.21)	0.142	(0.28)
yrs_omp	-0.067	(-0.45)	0.009	(0.13)
female_omp	-1.351	(-1.31)	-1.413	(-1.36)
firm%audit	0.252	(1.27)	0.193	(0.92)
firm%mas	0.268	(1.34)	0.210	(1.03)
Industry FE	Yes		Yes	
Year FE	Yes		Yes	
Audit Firm FE	Yes		Yes	
N	2623		792	
# of GCs	46		43	
Chi-squared	505.21		451.20	
Area Under ROC	0.9899		0.9666	
Pseudo R-squared	0.6411		0.5429	

This table reports coefficient estimates from logistic regressions of the likelihood of going concern reporting. The dependent variable (*gc*) is an indicator variable taking the value of one if the client received a going-concern audit opinion for the year, and zero otherwise. Column 1 includes all audit clients with the required data for variables within the going concern model. Column 2 includes only those audit clients that exhibit financial distress, defined as clients that exhibit negative net income and/or negative cash flows from operations. Both models include cluster standard errors by year and audit client. T-statistics are reported in parentheses. See Appendix B for variable definitions. *,**,***, indicate significance at the 10%, 5%, and 1% levels respectively, based on two-tailed tests of significance.

TABLE 7
OMP Changes and Restatements

	DV = *restate_gen*		DV = *restate_core*		DV = *restate_egreg*	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Constant	3.062	(0.87)	5.845	(1.23)	-42.534***	(-3.14)
non_to_adv	0.498**	(2.56)	0.704**	(2.11)	-0.087	(-0.11)
post	0.437	(1.31)	-0.225	(-0.63)	-2.411***	(-2.75)
*non_to_adv*post*	-0.447*	(-1.92)	0.084	(0.26)	2.209**	(2.20)
ln_ta	0.120	(1.54)	0.157	(1.38)	0.242	(1.55)
sales_growth	-0.394	(-1.44)	-0.730	(-1.33)	-0.390	(-0.91)
py_car	0.140	(1.21)	0.256	(1.05)	-0.235	(-0.61)
long_tenure	0.038	(0.11)	0.128	(0.42)	-0.618	(-1.24)
litigation	-0.202	(-0.77)	-0.172	(-0.40)	0.258	(0.29)
arinv	-0.469	(-0.87)	0.540	(0.97)	2.374	(1.30)
cash	-0.143	(-0.24)	-0.626	(-0.87)	-0.547	(-0.48)
roa	0.133	(0.31)	-0.056	(-0.09)	-0.755	(-1.02)
fin	0.143	(0.67)	0.303	(0.61)	1.307*	(1.95)
std_ret	5.948	(0.80)	5.899	(0.61)	20.576	(1.15)
restate_gen_py	4.019***	(18.96)	3.693***	(11.12)	3.452***	(9.73)
mw	-0.311*	(-1.70)	0.010	(0.03)	-0.738	(-1.01)
leverage	-0.066	(-0.19)	-0.030	(-0.06)	-0.331	(-0.42)
mtb	0.043**	(2.01)	0.041	(1.57)	0.038	(1.10)
std_sales	-0.000	(-1.38)	0.000	(-0.78)	0.000	(0.33)
nas_ratio	0.055	(0.14)	-1.055*	(-1.73)	-0.809	(-0.52)
indexpert	0.207	(1.08)	0.495*	(1.68)	0.115	(0.27)
yrs_omp	0.023	(0.75)	-0.042	(-0.41)	-0.058	(-0.59)
female_omp	-0.024	(-0.07)	0.168	(0.41)	0.060	(0.07)
firm%audit	-0.103**	(-2.00)	-0.153**	(-2.41)	0.508***	(2.58)
firm%mas	-0.103*	(-1.91)	-0.155**	(-2.28)	0.470**	(2.55)
Industry FE	Yes		Yes		Yes	
Year FE	Yes		Yes		Yes	
Audit Firm FE	Yes		Yes		Yes	
N	3335		3335		3335	
# of Restatements	322		151		38	
Chi-squared	670.48		368.79		213.40	
Area Under ROC	0.8688		0.8770		0.9369	
Pseudo R-squared	0.3853		0.3384		0.3749	

This table reports coefficient estimates from logistic regressions of the likelihood of subsequent restatements. The dependent variable for Column 1 (*restate_gen*) is indicator variable taking the value of one if the financial statements for the year are subsequently restated (excluding clerical errors), and zero otherwise. The dependent variable for Column 2 (*restate_core*) is an indicator variable taking the value of one if the financial statements for the year are subsequently restated (excluding clerical errors) in one of the core accounts (i.e., revenue, cost of sales, on-going operating expenses, and their related balance sheet accounts), and zero otherwise. The dependent variable for Column 3 (*restate_egreg*) is an indicator variable taking the value of one if the financial statements for the year are subsequently restated due to fraud or an SEC investigation (excluding clerical errors), and zero otherwise. All models include cluster standard errors by year and audit client. T-statistics are reported in parentheses. See Appendix B for variable definitions. *,**,***, indicate significance at the 10%, 5%, and 1% levels respectively, based on two-tailed tests of significance.

TABLE 8
OMP Changes and Discretionary Accruals

	DV = *dacc*		DV = *abs_dacc*		DV = *pos_dacc*		DV = *neg_dacc*	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Constant	0.438	(1.30)	0.451**	(2.42)	0.834**	(2.45)	0.170	(1.31)
non_to_adv	-0.005	(-0.65)	-0.014***	(-2.69)	-0.013	(-1.18)	-0.022**	(-2.07)
post	0.010	(1.06)	-0.008	(-1.20)	0.010	(0.60)	-0.026***	(-2.82)
*non_to_adv*post*	0.004	(0.34)	0.020**	(2.11)	0.004	(0.33)	0.038*	(1.95)
ln_ta	-0.009**	(-2.24)	-0.009***	(-2.90)	-0.018***	(-4.71)	-0.007	(-1.46)
long_tenure	0.022**	(2.36)	-0.009	(-1.02)	0.016	(1.33)	-0.029***	(-2.80)
litigation	-0.015	(-1.15)	-0.003	(-0.21)	-0.013	(-0.68)	0.024*	(1.85)
dacc_py	0.160***	(4.57)			0.134***	(3.31)	-0.012	(-0.31)
arinv	0.009	(0.28)	0.006	(0.44)	-0.012	(-0.51)	0.001	(0.04)
cash	-0.015	(-0.57)	-0.038	(-1.64)	-0.049	(-1.45)	-0.007	(-0.22)
roa	0.210***	(3.44)	-0.066*	(-1.84)	0.065***	(3.02)	-0.202***	(-3.35)
leverage	0.045***	(4.44)	0.018	(1.06)	0.049**	(2.14)	0.005	(0.31)
mtb	-0.001	(-1.02)	0.000	(0.21)	-0.001	(-0.50)	0.003	(1.34)
fin	0.035*	(1.88)	0.028*	(1.77)	0.050***	(3.01)	0.018	(1.19)
std_sales	0.000	(0.65)	0.000*	(1.69)	0.000***	(2.70)	0.000	(1.28)
nas_ratio	-0.026	(-1.22)	-0.013	(-0.88)	-0.032	(-0.91)	0.016	(0.45)
indexpert	-0.008	(-0.77)	0.006	(0.69)	0.001	(0.07)	0.013	(1.64)
yrs_omp	0.001	(0.94)	0.002	(1.62)	0.003	(1.41)	0.000	(-0.42)
female_omp	-0.011	(-1.08)	-0.001	(-0.07)	-0.002	(-0.07)	0.010	(0.51)
firm%audit	-0.004	(-0.68)	-0.002	(-0.91)	-0.007	(-1.33)	0.001	(0.42)
firm%mas	-0.005	(-0.94)	-0.003	(-1.02)	-0.008	(-1.63)	0.002	(0.91)
abs_dacc_py			0.195***	(5.14)				
Industry FE	Yes		Yes		Yes		Yes	
Year FE	Yes		Yes		Yes		Yes	
Audit Firm FE	Yes		Yes		Yes		Yes	
N	3381		3381		1829		1552	
F	15.11		14.13		13.69		4.35	
Adj. R-squared	0.1858		0.1823		0.1882		0.2073	

This table reports coefficient estimates from OLS regressions of client discretionary accruals. The dependent variable for Column 1 (*dacc*) is discretionary accruals computed using the Modified Jones Model (Jones 1991; Dechow et al. 1995). The dependent variable for Column 2 (*abs_dacc*) is the absolute value of discretionary accruals (*dacc*). The dependent variable for Column 3 (*pos_dacc*) is positive (income-increasing) discretionary accruals. The dependent variable for Column 4 (neg_dacc) is the absolute value of negative (income-decreasing) discretionary accruals. All models include cluster standard errors by year and audit client. T-statistics are reported in parentheses. See Appendix B for variable definitions. *,**,***, indicate significance at the 10%, 5%, and 1% levels respectively, based on two-tailed tests of significance.

TABLE 9
OMP Change Prediction Models

	Full Sample DV = *omp_change*		Full Sample DV = *non_to_adv*		Change Only Sample DV = *non_to_adv*	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Constant	-4.115**	(-2.38)	-6.175*	(-1.83)	-7.073	(-1.17)
off_clients	-0.033	(-0.20)	0.202	(0.65)	-0.039	(-0.08)
off_audfees	0.109	(0.84)	-0.203	(-0.65)	0.224	(0.41)
off_taxfees	-0.014	(-0.30)	-0.074	(-0.78)	-0.091	(-0.59)
off_masfees	-0.010	(-0.39)	-0.026	(-0.49)	0.008	(0.12)
off_audrelfees	0.360	(0.63)	0.481**	(2.04)	0.241	(0.82)
off_abs_dacc	-0.436	(-0.36)	-1.406	(-0.53)	-4.279	(-1.13)
off_restate_gen	0.180	(0.25)	-0.213	(-0.13)	3.259	(1.63)
off_gc	-0.058	(-0.04)	2.556	(1.10)	0.250	(0.05)
N	1307		1307		147	
# of DV=1 observations	147		31		31	
Chi-squared	6.52		8.51		9.53	
Area Under ROC	0.5375		0.6724		0.6724	
Pseudo R-squared	0.0033		0.0383		0.0604	

This table reports coefficient estimates from logistic regressions used to predict the likelihood of an OMP change occurring at the audit office during the current year. The dependent variable for Column 1 (*omp_change*) is indicator variable taking the value of one if an OMP change occurred in the current year, and zero otherwise. The dependent variable for Columns 2 and 3 (*non_to_adv*) is an indicator variable taking the value of one if a change from a non-advisory OMP to an advisory OMP occurred in the current year, and zero otherwise. Columns 1 and 2 include all audit office years for each of the Big Four auditors with the required data for control variables in which hand collected data was available. Column 3 includes only those 147 audit office years in which a OMP change occurred as they represent the offices which are included in my primary analyses. *off_clients* is the natural logarithm of the number of clients audited by the audit office. *off_audfees* is the natural logarithm of the total audit fees earned by the audit office. *off_taxfees* is the natural logarithm of the total tax fees earned by the audit office. *off_masfees* is the natural logarithm of the total management advisory fees earned by the audit office. *off_audrelfees* is the natural logarithm of the total audit related fees earned by the audit office. *off_abs_dacc* is the average level of absolute value of discretionary accruals at clients of the audit office. *off_restate_gen* is the percentage of clients at the audit office that have their financial statements subsequently restated. *off_gc* is the percentage of clients at the audit office that receive a going-concern audit opinion. All control variables are measured as of the prior year. T-statistics are reported in parentheses. *,**,***, indicate significance at the 10%, 5%, and 1% levels respectively, based on two-tailed tests of significance.