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Retain or Rotate: Outcomes of Frequent Auditor Switching

by

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**An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of
Science in Business Administration in Accounting and Finance**

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I. Introduction

Regulators have traditionally focused much attention on auditor switching behavior to improve financial reporting outcomes. Many companies, such as Proctor & Gamble and Goodyear Tire & Rubber, have retained the same audit firm for over a century. Recently, regulators have focused on companies and auditors with long tenures and on companies that are not switching auditors enough. While the European Union has recently required companies to rotate auditors after 10 years – 20 if the audit is put up for bid – I am not aware of any recent regulations in the United States that constrain auditor switching behavior. While legitimate reasons such as company growth, relationship issues, or audit fees could drive auditor switching, companies may also switch to a more-lenient auditor. This process, referred to as opinion shopping, is formally defined as “an issuer soliciting a number of accounting firms in search of one who will bless a questionable accounting practice” (Peters, 1985). While recent regulation in Europe focuses on mandatory auditor *rotation*, some scholars believe mandatory auditor *retention* would prove more effective in improving audit quality by reducing opportunities for opinion shopping (Lennox, 1998). If companies choose a more-lenient auditor with each switch, then frequent switching behavior could impair the value of an audit. While much research focuses on singular instances of auditor switching, I instead evaluate frequent auditor switching, or the number of auditor switches within a fixed window of time. For example, there may be substantial differences in audit quality between a company that employs five different auditors in five years and a company that only employs one. I discuss some of the drivers of auditor switching and examine the association between frequent auditor switching and audit quality.

Research on the subject explores the effects of auditor independence, auditor tenure, and opinion shopping on financial reporting quality. Auditors play an important role in mitigating the principal-agent problem between shareholders (principal) and management (agents) to ensure management is acting in the best interest of the shareholders. Companies have incentives to report earnings in ways that are in their own best interest, even at the expense of the stakeholders (Watts & Zimmerman, 1979). When conducting an audit, auditors must either accept or deny the company’s accounting practices, many of which fall in a “gray-area” of accounting standards. The vague criteria used in many of these standards may actually allow justification of aggressive reporting and earnings management (Hackenbrack & Nelson, 1996). Aggressive reporting methods frequently involve policies that improve the appearance of a company’s financial position, such as taking advantage of flexible discretionary accrual policies to improve net income, as well as beat earnings predictions. Companies may seek an auditor that supports an aggressive accounting method or fails to detect misstatements in financial statements (issues of *auditor independence* and *audit quality*).

While many policies have attempted to strictly enforce auditor independence, completely ensuring independence is difficult, if not impossible (Bazerman et al., 1997). If a company pays an auditor for its services, the auditor has an incentive to indicate that a company is a going concern (Blay and Geiger, 2013), issue fewer negative audit opinions (Krishnan and Krishnan, 1996; Cowle and Rowe, 2019), and accept aggressive accounting methods (Cushing, 1999) in order to retain the client for future audit engagements or compete with other audit firms. At the same time, high litigation risk serves as a counterincentive for auditors to remain independent despite relying on fees (Krishnan and Krishnan, 1997; DeAngelo, 1981). As in any market, audit firms frequently compete for clients, and clients may engage in opinion shopping to attempt to employ the most forgiving and cheapest audit firm (Lennox, 2000), or one that would give a better opinion than the company’s current auditor. Research has found two-way causation

regarding opinion shopping: both that a qualified opinion triggers a switch and that a switch triggers a qualified opinion (Krishnan et al., 1996). Clients also may try to use aggressive reporting methods as leverage between two or more competing audit firms. Auditors who do not consent to aggressive reporting may find it harder to attract clients, as there might be other auditors who allow aggressive reporting. I discuss auditor and client incentives, aggressive reporting acceptance, auditor tenure, and opinion shopping further in Section 2.

While some previous studies show that switching does not improve audit opinions (Krishnan and Stephens, 1995; Chow and Rice, 1982), others show opinion shopping is successful when considering what opinions would have been without a switch (Lennox, 2000). As such, existing studies produce mixed results around the impact of auditor switching on overall audit quality and financial reporting outcomes. Research opposed to auditor switching shows that less switching (longer tenure) results in: a better understanding of a client's industry and operations (Fairchild, 2008), no obvious auditor independence or audit quality impairment (Tepalagul and Lin, 2014), and decreased chances for opinion shopping (Cushing, 1999; Lennox, 2000). Consistently, more switching (shorter tenure) is correlated with lower reporting quality (Myers, et al., 2003; Chen, et al., 2008). More switching is also associated with increased overstatements in financial reporting (Lu, 2006). On the other hand, research also shows significant advantages from more-frequent auditor switching. More-frequent switching prevents bonding between clients and auditors that can compromise auditor independence (Chou et al., 2012; Fairchild, 2008; Lennox, 2005), improves audit quality, and decreases understatements in financial reporting (Lu, 2006).

Prior research has primarily focused on switch constructs such as single instances of switching, opinion shopping, and auditor tenure. However, there is more to learn about the effects of frequent switching, determined by how often a company switches its auditor in a set time frame. If a company frequently switches its auditor, it is likely looking for a more-lenient auditor in each switch scenario. To my knowledge, prior research does not address this concern specifically, although the outcomes of frequent switching may be important in developing auditor switching policies. Frequent switching behavior could impair the value of the audit, as frequent switching allows for more possibilities of opinion shopping between audit firms. Cushing's (1999) basic opinion shopping game theory model suggests that consenting to aggressive reporting methods proposed in instances of opinion shopping is an auditor's dominant strategy. This has important implications, suggesting that as opportunities for opinion shopping increase, more auditors would allow aggressive reporting methods. For the European Union, which has mandated an audit be put up for bid every 10 years, this game theory model suggests an increase in aggressive reporting due to more instances of opinion shopping. As a company switches its auditor more frequently, the number of opportunities an auditor has to consent to aggressive reporting methods increases.

This study connects theory and empirical models to examine the outcomes of more-frequent auditor switching in an effort to aid regulators when considering mandatory auditor rotation or retention policies. Using 2004 to 2019 audit data from Compustat and Audit Analytics, I investigate whether more-frequent auditor switching increases the likelihood of aggressive reporting. My first set of tests examines the impact of frequent auditor switching on audit quality, measured by misstatements and abnormal accruals. To determine the frequency of auditor switching, I count how many times a company changes its auditor within a rolling five-year window. If Cushing's (1999) game theory model persists in actual audit markets, I expect frequent auditor switches to increase the chance for opinion shopping and therefore reduce audit

quality. I evaluate switches within tiers (e.g., Big 4 to Big 4 or non-Big 4 to non-Big 4), rather than between tiers (e.g., Big 4 to non-Big 4). Including switches to and away from Big 4 firms, for example, only captures one switch in each direction, if at all. Because I examine the number of switches within a range of time, I look only within auditor tiers. I find evidence that audit quality decreases when companies switch frequently between non-Big 4 firms but not when they switch frequently between Big 4 firms. I then examine the impact of frequent auditor switches on audit attention, proxied by fees, delay of audit opinion, and probability of a late filing. I find strong evidence that audit attention increases when companies switch frequently between non-Big 4 firms, but not when they switch between Big 4 firms. Auditors appear to recognize the higher risk and lower quality associated with a firm who switches its auditor frequently, but this is not enough to fully offset the quality difference seen in the original test.

In additional analyses, I examine only at the first year following a switch. Consistent with the original test, I find that frequently switching between non-Big 4 auditors is accompanied by higher fees, longer audit opinion delays, and a higher probability late filings. Switching frequently between Big 4 firms, however, is associated with lower fees in the first year, suggesting the presence of price cutting from Big 4 firms to capture clients in a competitive environment. Lastly, I find that switching more-frequently between Big 4 firms decreases the likelihood of an internal control material weakness opinion. Taken together, my findings suggest that regulators should consider curbing frequent auditor switching rather than myopically focusing on long auditor tenure. Frequent auditor switching may decrease audit quality and efficiency of audits by increasing fees, delaying audit opinions, and slowing filings among non-Big 4 firms. However, my findings suggest that these negative outcomes may not be the result of opinion shopping, at least for non-Big 4 firms. For Big 4 audit firms, however, mandated auditor switching may increase opinion shopping for favorable internal control audit opinions.

My study makes several contributions to literature and practice. First, I provide insights on the effects of frequent auditor switching to advise mandatory auditor retention or rotation policies. By focusing on the frequency of switching, rather than only the indication of a switch, this study is the first, to my knowledge, to show the impact of frequent switching among tiers of audit firms on several outcomes. This study finds evidence that seems to oppose mandatory rotation policies, as these policies may decrease audit quality among non-Big 4 firms and increase the costs of an audit. The policies may also promote opinion shopping among Big 4 firms for favorable internal control audit opinions.

Second, I expand upon pre-existing literature around opinion shopping, or shopping for a favorable audit opinion. Theory proposes that the dominant strategy of auditors in situations of opinion shopping is to accept aggressive reporting methods, resulting in successful opinion shopping (Cushing, 1999). If shopping for favorable audit opinions exists in audit markets, my results suggest it is not successful outside of internal control audit opinions among Big 4 firms. This suggests that frequent auditor switching may be occurring in financial markets for reasons other than opinion shopping.

Finally, my results have implications for audit practice. Companies looking to frequently switch from one non-Big 4 auditor to another may pay higher fees, receive a delayed audit opinion, and file late. They also are likely to have more “Big R” restatements.¹ Restatements and delays in audit opinions may signal bad news to investors (Goethe and Weirich, 2007). If an audit opinion is delayed, investors will likely become wary, potentially leading to negative

¹ “Big R” restatements are done in response to misstatements severe enough to require the filing of Form 8-K with the SEC.

outcomes for the company. Companies should be aware of the negative outcomes that may accompany frequently employing a new auditor.

The remainder of this paper is organized as follows. Section 2 reviews prior literature on the role of audit firms, the incentives they and clients face around aggressive reporting, and the effects of auditor tenure. It also explains how opinion shopping can be shown using a simple game theory model. Section 3 discusses my research design and sample selection and sets up the initial model. Section 4 details the results of my primary analyses around audit quality and audit attention. Section 5 discusses my additional analyses focusing on audit attention and reporting decisions in the first year following an auditor switch. Section 6 concludes.

II. Background and Research Question

The Role of Independent Audit Firms

The Sarbanes-Oxley (SOX) Act of 2002 imposed strict regulations on publicly traded companies, including mandated financial statement and internal control audits by an independent audit firm, in order to protect shareholder interests.² Businesses have incentives to report earnings in ways that are in their best interest, even at the expense of the stakeholders (Watts and Zimmerman, 1979). Per SOX, financial statements prepared by management must be reviewed by independent auditors in order to lend credibility to said statements and prevent misstatements. Auditors must perform audit procedures to obtain reasonable assurance that financial statements are not materially misstated through error or fraud. These procedures help to mitigate the principal-agent problem between shareholders (principal) and management (agents) to ensure management is acting in the best interest of the shareholders. However, this creates an expectation gap between auditors and shareholders. Shareholders may expect auditors to perform procedures to guarantee financial statement accuracy; however, auditors can only gain reasonable assurance that the information is not materially misstated. In addition, SOX contains provisions restricting an auditor from engaging in activities that may compromise his or her independence (Tepalagul & Lin, 2014).³ Studies have found that audit independence impacts audit quality, and if auditors do not remain independent, they will be less likely to report irregularities (DeAngelo, 1981). The purpose of a financial statement audit is to gain reasonable assurance that material misstatements have not occurred in financial statements, so lack of independence can prevent an accurate opinion.

Audits are planned and conducted using professional judgment, and the potential for bias exists if an auditor is not independent. Professional judgments, if not developed correctly, can hurt all parties involved. Ashton et al. (1995) write that the high stakes of professional judgment decisions involve both financial outcomes and important human consequences. Incorrect judgments by an audit team can lead to detrimental effects to shareholders, financial markets, the economy, and constituents and customers of the business. Auditors can improve professional judgments by using effective decision-making processes to become aware of biases and traps which may negatively affect their judgment (Tysiac, 2014). As regulators consider enacting strict measures to improve audit quality, they must consider incentives and outcomes which may not

² SOX was passed following financial scandals including Enron and WorldCom in the early 2000s, when it was discovered that these firms misstated earnings and profits for years. In the Enron scandal, Arthur Andersen, the accounting firm in charge of the audit was aware of the misstatements and did nothing to fix them, even shredding documents related to the audit of the company.

³ Activities include non-audit services, such as advisory services, for a company in which the accounting firm provides audit services to.

be initially obvious. Because the audit profession relies so heavily on independence and ethical behavior of auditors to provide unbiased opinions on the financial positions of public companies, regulations that may undermine independence would be detrimental to the financial markets. This paper discusses how possible adverse outcomes could occur due to mandatory auditor retention or rotation based on the incentives of auditors and clients.

Aggressive Reporting Method Acceptance

One of the auditor's roles is to discourage managers from acting in their own best interest to misstate financial information for some private gain that does not benefit shareholders. Auditors should follow and promote generally accepted accounting principles (GAAP) to encourage managers to not misstate financial reports (Hackenbrack & Nelson, 1996). However, companies still have a significant incentive to intentionally misstate financial information, as it can dramatically increase company value in the short run. In addition, because auditors are paid by the companies they audit, auditors have incentives to allow their clients to adopt aggressive reporting methods.⁴ Ensuring auditors remain impartial, or independent, is a long-standing concern in the financial sector, and it is a significant reason for the enactment of SOX in 2002.

However, ensuring complete independence is difficult, if not impossible. Bazerman et al. (1997) believe auditor independence is impossible because it is unrealistic the auditor will develop impartial judgments in the best interests of creditors, stockholders, and general public, and not the interests of the companies that hire them. If a company pays an auditor for its services, the auditor has an incentive to indicate that a company is a going concern and accept manipulated financial statements to retain the client for future audit engagements. Further, audit offices that issue more internal control material weakness opinions experience lower client and fee growth (Cowle & Rowe, 2019). For this reason, auditors appear to have incentives to issue incorrect favorable audit opinions. However, auditors must weigh the benefits with the costs of lawsuits and other legal implications. Auditors must comply with generally accepted audit standards, the AICPA code of conduct, and legal provisions enacted by SOX or face potential ramifications.

Although generally accepted accounting principles are designed to constrain aggressive reporting methods, the vague criteria used in many of these standards may actually allow justification of aggressive reporting and earnings management (Hackenbrack & Nelson, 1996). Aggressive reporting methods frequently involve accrual accounting policies that improve the appearance of a company's financial position. For example, companies may try to take advantage of flexible discretionary accrual policies to improve net income metrics and beat earnings predictions. Given the subjective nature of these accrual policies, companies may "shop" for an auditor who will accept these aggressive accounting policies. For this reason, discretionary accruals that significantly differ from the industry average can be used as a proxy for aggressive reporting. If accruals stray farther from the average, for example, the company is more likely to have engaged in aggressive reporting.

As such, competition between audit firms for clients encourages aggressive reporting, while a worsening client financial condition discourages aggressive reporting (Lord, 1992). If competition for a client increases, auditors have an incentive to allow aggressive reporting in order to retain a client and its accompanying revenue. If an auditor accepts these aggressive strategies, opinion shopping was successful. However, if the financial condition of the client

⁴ In this paper, aggressive reporting methods are defined as methods that take advantage of flexible accounting guidance and are not in compliance with generally accepted accounting principles (GAAP). Specifically, the methods are used to reflect a more favorable financial position for the company.

deteriorates, an auditor would be less likely to allow aggressive reporting in order to mitigate engagement risk.⁵ These findings suggest that altering auditors' incentives could reduce aggressive reporting more effectively than changing standards (Hackenbrack & Nelson, 1996).

Effects of Auditor Tenure

Literature surrounding auditor tenure is mixed, with some studies suggesting degradation of audit quality due to reduced independence and others finding the opposite due to the increased expertise and experience found with longer tenures. Some studies generally do not find a correlation between long auditor tenure and reduced audit quality or auditor independence (Tepalagul & Lin, 2014), suggesting no need for mandatory auditor rotation. A survey of bankers and financial analysts found that auditor tenure exceeding five years is not perceived as reducing independence. Other studies have even correlated longer audit tenure with an increased understanding of a client's business and thus higher audit quality. Fairchild (2008) studied a situation that includes the "learning curve" effect and the "loss of independence" effect during an auditor's tenure. While auditor tenure is originally associated with an increased ability to detect fraud, as time increases, auditors become more sympathetic toward the client. This, in turn, reduces auditors' incentives to detect fraud.

Other research found that client affiliation with audit firms can negatively impact auditor independence and audit quality, consistent with Fairchild (2008). Audit firms have incentives for affiliations with clients, although auditors are supposed to remain independent. There are three potential issues concerning this auditor-client relationship that may reduce independence: consideration of the client as a potential employer, the auditor's close relationship with management, and difficulty for the auditor to maintain independence in front of former colleagues. First, many auditors transition out of public accounting and take jobs with their clients, but SOX contains a provision to limit affiliation among managers on the audit team.⁶ For clients with long-standing relationships with one audit firm, auditors are likely to work on the same engagement each year. Auditors work closely with client personnel to complete audited financial statements on time, and it is likely a certain amount of bonding between them will occur (Chou et al., 2012). This bond could inhibit auditor independence. There is limited research on the effect of the relationship of an auditor with a client, but Lennox (2005) finds auditors are more likely to issue unqualified audit opinions to clients with employment- or alma mater-affiliated members of management than those without. In order to protect their relationship with the client, auditors may be more likely to issue an incorrect opinion. Thus, research finds that affiliations between clients and auditors can decrease independence and cause decreased audit quality.

There is conflicting evidence regarding correlation between audit tenure and audit quality, as some studies find longer tenure is correlated with a better understanding of a client's business, leading to a positive relation between auditor tenure and reporting quality (Tepalagul & Lin, 2014). Consistently, shorter tenure is correlated with low reporting quality (Myers, et al., 2003; Chen, et al., 2008). Although some studies show a positive correlation between audit tenure and audit quality, other studies find affiliations to increase over time and reduce auditor independence. Research promoting mandatory auditor rotation references the "fresh eyes" effect (Lennox et al., 2014), particularly in detecting and uncovering fraud (Grothe and Weirich, 2007),

⁵ Engagement risk is defined as the risk of damage to auditor reputation, potential for litigation, or financial loss from a failed audit.

⁶ SOX requires a 1-year cooling-off period before the audit partner or other engagement team members can work for the client as a financial officer (Tepalagul and Lin, 2014).

suggesting that new auditors may catch something that previous auditors either missed or ignored.

Opinion Shopping and Game Theory

Audit firms frequently compete for clients, as in any market, and clients engage in opinion shopping to attempt to employ the most forgiving and cheapest audit firm (Lennox, 2000). Clients also may try to use aggressive reporting methods as leverage between two or more competing audit firms. Auditors who do not consent to aggressive reporting may find it harder to attract clients, as there might be other auditors who allow aggressive reporting. Thus, clients hold power over the decision of the auditor. To attract and retain clients, auditors have incentives to allow aggressive reporting methods and compete with other auditors in opinion shopping games.

The interactions of auditors when competing for clients can be modeled using game theory. The study of game theory models the strategies of individuals in competitive situations based on the payoffs of each decision. In these situations, the outcome of a strategy depends largely on the decision of the opponent(s). While several opinion shopping game theory models have been introduced, I reintroduce Cushing's (1999) simple noncooperative game theory model in order to enhance readability and understanding, specifically by auditors, of the predicted effects of their actions. Cushing's (1999) prisoners dilemma game theory model describes situations of audit opinion shopping between two auditors and two clients.⁷ Each auditor must either consent to or deny a request by a client to approve an aggressive reporting method. This model enhances the understanding of how clients and auditors interact in financial markets and provides a framework for theoretical outcomes that can then be analyzed empirically.

Cushing (1999) developed a prisoners' dilemma model depicting two auditors competing for clients engaged in audit opinion shopping.⁸ The matrix for this game is shown in Table 1a. Each auditor must decide to either consent to or deny a client request to approve an aggressive reporting method. There is competition between auditors, as a client will switch to the other auditor if only one denies the client's request for aggressive reporting acceptance.

[<Table 1a>](#)

By assigning values to each payoff, it is easy to first understand the effects of a chosen strategy. Table 1a shows how *deny/deny* results in the collectively favorable (Pareto-efficient) option; however, each party has more to lose if its opponent chooses to *consent* when they *deny*.⁹ This creates an incentive for the auditor to consent. Thus, the individually dominant strategy is to *consent*, no matter what one's opponent chooses to do. This creates a Nash equilibrium at *consent/consent*.¹⁰ Cushing found that in a single play, the unique Nash equilibrium produces a Pareto-inferior outcome where the results are equal but not optimal (1999). This game of opinion-shopping can be generalized into a matrix with no compounding variables, such as bribe money or regulations, that functions similarly to the prisoners' dilemma framework. The generalized framework can be seen in Table 1b.

[<Table 1b>](#)

⁷ Although complex models have been theorized, they are only easily understood by game theorists and other economists. The purpose of this addition is to enhance the understanding of how auditors and clients may be incentivized to make decisions in situations of opinion shopping.

⁸ The prisoners' dilemma describes a noncooperative game where two participants choose to protect themselves rather than achieve a mutually beneficial outcome.

⁹ Pareto efficiency refers to the optimal result for both parties where one player cannot be better off without making their opponent worse off.

¹⁰ Nash equilibrium is defined as an outcome where no player has an incentive to deviate from their choice when contemplating their opponent's choice.

If both auditors *deny*, they receive the *prize* payoff, p . If both auditors *consent*, they receive the *rogue* payoff, r . If Auditor A denies while Auditor B consents, Auditor A receives the *sucker's* payoff, s and Auditor B receives the *temptation* payoff, t . Similarly, if Auditor B denies while Auditor A consents, Auditor B receives the *sucker's* payoff, s , while Auditor A receives the *temptation* payoff, t . Prisoners' dilemmas dictate $t > p > r > s$. This holds true in this model. Collectively, both auditors are better off denying the client requests because both of their payoffs are higher. Thus, this is the Pareto-efficient outcome. However, in a single play, the dominant strategy for the auditor is to *consent*. This follows the original prisoners' dilemma model, in that the dominant strategy is not the optimal strategy for both auditors collectively.

This model can be applied to an iterative framework, where a different Nash equilibrium appears over multiple iterations. An auditor's equilibrium changes to deny in every situation until their opponent chooses to consent. At that point, the auditor should consent in all future interactions. However, this is difficult to apply to the real world, as many auditors retain a client unless they are seriously compelled not to do so. In order to account for this phenomenon, more complex game theory models must be considered.

Further potential equilibria are discussed by Cushing (1999) and by Axelrod (1984) in their research because of the complexity of real-world applications of this model. They consider multiple equilibria and mixed equilibria depending on the situation. Economic models traditionally consider rationality to be based on personal benefit rather than social welfare. In contrast, Dawes and Thaler (1988) have suggested implementing ethical considerations in economic models and scrutinizing exclusivity of selfish rationality in economic models. "The morality of economic agents influences their behavior and hence influences economic outcomes... Without honesty, trust, and goodwill, economic life would grind to a halt" (Hausman and McPherson, 1993, p. 673). Conclusions such as these present the argument that less strict regulations imposed by regulators could optimize ethical and monetary efficiency. This contradicts traditional economic theory, as it assumes people are not rational in that they do not maximize their personal benefit. These conclusions become more important as regulators decide whether to impose mandatory auditor switching or retention policies.

Cushing (1999) finds in his model that the *laissez-faire* approach falls short of achieving the Pareto-optimal result by the amount of the expected cost of auditors' failures to prevent aggressive reporting methods. On the other hand, strict regulations may be effective at improving ethical behavior, but at a much higher cost to regulating bodies. Thus, strict approaches failed to reach Pareto-efficiency in the model proposed by Cushing because of increased costs of regulations. Importantly, Cushing conducted this study prior to the passage of SOX, when strict regulations were not yet imposed.

Cushing's (1999) basic game theory model suggests an auditor's dominant strategy is to consent to aggressive reporting methods proposed in instances of opinion shopping. In this case, as opportunities for opinion shopping increase, more auditors would allow aggressive reporting methods. For the European Union, which has mandated an audit be put up for bid every 10 years, this model suggests an increase in aggressive reporting due to more instances of opinion shopping. To reconcile the conflicting literature on whether clients should retain or rotate auditors, I analyze empirical data to predict audit quality outcomes based on how frequently a client engages a new auditor.

Research Question

Existing studies produce mixed results around the impact of auditor switching on overall audit quality and financial reporting. Research opposed to auditor switching shows that less

switching (longer tenure) results in: a better understanding of a client’s industry and operations (Fairchild, 2008), no obvious auditor independence or audit quality impairment (Tepalagul & Lin, 2014), and decreased chances for opinion shopping (Cushing, 1999; Lennox, 2000). Consistently, more switching (shorter tenure) is also correlated with low reporting quality (Myers, et al., 2003; Chen, et al., 2008) and increased overstatements in reporting (Lu, 2006).

On the other hand, research shows significant advantages from more-frequent auditor switching. More-frequent switching prevents bonding between clients and auditors that can compromise auditor independence (Chou et al., 2012; Fairchild, 2008; Lennox, 2005), improves audit quality, and decreases understatements in financial reporting (Lu, 2006). As regulators consider implementing mandatory auditor retention or rotation to improve financial market efficiency, reconciling these conflicting perspectives becomes increasingly important. To investigate the impact and prevalence of opinion shopping, I examine the relationship between more-frequent auditor switching and audit quality, audit attention, and auditor reporting outcomes. Formally, I ask the following research question:

RQ: Does more-frequent auditor switching increase the likelihood of aggressive reporting?

III. Research Design and Sample Selection

Research Design

To examine whether more-frequent auditor switching increases the likelihood of aggressive reporting, I first analyze the impact of switching on audit quality using two distinct proxies for audit quality: misstatements and abnormal accruals. First, I use misstatements resulting in “Big R” restatements (*MISSTATE*), or misstatements severe enough to require the filing of Form 8-K with the SEC, as a proxy for audit quality. Observing higher Big R restatements is a signal of poor audit quality. This proxy choice is supported by the growing use of restatements in accounting research as a proxy for audit quality (Aobdia, 2019; Sellers et al., 2020). Second, I use absolute abnormal accruals (*ABS_ACC*), calculated using the modified Jones (1991) model (Dechow et al., 1995) as a second proxy for audit quality. I also include positive and negative abnormal accruals (*POS_AB_ACC*, *NEG_AB_ACC*) in the results for further context. I regress these proxies for audit quality (*MISSTATE*, *ABS_ACC*, *POS_AB_ACC*, and *NEG_AB_ACC*) on the variable of interest (*NUM_SWITCHES*) and estimate the following model for *QUALITY*:

$$\begin{aligned}
 QUALITY = & \beta_0 + \beta_1 NUM_SWITCHES + \beta_2 SIZE + \beta_3 ROA + \beta_4 LOSS + \beta_5 INV_REC + \\
 & \beta_6 LEVERAGE + \beta_7 BUSY + \beta_8 INTANGIBLES + \beta_9 AFILER + \\
 & \beta_{10} AFILER_LARGE + \beta_{11} FOR_OPS + \beta_{12} EXCHANGE + \beta_{13} IPO + \\
 & \beta_{14} TENURE + \beta_{15} ACQUISITIONS + \beta_{16} BIG4 + \beta_{17} GCO + \\
 & \beta_{18} INFLUENCE + Year\ FE + Industry\ FE + \varepsilon
 \end{aligned} \tag{1}$$

QUALITY equals the likelihood of a misstatement in a prior year resulting in a Big R restatement in the current year (*MISSTATE*), absolute abnormal accruals (*ABS_ACC*), positive abnormal accruals (*POS_AB_ACC*), or negative abnormal accruals (*NEG_AB_ACC*) depending on the specification. *MISSTATE* is defined as the existence of a financial statement misstatement in that year reported by filing Form 8-K with the SEC, while *ABS_ACC* represents the absolute value of either positive (*POS_AB_ACC*) and negative (*NEG_AB_ACC*) abnormal accruals calculated using the Jones (1991) modified performance-adjusted model. *NUM_SWITCHES* equals the number of auditor changes within the last five years and serves as a proxy for opinion shopping,

as one can presume that a company who frequently changes auditors has more chances for opinion shopping than one that retains the same auditor throughout the same period. A positive and significant coefficient on the variable of interest, β_I , indicates that audit quality decreases (shown by an increase in misstatements or abnormal accruals) as a company changes their auditor more frequently.

Equation (1) contains control variables that have been shown to impact audit quality in previous studies (Landsman et al., 2009; Aobdia, 2019). Detailed definitions of these variables can be found in Appendix 1. To reduce the effects of outliers, all continuous variables are winsorized at the 1st and 99th percentiles. Year and industry fixed effects are also included in each model regardless of the specification.

Sample Selection

The primary sample includes non-regulated domestic publicly traded companies with at least \$1 million in total assets that were audited between 2004 and 2019. The sample contains 30,666 client-year observations pulled from Compustat and Audit Analytics.

Descriptive Statistics

Descriptive statistics for the primary sample of client-year observations are shown in Table 2. The average number of switches (*NUM_SWITCHES*) in five years for all observations in the sample is 0.347, suggesting that most companies change auditors less than once in a five-year period, and the maximum number of switches is 4. The average absolute value of abnormal accruals (*ABS_ACC*) is 0.075, the average positive abnormal accrual (*POS_AB_ACC*) is 0.069, and the average negative abnormal accrual (*NEG_AB_ACC*) is -0.087. The average frequency of a Big R restatement is 2.4%, which is consistent with prior research (Aobdia, 2019).

[<Table 2>](#)

IV. Results

Audit Quality

My research question asks whether more-frequent auditor switching increases the likelihood of aggressive reporting. Drawing from previous literature, I expect frequent auditor switching to increase the opportunity to identify lenient auditors, increasing the likelihood of aggressive reporting method acceptance and lower audit quality. I show the results of the estimation of Equation (1) in Table 3a. Shown in Column 1, there is a positive association between *NUM_SWITCHES*, the variable of interest, and *MISSTATE* ($p < 0.1$). This suggests that more-frequent auditor switches lead to more material misstatements. There is also a positive association between the number of switches and both *ABS_ACC* ($p < 0.05$) and *POS_ACC* ($p < 0.1$). This suggests that more-frequent auditor switches lead to higher abnormal accruals. Taken together, these results show that more-frequent switches have a negative impact on audit quality.

[<Table 3a>](#)

If these results suggest the presence of opinion shopping, I expect there to be significant differences between switches between Big 4 firms and between non-Big 4 firms. Research has found that non-switchers were more likely to be audited by top audit firms (Krishnan & Stephens, 1995), suggesting that firms who employ top auditors (Big 4 firms) are less likely to switch, and thus, less likely to opinion shop. I re-perform the test from Table 3a to account for Big 4 and non-Big 4 differences and show the results in Table 3b. The regression output in Table 3b replicates Equation (1) but separates the variable of interest into switches between non-Big 4 firms (*NUM_SWITCHES_BW_NBIG*) and switches between Big 4 firms

(*NUM_SWITCHES_BW_BIG*). Once again, I use misstatements and abnormal accruals as proxies for audit quality.

As expected, effects on audit quality are driven mostly by switches between non-Big 4 firms. The coefficient estimates on the number of switches between non-Big 4 firms (*NUM_SWITCHES_BW_NBIG*) are positive and more significant for *MISSTATE* ($p < 0.05$) and *ABS_ACC* ($p < 0.01$) than in Table 3a. Interestingly, the coefficient estimate on *POS_ACC* is not significant for non-Big 4 switches, but the coefficient estimate on *NEG_ACC* is significant ($p < 0.01$), a result not seen in the original table. These results suggest that if a company switches more-frequently between non-Big 4 firms, Big R restatements and absolute abnormal accruals are likely to increase. However, coefficient estimates on the number of switches between Big 4 firms (*NUM_SWITCHES_BW_BIG*) are insignificant.

[<Table 3b>](#)

Taken together, more-frequent switches are expected to decrease audit quality, but the effect seems to be driven by companies that switch frequently between non-Big 4 audit firms. It is also important to note that the average number of switches between non-Big 4 firms is much higher than the number of switches between Big 4 firms. This suggests that not only is opinion shopping most prevalent outside of the Big 4, but it also has a greater impact on audit quality among non-Big 4 firms.

Audit Attention

While the analysis above looks at the impact of frequent switching on audit quality, there may be other significant impacts of auditor switching not captured in the original model. When a client switches to a new auditor, the new auditor must familiarize themselves with the client's industry, operations, and overall financial position. Due to the "learning curve" effect referenced by Fairchild (2008), I expect a client with frequent auditor changes to require more attention from its auditor, particularly in the first year. As such, I model the impact of the number of auditor changes (*NUM_SWITCHES*) on incremental audit attention. I use three proxies for audit attention: *FEES*, *DELAY*, and *LATE_FILE*. Audit fees (*FEES*) have been found to be a direct input measure of audit attention (DeFond and Zhang, 2014; Doogar, Rowe and Sivadasan, 2015). Audit opinion delay (*DELAY*) and late filings (*LATE_FILE*) have also been shown to be additional measures of audit attention (Cassell et al., 2019), so I triangulate audit attention using these proxies. I expect increased audit attention to accompany higher fees, longer audit opinion delay, and increased likelihood of a late filing.

The purpose of this test is to supplement my primary analysis by examining audit outcomes across more dimensions than just audit quality. Longer delays or more late filings may be indicative of poor internal controls or pending restatements, contributing to lower audit quality. Auditors likely view clients who switch frequently as higher risk and may respond by charging higher fees or taking longer to complete the audit engagement. On the other hand, high audit attention has recently been shown to improve audit quality (Xiao et al., 2020). I regress three proxies for audit attention (*FEES*, *DELAY*, and *LATE_FILE*) on the variable of interest (*NUM_SWITCHES*) and estimate a modified ordinary least squares (OLS) regression model to control for prior year dependent variable measures to capture incremental attention:

$$\begin{aligned}
 \text{ATTENTION} = & \beta_0 + \beta_1 \text{NUM_SWITCHES} + \beta_2 \text{SIZE} + \beta_3 \text{ROA} + \beta_4 \text{LOSS} + \beta_5 \text{INV_REC} + \\
 & \beta_6 \text{LEVERAGE} + \beta_7 \text{BUSY} + \beta_8 \text{INTANGIBLES} + \beta_9 \text{AFILER} + \\
 & \beta_{10} \text{AFILER_LARGE} + \beta_{11} \text{FOR_OPS} + \beta_{12} \text{EXCHANGE} + \beta_{13} \text{IPO} + \\
 & \beta_{14} \text{TENURE} + \beta_{15} \text{ACQUISITIONS} + \beta_{16} \text{BIG4} + \beta_{17} \text{GCO} +
 \end{aligned}$$

$$\beta_{18} INFLUENCE + \beta_{19} ICWEAK + \beta_{20} PY_CORRECTION + \beta_{21} AUD_CHG + \beta_{22} FEES_{t-1} + \beta_{23} DELAY_{t-1} + \beta_{24} LATE_FILE_{t-1} + Year\ FE + Industry\ FE + \varepsilon \quad (2)$$

ATTENTION equals either *FEES*, *DELAY*, or *LATE_FILE* depending on the specification. Equation (2) controls for the prior year measures of each proxy in order to capture incremental attention given to a client. Variable descriptions can be found in Appendix 1. I show the results of the estimation of Equation (2) in Table 4a. Shown in Column 1, there is a significant positive association between *NUM_SWITCHES*, the variable of interest, and all three proxies for audit attention: *FEES* ($p < 0.01$), *DELAY* ($p < 0.01$), and *LATE_FILE* ($p < 0.01$). This suggests that each auditor switch incrementally increases audit fees, increases the audit opinion delay, and increases the likelihood of a late filing after controlling for last year's measures. Results are strong and positive for all three proxies for incremental audit attention, meaning that auditors do more work on companies that switch often, but this is not enough to fully offset the quality difference seen in Table 3a.

[<Table 4a>](#)

Once again, to understand the differences between Big 4 and non-Big 4 firms, I split the variable of interest between the two groups. The results, shown in Table 4b, show that incremental changes in audit attention are tied mostly to non-Big 4 switches. Coefficient estimates for *DELAY* and *LATE_FILE* are more positive and significant ($p < 0.01$) for non-Big 4 switches, meaning that non-Big 4 auditors devote more attention to companies who switch. *FEES*, while still positive and significant, has a lower coefficient estimate between non-Big 4 firms than all firms taken together. This is likely due to the fact that Big 4 firms generally earn higher fees, so when they are split out, the overall impact on fees decreases. As such, coefficient estimates for all three measures are insignificant for switches between Big 4 firms.

[<Table 4b>](#)

V. Additional Analyses

Outcomes in First Year After Switch

Previous literature references the “learning curve” effect (Fairchild, 2008), suggesting that existing auditors devote less attention to a client over time as their tenure increases because they become more knowledgeable of the company's financial position. As such, auditors would likely spend significantly more time understanding a company's business and financial position in the first year following a switch. From this perspective, audit attention, proxied by fees, delay, and indication of late filing, would likely increase in the year immediately following a switch. Other research has shown the presence of price cutting or discounting in the initial years after a switch. Simon and Francis (1988) find evidence that price cutting occurs in the initial year and continues for the next two years. I conduct an additional analysis focusing on audit attention in only the first year after a switch to reconcile these conflicting perspectives.

In addition, the concept of opinion shopping traditionally suggests that companies switch auditors to receive a favorable reporting outcome in the year following the switch. Theoretical models of auditor-client interactions suggest that opinion shopping should be successful, and this is backed up in some studies (Lennox, 2000). However, some previous studies have not found evidence of successful opinion shopping (Lu, 2006; Krishnan and Stephens, 1995). My additional analyses examine audit outcomes in the first year following a switch to compare outcomes due to frequent switching with outcomes due to a single switch (traditional opinion

shopping). I contribute to the literature by conducting an analysis of auditor reporting outcomes (restatements, internal control material weakness opinions, and going concern assumptions) in the first year after a switch to test if successful opinion shopping occurs.

Audit Attention in First Year After Switch

To drill down on incremental audit attention in the first year following the switch, I run the model again, but only in the year immediately after an auditor switch occurs. I slightly modify Equation (2) by removing $\beta_{21}AUD_CHG$, as this will remain constant in the first year after a switch. I once again use *FEES*, *DELAY*, and *LATE_FILE* as proxies for incremental audit attention over the previous year. I run the model for both the total number of switches (Panel A) and for Big 4 and non-Big 4 distinctions (Panel B). I find some increased attention across the entire sample (Table 5a), specifically among *DELAY*, which is positive and significant ($p < 0.01$). When I split the number of switches between Big 4 and non-Big 4 (Table 5b), however, I see strong results across non-Big 4 switches for all three measures of audit attention. This outcome supports the findings of my main analysis, suggesting that audit attention increases in the year immediately following a switch among non-Big 4 auditors.

Interestingly, the coefficient estimate on *FEES* is positive and significant for switches between non-Big 4 auditors ($p < 0.05$) but negative and significant for switches between Big 4 auditors ($p < 0.01$). Consistent with Simon and Francis (1988), it appears price cutting may occur among Big 4 firms. However, fees increase between non-Big 4 firms in the year immediately following a switch.

[<Tables 5a, 5b>](#)

Auditor Reporting Decisions in First Year After Switch

If opinion shopping strategies were successful in audit markets, we would expect a new audit firm to issue more-favorable opinions in the year immediately following a switch. These more-favorable outcomes could include fewer restatement announcements, fewer internal control material weakness opinions, fewer going concern opinions. In this analysis, I examine the effect of more-frequent switches (*NUM_SWITCHES*) on the incremental likelihood of a Big R restatement announcement (*RES_ANNOUNCE*), internal control material weakness opinion (*ICWEAK*), and going concern opinion (*GCO*) in the first year following an auditor switch.

I run a binary logistic regression based on Equation (1), adding three new variables to control for the prior year reporting decisions in order to capture the incremental reporting decisions. I run the model for both the total number of switches (Panel A) and for Big 4 and non-Big 4 distinctions (Panel B). Results are shown in Table 6a and Table 6b. There is no clear evidence of more favorable audit opinions among non-Big 4 audit firms for all three measures of auditor reporting, but there is an indication more favorable reporting occurring within internal control material weakness opinions for switches between Big 4 firms ($p < 0.05$). This poses an interesting area for future research, as my original analyses found the strongest associations between lower audit quality and more-frequent switching for non-Big 4 firms and not Big 4 firms.

[<Tables 6a, 6b>](#)

VI. Conclusion

In this study, I investigate the outcomes of more-frequent auditor switching in audit markets. This study investigates the impact of auditor switching on audit quality, with additional analyses examining audit attention and reporting outcomes to further contextualize the initial results. I find evidence that audit quality decreases as the number of switches increases, with the

results being driven mainly by switches between non-Big 4 audit firms. I also find that frequently switching between non-Big 4 auditors is accompanied by higher fees, longer audit opinion delays, and a higher probability of filing late. More switches between Big 4 firms, however, are associated with lower fees, suggesting the presence of price cutting from Big 4 firms. Lastly, I find no evidence of opinion shopping among non-Big 4 firms, but I find that opinion shopping may be occurring among Big 4 firms to prevent internal control material weakness opinions. Taken together, my findings suggest that mandated auditor rotation may negatively impact the efficiency of audit markets. Mandated auditor rotation, resulting in more auditor switching, may decrease audit quality and the efficiency of audits by delaying audit opinions and filings among non-Big 4 firms. However, these negative outcomes may not be the result of opinion shopping, at least for non-Big 4 firms. For Big 4 audit firms, however, mandated auditor switching may increase opinion shopping for favorable internal control audit opinions.

By examining how the number of auditor switches impacts audit quality, audit attention, and auditor reporting decisions at both the Big 4 and non-Big 4 auditor level, I provide empirical evidence that opposes mandatory auditor rotation. To my knowledge, this is the first study to examine outcomes based on the number of switches over a given range of time rather than those based on a single switch. My study contributes to auditor switching literature and provides important insights to regulators and companies on how to influence audit outcomes. This study also connects theoretical models with empirical data to examine the impact of opinion shopping on audit financial markets. Because this study looked solely at switches within tiers (between Big 4 auditors; between non-Big 4 auditors), future studies could examine switches between tiers (e.g., Big 4 to non-Big 4) and the subsequent effects on audit quality, audit attention and auditor reporting decisions. One question is continually posed by regulators around the world looking to improve audit outcomes: “Retain or rotate?” In this study, I contribute to the literature on the topic and find that mandatory auditor rotation policies may negatively impact audit outcomes.

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Appendix 1: Variable Definitions

<i>Dependent Variables</i>	
<i>FEES</i>	Equal to the natural logarithm of one plus the audit fees.
<i>DELAY</i>	The number of days between the fiscal year-end and the audit opinion date.
<i>LATE_FILE</i>	Indicator variable set equal to one if the client files their financial report after the SEC deadline, and zero otherwise.
<i>ABS_ACC</i>	The absolute value of abnormal accruals calculated using the modified performance-adjusted version of the Jones (1991) model (Dechow et al. 1995).
<i>POS_AB_ACC</i>	The value of positive abnormal accruals calculated using the modified performance-adjusted version of the Jones (1991) model (Dechow et al., 1995)
<i>NEG_AB_ACC</i>	The value of negative abnormal accruals calculated using the modified performance-adjusted version of the Jones (1991) model (Dechow et al., 1995)
<i>MISSTATE</i>	Indicator variable set equal to one if the client has a financial statement misstatement reported through a Form 8-K filing with the SEC (as reported by Audit Analytics), and zero otherwise.
<i>GCO</i>	Indicator variable set equal to one if the client receives a going concern opinion, and zero otherwise.
<i>ICWEAK</i>	Indicator variable set equal to one if the client receives an internal control material weakness opinion and zero otherwise
<i>Variables of Interest</i>	
<i>NUM_SWITCHES</i>	The number of auditor switches within the last 5 years
<i>NUM_SWITCHES_BW_BIG</i>	The number of auditor switches between Big 4 audit firms (PwC, Deloitte, KPMG, EY) within the last 5 years
<i>NUM_SWITCHES_BW_NBIG</i>	The number of auditor switches between non-Big 4 audit firms (all but PwC, Deloitte, KPMG, EY) within the last 5 years

<i>Control Variables</i>	
<i>SIZE</i>	Equal to the natural logarithm of one plus total assets
<i>ROA</i>	Income before extraordinary items divided by beginning of year total assets.
<i>LOSS</i>	Indicator variable set equal to one if net income is less than zero, and zero otherwise.
<i>INV_REC</i>	Equal to accounts receivable and inventory scaled by total assets.
<i>LEVERAGE</i>	Total liabilities divided by total assets.
<i>BUSY</i>	Indicator variable set equal to one if the client's fiscal year-end is in November, December, or January, and zero otherwise.
<i>INTANGIBLES</i>	Intangible assets divided by total assets.
<i>AFILER</i>	Indicator variable set equal to one if the client is subject to the reporting requirements of SOX 404(b), and zero otherwise.

<i>AFILER_LARGE</i>	Indicator variable set equal to one if the client is subject to the reporting requirements of SOX 404(b) for large, accelerated filers, and zero otherwise.
<i>FOR_OPS</i>	Indicator variable set equal to one if the client reports a currency translation adjustment after net income to arrive at total comprehensive income, and zero otherwise.
<i>EXCHANGE</i>	Indicator variable set equal to one if the client trades on a major exchange (NYSE, American, NASDAQ), and zero otherwise.
<i>IPO</i>	Indicator variable set equal to one if the client reports an initial public offering, and zero otherwise.
<i>ACQUISITIONS</i>	Indicator variable set equal to one if the client reports an acquisition, and zero otherwise.
<i>TENURE</i>	Indicator variable set equal to one if the current auditor's tenure is more than four years, and zero otherwise.
<i>AUD_SIZE</i>	Equal to the natural logarithm of one plus the number of unique clients engaged by a firm in a given year.
<i>INFLUENCE</i>	Indicator variable set equal to one if the client's ratio of audit fees to total audit fees collected by an office is above the median value, and zero otherwise.
<i>RES_ANNOUNCE</i>	Indicator variable set equal to one if the prior period financial statements are restated in that year, and zero otherwise.
<i>BIG4</i>	Indicator variable set equal to one if the audit firm is either PwC, Deloitte, KPMG, or EY, and zero otherwise
<i>PY_CORRECTION</i>	Indicator variable set equal to one if there is a current year correction of a prior year's financial statements, and zero otherwise

Table 1: Cushing (1999) Basic Opinion Shopping Model

Panel A: Matrix for opinion-shopping game (Cushing, 1999)

Auditor A	Auditor B	
	Deny	Consent
Deny	\$3, \$3	-\$1, \$5
Consent	\$3, -\$1	\$2, \$2

Note: Cells give payoffs to (A, B)

Panel B: Generalized form of matrix for opinion-shopping game (Cushing, 1999)

Auditor A	Auditor B	
	Deny	Consent
Deny	p, p	s, t
Consent	t, s	r, r

Note: Cells give payoffs to (A, B)

Table 2: Descriptive Statistics

Table 2 presents descriptive statistics for the full sample of client-year observations. Variable definitions are included in Appendix 1.

Variable	N	Mean	SD	Min	p25	p50	p75	Max
<i>MISSTATE</i>	30,666	0.024	0.154	0.000	0.000	0.000	0.000	1.000
<i>ABS_ACC</i>	30,666	0.075	0.091	0.000	0.020	0.046	0.091	0.567
<i>POS_AB_ACC</i>	17,105	0.069	0.081	0.001	0.021	0.045	0.084	0.604
<i>NEG_AB_ACC</i>	13,561	-0.087	0.113	-0.688	-0.103	-0.047	-0.020	0.000
<i>FEES</i>	30,666	13.630	1.350	9.798	12.719	13.710	14.561	16.951
<i>DELAY</i>	30,666	67.830	22.520	31.000	56.000	62.000	75.000	341.000
<i>LATE_FILE</i>	30,666	0.101	0.302	0.000	0.000	0.000	0.000	1.000
<i>RES_ANNOUNCE</i>	30,666	0.012	0.108	0.000	0.000	0.000	0.000	1.000
<i>NUM_SWITCHES</i>	30,666	0.347	0.606	0.000	0.000	0.000	1.000	4.000
<i>NUM_SWITCHES_BW_BIG</i>	30,666	0.063	0.247	0.000	0.000	0.000	0.000	2.000
<i>NUM_SWITCHES_BW_NBIG</i>	30,666	0.189	0.502	0.000	0.000	0.000	0.000	4.000
<i>SIZE</i>	30,666	5.959	2.245	0.836	4.321	6.044	7.593	11.287
<i>ROA</i>	30,666	-0.067	0.332	-6.772	-0.086	0.026	0.077	0.617
<i>LOSS</i>	30,666	0.395	0.489	0.000	0.000	0.000	1.000	1.000
<i>INV_REC</i>	30,666	0.255	0.190	0.000	0.101	0.225	0.368	0.828
<i>LEVERAGE</i>	30,666	0.558	0.439	0.025	0.309	0.497	0.682	4.640
<i>BUSY</i>	30,666	0.727	0.446	0.000	0.000	1.000	1.000	1.000
<i>INTANGIBLES</i>	30,666	0.186	0.207	0.000	0.008	0.109	0.308	0.859
<i>AFILER</i>	30,666	0.319	0.466	0.000	0.000	0.000	1.000	1.000
<i>AFILER_LARGE</i>	30,666	0.395	0.489	0.000	0.000	0.000	1.000	1.000
<i>FOR_OPS</i>	30,666	0.572	0.495	0.000	0.000	1.000	1.000	1.000
<i>EXCHANGE</i>	30,666	0.820	0.384	0.000	1.000	1.000	1.000	1.000
<i>IPO</i>	30,666	0.000	0.015	0.000	0.000	0.000	0.000	1.000
<i>TENURE</i>	30,666	0.740	0.439	0.000	0.000	1.000	1.000	1.000
<i>ACQUISITIONS</i>	30,666	0.357	0.479	0.000	0.000	0.000	1.000	1.000
<i>BIG4</i>	30,666	0.650	0.477	0.000	0.000	1.000	1.000	1.000
<i>GCO</i>	30,666	0.072	0.258	0.000	0.000	0.000	0.000	1.000
<i>INFLUENCE</i>	30,666	0.133	0.211	0.000	0.018	0.051	0.140	1.000
<i>ICWEAK</i>	30,666	0.033	0.179	0.000	0.000	0.000	0.000	1.000
<i>PY_CORRECTION</i>	30,666	0.037	0.190	0.000	0.000	0.000	0.000	1.000
<i>Observations</i>	30,666							

Table 3: Effect of Auditor Switches on Audit Quality

Table 3 presents the results of both the logit regression analysis of Equation (1) and the OLS regression analysis of Equation (1) in one table. The dependent variables are measures of audit quality determined by *MISSTATE*, *ABS_ACC*, *POS_ACC*, and *NEG_ACC*. My primary variable(s) of interest is *NUM_SWITCHES* in Panel A and *NUM_SWITCHES_BW_NBIG* and *NUM_SWITCHES_BW_BIG* in Panel B. All variables are defined in Appendix 1. All specifications include industry and year fixed effects. Robust standard errors are clustered by company. *T*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests).

<i>Table 3, Panel A</i>	MISSTATE (1)	ABS_ACC (2)	POS_ACC (3)	NEG_ACC (4)
<i>NUM_SWITCHES</i>	0.212 *	0.004 **	0.004 *	-0.004
	(1.90)	(2.09)	(1.81)	(-1.47)
<i>SIZE</i>	-0.006	-0.007	-0.007	0.006
	(-0.12)	(-12.15)	(-11.57)	(6.26)
<i>ROA</i>	-0.313 **	-0.067 ***	0.014 **	0.114 ***
	(-2.18)	(-14.91)	(2.19)	(15.97)
<i>LOSS</i>	0.192	-0.005 ***	-0.016 ***	-0.014 ***
	(1.62)	(-3.16)	(-8.85)	(-6.08)
<i>INV_REC</i>	0.647 *	-0.004	-0.006	0.016 **
	(1.91)	(-0.86)	(-1.18)	(2.20)
<i>LEVERAGE</i>	0.108	0.026 ***	0.021 ***	-0.026 ***
	(1.15)	(10.41)	(7.23)	(-7.99)
<i>BUSY</i>	-0.040	0.003 **	0.006 ***	-0.000
	(-0.30)	(2.46)	(4.52)	(-0.15)
<i>INTANGIBLES</i>	0.872 ***	-0.021 ***	-0.043 ***	0.005
	(2.68)	(-6.01)	(-11.91)	(0.84)
<i>AFILER</i>	0.382 **	0.001	-0.002	-0.003
	(2.30)	(0.58)	(-0.93)	(-0.81)
<i>AFILER_LARGE</i>	-0.102	0.001	-0.007 **	-0.009 **
	(-0.42)	(0.49)	(-2.37)	(-2.21)
<i>FOR_OPS</i>	0.201	-0.003 **	-0.004 **	0.003
	(1.44)	(-2.19)	(-2.53)	(1.18)
<i>EXCHANGE</i>	-0.569 ***	-0.009 ***	-0.011 ***	0.004
	(-3.18)	(-3.85)	(-4.13)	(1.31)
<i>IPO</i>	0.000	0.001	0.011	0.016
	(.)	(0.06)	(0.60)	(0.72)
<i>TENURE</i>	0.198	0.001	0.002	0.000
	(1.26)	(0.33)	(0.65)	(0.11)
<i>ACQUISITIONS</i>	0.145	0.002 *	-0.001	-0.006 ***
	(1.33)	(1.69)	(-1.27)	(-3.72)
<i>BIG4</i>	-0.262	-0.006 ***	-0.004 **	0.004
	(-1.55)	(-2.93)	(-2.07)	(1.26)
<i>GCO</i>	-0.642 ***	0.014 ***	0.029 ***	-0.005
	(-3.14)	(3.65)	(6.37)	(-1.04)
<i>INFLUENCE</i>	-0.156	-0.000	-0.001	0.002
	(-0.62)	(-0.15)	(-0.22)	(0.44)
<i>Year FE</i>	Yes	Yes	Yes	Yes
<i>Industry FE</i>	Yes	Yes	Yes	Yes
<i>Pseudo R²</i>	0.050			
<i>Adj R²</i>		0.244	0.178	0.361
<i>N</i>	30,308	30,666	17,105	13,561

Panel B: Effect of Switching Within Audit Tier (Big 4 vs. Non-Big 4)

<i>Table 3, Panel B</i>	MISSTATE		ABS_ACC		POS_ACC		NEG_ACC	
	(1)		(2)		(3)		(4)	
<i>NUM_SWITCHES_BW_NBIG</i>	0.249 **		0.006 ***		0.003		-0.008 ***	
	(2.38)		(3.14)		(1.27)		(-2.80)	
<i>NUM_SWITCHES_BW_BIG</i>	0.258		0.001		0.001		0.000	
	(1.09)		(0.35)		(0.27)		(0.00)	
<i>SIZE</i>	0.000		-0.007 ***		-0.007 ***		0.005 ***	
	(0.00)		(-11.96)		(-11.55)		(6.03)	
<i>ROA</i>	-0.311 **		-0.067 ***		0.014 **		0.113 ***	
	(-2.17)		(-14.90)		(2.19)		(15.94)	
<i>LOSS</i>	0.199 *		-0.005 ***		-0.016 ***		-0.014 ***	
	(1.69)		(-3.04)		(-8.76)		(-6.18)	
<i>INV_REC</i>	0.642 *		-0.004		-0.006		0.016 **	
	(1.89)		(-0.88)		(-1.18)		(2.17)	
<i>LEVERAGE</i>	0.106		0.026 ***		0.021 ***		-0.026 ***	
	(1.12)		(10.40)		(7.23)		(-7.98)	
<i>BUSY</i>	-0.046		0.003 **		0.006 ***		-0.000	
	(-0.34)		(2.39)		(4.49)		(-0.10)	
<i>INTANGIBLES</i>	0.859 ***		-0.022 ***		-0.043 ***		0.005	
	(2.64)		(-6.11)		(-11.93)		(0.91)	
<i>AFILER</i>	0.394 **		0.002		-0.002		-0.003	
	(2.35)		(0.75)		(-0.85)		(-0.92)	
<i>AFILER_LARGE</i>	-0.108		0.001		-0.007 **		-0.008 **	
	(-0.44)		(0.46)		(-2.36)		(-2.14)	
<i>FOR_OPS</i>	0.206		-0.003 **		-0.004 **		0.003	
	(1.47)		(-2.16)		(-2.47)		(1.17)	
<i>EXCHANGE</i>	-0.555 ***		-0.008 ***		-0.011 ***		0.004	
	(-3.07)		(-3.69)		(-4.09)		(1.16)	
<i>IPO</i>	0.000		0.001		0.010		0.016	
	(.)		(0.06)		(0.56)		(0.71)	
<i>TENURE</i>	0.175		-0.000		-0.001		0.001	
	(1.20)		(-0.13)		(-0.31)		(0.35)	
<i>ACQUISITIONS</i>	0.148		0.002 *		-0.001		-0.006 ***	
	(1.35)		(1.73)		(-1.26)		(-3.73)	
<i>BIG4</i>	-0.292 *		-0.005 **		-0.005 **		0.002	
	(-1.67)		(-2.53)		(-2.10)		(0.82)	
<i>GCO</i>	-0.647 ***		0.014 ***		0.029 ***		-0.005	
	(-3.15)		(3.59)		(6.37)		(-0.99)	
<i>INFLUENCE</i>	-0.166		-0.001		-0.001		0.002	
	(-0.66)		(-0.22)		(-0.26)		(0.53)	
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
<i>Pseudo R²</i>	0.050							
<i>Adj R²</i>			0.244		0.178		0.361	
<i>N</i>	30,308		30,666		17,105		13,561	

Table 4: Effect of Auditor Switches on Audit Attention

Table 4 presents the results of the OLS regression analysis of Equation (2). The dependent variables are measures of audit quality determined by *FEES*, *DELAY*, and *LATE_FILE*. My primary variable(s) of interest is *NUM_SWITCHES* in Panel A and *NUM_SWITCHES_BW_NBIG* and *NUM_SWITCHES_BW_BIG* in Panel B. All specifications include industry and year fixed effects. All variables are defined in Appendix 1. Robust standard errors are clustered by company. *T*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests).

<i>Table 4, Panel A</i>	FEES (1)	DELAY (2)	LATE_FILE (3)
<i>NUM_SWITCHES</i>	0.040 *** (7.62)	2.650 *** (5.77)	0.018 *** (3.07)
<i>SIZE</i>	0.102 *** (26.35)	-1.469 *** (-11.56)	-0.005 *** (-3.50)
<i>ROA</i>	-0.054 *** (-6.62)	0.860 (1.63)	0.015 * (1.67)
<i>LOSS</i>	0.026 *** (6.10)	1.482 *** (5.73)	0.036 *** (8.17)
<i>INV_REC</i>	0.104 *** (7.14)	0.941 (1.00)	0.034 ** (2.43)
<i>LEVERAGE</i>	0.015 *** (2.59)	1.407 *** (2.97)	0.018 *** (2.83)
<i>BUSY</i>	0.012 *** (2.79)	-0.083 (-0.28)	-0.014 *** (-3.34)
<i>INTANGIBLES</i>	0.042 *** (3.72)	2.459 *** (3.59)	0.021 ** (2.12)
<i>AFILER</i>	0.064 *** (10.11)	-8.032 *** (-19.67)	-0.028 *** (-4.98)
<i>AFILER_LARGE</i>	0.067 *** (7.65)	-14.051 *** (-24.78)	-0.022 *** (-3.03)
<i>FOR_OPS</i>	0.041 *** (8.56)	1.224 *** (4.44)	0.022 *** (5.26)
<i>EXCHANGE</i>	0.012 * (1.90)	-3.358 *** (-7.05)	-0.077 *** (-10.35)
<i>IPO</i>	0.245 ** (1.98)	0.059 (0.02)	-0.079 *** (-2.89)
<i>TENURE</i>	-0.003 (-0.55)	2.532 *** (5.07)	0.008 (1.25)
<i>ACQUISITIONS</i>	0.066 *** (16.80)	0.905 *** (4.19)	0.014 *** (4.20)
<i>BIG4</i>	0.124 *** (17.86)	-0.507 (-1.40)	-0.015 *** (-3.00)
<i>GCO</i>	-0.008 (-0.79)	6.818 *** (8.82)	0.169 *** (13.42)
<i>INFLUENCE</i>	0.043 *** (3.99)	2.014 *** (2.92)	0.014 (1.30)
<i>ICWEAK</i>	0.187 *** (15.48)	16.424 *** (11.98)	0.331 *** (21.08)
<i>PY_CORRECTION</i>	0.028 *** (2.85)	3.703 *** (4.35)	0.095 *** (8.50)
<i>AUD_CHG</i>	-0.257 *** (-22.85)	3.269 *** (4.95)	0.038 *** (4.23)
<i>L.FEES</i>	0.758 *** (100.06)		

<i>Table 4, Panel A</i>	FEEES (1)	DELAY (2)	LATE_FILE (3)
<i>L.DELAY</i>		0.215 *** (17.52)	
<i>L.LATE_FILE</i>			0.291 *** (28.60)
<i>Year FE</i>	Yes	Yes	Yes
<i>Industry FE</i>	Yes	Yes	Yes
<i>Adj R²</i>	0.965	0.497	0.309
<i>N</i>	30,458	30,583	30,666

Panel B: Effect of Switching Within Audit Tier (Big 4 vs. Non-Big 4)

<i>Table 4, Panel B</i>	FEES		DELAY		LATE_FILE	
	(1)		(2)		(3)	
<i>NUM_SWITCHES_BW_NBIG</i>	0.028 ***		3.022 ***		0.036 ***	
	(5.17)		(6.33)		(6.07)	
<i>NUM_SWITCHES_BW_BIG</i>	0.004		0.671		0.003	
	(0.55)		(1.51)		(0.44)	
<i>AUD_CHG</i>	-0.250 ***		3.375 ***		0.034 ***	
	(-22.33)		(5.08)		(3.82)	
<i>SIZE</i>	0.102 ***		-1.418 ***		-0.005 ***	
	(26.23)		(-11.17)		(-3.00)	
<i>ROA</i>	-0.053 ***		0.906 *		0.016 *	
	(-6.51)		(1.72)		(1.73)	
<i>LOSS</i>	0.028 ***		1.589 ***		0.037 ***	
	(6.32)		(6.17)		(8.42)	
<i>INV_REC</i>	0.105 ***		0.925		0.034 **	
	(7.14)		(0.98)		(2.38)	
<i>LEVERAGE</i>	0.015 **		1.394 ***		0.018 ***	
	(2.55)		(2.95)		(2.84)	
<i>BUSY</i>	0.012 ***		-0.127		-0.014 ***	
	(2.71)		(-0.43)		(-3.51)	
<i>INTANGIBLES</i>	0.042 ***		2.329 ***		0.019 *	
	(3.68)		(3.39)		(1.91)	
<i>AFILER</i>	0.065 ***		-7.886 ***		-0.026 ***	
	(10.24)		(-19.26)		(-4.60)	
<i>AFILER_LARGE</i>	0.066 ***		-14.104 ***		-0.023 ***	
	(7.58)		(-24.93)		(-3.10)	
<i>FOR_OPS</i>	0.041 ***		1.265 ***		0.022 ***	
	(8.64)		(4.61)		(5.34)	
<i>EXCHANGE</i>	0.013 **		-3.194 ***		-0.075 ***	
	(2.07)		(-6.74)		(-10.12)	
<i>IPO</i>	0.241 *		-0.083		-0.078 ***	
	(1.94)		(-0.02)		(-2.89)	
<i>TENURE</i>	-0.027 ***		1.466 ***		0.006	
	(-5.19)		(3.79)		(1.05)	
<i>ACQUISITIONS</i>	0.066 ***		0.924 ***		0.014 ***	
	(16.84)		(4.28)		(4.28)	
<i>BIG4</i>	0.122 ***		-0.387		-0.011 **	
	(17.46)		(-1.03)		(-2.01)	
<i>GCO</i>	-0.008		6.756 ***		0.168 ***	
	(-0.82)		(8.77)		(13.41)	
<i>INFLUENCE</i>	0.042 ***		1.920 ***		0.013	
	(3.90)		(2.79)		(1.19)	
<i>ICWEAK</i>	0.188 ***		16.548 ***		0.333 ***	
	(15.48)		(12.03)		(21.18)	
<i>PY_CORRECTION</i>	0.028 ***		3.683 ***		0.095 ***	
	(2.81)		(4.33)		(8.49)	
<i>L.FEES</i>	0.759 ***					
	(99.30)					
<i>L.DELAY</i>			0.214 ***			
			(17.57)			
<i>L.LATE_FILE</i>					0.288 ***	
					(28.44)	
<i>Year FE</i>	Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes	

<i>Table 4, Panel B</i>	FEEs	DELAY	LATE_FILE
	(1)	(2)	(3)
<i>Adj R²</i>	0.965	0.498	0.311
<i>N</i>	30,458	30,583	30,666

Table 5: Effect of Auditor Switching on Audit Attention in First Year Following Switch

Table 5 presents the results of the OLS regression analysis of a modified version of Equation (2). The dependent variables are measures of audit quality determined by *FEES*, *DELAY*, and *LATE_FILE*. My primary variable(s) of interest is *NUM_SWITCHES* in Panel A and *NUM_SWITCHES_BW_NBIG* and *NUM_SWITCHES_BW_BIG* in Panel B. All variables are defined in Appendix 1. All specifications include industry and year fixed effects. Robust standard errors are clustered by company. *T*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests).

<i>Table 5, Panel A</i>	FEES (1)		DELAY (2)		LATE_FILE (3)	
<i>NUM_SWITCHES</i>	0.026 (1.53)		5.611 (3.99)	***	0.021 (1.50)	
<i>SIZE</i>	0.195 (13.68)	***	-0.092 (-0.10)		-0.003 (-0.33)	
<i>ROA</i>	-0.071 (-2.07)	**	-0.781 (-0.32)		0.032 (1.02)	
<i>LOSS</i>	0.055 (2.24)	**	-0.114 (-0.08)		0.090 (4.41)	***
<i>INV_REC</i>	0.219 (3.42)	***	4.646 (1.01)		0.011 (0.20)	
<i>LEVERAGE</i>	0.024 (0.89)		0.472 (0.27)		0.004 (0.17)	
<i>BUSY</i>	0.018 (0.83)		-2.416 (-1.54)		-0.038 (-2.01)	**
<i>INTANGIBLES</i>	0.104 (1.75)	*	-0.895 (-0.21)		0.038 (0.79)	
<i>AFILER</i>	0.122 (3.97)	***	-11.433 (-6.65)	***	-0.050 (-2.11)	**
<i>AFILER_LARGE</i>	0.168 (3.58)	***	-20.166 (-6.31)	***	-0.047 (-1.30)	
<i>FOR_OPS</i>	0.031 (1.39)		1.876 (1.40)		0.046 (2.54)	**
<i>EXCHANGE</i>	0.057 (2.03)	**	-7.852 (-3.67)	***	-0.121 (-5.01)	***
<i>IPO</i>	0.580 (5.76)	***	18.165 (3.30)	***	-0.370 (-3.70)	***
<i>TENURE</i>	0.031 (0.78)		13.213 (3.32)	***	0.091 (2.48)	**
<i>ACQUISITIONS</i>	0.094 (3.62)	***	1.180 (0.75)		0.019 (0.92)	
<i>BIG4</i>	0.234 (7.96)	***	2.207 (1.26)		0.016 (0.68)	
<i>GCO</i>	-0.023 (-0.56)		14.744 (5.03)	***	0.188 (5.66)	***
<i>INFLUENCE</i>	0.118 (2.67)	***	4.565 (1.60)		0.042 (1.31)	
<i>ICWEAK</i>	0.246 (4.89)	***	19.295 (4.43)	***	0.387 (8.87)	***
<i>PY_CORRECTION</i>	0.032 (0.74)		5.154 (1.33)		0.135 (3.19)	***
<i>L.FEES</i>	0.534 (28.84)	***				
<i>L.DELAY</i>			0.235 (5.68)	***		

<i>Table 5, Panel A</i>	FEES	DELAY	LATE_FILE
	(1)	(2)	(3)
<i>L.LATE_FILE</i>			0.280 *** (11.37)
<i>Year FE</i>	Yes	Yes	Yes
<i>Industry FE</i>	Yes	Yes	Yes
<i>Adj R²</i>	0.874	0.310	0.323
<i>N</i>	2,033	2,073	2,073

Panel B: Effect of Switching Within Audit Tier (Big 4 vs. Non-Big 4)

<i>Table 5, Panel B</i>	FEES (1)		DELAY (2)		LATE_FILE (3)	
<i>NUM_SWITCHES_BW_NBIG</i>	0.038 ** (2.39)		5.131 *** (4.32)		0.039 *** (3.32)	
<i>NUM_SWITCHES_BW_BIG</i>	-0.135 *** (-3.82)		1.370 (0.67)		-0.023 (-0.76)	
<i>SIZE</i>	0.195 *** (13.61)		0.323 (0.36)		0.002 (0.29)	
<i>ROA</i>	-0.072 ** (-2.09)		-0.887 (-0.36)		0.031 (0.99)	
<i>LOSS</i>	0.056 ** (2.27)		0.509 (0.37)		0.095 *** (4.64)	
<i>INV_REC</i>	0.207 *** (3.27)		4.203 (0.91)		0.005 (0.08)	
<i>LEVERAGE</i>	0.024 (0.87)		0.459 (0.27)		0.005 (0.20)	
<i>BUSY</i>	0.015 (0.71)		-2.399 (-1.53)		-0.039 ** (-2.07)	
<i>INTANGIBLES</i>	0.101 * (1.68)		-1.875 (-0.44)		0.028 (0.57)	
<i>AFILER</i>	0.118 *** (3.84)		-11.263 *** (-6.60)		-0.046 ** (-1.97)	
<i>AFILER_LARGE</i>	0.169 *** (3.62)		-21.217 *** (-6.69)		-0.048 (-1.36)	
<i>FOR_OPS</i>	0.030 (1.37)		2.078 (1.55)		0.048 *** (2.65)	
<i>EXCHANGE</i>	0.058 ** (2.09)		-7.174 *** (-3.35)		-0.116 *** (-4.82)	
<i>IPO</i>	0.612 *** (6.40)		15.119 *** (2.95)		-0.386 *** (-3.89)	
<i>TENURE</i>	0.028 (0.70)		12.028 *** (3.03)		0.088 ** (2.40)	
<i>ACQUISITIONS</i>	0.092 *** (3.57)		1.350 (0.85)		0.020 (0.94)	
<i>BIG4</i>	0.338 *** (8.98)		3.668 * (1.69)		0.052 (1.60)	
<i>GCO</i>	-0.022 (-0.53)		15.090 *** (5.16)		0.192 *** (5.79)	
<i>INFLUENCE</i>	0.111 ** (2.55)		4.244 (1.49)		0.039 (1.20)	
<i>ICWEAK</i>	0.231 *** (4.58)		19.544 *** (4.46)		0.385 *** (8.89)	
<i>PY_CORRECTION</i>	0.030 (0.69)		5.129 (1.33)		0.134 *** (3.20)	
<i>L.FEES</i>	0.553 *** (27.12)					
<i>L.DELAY</i>			0.236 *** (5.70)			
<i>L.LATE_FILE</i>					0.277 *** (11.29)	
<i>Year FE</i>	Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes	
<i>Adj R²</i>	0.875		0.312		0.326	
<i>N</i>	2,033		2,073		2,073	

Table 6: Effect of Auditor Switching on Auditor Reporting Decisions in First Year Following Switch

Table 4 presents the results of the logit regression analysis of a modified version of Equation (1). The dependent variables are measures of audit quality determined by *RES_ANNOUNCE*, *ICWEAK*, and *GCO*. My primary variable(s) of interest is *NUM_SWITCHES* in Panel A and *NUM_SWITCHES_BW_NBIG* and *NUM_SWITCHES_BW_BIG* in Panel B. All variables are defined in Appendix 1. All specifications include industry and year fixed effects. Robust standard errors are clustered by company. *T*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests).

<i>Table 6, Panel A</i>	RES_ANNOUNCE (1)	ICWEAK (2)	GCO (3)
<i>NUM_SWITCHES</i>	0.252 (1.21)	0.674 (2.87)	0.219 (1.47)
<i>SIZE</i>	0.095 (0.66)	-0.233 (-1.80)	-0.393 (-3.79)
<i>ROA</i>	-0.530 (-1.55)	1.317 (1.95)	-0.622 (-2.42)
<i>LOSS</i>	0.021 (0.06)	0.430 (1.35)	1.832 (5.10)
<i>INV_REC</i>	-0.068 (-0.07)	-0.242 (-0.26)	-0.705 (-1.22)
<i>LEVERAGE</i>	0.552 *** (2.78)	0.392 (1.02)	1.258 *** (5.42)
<i>BUSY</i>	-0.187 (-0.56)	-0.188 (-0.72)	0.254 (1.05)
<i>INTANGIBLES</i>	-0.184 (-0.25)	0.014 (0.02)	1.474 ** (2.55)
<i>AFILER</i>	0.229 (0.53)	0.465 (1.21)	-0.122 (-0.39)
<i>AFILER_LARGE</i>	-0.699 (-0.85)	0.000 (.)	-0.958 (-1.48)
<i>FOR_OPS</i>	-0.018 (-0.06)	0.056 (0.20)	0.235 (1.06)
<i>EXCHANGE</i>	-0.418 (-1.06)	-0.393 (-0.98)	-1.010 *** (-4.24)
<i>IPO</i>	0.000 (.)	0.000 (.)	0.000 (.)
<i>TENURE</i>	0.572 (1.21)	0.635 (1.03)	0.405 (1.08)
<i>ACQUISITIONS</i>	-0.172 (-0.40)	0.444 (1.44)	0.032 (0.10)
<i>BIG4</i>	0.304 (0.69)	0.682 (2.23)	-0.075 (-0.17)
<i>GCO</i>	-0.217 (-0.52)	0.714 (1.26)	
<i>INFLUENCE</i>	-0.428 (-0.63)	0.896 (1.78)	0.198 (0.57)
<i>L.RES_ANNOUNCE</i>	0.000 (.)		
<i>L.ICWEAK</i>		2.244 *** (8.70)	
<i>L.GCO</i>			3.218 *** (12.36)
<i>Year FE</i>	Yes	Yes	Yes

<i>Table 6, Panel A</i>	RES_ANNOUNCE	ICWEAK	GCO
	(1)	(2)	(3)
<i>Industry FE</i>	Yes	Yes	Yes
<i>Pseudo R²</i>	0.125	0.228	0.590
<i>N</i>	1,628	816	1,981

Panel B: Effect of Switching Within Audit Tier (Big 4 vs. Non-Big 4)

<i>Table 6, Panel B</i>	RES_ANNOUNCE		ICWEAK		GCO
	(1)		(2)		(3)
<i>NUM_SWITCHES_BW_NBIG</i>	0.373 **		0.501 **		0.115
	(2.22)		(2.41)		(0.88)
<i>NUM_SWITCHES_BW_BIG</i>	-0.868		-0.771 **		-0.173
	(-1.30)		(-2.30)		(-0.29)
<i>SIZE</i>	0.179		-0.180		-0.379 ***
	(1.20)		(-1.36)		(-3.60)
<i>ROA</i>	-0.550		1.297 *		-0.626 **
	(-1.63)		(1.94)		(-2.42)
<i>LOSS</i>	0.052		0.431		1.851 ***
	(0.14)		(1.36)		(5.18)
<i>INV_REC</i>	-0.191		-0.121		-0.695
	(-0.20)		(-0.13)		(-1.20)
<i>LEVERAGE</i>	0.588 ***		0.426		1.265 ***
	(2.92)		(1.10)		(5.44)
<i>BUSY</i>	-0.228		-0.234		0.264
	(-0.67)		(-0.87)		(1.09)
<i>INTANGIBLES</i>	-0.291		-0.039		1.463 **
	(-0.38)		(-0.06)		(2.53)
<i>AFILER</i>	0.244		0.495		-0.125
	(0.57)		(1.28)		(-0.40)
<i>AFILER_LARGE</i>	-0.694		0.000		-1.005
	(-0.84)		(.)		(-1.56)
<i>FOR_OPS</i>	0.008		0.113		0.251
	(0.02)		(0.42)		(1.14)
<i>EXCHANGE</i>	-0.368		-0.436		-0.988 ***
	(-0.91)		(-1.08)		(-4.18)
<i>IPO</i>	0.000		0.000		0.000
	(.)		(.)		(.)
<i>TENURE</i>	0.568		0.473		0.352
	(1.24)		(0.79)		(0.96)
<i>ACQUISITIONS</i>	-0.170		0.467		0.020
	(-0.39)		(1.50)		(0.06)
<i>BIG4</i>	0.947 *		1.346 ***		0.033
	(1.88)		(3.36)		(0.06)
<i>GCO</i>	-0.197		0.679		
	(-0.46)		(1.22)		
<i>INFLUENCE</i>	-0.447		0.833		0.184
	(-0.65)		(1.57)		(0.53)
<i>L.RES_ANNOUNCE</i>	0.000				
	(.)				
<i>L.ICWEAK</i>			2.310 ***		
			(8.80)		
<i>L.GCO</i>					3.214 ***
					(12.22)
<i>Year FE</i>	Yes		Yes		Yes
<i>Industry FE</i>	Yes		Yes		Yes
<i>Pseudo R²</i>	0.136		0.234		0.590
<i>N</i>	1,628		816		1,981