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研究課題名（和文）The Effect of the Big 4 to Big 3 Audit Market Transition on Initial Year Audit Fee, Client Bargaining Power, Audit Quality and Client Following Audit Partners

研究課題名（英文）The Effect of the Big 4 to Big 3 Audit Market Transition on Initial Year Audit Fee, Client Bargaining Power, Audit Quality and Client Following Audit Partners

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研究成果の概要（和文）：この研究は、連続する監査業務におけるパートナーの構成の変化を定量的に示す新しいアプローチを提案することで、既存の実証的会計学文献に貢献します。我々の研究の結果は、パートナーのローテーションと監査再入札についての議論に貢献します。

この研究では、大規模監査法人のクライアントは、監査チームの組成をより安定させるようにインセンティブを受けていることが明らかになりました。これは、監査報告の迅速なターンアラウンドに貢献し、監査品質を妥協せず、また監査費用を増加させないためです。この結果を受けて、規制当局は、大規模および小規模の監査人に対する再入札規制の限界効果を考慮し、競争力のある監査市場を創出すべきです。

研究成果の学術的意義や社会的意義

Regulators interested to pursue policies on audit retendering should consider the findings of this study since retendering directly affects the audit team continuity of existing clients because audit team continuity affects large and small auditors differently on audit outcomes and audit fee.

研究成果の概要（英文）：The research contributes to the existing empirical accounting literature by proposing a novel approach to measure audit team continuity that quantitatively proxy for changes in the composition of partners over consecutive audit engagements. The findings of our study contribute to the debate of partner rotations and audit retendering.

This study finds that clients of large audit firms are incentivized to maintain a more stable composition of audit teams because higher audit team continuity could contribute to a faster turnaround of audit reports while not compromising audit quality or increasing the audit fee. In light of this finding, regulators should consider the marginal effects of retendering regulations on large and small auditors to create a competitive audit market.

研究分野：Accounting

キーワード：Audit team continuity String similarity Audit partners

## 様式 C - 19、F - 19 - 1、Z - 19 (共通)

### 1. 研究開始当初の背景

At the beginning of the study, the principal researcher aims to examine the effects of the Japanese Big 4 to Big 3 audit market transition on auditor switch behavior, initial year audit fee pricing, client bargaining power, audit quality, and client following audit partners. Given that the scope of the study will be limited if it was constrained to the period covering the transition Big 4 to Big 3, the principal investigator expanded the scope of the study to examine the auditor switch behavior from the perspective of audit team continuity and its effect on audit outcomes (audit quality and report lags), pricing and its determinant (lead partner experience).

### 2. 研究の目的

Prior studies examined the effects of individual partners' tenure on audit quality (Cahan and Sun, 2015; Chen et al., 2008; Chi et al., 2009; Lennox et al., 2014), audit fees (Cahan and Sun, 2015) and modified audit opinions (Chen et al., 2016). However, findings from prior archival studies that examine individual partners' characteristics may provide a false impression that one individual (the engagement partner), rather than an audit team, is responsible for the input, process and outcomes of the audit (Cunningham et al., 2019). Results from prior studies that examined the characteristics of partners at the individual level could not necessarily be generalized to behavior when they act as a part of an audit team (Alissa et al., 2014).

Existing studies on partner rotation that employ the tenure of individual partners or the binary state of partner-client switching have not captured the continuity of the audit team (Lennox and Wu, 2018). Simnett et al. (2016) examined the international auditing literature and found that there is a lack of archival research that examines the characteristics of an audit team that has been considered exogenous. This study answers Simnett et al.'s call for additional research by employing a sample of Japanese public firms that disclosed the names of audit engagement partners to proxy for the continuity of audit teams in consecutive audit periods.

### 3. 研究の方法

This study measures audit team continuity by utilizing string similarity metrics to quantitatively approximate the similarity in partners' composition between consecutive audit engagements. String similarity metrics represent character or string-based measures that calculate the sequence of characters in two strings (Gali et al., 2016). This study employs approximate string-matching measures to compare two entities that are similar to but not identical to the desired matches. This approach is used to match personal names because a name might be known by its pronunciation rather than its spelling (Zobel and Dart, 1995). This issue is particularly relevant when a name is represented in a script/language that is different from its native script, because several alternative representations for each script might exist (Freeman et al., 2006). The five string similarity metrics used in this study are Levenshtein, Jaro, Jaro-Winkler, SmithWaterman-Gotoh and Needleman-Wunch (Gali et al., 2016, 2019; Gotoh, 1982; Jaro, 1989; Levenshtein, 1966; Needleman and Wunsch, 1970; Winkler, 1990).

The names of engagement partners signing the audit reports of Japanese listed companies for each fiscal year were collated from the Nikkei Economic Electronic Databank System (NEEDS). These names were originally written in Japanese and were machine-translated into English. A native Japanese speaker checked a sample of the translation results to ensure the accuracy of the translation. The names of partners signing the audit reports between consecutive fiscal years for each client are compared using the SimMetrics Java library and the similarity value for each of the five string similarity metrics are calculated ("SimMetrics," 2017).

#### 4 . 研究成果

(1) By examining the changes in engagement partners as a proxy for audit team continuity, our study has four main findings. First, the introduction of new partners proxied by a reduction in audit team continuity does not contribute to higher audit quality. This finding is consistent with that of Tsunogaya et al. (2017), who argued that Japanese auditors are susceptible to obedience pressure from a partner that could negatively influence auditors' ethical judgments. Given that it is unlikely that all partners from the previous year of audit engagement are replaced by new partners, obedience pressure from existing partner(s) could mitigate the "fresh-look" effect introduced by new auditors. Second, the "knowledge sharing" hypothesis theorizes that the changes of audit team composition could disrupt the long term knowledge sharing process that partners establish with other members of the audit team (Vera-Munoz ~ et al., 2006). The temporal nature of audit engagement creates an expectation that the composition of audit team members is unlikely to remain stable in the long term (Andiola et al., 2021). Thus, it is likely that an audit team's temporal structure undermines the expected positive effect of knowledge sharing on audit quality. Third, the standardized audit and capital market regulations that apply to both Big N and non-Big N firms are effective in creating a parity of audit quality, consistent with Lawrence et al. (2011).

(2) Audit clients (regardless of audit firm size) pay lower (higher) audit fees as audit team continuity increases (decreases). This finding is consistent with the argument that audit team continuity represents one of the determinant factors of audit pricing in a competitive audit market. Given that an audit team with a higher degree of continuity could allocate less resources and time to obtain client-specific knowledge, we found that incumbent audit firms are able to pass the resulting lower audit cost as a discount to fee. However, if clients regularly rotate their partners-in-charge, the incurred cost will also be passed to clients in the form of a higher audit fee. This finding is consistent with the argument that short-term rotation of audit partners increases costs (Chen et al., 2016; Allam et al., 2017).

(3) Clients of large audit firms are able to receive their audit reports in a shorter (longer) time when the audit team continuity is higher (lower). Prior studies have employed audit report lags as an alternative to audit fees to measure audit costs and effort (Bedard and Johnstone, 2010; Sharma et al., 2017). Our finding shows that large audit firms are able to increase the turnover of audit reports when the continuity of the audit team is high. In general, Big N firms are able to issue a timelier audit report than smaller firms because they have more standardized audit methodologies (Schwartz and Soo, 1996; Whitworth and Lambert, 2014). Thus, audit teams with a higher degree of continuity can utilize structured audit procedures more effectively to complete the audit report in a shorter time. Conversely, disruption of audit team continuity for large auditors delays the issuance of audit reports. Smaller audit firms are less effective in transforming the efficiency gained from having an audit team with a high degree of continuity into a more-timely issuance of audit reports because of the less structured audit workflow (Schwartz and Soo, 1996).

(4) Lead partners' experience is a strong predictor of audit team continuity for both large and small audit firms. Given that an experienced lead partner positively contributes to the performance of an audit team and changes in the composition of audit partners could disrupt the audit process (Allam et al., 2017; Cahan and Sun, 2015); our study finds that more experienced partners are more likely to maintain a more stable composition of the audit team compared to partners with less experience. The positive association between lead partner experience and audit team continuity is also consistent with the conclusions of this study in Tables 3 and 4, which show that for clients of large auditors, an audit team with a higher degree of continuity contributes to a more efficient audit measured in terms of lower cost (audit fee) and effort (audit report lags).

5. 主な発表論文等

〔雑誌論文〕 計1件（うち査読付論文 1件/うち国際共著 1件/うちオープンアクセス 0件）

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2. 論文標題 Employing string similarity metrics of partners to estimate audit team continuity: determinant?and its effects on audit outcomes and pricing	5. 発行年 2023年
3. 雑誌名 Journal of Accounting Literature	6. 最初と最後の頁 314 ~ 339
掲載論文のDOI（デジタルオブジェクト識別子） 10.1108/JAL-02-2022-0026	査読の有無 有
オープンアクセス オープンアクセスではない、又はオープンアクセスが困難	国際共著 該当する

〔学会発表〕 計8件（うち招待講演 2件/うち国際学会 5件）

1. 発表者名 Frendy
2. 発表標題 Partners' Continuity at the Audit Team Level: Determinant and Its Effects on Audit Outcomes
3. 学会等名 日本会計研究学会 全国大会 第80回 九州大学
4. 発表年 2021年

1. 発表者名 Frendy
2. 発表標題 The Effects of Client Bargaining Power on Audit Pricing in Voluntary and Involuntary Audit Switching Environments
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4. 発表年 2021年

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2. 発表標題 Partners' Continuity at the Audit Team Level
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3. 学会等名 Korea Accounting Association 2022 Annual Conference - International Session (国際学会)
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〔図書〕 計0件

〔産業財産権〕

〔その他〕

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6. 研究組織

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7. 科研費を使用して開催した国際研究集会

〔国際研究集会〕 計0件

8. 本研究に関連して実施した国際共同研究の実施状況

共同研究相手国	相手方研究機関
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