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경영학석사학위논문

The Effect of Audit Partner on Accounting Comparability

감사 파트너가 회계정보의 비교가능성에 미치는 영향

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안 혜진

Abstract

The Effect of Audit Partner on Accounting Comparability

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This study examines the effect of audit partner on accounting comparability. I find that a pair of companies audited by the same partner exhibit greater comparability than a pair of companies audited by two different partners. The audit partner effect is much greater than audit firm effect, suggesting the importance of investigation at the partner level. In addition, I find that accounting comparability between a pair of client firms is greater when they are audited by the same partner in non-Big 4 auditor firms than when they are

audited by the same partner in Big 4. The finding implies that Big 4 maintain relatively similar and comparable quality of audit service across different clients and partners than non-Big 4 audit firms do. As a result, among non-Big 4 audit firms, the effect of an individual audit partner is relatively more important. Overall, these results provide some evidence about the individual audit partner's effect on accounting comparability and the variability of audit quality in Big 4 versus non-Big 4 auditors.

Keywords: accounting comparability, audit partner, Big 4

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I. INTRODUCTION

This study examines the effect of audit partner on accounting comparability. De Franco et al. (2011) define comparability based on the idea that the accounting system is a mapping from economic events to financial statement. According to Financial Accounting Standards Board (FASB, 2010), information comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena. With verifiability, timeliness and understandability, comparability is one of the four qualities of accounting information which enhance two qualitative characteristics of useful financial information (i.e., relevance and faithful representation) in the conceptual framework for financial reporting of International Financial Reporting Standards (IFRS, QC19). It facilitates the comparison of financial reporting of one company to that of another company and comparison among fiscal periods.

Following De Franco et al. (2011) and Francis et al. (2014), I define accounting comparability as the closeness of two firms' reported earnings due to the consistency with which rules are applied across firms. So, comparable firms are likely to have similar accrual and earnings structure because they are exposed to the same economic shock under the same industry. For outside information users, accounting comparability is important in that comparability can reduce information gathering cost and increase the quality and quantity of

information (FASB 1980, 2010).¹ For information users such as investors and analysts in financial market, more comparable accounting information is likely to decrease their time and efforts to get the information, leading them to make more accurate decisions (Barth et al. 2013; Choi et al. 2013a; De Franco et al. 2011; Fang et al. 2012; Kim et al. 2013). Therefore, accounting comparability can be a vital factor for investors' decision making and their asset allocation. For example, De Franco et al. (2011) document that accounting comparability is positively related to the number of analyst following and analyst forecast accuracy, and negatively associated with analyst dispersion in earnings forecast. These findings suggest that comparability help analysts to predict future earnings more accurately.

Higher accounting comparability can be a benefit not only for investors but also for external auditors. If accounting comparability among client firms is higher, the information gathering cost for audit will decrease since auditors can easily understand the ground financial information of clients. Before starting audit procedures for a new client, auditors can diminish audit risk (especially for inherent risk) through finding out information about industry environment and regulations of other incumbent clients which produce similar accounting information in the same industry.

¹ For example, FASB (1980, p. 40) states that “investing and lending decisions essentially involve evaluations of alternative opportunities, and they cannot be made rationally if comparative information is not available.”

Thus, the auditors are able to input smaller efforts and perform more efficient audit. These advantages can ultimately contribute to the increase in audit quality (Zhang 2013).

The role of external auditor is judging whether the substance of transaction is appropriately recorded in financial statement using their professional skepticism² (ISA 200). In this process, individual auditor's discretion is intervened in the financial statement, and it determines audit style of individual auditors (Francis et al. 2014). Consequently, if audit styles of engagements are similar to each other, the engagements are more likely to show consistent and comparable accounting information. Consistent with this argument, Francis et al. (2014) found that financial statement comparability is higher between a pair of companies audited by same audit firm than between two companies audited by two different audit firms. In addition, focusing on audit offices rather than audit firm, Francis and Kawada (2013) document similar findings.

Rather than scant prior studies that focus on audit firm or audit office level effect of comparability (e.g., Francis et al. 2014; Francis and Kawada

² ISA (International Standards on Auditing) requires auditors to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, thereby enabling them to express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework (ISA 200.11). The auditor should conduct audits in accordance with the clarified ISAs maintaining an attitude of professional skepticism and applying professional judgment (ISA 200.15-16).

2013), I focus on the effect at audit engagement partner level. Given that an actual audit engagement is completed by an audit partner and other audit team members, the role of the audit partner is substantial in the audit engagement. As a result, recent studies tend to focus their research attentions to the partner level characteristics that affect audit quality rather than audit firm or office level (e.g., Chen et al. 2008; Chi and Chin 2011; Zerni 2012). The analysis at partner level enables researchers to find the more direct effect of auditor's characteristics on financial statement, because the unit of analysis which can reflect audit style most concretely and accurately is the audit engagement-level rather than audit firm-level. I predict that the two client firms audited by the same engagement partner are likely to have higher accounting comparability. In addition, I predict that financial statement audited by Big 4 audit partners are likely to show relatively similar comparability than those audited by non-Big 4 audit partners. It is because Big 4 audit firms provide more standardized audit methodologies, firm-wide knowledge sharing and robust training programs than non-Big 4 audit firms (Francis and Yu, 2009). Therefore, partners in Big 4 audit firms are more likely to have standardized audit style. As a result, the effect of the same audit partner on accounting comparability is likely to be higher for non-Big 4 audit partners than for Big 4 audit partners.

Following previous studies on comparability (Francis et al. 2014;

Francis and Kawada 2013), I apply their research model with a slight modification. I made a pair of client firms in the same industry and the same year based on first two-digit industry classification codes. Then, I employ 2 proxies for accounting comparability: accrual difference and discretionary accrual difference between 2 firms in a pair since accrual can be a direct measure of accounting treatment of financial managers and audit style of individual auditors. I test my research question using 47,996 pairs of firm-year observations, which consists of all Korean firms listed in Korean stock market over the period of 2003-2012. Among them, I identify that 2,442 pairs are audited by the same audit partners.

Empirical findings are summarized as follows. First, I find that a pair of companies audited by the same partner exhibit greater comparability than a pair of companies audited by two different partners. The audit partner effect is much greater than audit firm effect, suggesting the importance of investigation at the partner level.³ Second, I find that accounting comparability between a pair of company is greater when they are audited by the same partner in non-Big 4 auditors than when they are audited by the same partner in Big 4. The finding implies that Big 4 maintain relatively similar and comparable quality of audit service across different clients and partners while there are greater

³ Note that audit firm level analysis is the same as audit office level analysis in Korea. It is because most of the audit firms have only one office (in Seoul) due to small size of the country.

discrepancy among non-Big 4 audit firms. As a result, among non-Big 4 audit firms, the effect of an individual is relatively more important. Overall, these results provide some evidence that individual audit partner have influence on financial statement comparability and that Big 4 maintain relatively more stable audit quality.

As far as I know, this is the first attempt to analyze accounting comparability at partner level. There have been several studies which analyzed industry expertise of auditor at partner level (Chi and Chin 2011; Zerni 2012), but financial statement comparability has not been dealt with audit partner information. In this respect, this study contributes to the research on comparability and auditing.

This study also provides practical implications to market participants. Regulators (e.g. Financial Supervisory Service of Korea, the equivalent of Securities and Exchange Commission (SEC) in US) in various countries now consider the disclosure of audit partner identity publicly. For example, Public Company Accounting Oversight Board (PCAOB) issued PCAOB Release No. 2011-007 (2011), proposing audit firms to disclose the name of engagement partner in audit report. Although the proposal is a kind of compromise compared with previous proposal that require the signature of the audit partner (PCAOB 2009), many audit firms opposed both proposals strongly (Hamilton

2009).⁴ By showing a clear effect of audit partner on accounting comparability, this study contributes to the controversy for the disclosure of audit partner identity. According to the findings in this study, outside investors can be benefited by observing the identity of audit partner and use the information in there evaluations on the financial statements. It would help them to enhance the effectiveness and efficiency of the evaluation procedures.

The remainder of the paper is organized as follows. Section 2 presents the literature review and hypothesis development. Section 3 presents the sample, data and research design. Section 4 reports the empirical results and additional tests. Section 5 concludes.

II. PRIOR LITERATURE AND HYPOTHESES DEVELOPMENT

2.1 Benefits of Financial Statement Comparability

As demand for internationally comparable accounting information increases, IFRS has been mandatorily adopted in many countries and research interest in accounting comparability has been rapidly grown.⁵ Several recent

⁴ Refer to Carcello and Li (2013) and Choi et al. (2013b) for further details on the proposed regulations and controversy surrounding the regulations. Starting 2009, the UK required the signature of audit partner name to be included in the audit report.

⁵ Accounting comparability can be divided into 2 categories. One is the accounting comparability of accounting standard itself and the other one is the comparability considering the implementation stage of accounting standard. In this study, I pay attention to the comparability focusing on implementation stage of accounting methods by external auditors. With respect to accounting standard itself, there are many empirical studies which find the

studies examine the benefits of financial statement comparability in various settings. De Franco et al. (2011) find that accounting comparability is positively related to the number of analyst following and analyst forecast accuracy, and negatively associated with analyst dispersion in earnings forecast. Therefore, more comparable accounting information is likely to decrease the costs of gathering and interpreting information, leading investors to make more accurate decisions. Consistent with this view, several studies find that higher comparability leads to enhance liquidity and firm-specific information (Barth et al. 2013), and increase foreign mutual fund ownership (DeFond et al. 2011), the informativeness of stock prices (Choi et al. 2013a), and the use of relative performance evaluation (Wu and Zhang 2011; Ozkan et al. 2012). In debt market, accounting comparability is negatively associated with the contracting cost of private loans (Fang et al. 2012b) and the price of firms' credit risk (Kim et al. 2013). In addition, accounting comparability can be a vital factor for investors' decision making and their asset allocation because it allows thorough comparison between the target firm and its industry peers (Campbell and Yeung 2012; Chen et al. 2013). Regarding the

difference of accounting comparability between IFRS and local generally accepted accounting principles (GAAP). For example, Barth et al. (2012) find that non-U.S. firms adopting IFRS show greater comparability than U.S. firms which apply their domestic accounting standards (US-GAAP). Using 3 proxies of accounting comparability - similarity of accounting function, degree of information transfer, and similarity of information content of earnings and book value of equity, Yip and Young (2012) find that mandatory IFRS adoption increases cross-country accounting comparability. Lang et al. (2010) also find that cross-country earnings co-movement increases with IFRS adoption.

effect of IFRS, Brochet et al. (2013) documents that improved accounting comparability after the adoption of IFRS results in capital market benefits. Overall, these studies suggest that accounting comparability enhances information environment for market participants.

Higher accounting comparability provides benefit not only for investors but also for external auditors. Zhang (2012) investigates the relation between accounting comparability and audit engagement in this respect. He finds that accounting comparability is positively associated with audit quality and audit accuracy and negatively related to audit effort. Furthermore, comparability is negatively related to audit delay, audit fees, and the probability of issuing going concern opinion. He argues that comparability is helpful for auditors because it enables them to easily assess client firm's inherent business risk and increase audit efficiency thorough understanding their incumbent clients.

2.2 Comparability at Audit Firm Level and Audit Office Level

Recently, studies start to look into whether external auditors affect the financial statement comparability. Francis et al. (2014) find that two companies audited by the same Big 4 audit firms are more likely to have comparable earnings than two companies audited by different Big 4 audit firms. It's because two companies audited by the same Big 4 audit firms are

subject to the same audit style. Audit style is an aggregate of internal working rules for the implementation of audit methodologies, and the enforcement of accounting standards such as GAAP and IFRS (Francis et al. 2014).⁶

Francis and Kawada (2013) extend the findings of Francis et al. (2014), by moving the focus of research from audit firms to audit offices. Prior studies of Reynolds and Francis (2001) and Wallman (1996) suggest that audit markets are local in the sense that key decisions with respect to contracting with the client, administering the audit, and issuing the audit report are all made by the local office, not by national headquarters. Naturally, audit office should be a more refined unit of analyses. Francis and Kawada (2013) find that client firm-pairs audited by the same local audit office have more comparable earnings than client firm-pairs audited by either the same Big 4 audit firm but different local audit offices or by different Big 4 audit firms. Also, the results of the paper show that client firm-pairs with lower accounting comparability have lower average earnings quality. In summary, the findings in Francis et al. (2014) and Francis and Kawada (2013) provide evidence that the role of the auditor as an economic agent promoting increase

⁶ Unlike this study, Francis et al. (2014) measure accounting comparability in three ways: the differences in total accruals and abnormal accruals, covariance of earnings, and audit firm fixed effects model.

of financial statement comparability.

2.3 Hypothesis Development

It is the lead engagement partners who play a essential role in planning and implementing the audit and ultimately in determining the appropriate type of audit report to be issued to the client (Ferguson et al.2003). PCAOB has recently paid attention to the engagement's partner information and considered the disclosure of partner name on the audit reports to enhance audit accountability and transparency (PCAOB 2011). Several countries have already required engagement partner signature or the disclosure of the identity over past decades (e.g., Australia, Taiwan, Sweden, Germany, France, Belgium, and Luxembourg), and some studies support the movement by providing empirical results showing that the disclosure of the identity of audit partners improve audit quality (Carcello and Li 2013). With respect to audit expertise, Chi and Chin (2011) report that not only audit firm-level industry expertise but also individual partner-level industry expertise is a significant determinant of audit quality measured by the magnitude of discretionary accruals and the frequency of modified audit opinion. Zerni (2012) also finds that audit partner-level industry expertise is one of the important factors to determine audit fee. According to Jamal and Tan (2011), the type of auditor and type of accounting standards jointly influence financial reporting quality.

That is, individual auditor (engagement's partner) type and thus his/her audit style matters in implementing accounting standards. In sum, these findings suggest that audit partner level effect is an important concern for both regulators and researchers.

Collectively, prior literatures describe that some parts of individual auditor's ability are not transferable and thus not homogeneous across audit partners within an audit firm because some part of the knowledge and industry expertise are inseparably tied to the individuals as their asset (Zerni 2012; Chi and Chin 2011). Furthermore, the unit of analysis which can reflect audit style most concretely and accurately is the audit engagement-level rather than audit firm or office level. Therefore, the effect of individual audit partners on comparability may be different within the same audit firm.

Upon this assumption, engagement partner information can be valuable for information users such as investors and financial analysts to evaluate financial statement. When investors want to choose a stock in a certain industry, they need to compare financial data of one company with its alternatives to evaluate them. If financial statement of firm A is more comparable with that of firm B when the partner of firm A is the same with the partner of firm B, the partner information could be useful for investors' decision making. Therefore, accounting comparability at engagement partner

level is important for information users to enhance the effectiveness and efficiency of the evaluation procedure.

Summarizing, I expect that an individual audit partner exerts similar audit style across his or her engagements and thus accounting comparability improves within his or her clientele. I propose this prediction as the first research hypothesis.

(H1) A pair of companies audited by the same partner will exhibit greater comparability than a pair of companies audited by two different partners.

Secondly, I want to examine whether there is a difference between Big4 audit partners and non-Big 4 audit partners with respect to accounting comparability. There have been many studies which find the different characteristics between Big 4 and non-Big 4 auditors. Some find that Big 4 audit firms provide superior audit quality than non-Big 4 audit firms since they bear higher litigation risk and reputation concern (Becker et al. 1998; Francis and Krishnan 1999; Khurana and Raman 2004). There are also studies which find Big 4 premium in audit fee (Craswell et al. 1995; DeFond et al. 2000; Ireland and Lennox 2002).

Meanwhile, Francis et al. (2014) find that a pair of companies audited by the same Big 4 auditor exhibit higher comparability of earnings than a pair of companies audited by non-Big 4 auditors. It's because Big 4 audit firms

provide more standardized audit methodologies, firm-wide knowledge sharing and robust training programs than non-Big 4 audit firms (Francis and Yu, 2009). Therefore, partners in Big 4 audit firms are more likely to have standardized audit style. The engagements in Big 4 are homogenous in terms of audit methodology and its implementation but cannot reflect partners' own discretion as much as partners in non-Big 4 do. In sum, it is likely that there is not much variability in financial reporting practices of client firms audited by different Big 4 audit partners.

On the other hand, individual auditors in non-Big 4 audit firms learn from engagement-specific experience due to the lack of training and standardized audit methodologies (Lennox and Li 2012). Thus, individual audit partners in non-Big 4 can apply their own audit style such as accrual behavior to the engagement at their discretion. As a result, those engagements which have the same audit partner in non-Big 4 may exhibit higher homogeneity in implementation of audit standard, enforcement of GAAP and thus higher comparability of financial statement than those of Big 4. This leads to my second hypothesis stated below.

(H2) The effect of the same audit partner on accounting comparability is higher for non-Big 4 audit partners than for Big 4 audit partners.

III. SAMPLE, DATA AND RESEARCH DESIGN

3.1 Sample and Data

The sample that I use in this study consists of all Korean firms listed in Korean stock market over the period of 2003-2012. I obtained audit partner data proprietarily because the audit partner information is not disclosed in Korea. I matched audit partner name of each engagement with financial statement data based on the stock code number and fiscal year. The financial statement data is retrieved from KIS Value^{III} and TS2000. In this process, I deleted firm-year observations which financial information is not available in the sources or audit partner data is not exist. I also exclude the firms which belong to financial industry due to their specific characteristics and different accounts of financial statement. After all, there remain 4,241 firm-year observations.

For analyzing comparability, I first made firm-pairs in the same industry and in the same year without overlapping and 68,677 firm-pairs are generated from 4,241 firm-year observations. However, substantial portion of the data are deleted during the pair-matching process because I require at least 10 observations in each year-industry combination. Also, all the variables except for dummy variables are winsorized at 1% and 99% level. The above sample selection process finally results in 47,996 pairs of firm-year

observations.

3.2 Research Design

To test my hypotheses, I apply the research model which is used in Francis et al. (2014) and Francis and Kawada (2013) with a slight modification.

Model specification (H1) :

$$\begin{aligned}
 Diff_TA(DA)_{ijt} = & \beta_0 + \beta_1 * TA(DA)_min_{ij} + \beta_2 * Same_partner_{ij} \\
 & + \beta_3 * Same_acfirms_{ij} + \beta_4 * size_diff_{ij} + \beta_5 * size_min_{ij} \\
 & + \beta_6 * lev_diff_{ij} + \beta_7 * lev_min_{ij} + \beta_8 * mb_diff_{ij} + \beta_9 * mb_min_{ij} \\
 & + \beta_{10} * cfo_diff_{ij} + \beta_{11} * cfo_min_{ij} + \beta_{12} * lossprob_diff_{ij} \\
 & + \beta_{13} * lossprob_min_{ij} + \beta_{14} * std_sale_diff_{ij} + \beta_{15} * std_sale_min_{ij} \\
 & + \beta_{16} * std_cfo_diff_{ij} + \beta_{17} * std_cfo_min_{ij} + \beta_{18} * std_growth_diff_{ij} \\
 & + \beta_{19} * std_growth_min_{ij} + Year \& Industry fixed effect + \varepsilon_{it}
 \end{aligned}$$

Where :

$Diff_TA_{ijt}$ = absolute value of differences in total accrual between firm i and firm j in a pair

$Diff_DA_{ijt}$ = absolute value of differences in discretionary accrual between firm i and firm j in a pair

- ① DA1: the modified Jones model (Dechow et al.1995)
- ② DA2: performance-matched modified Jones model adding ROA as an additional regressor
- ③ DA3 : performance-matched modified Jones model (matched sample)

- ④ DA4 : performance-matched modified Jones model (form 20 portfolios each year and subtract a median DA of matched portfolio)

Same_partner = an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner of firm j, 0 otherwise.

Same_acfirm = an indicator variable which takes the value of 1 if the auditor (audit firm) of firm i is the same auditor of firm j, 0 otherwise

ta_min_{ij} = the minimum value of total accruals between firm i and firm j in a pair

da_min_{ij} = the minimum value of discretionary accruals between firm i and firm j in a pair

size_diff_{ij} = the absolute value of the difference in firm size between firm i and firm j in a pair. Firm size is computed as the logarithm of total assets.

size_min_{ij} = the minimum value of firm size between firm i and firm j in a pair

lev_diff_{ij} = the absolute value of the difference in leverage between firm i and firm j in a pair. Leverage is calculated as the ratio of total liability to total asset.

lev_min_{ij} = the minimum value of leverage between firm i and firm j in a pair

mb_diff_{ij} = the absolute value of the difference in market-to-book ratio between firm i and firm j in a pair. The market-to-book ratio is calculated as the ratio of market value of equity to book value of equity.

mb_min_{ij} = the minimum value of market-to-book ratio between firm i and firm j in a pair

cfo_diff_{ij} = the absolute value of the difference in cash flow from operation between firm i and firm j in a pair. Cash flow from operation is operating cash flow scaled by total asset at the beginning of the year.

cfo_min_{ij} = the minimum value of cash flow from operation between firm i

and firm j in a pair

$lossprob_diff_{ij}$ = the absolute value of the difference in loss probability between firm i and firm j in a pair. Loss probability is calculated as the proportion of years which the firm shows minus net income in the past 4 years.

$lossprob_min_{ij}$ = the minimum value of loss probability between firm i and firm j in a pair

$std_sale_diff_{ij}$ = the absolute value of the difference in standard deviation of sale between firm i and firm j in a pair. Standard deviation of sale is calculated over the preceding 4 years and the sale is sales of firm scaled by total asset at the beginning of the year.

$std_sale_min_{ij}$ = the minimum value of standard deviation of sales between firm i and firm j in a pair

$std_cfo_diff_{ij}$ = the absolute value of the difference in standard deviation of yearly operating cash flow between firm i and firm j in a pair. Standard deviation of yearly operating cash flow is calculated over the preceding 4 years.

$std_cfo_min_{ij}$ = the minimum value of standard deviation of cash flow from operation between firm i and firm j in a pair

$std_growth_diff_{ij}$ = the absolute value of the difference in standard deviation of sales growth between firm i and firm j in a pair. Standard deviation of sales growth is calculated over the preceding 4 years. Sales growth is computed as the sales of period t minus sales of period t-1 divided by sales of period t-1.

$std_growth_min_{ij}$ = the minimum value of standard deviation of sales growth between firm i and firm j in a pair

The main variables of interest are *Same_partner* and *Diff_TA (DA)*.

Same_partner is a main independent variable which is an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner

of firm j, and 0 otherwise. $Diff_TA(DA)_{ijt}$ is the absolute value of total accrual(discretionary accrual) difference between a pair of firms. For the purpose of comparison, I first made a pair of firms in the same industry and the same year based on first two-digit industry classification codes. By making pairs in the same industry, I was able to rule out the possibilities that external factors such as economic shock affect the results. Then, following Francis, Pinnuck and Watanabe (2014), I compute total accrual and discretionary accrual difference between the firms in a pair to use as proxies of financial statement comparability.

$$Diff_TA_{ijt} = abs(Total\ Accrual_{it} - Total\ Accrual_{jt})$$

$$Diff_DA_{ijt} = abs(Discretionary\ Accrual_{it} - Discretionary\ Accrual_{jt})$$

Total accrual is computed as the difference between net income and operating cash flow, scaled by lagged total asset. To define discretionary accrual, I use the modified Jones (1991) model and performance-matched modified Jones model in Kothari et al.(2005). Using 4 types of discretionary accrual, I run my research model.

When an individual auditor applies accounting standards to the real economic activities, he or she makes his or her own professional judgment. The main role of auditor is judging whether accounting information that is close to the nature of transaction is recorded in the financial statement.

Therefore, discretion of an individual audit partner would affect the enforcement of accounting standard and the implementation of audit methodology in this judging procedure. Individual partners' audit style may yield different accrual behaviors although the audit partners are in the same audit firm. Thus, the total accrual difference or discretionary accrual difference captures similarities in and differences between a pair of firms' implementation of accounting standard. As the difference becomes smaller, the financial statement of firm i would be more comparable with that of firm j. I predict that the pair of firms with same audit partner will exhibit lower difference in total (discretionary) accrual, and thus negative coefficient on *Same_partner* (β_2) in the above model.

Similar with Francis et al. (2014), I include several control variables⁷ which contain both of difference and level (minimum value between firms in a pair) variables. At first, I include minimum total or discretionary accrual between the firms in a pair to control for the effect of level on the result. And then, I control for firm characteristics that may affect accrual behaviors such as firm size ($size_diff_{ij}$ and $size_min$), leverage (lev_diff_{ij} and lev_min_{ij}),

⁷ There is no theoretical background or empirical evidence for the appropriate control variables which should be included in a regression determining earnings comparability (Lang et al. 2010). So, I follow Francis et al.(2013), which control for variables widely used in literatures related to the similarities of earnings. They control for economic fundamentals such as volatility of operation, and propensity to manage earnings such as market-to-book ratio and leverage.

market-to-book ratio (mb_diff_{ij} and mb_min_{ij}), cash flow from operation (cfo_diff_{ij} and cfo_min_{ij}) and probability of loss($lossprob_diff_{ij}$ and $lossprob_min_{ij}$). I also include standard deviation of sales($std_sale_diff_{ij}$ and $std_sale_min_{ij}$), standard deviation of cash flow from operation ($std_cfo_diff_{ij}$ and $std_cfo_min_{ij}$) and standard deviation of sales growth($std_growth_diff_{ij}$ and $std_growth_min_{ij}$) following Francis and Kawada (2013). I don't provide expected directions of control variables since there was no theoretical background with respect to the control variables of accounting comparability. Finally, I include year and industry fixed effects to control for time-invariant industry-type characteristics.

To test hypothesis 2, I use the following research model adjusting the model used for hypothesis1.

Model specification (H2) :

$$\begin{aligned}
Diff_TA(DA)_{ijt} = & \beta_0 + \beta_1 * TA(DA)_{min_{ij}} + \beta_2 * Same_partner_{ij} \\
& + \beta_3 * big4 * Same_partner_{ij} + \beta_4 * big4 + \beta_5 * Same_acfirm_{ij} \\
& + \beta_6 * size_diff_{ij} + \beta_7 * size_min_{ij} + \beta_8 * lev_diff_{ij} + \beta_9 * lev_min_{ij} \\
& + \beta_{10} * mb_diff_{ij} + \beta_{11} * mb_min_{ij} + \beta_{12} * cfo_diff_{ij} + \beta_{13} * cfo_min_{ij} \\
& + \beta_{14} * lossprob_diff_{ij} + \beta_{15} * lossprob_min_{ij} + \beta_{16} * std_sale_diff_{ij} \\
& + \beta_{17} * std_sale_min_{ij} + \beta_{18} * std_cfo_diff_{ij} + \beta_{19} * std_cfo_min_{ij} \\
& + \beta_{20} * std_growth_diff_{ij} + \beta_{21} * std_growth_min_{ij}
\end{aligned}$$

$$+ Year \& Industry fixed effect + \varepsilon_{it}$$

Big4 = an indicator variable which takes the value of 1 if both of the 2 audit firms in a pair are Big4 auditors (Pricewatershouse Coopers, KPMG, Deloitte and Ernst & Young), 0 otherwise.

All other variables are as previously defined.

Since I want to examine whether accounting comparability between the firms in a pair is greater when they are audited by the same partner in Non-big4 than Big4, I additionally include *Big4* and its interaction term with *Same_partner*. *Big4* is an indicator variable which takes the value of 1 if both of the 2 audit firms in a pair are Big4 auditors. I exclude Big 4-non Big 4 combinations from the population to compare Big 4-Big 4 and non Big4-non Big 4 combinations. I predict that the coefficient on the interaction term is positive which means lower comparability in case of Big4 partners.

IV. DESCRIPTIVE STATISTICS AND EMPIRICAL RESULTS

4.1 Descriptive statistics

The following table shows the descriptive statistics of the variables that are scheduled to use in the empirical tests. The total pairs of firm-year

observations generated from pair-matching process are 47,996. The dependent variable, total accrual difference between the firms in a pair has a mean of 0.073. The mean differences in discretionary accrual range from 0.061 to 0.094. So, there are some variances in total accrual and discretionary accrual among the firms in the observations. The mean value of test variable *Same_partner* is 0.051 which indicates that 5.1% of total sample pairs have same audit partner.

Untabulated Pearson-Spearman correlations show that both of total accrual and discretionary accrual are significantly correlated with *Same_partner* and total accrual is correlated with all the 4 kinds of discretionary accruals.

[Insert Table 1 Here]

4.2 Empirical results

Table 2 shows the empirical result of hypothesis 1. I first test H1 with and without acfirm in table 2A. The acfirm is an indicator variable which equals 1 if a pair of companies is audited by the same audit firm. In the first column, I test H1 without controlling for audit firm and found that the coefficient on *Same_partner* is significantly negative as expected. However, the results could be derived from the audit firm effect because the firm-pairs with same audit partner automatically belong to same audit firm. Therefore, in

the second column, I test the same model which excludes Same_partner and only contains Same_acfirm. I found that acfirm is negatively related to diff_TA. It indicates that a pair of companies audited by the same audit firm exhibit greater comparability than a pair of companies audited by two different audit firms. So, I need to control for the audit firm to extract the sole effect of audit partner on the comparability. Thus, I include both of Same_partner and Same_acfirm in the third column. In the above model, the coefficient on Same_partner is still negative and statistically significant although the coefficient on Same_acfirm became significantly positive. With this result, I can conclude that audit partner rather than audit firm has greater influence on the accrual behaviors and thus financial statement comparability. The results of prior studies which found the positive relation between audit firms and accounting comparability may be derived from the homogenous audit style of individual auditors.

Secondly, I test H1 using 4 kinds of discretionary accrual as a dependent variable as shown in table 2B. Discretionary accrual, the residual component remained after extracting normal portion of total accrual is commonly used as a proxy of earnings management or audit quality in the auditing literature. It can also reflect audit style of individual audit partner and I expect similar results with the model using total accrual. Consistent with H1, the coefficient on Same_partner is significantly negative in table 2B and the

result holds when I use 4 different proxies of discretionary accruals.

[Insert Table 2 Here]

Table 3 tabulated the empirical result of hypothesis 2. I expect that engagements which has the same partner in non Big 4-non Big 4 combination show higher similarities in accrual behavior than those in Big 4-Big 4 combinations. In the pair-matching process, I deleted Big 4-non Big 4 combinations from the population to compare Big 4-Big 4 and non Big4-non Big 4 combinations. The procedure results in 28,397 firm-pair observations. In table 3A, as I expected, the coefficient on the interaction term between Big 4 and *Same_partner* is positive and statistically significant while the coefficient on *Same_partner* only is significantly negative. The positive coefficient on *Big4*Same_partner* in the second column indicates that total accrual difference between the engagements with same partner is greater for Big 4 audit partners than for non-Big 4 audit partners. Thus, the engagements with same Big 4 audit partner exhibit lower comparability than those with same non-Big 4 audit partner, consistent with H1. The results are consistent across all discretionary accruals used in the models except for DA2. The finding implies that Big 4 maintain relatively similar and comparable quality of audit service across different clients and partners while there are greater discrepancy among non-Big 4 audit firms. As a result, among non-Big 4 audit

firms, the effect of an individual is relatively more important. In table 3B, I additionally test H2 using 2 subsamples: Big 4 and non-Big 4. There are 23,093 pairs in Big 4-Big 4 subsample, and 5,304 pairs in non-Big 4-non-Big 4 subsample. In both subsamples, the coefficient on *Same_partner* is negative and statistically significant at 1% confidence level, which means that engagements audited by same audit partner show higher accounting comparability in both of Big 4 and non-Big 4. However, the magnitude of the relation between *Same_partner* and comparability is smaller in non-Big 4 than in Big 4 subsample. The coefficient on *acfirm* in Big 4 pairs is positive and marginally significant while *acfirm* in non-Big 4 pairs is not significant, suggesting that audit firms, especially non-Big 4 audit firms have little effect on comparability.

Overall, these results provide evidence that individual audit partner have influence on financial statement comparability, consistent with my hypotheses.

[Insert Table 3 Here]

V. ADDITIONAL TESTS

5.1 Making firm-pairs within the same audit firm

In descriptive statistics, the mean value of *Same_partner* is 0.051 which indicates only 2,442 firm-pairs out of 47,996 firm-pairs in the population have the same audit partner. It's because firm-pairs are generated from all firms in the same industry in the same year. Since there are so many cases which pick up 2 firms from the population under the same industry, the matching process results in 47,996 firm-pairs from 4,241 firm-year observations over the sample period. However, the cases in which audit partner is same are scarce because those are basically only possible when the firms in a pair are audited by the same audit firm. The original 47,996 firm-pairs contain not only the firm-pairs with same auditor but also firm-pairs which auditors are different. Due to the relatively small portion of firm-pairs which have the same audit partner, there could be a concern about the reliability of the coefficient on the test variable, *Same_partner* since small sample may decrease the power of test. So, I generate firm-pairs within the same audit firm to increase the proportion of *Same_partner*. After winsorizing extreme values at 1% and 99% level, the test sample eventually consists of 8,788 firm-pairs which are firm-pairs within the same audit firm. Then, the proportion of *Same_partner* increases from 5.1% to 37.9%. With this sample,

I apply the model which was used in table 2 to test H1. As shown in table 4A, the coefficient on *Same partner* is still significantly negative across all dependent variables, which is consistent with H1. The result strengthens my first hypothesis showing that audit style of each partner varies across individuals even within the same audit firm and accounting comparability is enhanced within the audit partner's clientele.

5.2 Making year-pairs within the same client firm

There is a concern about the possibility that the main result of this paper is influenced by selection bias because a partner is likely to choose client firms which have the similar accrual behaviors. To rule out the possibility, I additionally make year-pairs within the same client firm and test the first hypothesis. Even in the same client firm, audit partner can be changed during the sample period due to the mandatory partner rotation rules. In Korea, the lead audit partner is required to rotate off the audit engagement every 3 years. I wonder whether there are differences in accounting comparability among the sample periods within a client firm. Since the sample period is from 2003 to 2012, 45 year-pairs can be generated in a client firm on the premise that the firm has existed since 2003. Then, the proportion of *Same partner* increases from 5.1% to 36.2%. I test H1 using the newly generated sample which consists of 15,711year-pairs. After controlling for year-fixed effect, the result

in table 4B shows that *Same_partner* is negatively related to the accrual difference between a pair of years. It indicates that even within a client firm, the year-pairs audited by the same audit partner show greater accounting comparability than the year-pairs audited by the different audit partners.

I also test whether accounting comparability decreases when the engagement partner is changed within a client firm. So, instead of *same_partner*, I include *ptr_change* dummy variable which equals 1 if there is a change of engagement audit partner, and thus the partners of the 2 firms in a pair are to be different. In table 4C, the coefficient on *ptr_change* is positive and marginally significant which means lower comparability in case of partner change. To sum up, the results of table 4 enforce my argument that accounting comparability improves when the engagements are audited by the same partner removing the concern about the selection bias.

[Insert Table 4 Here]

5.3 The effect of partner-engagement tenure on comparability

Given that an engagement audit partner affects the accrual behavior of his engagements, I expect the influence of audit partner would increase as the experience of the audit partner in that engagement lengthens. According to Choi et al (2013a), the length of audit partner experience is positively associated with audit quality since audit partner can improve his or her

knowledge and expertise through the experience. Therefore, I conjecture that accounting comparability between a pair of firms may increase with the partner-engagement tenure as well. In Korea, the maximum period of partner-engagement tenure is 3 years due to the mandatory partner rotation rules. So, I additionally run the regression including partner tenure variable which takes the value of 1, 2 and 3 as the partner-engagement experience. That is, the value of partner-engagement tenure indicates the period in which two firms in a pair are audited by the same audit partner. In table 5, the coefficient on *Ptr_tenure* is significantly negative which means that accounting comparability increases with the partner-engagement tenure, consistent with my expectation.

[Insert Table 5 Here]

5.4 Subsamples divided by Big4 auditors

I further divided the full sample into 4 subsamples by Big 4 audit firms (PWC, KPMG, Deloitte, E&Y). According to Francis and Kawada (2013), accounting comparability is higher for the firm-pairs audited by same Big 4 office in PWC and Deloitte, but the effect of same office on comparability is only marginally significant for KPMG and E&Y. Therefore, I wonder whether the role of engagement audit partner in determining comparability differs across Big 4 audit firms. Using *TA_diff* as a dependent variable, I test H1 in

each Big 4 auditor subsample. As shown in table 6, in all subsamples, the coefficient on *Same partner* is significantly negative and there is no such a big difference in the magnitudes of coefficient. Similarities in the results among subsamples suggest that the role of individual audit partner in comparability is not strongly influenced by audit firm.

[Insert Table 6 Here]

VI. CONCLUSIONS

Notwithstanding many studies which describe the benefits of accounting comparability, there has been little research conducted on what kinds of factors could improve accounting comparability. In this study, I extend prior work by examining the effect of engagement audit partner on financial statement comparability. First, I find that firm-pairs with same audit partner exhibit more comparable accounting information than a firm-pairs audited by two different partners. The audit partner effect is much greater than audit firm effect, suggesting the importance of investigation at the partner level. Second, I find that the effect of the same audit partner on accounting comparability is higher for non-Big 4 audit partners than for Big 4 audit partners. The effect of an individual is relatively more important among non-Big 4 audit firms, and there is a difference between Big4 and Non-big4 with respect to the use of partner's discretion. Taken together, these findings

provide evidence that individual audit partner have some influence on financial statement comparability.

This study contributes to the research on comparability and auditing by first examining accounting comparability at partner level. To my knowledge, the financial statement comparability has not been dealt with audit partner information up to now. This study also provides practical implications to market participants. By showing a clear effect of audit partner on accounting comparability, this study contributes on the controversy for the disclosure of audit partner identity. The findings in this study suggest that outside investors can be benefited by observing the identity of audit partner and enhance the effectiveness and efficiency of the evaluation procedures.

However, there are also potential limitations of this study. First, there is a concern about the validity of comparability measures. Although I use the proxies following related prior 2 studies, possible measurement errors still could be existed due to the lack of prior empirical evidence. Also, I can't rule out the possibility that some omitted variables may influence my results. Since studies on accounting comparability is relatively new, I expect that future researches will shed light on the determinants of comparability more deeply. In addition, the limited range of engagements audited by one audit partner may restrict the implication of my findings. In reality, the possible number of engagements in which an audit partner can take responsibility is limited. If

there are not enough comparable firms which have the same audit partner, the usefulness of partner identity will be limited for information users who want to evaluate the target firm and its alternatives. Even with these all caveats, the results of this paper can help market participants since it shed light on one of the important determinants that improve accounting comparability.

<Appendix> Definition of Control Variables

Variables	Definition
<i>Same_acfirm</i>	an indicator variable which takes the value of 1 if the auditor (audit firm) of firm i is the same auditor of firm j, 0 otherwise
<i>ta_min_{ij}</i>	the minimum value of total accruals between firm i and firm j in a pair
<i>da_min_{ij}</i>	the minimum value of discretionary accruals between firm i and firm j in a pair
<i>size_diff_{ij}</i>	the absolute value of the difference in firm size between firm i and firm j in a pair. Firm size is computed as the logarithm of total assets.
<i>size_min_{ij}</i>	the minimum value of firm size between firm i and firm j in a pair
<i>lev_diff_{ij}</i>	the absolute value of the difference in leverage between firm i and firm j in a pair. Leverage is calculated as the ratio of total liability to total asset.
<i>lev_min_{ij}</i>	the minimum value of leverage between firm i and firm j in a pair
<i>mb_diff_{ij}</i>	the absolute value of the difference in market-to-book ratio between firm i and firm j in a pair. The market-to-book ratio is calculated as the ratio of market value of equity to book value of equity.
<i>mb_min_{ij}</i>	the minimum value of market-to-book ratio between firm i and firm j in a pair
<i>cfo_diff_{ij}</i>	the absolute value of the difference in cash flow from operation between firm i and firm j in a pair. Cash flow from operation is operating cash flow scaled by total asset at the beginning of the year.
<i>cfo_min_{ij}</i>	the minimum value of cash flow from operation between firm i and firm j in a pair
<i>lossprob_diff_{ij}</i>	the absolute value of the difference in loss probability between firm i and firm j in a pair. Loss probability is calculated as the proportion of years which the firm shows minus net income in the past 4 years.
<i>lossprob_min_{ij}</i>	the minimum value of loss probability between firm i and firm j in a pair
<i>std_sale_diff_{ij}</i>	the absolute value of the difference in standard deviation of sale between firm i and firm j in a pair. Standard deviation of sale is calculated over the preceding 4 years and the sale is sales of firm scaled by total asset at the beginning of the year.

$std_sale_min_{ij}$	the minimum value of standard deviation of sales between firm i and firm j in a pair
$std_cfo_diff_{ij}$	the absolute value of the difference in standard deviation of yearly operating cash flow between firm i and firm j in a pair. Standard deviation of yearly operating cash flow is calculated over the preceding 4 years.
$std_cfo_min_{ij}$	the minimum value of standard deviation of cash flow from operation between firm i and firm j in a pair
$std_growth_diff_{ij}$	the absolute value of the difference in standard deviation of sales growth between firm i and firm j in a pair. Standard deviation of sales growth is calculated over the preceding 4 years. Sales growth is computed as the sales of period t minus sales of period t-1 divided by sales of period t-1.
$std_growth_min_{ij}$	the minimum value of standard deviation of sales growth between firm i and firm j in a pair

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Table 1 Descriptive Statistics

Variables	Mean	Std. Dev.	Q1	Median	Q3
TA_diff	0.073	0.066	0.023	0.055	0.104
DA1_diff	0.068	0.060	0.022	0.053	0.099
DA2_diff	0.061	0.052	0.020	0.048	0.088
DA3_diff	0.094	0.081	0.031	0.074	0.136
DA4_diff	0.063	0.055	0.020	0.050	0.092
Same_partner	0.051	0.220	-	-	-
size_diff	1.422	1.236	0.457	1.090	2.077
size_min	25.721	0.925	25.146	25.607	26.232
lev_diff	0.195	0.147	0.073	0.169	0.294
lev_min	0.334	0.151	0.209	0.322	0.446
mb_diff	10.619	20.280	1.349	4.188	10.672
mb_min	4.169	4.153	1.463	2.699	5.410
cfo_diff	0.071	0.060	0.024	0.057	0.103
cfo_min	0.014	0.059	-0.018	0.019	0.053
growth_diff	0.178	0.201	0.050	0.122	0.235
growth_min	-0.008	0.151	-0.085	0.008	0.083
lossprob_diff	0.225	0.269	-	0.250	0.333
lossprob_min	0.054	0.138	-	-	-
std_sale_diff	0.101	0.117	0.026	0.064	0.131
std_sale_min	0.087	0.057	0.047	0.073	0.112
std_cfo_diff	0.035	0.034	0.010	0.024	0.048
std_cfo_min	0.038	0.021	0.024	0.034	0.048
std_growth_diff	0.204	0.497	0.029	0.077	0.176
std_growth_min	0.108	0.081	0.056	0.085	0.136

This table reports descriptive statistics for the variables used in our analyses. The sample is comprised of 47,996 pairs of firm-year observations over the period of 2003-2012. TA_diff is the absolute value of differences in total accrual between firm i and firm j in a pair. DA_diff is the absolute value of differences in discretionary accrual between firm i and firm j in a pair. DA1 is the modified Jones model (Dechow et al.1995), DA2 is the performance-matched modified Jones model adding ROA as an additional regressor, DA3 is the performance-matched modified Jones model (matched sample), and DA4 is the performance-matched modified Jones model forming 20 portfolios each year and subtracting a median DA of matched portfolio. Same_partner is an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner of firm j, 0 otherwise. Control variables are defined in the Appendix.

Table 2 Regression Results of H1**2A Regression results using Total Accrual**

Dependent Variable: TA_diff										
Variables	Coefficient	t-stat	***	Coefficient	t-stat	***	Coefficient	t-stat	***	
Intercept	0.030	3.9	***	0.024	3.19	***	0.031	4.06	***	
TA_min	-0.716	-160.75	***	-0.718	-160.29	***	-0.716	-160.77	***	
Same_partner	-0.028	-25.78	***				-0.030	-23.97	***	
Same_acfirm				-0.006	-9.81	***	0.002	2.63	***	
size_diff	-0.001	-3.09	***	0.000	0.55		-0.001	-3.19	***	
size_min	0.000	1.57		0.001	1.99	**	0.000	1.37		
lev_diff	-0.020	-11.19	***	-	0.014	-7.69	***	-0.020	-11.16	***
lev_min	-0.025	-12.76	***	-	0.025	-12.41	***	-0.025	-12.77	***
mb_diff	0.000	13.61	***	0.000	14.6	***	0.000	13.6	***	
mb_min	0.001	17.66	***	0.001	15.49	***	0.001	17.66	***	
cfo_diff	0.007	1.45		0.020	3.92	***	0.007	1.42		
cfo_min	-0.566	-101.29	***	-	0.565	-100.57	***	-0.566	-101.33	***
lossprob_diff	-0.012	-13.91	***	-	0.011	-12.68	***	-0.012	-13.96	***
lossprob_min	-0.025	-14.86	***	-	0.029	-17.08	***	-0.025	-14.86	***
std_sale_diff	0.019	9.82	***	0.024	12.33	***	0.019	9.83	***	
std_sale_min	0.044	10.3	***	0.039	9.08	***	0.044	10.28	***	

std_cfo_diff	0.037	5.58	***		0.057	8.5	***	0.037	5.56	***
std_cfo_min	0.028	2.53	**		0.010	0.93		0.028	2.55	**
std_growth_diff	0.001	2.12	**		0.001	3.13	***	0.001	2.13	**
std_growth_min	-0.018	-5.79	***	-	0.024	-7.7	***	-0.018	-5.78	***
industry fixed effect	yes				yes			yes		
year fixed effect	yes				yes			yes		
observations	47,996				47,996			47,996		
adjusted R-sq	0.5263				0.5207			0.5263		

2B Regression results using Discretionary Accrual

Variables	Dependent Variable: DA1_diff		Dependent Variable: DA2_diff		Dependent Variable: DA3_diff		Dependent Variable: DA4_diff		
	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat	
Intercept	-0.006	-0.85		-0.073	-12.66	***	0.044	4.23	***
DA_min	-0.669	-150.12	***	-0.689	-142.83	***	-0.624	-143.12	***
Same_partner	-0.033	-27.33	***	-0.022	-23.3	***	-0.046	-27.43	***
Same_acfirm	0.001	1.67	*	0.000	0.94		-0.001	-1.02	
size_diff	-0.000	-0.8		-0.000	-2.37	**	0.000	0.44	
size_min	0.002	6.39	***	0.004	17.42	***	0.000	1.18	
lev_diff	-0.015	-8.84	***	-0.004	-3.24	***	-0.000	-0.04	
lev_min	-0.016	-8.17	***	0.003	1.97	**	-0.000	-0.01	

mb_diff	0.000	8.92	***	0.000	0.95		0.000	5.33	***	0.000	6.23	***
mb_min	0.001	10.75	***	0.001	11.32	***	0.001	8.17	***	0.001	11.81	***
cfo_diff	0.014	3.1	***	0.092	21.96	***	0.015	2.31	**	0.070	15.92	***
cfo_min	-0.417	-81.13	***	-0.453	-98.77	***	-0.443	-63.64	***	-0.458	-94	***
lossprob_diff	-0.006	-7.32	***	-0.011	-17.25	***	-0.004	-3.23	***	-0.003	-4.68	***
lossprob_min	-0.014	-8.35	***	-0.015	-11.75	***	-0.013	-5.51	***	-0.007	-5.1	***
std_sale_diff	0.011	5.58	***	0.008	5.75	***	0.010	3.74	***	0.005	3.24	***
std_sale_min	0.030	7.22	***	0.015	4.59	***	0.033	5.68	***	0.024	6.61	***
std_cfo_diff	0.031	4.77	***	0.008	1.58		-0.002	-0.23		0.024	4.19	***
std_cfo_min	0.003	0.32		0.015	1.78	*	-0.073	-4.81	***	0.009	0.96	
std_growth_diff	0.000	0.79		0.002	4.64	***	0.004	5.98	***	0.001	2.93	***
std_growth_min	-0.011	-3.69	***	-0.005	-2.3	**	-0.001	-0.34		-0.009	-3.52	***
Industry fixed effect	yes			yes			yes			yes		
year fixed effect	yes			yes			yes			yes		
observations	47,996			47,996			47,996			47,996		
adjusted R-sq	0.4615			0.5647			0.4127			0.5079		

Table 2 shows the regression results of H1. The sample is comprised of 47,996 pairs of firm-year observations over the period of 2003-2012. TA_diff is the absolute value of differences in total accrual between firm i and firm j in a pair. DA_diff is the absolute value of differences in discretionary accrual between firm i and firm j in a pair. DA1 is the modified Jones model (Dechow et al.1995), DA2 is the performance-matched modified Jones model adding ROA as an additional regressor, DA3 is the performance-matched modified Jones model (matched sample), and DA4 is the performance-matched modified Jones model forming 20 portfolios each year and subtracting a median DA of matched portfolio. Same_partner is an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner of firm j, 0 otherwise. Control variables are defined in the Appendix. Continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Table 3 Regression Results of H2**3A Add interaction terms between Big 4 and Same_partner**

Variables	Dependent Variable: TA_diff			Dependent Variable: DA1_diff			Dependent Variable: DA2_diff			Dependent Variable: DA3_diff			Dependent Variable: DA4_diff		
	Coeff.	t-stat		Coeff.	t-stat		Coeff.	t-stat		Coeff.	t-stat		Coeff.	t-stat	
Intercept	0.029	3.21	***	-0.007	-0.79		-0.034	-4.45	***	0.036	2.43	**	-0.003	-0.34	
TA(DA)_min	-0.722	-126.57	***	-0.668	-119.23	***	-0.315	-65.11	***	-0.333	-35.44	***	-0.399	-74.21	***
Same_partner	-0.031	-15.93	***	-0.035	-18.15	***	-0.021	-12.91	***	-0.059	-18.45	***	-0.028	-15.22	***
Same_acfirm	0.001	1.78	*	0.001	1.37		-0.000	-0.09		-0.000	-0.33		-0.000	-0.07	
B4*same_partner	0.006	2.71	***	0.006	3.1	***	0.000	0.23		0.006	1.82	*	0.005	2.53	**
B4	0.003	3.31	***	0.002	2.01	**	0.002	2.66	***	-0.000	-0.1		0.001	0.91	
size_diff	-0.000	-1.96	**	-0.000	-1.3		-0.001	-6.17	***	-0.001	-1.64		-0.000	-1.78	*
size_min	0.000	1.19		0.002	4.96	***	0.002	6.97	***	0.001	1.76	*	0.001	4.27	***
lev_diff	-0.021	-9.13	***	-0.012	-5.26	***	-0.004	-2.17	**	0.001	0.23		-0.014	-6.44	***
lev_min	-0.033	-13.15	***	-0.018	-7.34	***	-0.001	-0.5		-0.001	-0.31		-0.012	-5.03	***
mb_diff	0.000	11.1	***	0.000	8.02	***	-0.000	0		0.000	4.37	***	0.000	3.53	***
mb_min	0.001	15.02	***	0.001	8.98	***	0.001	8.4	***	0.001	5.03	***	0.000	7.16	***

cfo_diff	0.012	1.84	*	0.027	4.65	***	0.353	69.09	***	0.164	16.62	***	0.248	43.77	***
cfo_min	-0.568	-79.52	***	-0.412	-63.51	***	-.202	-36.06	***	-0.223	-20.52	***	-0.269	-43.29	***
lossprob_diff	-0.009	-8.27	***	-0.005	-4.45	***	-0.011	-11.77	***	-0.000	-0.25		-0.006	-5.91	***
lossprob_min	-0.026	-12.21	***	-0.018	-8.58	***	-0.017	-9.71	***	-0.009	-2.72	***	-0.014	-6.93	***
std_sale_diff	0.015	5.83	***	0.011	4.42	***	0.006	2.97	***	0.019	4.58	***	0.008	3.35	***
std_sale_min	0.044	8.17	***	0.031	5.92	***	0.014	3.21	***	0.013	1.48		0.021	4.17	***
std_cfo_diff	0.057	6.78	***	0.042	5.12	***	0.012	1.7	*	0.022	1.61		0.026	3.26	***
std_cfo_min	0.074	5.33	***	0.034	2.55	**	0.008	0.67		-0.062	-2.73	***	0.028	2.13	**
std_growth_diff	0.001	1.23		-0.000	-0.85		-0.000	-0.89		0.005	5.38	***	-0.000	-0.71	
std_growth_min	-0.020	-5.44	***	-0.011	-3.08	***	-0.004	-1.36		-0.019	-3.1	***	-0.014	-4.11	***
industry fixed effect	yes														
year fixed effect	yes														
observations	28,397			28,397			28,397			28,397			28,397		
adjusted R-sq	0.55			0.4933			0.4974			0.2288			0.4452		

Table 3A shows the regression results of H2. The sample is comprised of 28,397 pairs of firm-year observations over the period of 2003-2012. TA_diff is the absolute value of differences in total accrual between firm i and firm j in a pair. DA_diff is the absolute value of differences in discretionary accrual between firm i and firm j in a pair. DA1 is the modified Jones model (Dechow et al.1995), DA2 is the performance-matched modified Jones model adding ROA as an additional regressor, DA3 is the performance-matched modified Jones model (matched sample), and DA4 is the performance-matched modified Jones model forming 20 portfolios each year and subtracting a median DA of matched portfolio. Same_partner is an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner of firm j, 0 otherwise. Big4 is an indicator variable which takes the value of 1 if the audit firm is one of the Big4 auditors (Pricewatershouse Coopers, KPMG, Deloitte and Ernst & Young), 0 otherwise. Control variables are defined in the Appendix. Continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

3B Big 4 versus non-Big 4

Variables	Dependent Variable: TA_diff					
	Big 4			non-Big 4		
	Coefficient	t-stat		Coefficient	t-stat	
Intercept	0.023	2.35	***	0.055	1.7	*
TA(DA)_min	-0.768	-120.08	***	-0.590	-44.33	***
Same_partner	-0.025	-17.72	***	-0.038	-9.93	***
Same_acfirm	0.001	1.62	*	0.002	0.72	
size_diff	-0.000	-0.54		-0.003	-2.61	***
size_min	0.001	2.53	**	-0.000	-0.37	
lev_diff	-0.027	-10.42	***	-0.017	-3.07	***
lev_min	-0.046	-15.9	***	-0.005	-0.84	
mb_diff	0.000	11.05	***	0.000	4.33	***
mb_min	0.001	15.56	***	0.001	3.38	***
cfo_diff	-0.021	-3.01	***	0.113	7.23	***
cfo_min	-0.608	-76.13	***	-0.465	-27.57	***
lossprob_diff	-0.008	-5.98	***	-0.014	-4.73	***
lossprob_min	-0.026	-10.5	***	-0.022	-4.7	***
std_sale_diff	0.012	4.49	***	0.029	4.59	***
std_sale_min	0.045	7.84	***	0.020	1.46	
std_cfo_diff	0.073	8.06	***	-0.005	-0.24	
std_cfo_min	0.107	7.07	***	-0.043	-1.23	
std_growth_diff	0.001	1.29		-0.000	-0.19	
std_growth_min	-0.023	-5.9	***	0.001	0.12	
industry fixed effect	yes			yes		
year fixed effect	yes			yes		
observations	23,093			5,304		
adjusted R-sq	0.5567			0.5503		

Table 3B shows the regression results of H2 using Big 4 and non-Big 4 subsamples. TA_diff is the absolute value of differences in total accrual between firm i and firm j in a pair. Same_partner is an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner of firm j, 0 otherwise. Control variables are defined in the Appendix. Continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Table 4 Additional tests using different pair-sets

4A Making firm-pairs within the same audit firm

Variables	Dependent Variable: TA_diff			DA1_diff			DA2_diff			DA3_diff			DA4_diff		
	Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat	
Intercept	0.043	3.48	***	0.019	1.57		-0.027	-2.87	***	0.048	2.73	***	0.022	2.03	**
TA(DA)_min	-0.486	-52.45	***	-0.437	-48.99	***	-0.441	-47.44	***	-0.385	-44.74	***	0.437	-46.7	***
Same_partner	-0.022	-15.30	***	-0.026	-18.56	***	-0.018	-16.58	***	-0.042	-20.39	***	-0.021	-17.31	***
size_diff	-0.000	-0.09		-0.000	-0.53		-0.000	-1.14		-0.000	-0.23		0.000	0.77	
size_min	-0.000	-0.41		0.001	1.57		0.002	5.61	***	0.000	0.16		0.000	1.09	
lev_diff	-0.004	-1.01		0.000	0.08		-0.001	-0.41		0.022	3.65	***	-0.004	-1.12	
lev_min	-0.019	-5.38	***	-0.009	-2.66	***	0.001	0.38		0.005	1.01	***	-0.005	-1.78	*
mb_diff	0.000	2.83	***	0.000	1.89	*	-0.000	-0.49		0.000	2.4	***	0.000	1.08	
mb_min	0.001	7.86	***	0.000	4.85	***	0.000	3.89	***	0.000	3.32	***	0.000	4.56	***
cfo_diff	0.161	14.01	***	0.121	11.26	***	0.244	26.51	***	0.137	9.08	***	0.178	17.9	***
cfo_min	-0.377	-34.51	***	-0.269	-27.47	***	-0.303	-34.84	***	-0.267	-19.94	***	-0.293	-31.49	***
lossprob_diff	0.003	1.21		0.005	2.28	**	-0.003	-1.82	*	-0.002	-0.66	*	-0.000	-0.2	
lossprob_min	-0.026	-10.00	***	-0.020	-7.69	***	-0.013	-6.87	***	-0.015	-4.2	***	-0.010	-4.7	***
std_sale_diff	0.010	2.02	**	0.025	5.27	***	0.022	5.92	***	0.037	5.38	***	0.022	5.36	***
std_sale_min	0.018	2.70	***	0.007	1.04		-0.002	-0.38		0.014	1.51	*	0.002	0.38	
std_cfo_diff	0.115	7.03	***	0.092	5.75	***	0.033	2.69	***	0.087	3.77	***	0.054	3.84	***

std_cfo_min	0.064	3.46	***	0.007	0.4		0.006	0.45	-0.066	-2.52	***	0.000	0.03
std_growth_diff	0.009	5.76	***	0.003	2.26	**	-0.002	-1.53	0.004	1.63		-0.000	-0.02
std_growth_min	-0.014	-3.42	***	-0.009	-2.23	**	-0.004	-1.36	-0.010	-1.78	*	-0.008	-2.32
industry fixed effect	yes			yes			yes		yes			yes	
year fixed effect	yes			yes			yes		yes			yes	
observations	8,788			8,788			8,788		8,788			8,788	
adjusted R-sq	0.5871			0.5362			0.6431		0.4905			0.5744	

4B Making year-pairs within the same client firm to compare time-series accounting information

	Dependent Variable: TA_diff			DA1_diff			DA2_diff			DA3_diff			DA4_diff		
Variables	Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat	
Intercept	0.059	6.52	***	0.023	2.61	***	-0.030	-4.56	***	0.033	2.61	***	0.026	3.42	***
TA(DA)_min	-0.513	-69.09	***	-0.495	-69.36	***	-0.541	-72.78	***	-0.491	-69.61	***	-0.509	-67.61	***
Same_partner	-0.006	-6.81	***	-0.010	-11.72	***	-0.006	-9.5	***	-0.016	-13.04	***	-0.008	-11.11	***
size_diff	0.010	6.75	***	0.010	7.18	***	0.009	8.26	***	0.014	6.49	***	0.011	8.91	***
size_min	-0.001	-4.07	***	0.000	0.22		0.002	6.76	***	0.000	0.14		-0.000	-0.82	
lev_diff	0.019	3.35	***	0.007	1.19		-0.008	-1.88	*	-0.011	-1.37		-0.006	-1.26	
lev_min	-0.020	-7.87	***	-0.011	-4.38	***	0.004	2.22	**	-0.010	-2.74	***	-0.006	-2.73	***

mb_diff	0.000	7.02	***	0.000	3.62	***	0.000	3.36	***	0.000	5.06	***	0.000	2.96	***
mb_min	0.000	8.25	***	0.000	5.37	***	0.000	4.47	***	0.000	0.67		0.000	5.28	***
cfo_diff	0.282	30.46	***	0.200	23.51	***	0.224	31.65	***	0.179	15.07	***	0.208	26.51	***
cfo_min	-0.427	-48.95	***	-0.320	-40.59	***	-0.361	-53.02	***	-0.367	-33.52	***	-0.347	-46.7	***
lossprob_diff	-0.004	-1.96	**	0.004	1.93	*	-0.005	-3.09	***	0.007	2.33	*	0.003	1.87	*
lossprob_min	-0.026	-13.51	***	-0.017	-9.5	***	-0.015	-10.97	***	-0.013	-5.02	***	-0.011	-7.03	***
std_sale_diff	0.019	4.02	**	0.014	2.91	***	0.005	1.5		0.038	5.73	***	0.003	0.81	
std_sale_min	0.023	4.28	***	0.008	1.6		0.006	1.51		-0.003	-0.45		0.003	0.67	
std_cfo_diff	0.025	1.52		0.029	1.82	*	0.036	3.02	***	0.051	2.23	**	0.025	1.84	*
std_cfo_min	0.033	2.33	**	-0.014	-1		0.007	0.63		-0.118	-5.85	***	-0.017	-1.38	
std_growth_diff	-0.001	-0.41		-0.001	-0.48		-0.001	-1.02		0.001	0.38		-0.000	-0.07	
std_growth_min	-0.004	-1.36		-0.008	-2.67	***	-0.004	-1.86	*	0.004	0.96		-0.004	-1.53	
industry fixed effect	yes			yes			yes			yes			yes		
year fixed effect	yes			yes			yes			yes			yes		
observations	15,711			15,711			15,711			15,711			15,711		
adjusted R-sq	0.5622			0.4821			0.5917			0.4217			0.5166		

TA_diff is the absolute value of differences in total accrual between firm i and firm j in a pair. DA_diff is the absolute value of differences in discretionary accrual between firm i and firm j in a pair. DA1 is the modified Jones model (Dechow et al.1995), DA2 is the performance-matched modified Jones model adding ROA as an additional regressor, DA3 is the performance-matched modified Jones model (matched sample), and DA4 is the performance-matched modified Jones model forming 20 portfolios each year and subtracting a median DA of matched portfolio. Same_partner is an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner of firm j, 0 otherwise. Big4 is an indicator variable which takes the value of 1 if the audit firm is one of the Big4 auditors, 0 otherwise. Control variables are defined in the Appendix. Continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

4C Effect of partner change within the same client firm

Dependent Variable: TA_diff			
Variables	Coefficient	t-stat	
Intercept	0.082	3.63	***
TA_min	-0.470	-23.5	***
Ptr_change	0.003	1.94	*
size_diff	0.047	5.12	***
size_min	-0.002	-2.34	**
lev_diff	0.023	0.98	
lev_min	-0.015	-2.35	**
mb_diff	0.001	2.95	**
mb_min	0.000	3.38	***
cfo_diff	0.347	14.46	***
cfo_min	-0.367	-16.36	***
lossprob_diff	-0.021	-2.24	**
lossprob_min	-0.015	-3.3	***
std_sale_diff	0.037	1.9	
std_sale_min	0.006	0.56	
std_cfo_diff	0.209	3.31	***
std_cfo_min	0.044	1.35	
std_growth_diff	0.025	2.31	**
std_growth_min	-0.003	-0.5	
industry fixed effect	yes		
year fixed effect	yes		
observations	2,366		
adjusted R-sq	0.5389		

Ptr_change is a dummy variable which equals 1 if there is a change of engagement audit partner, 0 otherwise. Control variables are defined in the Appendix. Continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Table 5 Effect of partner-engagement tenure on comparability

Dependent Variable: TA_diff			
Variables	Coefficient	t-stat	
Intercept	0.087	3.87	***
TA_min	-0.470	-23.5	***
Ptr_tenure	-0.002	-2.21	**
size_diff	0.047	5.12	***
size_min	-0.002	-2.33	**
lev_diff	0.023	0.97	
lev_min	-0.015	-2.35	**
mb_diff	0.001	2.94	***
mb_min	0.000	3.38	***
cfo_diff	0.347	14.46	***
cfo_min	-0.367	-16.36	***
lossprob_diff	-0.021	-2.24	**
lossprob_min	-0.015	-3.29	***
std_sale_diff	0.037	1.91	*
std_sale_min	0.006	0.54	
std_cfo_diff	0.209	3.31	***
std_cfo_min	0.044	1.35	
std_growth_diff	0.025	2.3	**
std_growth_min	-0.003	-0.49	
industry fixed effect	yes		
year fixed effect	yes		
observations	2,366		
adjusted R-sq	0.5392		

Ptr_tenure is a variable which takes the value of 1, 2 and 3 as the partner-engagement experience. Control variables are defined in the Appendix. Continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Table 6 Regression results by Big 4 audit firms

Variables	Dependent Variable: TA_diff											
	PWC			KPMG			Deloitte		Ernst & Young			
	Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat		Coefficient	t-stat	
Intercept	0.063	2.28	**	0.013	0.32		-0.054	-1.67		-0.046	-0.83	
TA_min	-0.732	-36.94	***	-0.678	-23.96	***	-0.648	-29.75	***	-0.654	-22.83	***
Same_partner	-0.020	-6.71	***	-0.019	-5.63	***	-0.022	-6.20	***	-0.018	-4.71	***
size_diff	0.001	1.70	*	-0.001	-0.72		0.001	0.70		0.000	-	
size_min	-0.001	-0.61		0.001	0.81		0.003	2.79	***	0.004	1.81	*
lev_diff	-0.020	-2.45	**	0.002	0.21		-0.008	-0.89		-0.036	-2.91	***
lev_min	-0.035	-3.97	***	-0.044	-3.80	***	-0.029	-3.06		-0.044	3.50	***
mb_diff	-0.000	-0.37		0.000	3.16	***	0.000	4.86		0.000	2.42	**
mb_min	0.001	4.58	***	0.000	1.90	*	0.001	3.30	***	0.001	0.07	***
cfo_diff	0.028	1.27		-0.015	-0.49		0.052	1.94	*	0.063	1.99	*
cfo_min	-0.541	-21.70	***	-0.505	-14.72	***	-0.563	-20.27	***	-0.587	-17.82	***
lossprob_diff	-0.003	-0.79		0.000	0.02		-0.013	-2.78	***	0.007	1.15	
lossprob_min	-0.029	-4.15	***	-0.027	-2.98	***	-0.028	-3.61	***	-0.031	-3.53	***
std_sale_diff	0.014	1.69	*	-0.023	-1.78	*	0.041	3.85	***	0.029	2.10	*
std_sale_min	0.041	2.63	***	0.039	1.57		0.032	1.67	*	-0.026	-0.98	

std_cfo_diff	0.048	1.76 *	0.206	4.39 ***	0.059	1.71 *	0.072	1.64
std_cfo_min	0.178	4.24 ***	-0.060	-0.92	0.205	4.38 ***	-0.073	-1.14
std_growth_diff	0.003	1.61	0.002	0.70	0.005	2.04 **	0.003	0.74
std_growth_min	-0.018	-1.53	-0.008	-0.57	-0.032	-2.58 **	-0.007	-0.40
industry fixed effect	yes		yes		yes		yes	
year fixed effect	yes		yes		yes		yes	
observations	2,396		1,394		1,875		1,167	
adjusted R-sq	0.6101		0.5373		0.6249		0.6302	

Table 5 shows the regression results of H1 by Big 4 auditors (Pricewatershouse Coopers, KPMG, Deloitte and Ernst & Young). TA_diff is the absolute value of differences in total accrual between firm i and firm j in a pair. Same_partner is an indicator variable which takes the value of 1 if audit partner of firm i is the same audit partner of firm j, 0 otherwise. Control variables are defined in the Appendix. Continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

국문 초록

본 연구는 회계법인의 감사파트너가 회계정보의 비교가능성에 미치는 영향에 대해 살펴보았다. 실증연구 결과, 같은 감사파트너에 의해 감사 받는 두 회사 사이의 회계정보 비교가능성이 서로 다른 파트너가 감사하는 두 회사간의 회계정보 비교가능성보다 높은 것으로 나타났다. 감사파트너가 회계정보의 비교가능성에 미치는 영향은 회계법인이 회계정보 비교가능성에 미치는 영향보다 더 큰 것으로 밝혀졌으며, 이는 감사파트너 수준의 세분화된 분석이 의미가 있음을 시사한다. 또한, 본 연구는 Non-Big 4 회계법인에 소속된 감사파트너가 두 회사를 감사하는 경우 Big 4 회계법인의 감사파트너가 두 회사를 감사하는 경우보다 해당 회사들간의 회계정보 비교가능성이 더 높은 것을 발견했다. 이러한 결과는 Big 4 회계법인이 표준화된 감사절차를 통해 감사대상 회사들에게 비교적 유사하고 균질한 수준의 감사서비스를 제공하고 있기 때문이다. 반면, Non-Big 4 회계법인에서는 개개인의 감사파트너의 영향력이 회계법인 차원의 영향력보다 상대적으로 더욱 중요할 수 있다. 본 연구의 결과는 개개인의 감사파트너가 회계정보의 비교가능성에 미치는 영향에 대해 실증적인 근거를 제공하며, 이로 인해 Big 4 회계법인과 Non-Big 4 회계법인의 감사의 질에 차이가 발생할 수 있음을 보여주고 있다.

주 요 어 : 회계정보 비교가능성, 감사파트너, 회계법인

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