

Don't make me look bad: How the audit market penalizes auditors for doing their job.

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ABSTRACT: We examine whether the audit market penalizes auditors for providing investors with value-relevant information that is critical of management (i.e., internal control material weakness (ICMW)). While prior research has examined how the receipt of an ICMW increases the likelihood that a client leaves their auditor, we examine the *reputational* impact of an office issuing ICMWs by focusing on clients that receive clean internal control opinions. We predict and find that audit offices that issue more ICMWs experience lower client and fee growth. We also find that the decrease is stronger when the ICMW is associated with a more visible client and when the ICMW is more severe. In supplemental analyses we find evidence consistent with clients at greater risk of ICMW avoiding auditors with a reputation for issuing ICMWs and selecting auditors that issue relatively less ICMWs. Our results indicate that, on average, the market for audit services penalizes auditors for disclosing information critical of management in their audit opinions, which undermines the value of direct-to-investor auditor communications and provides insight into potential longer-term implications of the recently enacted expanded auditor's report.

Keywords: Audit market competition; auditor reputation; internal control weakness

I. INTRODUCTION

The Sarbanes Oxley Act (SOX) of 2002 required auditors to pull back the curtain on management's accounting practices through direct disclosure to investors of internal control material weaknesses (ICMWs). Since the implementation of SOX, the demand for information directly from auditors has only increased and resulted in the recent expansion of the auditor's report. Although prior studies have shown that information provided directly by auditors regarding ICMWs is valued by investors (e.g., Ashbaugh-Skaife, Collins, Kinney, and LaFond 2009; Dhaliwal, Hogan, Trezevant, and Wilkins 2009; Hammersley, Myers, and Shakespeare 2008; Kim, Song, and Zhang 2011), management actively avoids such disclosures by engaging in internal control opinion shopping (Ettredge, Heintz, Li, and Scholz 2011; Newton, Persellin, Wang, and Wilkins 2016). While these studies provide insight into some of the client-specific ramifications of receiving ICMWs, little is known about how the demand for an auditor's services changes in response to issuing ICMWs. Specifically, the extent to which auditors' direct-to-investor communications affect auditors' ability to attract new clients has not been examined. Indeed, a recent SEC whistleblower case alleges that auditors overlooked material weaknesses to "keep corporate managers happy" and "compete with other audit firms" (Hilzenrath 2018). If the market for audit services penalizes auditors for providing the public with value-relevant information that is critical of management (i.e., ICMWs), then the market actively undermines the potential value of auditors' direct-to-investor communications. By examining the audit market response to auditors issuing ICMWs, we provide insight into a potential indirect long-term cost associated with SOX that could also have implications for ongoing efforts to increase auditors' direct-to-investor communications.

Many of the requirements introduced as part of SOX, particularly those included in Section 404 (SOX 404), required an increase in the amount of information disclosed by the auditor. These disclosures were expected to increase financial reporting transparency and thereby bolster investor confidence in financial statements (PCAOB 2004). However, as noted by former board member of the PCAOB, Daniel Goelzer, in a speech detailing the costs and benefits of SOX 404, many contend that SOX 404 has resulted in unintended consequences and erected a “wall between auditors and clients” (Goelzer 2005). Clients that receive ICMWs in compliance with the reporting requirements of SOX 404 are subject to many economic costs, including negative stakeholder reactions (e.g., De Franco, Guan, and Lu 2005; Impink, Lubberink, Van Praag, and Veeman 2012) and increased costs of both debt (e.g., Dhaliwal et al. 2009; Kim et al. 2011) and equity (Ashbaugh-Skaife et al. 2009). Thus, the economic costs associated with receiving ICMWs could motivate clients to avoid receiving ICMWs and discourage clients from retaining/selecting auditors with a reputation for issuing ICMWs.

Companies’ auditor selection and retention decisions are largely influenced by auditors’ reputations. Extant literature documents significant reputational effects associated with publicly observable audit inputs (e.g., auditor size, industry specialization) and outcomes (e.g., restatements). For instance, some studies examining auditor changes reveal market-based incentives that reward clients for selecting auditors with better reputations, such as a Big N and/or industry specialist auditors (e.g., Eichenseher, Hagigi, and Shields 1989; Knechel, Naiker, and Pacheco 2007; Teoh and Wong 1993). Other studies highlight restatements as a publicly observable audit outcome that impairs company, audit firm and engagement partner reputations (e.g., Aobdia and Petacchi 2017; Hennes, Leone, and Miller 2014; Liu, Raghunandan, and Rama 2009; Newton, Wang, and Wilkins 2013; Palmrose, Richardson, and Scholz 2004; Srinivasan 2005; Swanquist and Whited 2015) and

reduces the auditor's ability to attract and retain audit clients (Aobdia and Petacchi 2017; Swanquist and Whited 2015). While this research demonstrates the importance of auditor reputation in client selection and retention decisions, little is known about the reputational impact of ICMWs on the issuing auditor.

An auditor's issuance of an ICMW indicates that the auditor conducted the audit sufficiently well to identify a weakness and then communicated that valuable information to the public. Thus, to the extent that clients value providing useful information to users of financial statements, the issuance of an ICMW should neither impair the issuing auditor's reputation, nor deter clients from selecting auditors with a history of issuing ICMWs. However, research has found that ICMWs damage *client* reputations (e.g., Ashbaugh-Skaife et al. 2009; De Franco et al. 2005; Kim et al. 2011). Thus, in many situations the reputational implications of ICMWs for the auditor and client diverge (bad for clients and neutral or positive for auditors). Importantly, the fact that the reputational impact of an ICMW for the client and the auditor diverge is in contrast to other auditor inputs or outputs that have been used to study auditor reputation. Generally, these other inputs and outputs (e.g., auditor size, specialization, and restatements) have similar reputational implications for both the auditor and the client. Therefore, while prior research has shown that auditors' reputation matters (e.g., rewarded for having a reputation for being a specialist or penalized for having a reputation for misstatements), it is difficult to disentangle auditor reputation from client reputation in those settings. Our setting enables us to address a critical question: are auditors rewarded or penalized for having a reputation for being critical of their clients?

We investigate the audit market implications for auditors that have a reputation for being critical of clients by examining growth in audit-office clients and fees for audit offices that issue ICMWs. To capture the economic costs associated with communicating information that makes

clients look bad, we explore the relationship between the issuance of an ICMW and growth in number of clients and amount of audit fees within an audit office. Since prior literature shows that clients who receive ICMWs are more likely to dismiss their auditors and seek replacements (i.e., engage in internal control opinion shopping) (Ettredge et al. 2011; Newton et al. 2016), we remove from our office growth measures clients that receive an ICMW and subsequently leave that office.

We find that, on average, for every additional ICMW issued, an audit office experiences 2.2 percent lower client growth and 6.1 percent lower fee growth over the next year. This finding suggests that auditors who issue an ICMW are perceived as less attractive in the audit market and indicates that the issuance of an ICMW affects auditor selection and retention decisions even among clients that do not receive an ICMW.

In additional analyses, we investigate various characteristics associated with ICMWs and the clients that receive them. Consistent with larger companies being more visible in the audit market, we document stronger results when audit offices issue ICMWs to larger clients, as measured by client market capitalization. Similarly, we find that audit market consequences are greater when auditors issue more severe ICMWs, as measured by the number of issues in the ICMW and filing delay. Together, these results support the notion that the audit market disincentivizes auditors from disclosing internal control information that could make their clients look bad.

We also perform a series of supplemental and robustness tests. In supplemental tests, we find that (1) clients leaving an office with high ICMWs are more likely to switch to an office with low ICMWs, (2) the audit risk profile of offices with high ICMWs improves (based on F-Risk and misstatements), and (3) the lower office growth following the issuance of ICMWs persists for 2 years.¹ Our results are robust to the use of changes in market share in place of office growth as the

¹ Throughout the paper we define high (low) ICMWs as an office's proportion of ICMWs to clients where high (low) ICMWs represents offices with higher (lower) proportions of ICMWs.

dependent variable as well as numerous other variations in our study design and variable measurement.

This study makes several contributions to the accounting literature and should be of interest to audit firms, audit committees and regulators. While existing research on the implications of SOX has made several important contributions, it has predominantly focused on the years immediately following the implementation of SOX and thus does not capture the long-term effects of SOX (DeFond and Zhang 2014). Additionally, to the extent that an ICMW reflects an auditor's willingness and ability to provide valuable information to investors, our findings suggest that clients (on average) may avoid certain auditors during their auditor selection process.² This trend may have contributed to the overall decline in ICMWs, which as of 2018 represented just 4.87% of total SOX 404 opinions, compared to 15.88% following the enactment of SOX (Audit Analytics 2018). Our findings should inform regulators about additional indirect costs associated with SOX 404 provisions and speak to some potential implications of the requirements of the newly enacted expanded auditor's report. Much of the anticipated impact of the PCAOB's expanded auditor's report lies in the disclosure of critical audit matters (CAMs) wherein auditors will be required to divulge information that may be critical of management's accounting choices (PCAOB 2016; SEC 2017). While this requirement should, in theory, enhance the informativeness of the audit report, our findings pertaining to ICMWs suggest that market-based incentives may discourage auditors from disclosing important direct-to-investor communications that might make their clients look bad, and instead encourage auditors to withhold such information.

The remainder of this paper is organized as follows. Section II provides background and hypothesis development. Section III describes the research methodology and sample composition.

² The inherent subjectivity of the internal control opinion may facilitate management's ability to successfully identify auditors that are more or less willing to disclose negative information about their clients directly to investors.

Section IV discusses our main results. Section V includes additional analyses and robustness tests. Section VI concludes.

II. BACKGROUND AND HYPOTHESIS DEVELOPMENT

SOX 404 and Internal Control Audits

SOX introduced numerous reforms designed to heighten investor protection by increasing financial reporting transparency. Notably, SOX 404 introduced mandated internal control audits that were expected to provide value-relevant information and inform investors about weaknesses in a company's internal controls over financial reporting (ICFR) that could increase the possibility of errors in the financial statements. Prior to SOX 404, auditors were allowed to perform additional substantive testing as compensating support for poorly designed or functioning internal controls. However, following SOX 404, auditors must first test controls, and then opine on management's assessment of the Company's ICFR and publicly disclose ICMWs as part of their internal control audit opinions.³ In compliance with SOX 404, auditors are required to issue ICMWs when they identify "a deficiency, or combination of deficiencies, in [ICFR], such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis" (PCAOB 2004).

One key feature of SOX 404 is the difference in the responsibility assigned to management under SOX 404(a) and that to the auditor under SOX 404(b). While the auditor must attest to, and report on, the ICFR assessment made by management, SOX 404(a) provides that management is solely responsible for establishing and maintaining adequate internal control structure and procedures for financial reporting. Management must also provide its own independent assessment

³ As of the 2010 Dodd-Frank Act, non-accelerated filers (companies with less than \$75 million in public float) are permanently exempt from SOX 404(b) requirements (SEC 2010).

of the effectiveness of its control structure and procedures for financial reporting (PCAOB 2004). The requirements of SOX 404 thus oblige management to evaluate internal controls on an ongoing basis and implement necessary procedures throughout the year to identify deficiencies in ICFR and correct any related errors in the financial reporting process before year-end. In accordance with the prescribed rules of SOX 404, auditors should only issue an ICMW when the auditor identifies an error that management failed to detect and/or correct through its own testing of ICFR.

While the requirements of SOX 404 were intended to increase both auditor-supplied and client-demanded audit quality (DeFond and Zhang 2014), there has been significant criticism from investors and corporate officers regarding SOX 404 and its implementation (Coates and Srinivasan 2014). Though many have argued that the internal control audit required by SOX 404 has increased overall financial reporting quality (e.g., DeFond and Lennox 2011), there has nonetheless been much contention over the various costs imposed by the requirements of SOX 404 (Coates and Srinivasan 2014; Goelzer 2005). One such cost that has received little attention is the reputational cost to the auditor of disclosing information directly to investors that could be perceived as critical of management.

Some of these costs are explicitly highlighted in a recent whistleblower case, *Botta v. PricewaterhouseCoopers LLP* (Botta v. PwC), which alleges that auditors overlooked internal control issues to curry favor with companies' management and remain competitive in the market. Under penalty of perjury, former Big 4 senior manager, Mauro Botta, contends that auditors have breached their duty as public watchdogs by withholding valuable information from stakeholders, particularly with regard to companies' internal control opinions. Botta alleges he was reprimanded on numerous occasions for pointing out companies' control failures and weaknesses. In one instance, Botta asserts that when he pointed out one company's "internal controls were failing,

inadequate, and not accurate,” his supervisor “specifically instructed [Botta] to make it seem as the severity of the issue was not material” (Botta v. PwC 2018). In further admonishment for raising concerns about potential control issues, Botta alleges he was removed from a client at the request of the CFO, instructed to “raise the threshold of precision of the control to make it pass,” and told by one partner at the firm that “we cannot issue a material weakness otherwise we would not have been market competitive” (Botta v. PwC 2018). Taken together, this purported behavior highlights previously overlooked reputational effects of auditors revealing information that could make companies look bad.

Reputational Effects of Audit Inputs and Outputs

Extant research shows that auditors have strong incentives to maintain their reputation capital because auditor selection and retention decisions are largely influenced by auditor reputations (DeAngelo 1981). Presumably, audits that provide useful information to users of financial statements should serve to increase the credibility of financial statements, and, in turn, increase auditor reputation for providing a valuable audit.

Many streams of literature document significant reputational effects for both auditors and clients associated with publicly observable audit inputs and outcomes. Teoh and Wong (1993) document larger earnings response coefficients for clients of Big N auditors compared to those of non-Big N auditors, even among clients that switched between Big N and non-Big N auditors. Eichenseher et al. (1989) find that the market reacts positively to client switches from non-Big N to Big N auditors and negatively to changes from Big N to non-Big N auditors. Research on auditor switches from non-specialist to industry specialist auditors suggests similar rewards for companies that switch to auditors with a specialist reputation. For example, Knechel et al. (2007) find evidence that the market reacts most positively when firms switch from a non-Big 4 auditor to a specialist

Big 4 auditor and most negatively when firms switch from a specialist Big 4 auditor to a non-Big 4 auditor.

Additional research documents significant reputational penalties for both clients and their auditors using restatements as an observable signal of a bad audit outcome. Palmrose et al. (2004) document substantial negative abnormal returns for restating companies and Hribar and Jenkins (2004) document a decrease in expected earnings and increase in cost of equity for restating companies. Several other studies provide evidence that clients and stakeholders hold both audit firms and individual engagement partners accountable for bad audit outcomes that are revealed through restatements. Among restating companies, auditors are more likely to be dismissed (Hennes et al. 2014; Mande and Son 2013), shareholders are more likely to vote against auditor ratification (Liu et al. 2009) and engagement partners are more likely to be dismissed (Aobdia and Petacchi 2017). Furthermore, audit offices that announce a restatement experience a subsequent decline in local office market share (Swanquist and Whited 2015).

These results reveal that, in general, many observable audit inputs and outcomes have a parallel effect on auditor and client reputations. As discussed previously, large auditors and those with specialization are rewarded in the market, as are the clients audited by them. Similarly, auditors associated with restatements and clients that have restatements are both penalized in the market— but is the auditor penalized because they are bad or because they made the client look bad? The parallel reputational impacts of these measures make it difficult to determine whether the market for audit services rewards, or penalizes, auditors based on the auditor's reputation for audit quality or based on the client's reputation for financial reporting quality. Thus, it is unclear what the audit market implications are when financial reporting causes the auditor's reputation and the client's reputation to diverge, such as when the auditor issues an ICMW.

ICMWs are a publicly observable audit outcome that have been shown to impose significant costs on companies and damage client reputations (e.g., Ashbaugh-Skaife et al. 2009; De Franco et al. 2005; Hammersley et al. 2008; Impink et al. 2012; Kim et al. 2011). Hammersley et al. (2008) show that ICMWs provide value-relevant information to investors and that the information content of disclosures increases with the severity of the control weakness. Additional literature reveals evidence of negative stock market reactions (e.g., De Franco et al. 2005; Gupta and Nayar 2007; Impink et al. 2012) and increased costs of both debt (e.g., Dhaliwal et al. 2009; Kim et al. 2011) and equity (Ashbaugh-Skaife et al. 2009) for companies that disclose ICMWs. Other research has shown that the economic costs associated with receiving an ICMW are large enough to motivate clients to dismiss their auditors after receiving an ICMW (Ettredge et al. 2011; Newton et al. 2016) and not report ICMWs when they exist (Rice and Weber 2012; Rice, Weber, and Wu 2015).

In contrast to the client (whose reputation is generally negatively impacted by an ICMW), the auditor's issuance of an ICMW should not negatively affect the auditor's reputation for audit quality. This is because the identification and reporting of ICMWs by an auditor reveals that the auditor conducted the audit sufficiently well to identify a weakness and then communicated that valuable information to the public. Additionally, because management maintains sole responsibility for establishing and maintaining adequate internal control structure and procedures for financial reporting, an ICMW likely reflects poorly on management but should not reflect poorly on the issuing auditor. Therefore, to the extent that clients value providing useful information to users of financial statements, the issuance of an ICMW should neither impair the issuing auditor's reputation, nor deter clients from selecting auditors with a history of issuing ICMWs. However, the reputational damage and economic costs associated with receiving ICMWs suggest that clients have substantial incentives to avoid receiving ICMWs.

Following the discussion above, we expect that the reputational damage and economic costs associated with receiving ICMWs could diminish auditor desirability and lead clients to avoid selecting auditors that have a reputation for issuing ICMWs to their clients. Because we are focused on auditor reputation, we exclude clients that leave the auditor following an ICMW as it is not clear whether such switches were driven by the auditor's reputation or the client's ICMW experience.⁴ We predict that audit offices that issue ICMWs experience lower subsequent growth than offices that do not issue ICMWs.

In addition to the issuance of an ICMW having an overall negative effect on office growth, we also predict that different characteristics of the client receiving the ICMW, or the ICMW itself, could intensify this effect. Consistent with the notion that larger clients are more visible in the market and thus could have more influence on an auditor's reputation, we posit that ICMWs issued to more visible clients have a stronger adverse effect on the issuing auditor's office growth. Additionally, when considering the varying degrees of severity within ICMWs, we predict that more severe ICMWs reflect more poorly on management and thus will have a stronger negative effect on office growth. In summary, we predict that audit offices experience lower subsequent growth following the issuance of an ICMW that is (1) issued to a more visible client or (2) more severe.

III. RESEARCH METHODOLOGY AND SAMPLE SELECTION

We examine the implications of issuing ICMWs on subsequent audit office growth using the following ordinary least squares regression model:

⁴ Additionally, prior research finds that clients are more likely to seek replacement auditors and engage in internal control opinion shopping after receiving ICMWs (Ettredge et al. 2011; Newton et al. 2016). In contrast, we focus on the market implications of the auditor's reputation for issuing ICMWs rather than switches based on auditor-client specific experience.

$$\begin{aligned}
GROWTH_{it,t+1} = & \beta_0 + \beta_1 ICMW(COUNT)_{it} + \beta_2 NUM_CLIENTS_{it} + \beta_3 NUM_IC_AUDITS_{it} + \\
& \beta_4 BIG4_{it} + \beta_5 LITIGATION_{it} + \beta_6 NUM_MISSTATE_{it} + \beta_7 NUM_RESANN_{it} + \\
& \beta_8 NUM_GCO_{it} + \beta_9 NUM_404AWEAK_{it} + \beta_{10} \Delta AT_GROWTH_{it,t+1} + \\
& \beta_{11} \Delta CLIENTSIZE_{it,t+1} + \beta_{12} \Delta ARINV_{it,t+1} + \beta_{13} \Delta ACQ_{it,t+1} + \beta_{14} \Delta ACC_{it,t+1} + \\
& \beta_{15} \Delta LOSS_{it,t+1} + \beta_{16} \Delta LEVERAGE_{it,t+1} + \beta_{17} \Delta CASH_{it,t+1} + \beta_{18} \Delta ROA_{it,t+1} + \\
& \beta_{19} \Delta ABFEES_{it,t+1} + \beta_{20} \Delta EXPERT_{it,t+1} + \beta_{21} \Delta TENURE_{it,t+1} + Year\ FE + \\
& MSA\ FE + \varepsilon_{it}.
\end{aligned} \tag{1}$$

The dependent variable in Equation (1) is *GROWTH*, which represents one-year percent of *CLIENT_GROWTH* or *FEE_GROWTH* and is specified based on the following equation:

$$GROWTH_{it,t+1} = \frac{\sum c_{it+1} - \sum (c_{it} - z_{it})}{\sum (c_{it} - z_{it})} \tag{2}$$

where:

i = office identifier;

t = time period (year);

c = number of clients, or amount of fees; and

z = number of clients, or amount or amount of fees from clients, that receive an ICMW in time *t* and switch auditors during the subsequent year (i.e., between year *t* and year *t*+1).

We exclude from our growth calculation clients that switch audit offices after receiving an ICMW, and their corresponding fees, to ensure that we capture client and fee losses due to reputational impairment, rather than client and fee losses from clients seeking replacement auditors after receiving ICMWs (Ettredge et al. 2011; Newton et al. 2016).⁵ Our primary variables of interest are, *ICMW*, which is an indicator variable equal to one if an audit office issues an ICMW in year *t*, zero otherwise, and *ICMW_COUNT*, which is equal to the number of clients within an audit office that receive an ICMW in year *t*. Consistent with our earlier prediction, if the economic consequences of receiving ICMWs are large enough to discourage clients from selecting and auditors with a history of issuing ICMWs to their clients, we would expect to observe negative coefficients on β_1 for both of our variables of interest, *ICMW* and *ICMW_COUNT*.

⁵ Note that by design, clients that leave an office after receiving an ICMW, and their corresponding fees, are necessarily excluded from our office growth measure in *t*+1.

Control Variables

Similar to office-level models in prior literature (Francis and Michas 2013; Swanquist and Whited 2015), we control for office and client specific variables that likely affect audit office growth. Our controls include both levels and changes variables that help adjust for differences in client portfolios across audit offices, which we believe could influence audit office growth. We calculate office-level variables by taking the mean value across all clients within an audit office-year (e.g., Francis and Michas 2013; Swanquist and Whited 2015). We include change variables in our model that correspond to our dependent variables and denote the change in an office's mean client value from year t to year $t+1$ by the prefix " Δ ."

For control variables we include *NUM_CLIENTS* equal to the number of clients engaged by an audit office in year t to control for the differential growth at large offices. *NUM_IC_AUDITS* is equal to the number of internal control audits performed by an audit office in year t and is included as a control for the number of an office's clients that have the potential to receive an ICMW. *BIG4* is an indicator variable equal to one if the audit office is part of PwC, Deloitte, KPMG or Ernst & Young, zero otherwise, and is included to control for the expected differences in growth among Big 4 auditors and mid- and lower- tier audit firms. We include *LITIGATION* equal to one if the audit firm is subject to pending litigation. *NUM_RESANN* is equal to the number of restatement announcements at an office, which we expect to be negatively related to office growth. *NUM_MISSTATE* is equal to the number of misstatements at an office and is included to control for underlying audit quality within an audit office. *NUM_GCO* is equal to the number of clients within an office that receive a going concern opinion. We also control for *NUM_404AWEAK*, equal to the number of clients at an office whose management reports a SOX 404(a) internal control weakness when the company is not subject to reporting requirements of SOX 404(b). Controlling for the

number of clients that self-report internal control weaknesses independent of their auditor allows us to disentangle the effect of auditor-reported direct-to-investor communications from company-reported management disclosures.

The remaining controls are measured as changes in average office values from time t to $t+1$. *AT_GROWTH* is calculated as the change in year over year growth in reported total assets and is included to control for differential changes in client growth. *CLIENTSIZE* is measured as the natural logarithm of total client assets and is used to control for changes in client size. We control for client complexity using *ARINV*, measured by changes in accounts receivable and inventory scaled by total assets, and *ACQ*, which is equal to one if a client reports acquisition or merger activity in the current year, and zero otherwise. We include *ACC*, *LOSS*, *LEVERAGE* and *CASH* to control for client riskiness where *ACC* is calculated as abnormal accruals, *LOSS* is an indicator variable equal to one if the company has a current net loss, zero otherwise, *LEVERAGE* is calculated as total liabilities divided by total assets, and *CASH* is calculated as cash and short-term investments divided by total assets. We include *ROA*, calculated as the return on average total assets, to control for client performance. We also include additional controls for changes in average abnormal fees charged by an office, *ABFEES*, average expertise, *EXPERT*, and auditor engagement tenure, *TENURE*. Detailed variable definitions are provided in the Appendix.

The variables described above capture client-specific characteristics as well as auditor-specific characteristics that likely influence a client's decision to retain or dismiss its auditor. Additionally, we include year and MSA fixed effects in each of our regression models to rule out any overall time and location effects. We cluster robust standard errors by audit offices and

winsorize all continuous variables at the 1 percent and 99 percent levels to reduce the effect of outliers.⁶

Sample Selection

We form a pooled cross-sectional sample using a combination of datasets from Compustat and Audit Analytics. Our sample consists of audit offices and their clients from 2004-2016. Our sample begins in 2004 because this is the first year in which information from internal control opinions became available following the implementation of SOX 404. We compute our client count for each office-year using the Audit Analytics full population of clients, after removing companies identified as asset backed securities, funds or trusts, non-tickered subsidiaries, offices of bank or other holding companies and real estate investment trusts because these companies are typically associated with one parent company and we are interested in capturing growth in the number of unique auditor-client relationships within an audit office. Consistent with prior literature, we also delete observations for auditors located outside of the United States. We then aggregate individual client-year observations into office-year observations based on the fiscal year for which the audit opinion is dated. For our office-level variable calculations, we require client-year observations to have financial reporting data available in Compustat, auditor data available in the Audit Analytics Audit Opinions dataset and audit fee data available in the Audit Analytics Audit Fees dataset. We limit our final analysis to office-year observations with four or more clients to ensure that our results are not driven by small offices where gaining or losing a single client would lead to large fluctuations in growth.⁷ Our final sample consists of 4,996 office-year observations.

⁶ Results are similar and significant at conventional levels if unwinsorized variables are used.

⁷ 3,242 auditor office years have 3 or fewer clients. Our inferences are similar when we run our analyses including offices with 3 or fewer clients.

IV. RESULTS

Summary Statistics

Table 1 reports the descriptive statistics for the variables that are used in our final sample of pooled office-level observations. Variable descriptions and statistics are largely consistent with other office-level studies (Swanquist and Whited 2015). Approximately 25.1 percent of audit offices issue an ICMW during our sample period. The average client growth for an audit office is negative 4.6 percent and the average one-year fee growth for an audit office is 5.4 percent. Nearly half of our sample (46 percent) is made up of Big 4 audit offices. The mean (median) number of clients engaged by an office is about 13 (9). The average office-year in our sample provides internal control audits to about 7 clients, or roughly half of its client portfolio.

<Insert Table 1 Here>

Primary Analysis

We test our first prediction by examining whether declines in audit office growth follow the issuance of an ICMW. Table 2 reports the results of our estimation of Equation (1). We present results for *CLIENT_GROWTH*, measured by the percentage growth in number of clients engaged by an audit office, in Columns (1) and (2), and *FEE_GROWTH*, measured by the percentage growth in amount of audit fees earned by an audit office, in Columns (3) and (4).

Results presented in Table 2 indicate that, on average, the audit market penalizes auditors for issuing an ICMW, as evidenced by decreases in client and fee growth in the year following the issuance of an ICMW. Our main variables of interest, *ICMW*, and *ICMW_COUNT*, are negatively related to our office growth measures and statistically significant at traditional levels (two-tailed) in all specifications of Equation (1) ($p < 0.01$). Our results indicate that when an office issues an

ICMW to at least one of its clients it experiences 2.5 (8.0) percent lower client (fee) growth when compared to an office that issues no ICMWs. More notably, for each ICMW issued (*ICMW_COUNT*), we find that the audit office experiences 2.2 (6.1) percent lower growth in clients (fees); given the annual average office client (fee) growth is negative 4.6 (positive 5.4) percent, this decrease represents a substantial impact. Notably, our findings indicate that declines in office growth following the issuance of an ICMW can be attributed to auditor selection decisions among clients that received clean internal control opinions but avoid association with auditors that have a history of revealing ICMW information that makes their other clients look bad. Coefficient estimates on our control variables are also generally consistent with prior literature.

<Insert Table 2 Here>

V. ADDITIONAL ANALYSES AND ROBUSTNESS TESTS

Client Visibility and Office Growth

We expect reputational consequences to be greater when auditors issue ICMWs to their more visible clients since these firms typically receive more scrutiny from analysts and greater coverage by the press (Solomon and Soltes, 2012). To test the effect of issuing ICMWs to more visible clients we re-estimate Equation (1) with alternative variables of interest. Our variables of interest are *ICMW_LARGE* (*SMALL*), equal to one if the audit office issues an ICMW in year t to a client whose market value of equity (MVE) is above (below) the median of clients within the audit office, and zero otherwise. These classifications are mutually exclusive such that if an audit office issues an ICMW to both a large and small client, we code the office as *ICMW_LARGE*. Consistent with our model specifications in Table 2, we also estimate Equation (1) using continuous measures for our variables of interest, where *ICMW_LARGE(SMALL)_COUNT* is calculated as the number of

clients that receive an ICMW in year t whose MVE is above (below) the median of clients within that audit office.⁸

Table 3 reports results from this specification and provides initial support for our prediction with negative and significant coefficient estimates on our variables of interest for offices that issued ICMWs to larger clients ($p < 0.01$). To fully test our prediction, we perform a test of the difference between coefficients for offices that issued ICMWs to large versus small clients. In Table 3, Columns (1) and (3), we test for differences in the coefficients on *ICMW_LARGE* (*SMALL*) and in Columns (2) and (4), we test for differences in the coefficients on *ICMW_LARGE(SMALL)_COUNT*. Results of the tests between coefficients are reported at the bottom of Table 3 and show that growth in clients and fees is significantly lower when the office issues ICMWs to larger clients compared to smaller clients. This result supports the notion that ICMWs issued to more visible clients are more detrimental to office growth than those issued to less visible clients.

<Insert Table 3 Here>

ICMW Severity and Office Growth

We predict that the effect of issuing ICMWs on office growth will be greater if the ICMW is more severe. We examine this prediction using two measures of ICMW severity, the number of accounting issues reported in the ICMW (Doyle, Ge, and McVay 2007), and the delay in issuing the ICMW audit opinion (Impink et al. 2012).

⁸ We use median MVE of the audit office in our main analysis as using MVE of all clients within an MSA gives more weight to larger offices. Furthermore, since similar sized offices are more likely to compete with each other for clients, we believe the use of median MVE of clients in an audit office is most appropriate for our analysis. In our robustness tests, we perform a similar analysis but categorize clients as large (small) based on the median MVE of all clients within an MSA.

Most ICMWs within our sample relate to multiple accounting issues (i.e., over 97% of ICMWs reported relate to 2 or more issues). Since more severe ICMWs are typically worse for clients (Doyle et al. 2007), we expect audit market consequences will also be greater when auditors issue more severe ICMWs. We identify clients that disclosed at least one ICMW from 2004 through 2016 and calculate *LN_ISSUES*, which is equal to the natural logarithm of one plus the maximum number of accounting issues identified per ICMW (i.e., the most severe ICMW) issued by an audit office.

Further, since research has also found that ICMWs associated with longer audit opinion delays elicit more negative market reactions (Impink et al. 2012), we predict that these ICMWs are more detrimental to office reputations. Therefore, we calculate *LN_DELAY*, which is equal to the natural logarithm of one plus the maximum change in audit opinion delay among clients that receive a new ICMW in year *t*. To test the effect of the severity of an ICMW on audit office growth, we re-estimate Equation (1) using *LN_ISSUES*, and *LN_DELAY*, as our variables of interest.

Table 4 reports results from our severity tests. As reported in Columns (1) and (3) we find a negative and statistically significant effect of *LN_ISSUES* on client growth and fee growth. As reported in Columns (2) and (4) we also find a negative and statistically significant effect of *LN_DELAY* on both client growth and fee growth. Together, results from our severity analysis indicate that ICMWs are more detrimental to office growth when client implications are more severe.

<Insert Table 4 Here>

Client Switching and its Effect on Portfolio Audit Risk

Our primary tests focus on the extent to which ICMWs influence subsequent office growth. In this section, we investigate (1) client level switching behavior and (2) the impact of this

switching behavior on the risk profile of an audit office's client portfolio. First, we expect that clients that receive a clean internal control opinion and leave a high ICMW audit office will be more likely to switch to a low ICMW audit office. Second, we expect such switching will be more likely among clients with greater risk of receiving an ICMW and thus expect the risk composition of the high ICMW office to improve (i.e., client portfolio will become less risky).

We first perform a client-level analysis that examines auditor-client realignments among clients that receive a clean internal control opinion and switch away from audit offices that issue one or more ICMWs to their other clients. Table 5 reports results from this analysis; we find that, within our sample of switching clients, the proportion of ICMWs issued by the client's new auditor office is 7.6 percent lower than the proportion of ICMWs issued by the client's old auditor office ($p < 0.05$).⁹ This finding supports the notion that our previously documented decline in future audit office growth following the issuance of an ICMW is likely a product of the auditor's diminished ability to attract new clients.

<Insert Table 5 Here>

We expect that clients with lower financial reporting quality are more likely to switch auditors (since these clients are likely more at risk to receive an ICMW), whereas those with higher quality financial reporting are likely less deterred from selecting and retaining auditors with a history of issuing ICMWs. To examine the effects of client-switching behavior on audit office risk profile, we perform an office-level analysis of client portfolio characteristics and replace our dependent variables from Equation (1) with a measure that captures the change in the average F-Risk ($\Delta F-RISK$) and the change in the average misstatements ($\Delta MISSTATE$) of an audit office's

⁹ We measure ICMWs as a proportion of total clients at time t for both the old office and new office as this information would be known to the client at the time the switching decision is made.

client portfolio.¹⁰ $\Delta F\text{-}RISK$ is the one-year change in the audit office average number of clients with an F-Score greater than 1.0, where F-Score is calculated following Dechow, Ge, Larson and Sloan (2011).¹¹

We present results for $\Delta F\text{-}RISK$ in Table 6, Columns (1) and (2) and for $\Delta MISSTATE$, Columns (3) and (4). Consistent with the notion that issuing ICMWs deters riskier clients, or clients with lower quality financial reporting, we document a negative relationship between ICMWs and $\Delta F\text{-}RISK$ and $\Delta MISSTATE$. Specifically, an audit office's percentage of F-Risk clients decreases 1.1 percent for every additional ICMW issued ($p < 0.01$), and an audit office's percentage of misstating clients decreases 7 percent for each ICMW issued ($p < 0.01$).¹² Taken together, the observed decreases in client portfolio risk indicate that the loss of clients and fees for audit offices that issue ICMWs is likely driven by higher risk clients and that clients with higher quality financial reporting are less deterred from selecting and retaining auditors with a history of issuing ICMWs.

< Insert Table 6 Here >

ICMWs and Year Over Year Office Growth

In this section, we examine year over year office growth in each of the three years subsequent to the issuance of an ICMW in time t in order to examine the persistence of our main effect.¹³ Results from this analysis are presented in Table 7, Panels (A) and (B). Coefficient estimates on our variables of interest are negative and statistically significant on client growth in

¹⁰ We drop $NUM_MISSTATE$ and NUM_RESANN from our models in this section to allow for sufficient variation in our portfolio risk measures.

¹¹ Dechow et al. 2011 classify an F-Score greater than 1.0 as "above normal risk." and an F-Score greater than 2.45 as "high risk." In untabulated results, we also run our analysis using a cutoff of 2.45 and find similar results.

¹² This represents a substantial decrease given that the mean value of client portfolio F-Risk (misstating clients) for audit office-years in our sample is 0.25 (0.041).

¹³ We use all control variables from Equation (1) and add additional controls for prior period ICMWs in model specifications using time $t+2$ and $t+3$.

time $t+1$ (-0.022, $p < 0.01$) and time $t+2$ (-0.008, $p < 0.10$) and on fee growth in time $t+1$ (-0.061, $p < 0.01$) and time $t+2$ (-0.029, $p < 0.01$), but are not significant on either growth measure in time $t+3$. These findings reveal that the auditor's reputational impact of issuing an ICMW is decreasing over time and indistinguishable after two years.

<Insert Table 7 Here>

ICMWs and Percent Change in Market Share

We also measure the effect of ICMWs on office growth using the percent change in market share from t to $t+1$ as our dependent variable.¹⁴ Table 8, Columns (1) through (4), reports results from this analysis; coefficient estimates on our variables of interest in Columns (1) through (4) are negative and statistically significant ($p < 0.05$ for Column 1; $p < 0.01$ for Columns 2-4), providing additional support for our prediction that audit offices experience decreased future growth following the issuance of an ICMW. Economically, we estimate that, on average, for every additional ICMW issued, an audit office experiences a negative 1.7 percent change in client market share and a negative 5.5 percent change in fee market share relative to offices that do not issue any ICMWs.

<Insert Table 8 Here>

Robustness and Sensitivity Analysis

We also separately examine changes in office growth from gaining new clients versus losing existing clients and find evidence that changes in growth are driven primarily by clients not selecting auditors with a reputation for issuing ICMWs. This result is consistent with the results reported in Table 5 and suggests that clients focus on auditor reputation in their selection decisions

¹⁴ Percent change in market share from t to $t+1$ is calculated following Swanquist and Whited (2015) with an adjustment to remove clients, and corresponding fees of clients, that receive an ICMW and subsequently switch auditors from an office's percent market share in time t .

in addition to client-specific experience with the auditor that has been highlighted in the opinion shopping literature.

Untabulated analyses provide additional support for our findings related to client visibility. Specifically, results of our client visibility analysis are robust to splitting large and small ICMWs based on median MSA MVE as opposed to audit office MVE. In addition to our office-level ICMW visibility test, we also examine firm-level industry growth following the issuance of an ICMW to a national industry leading client, as measured by MVE. Consistent with the idea that nationwide attention accompanying ICMWs received by the largest companies in an industry has nationwide implications for auditor growth within that industry, we find that client and fee growth within an industry is significantly lower when auditors issue an ICMW to the largest companies within their national industry compared to smaller companies in the industry. Together, results of our client visibility robustness tests support the notion that issuing ICMWs to more visible clients is more detrimental to office growth than issuing ICMWs to less visible clients.

We also perform a series of additional robustness tests. We compute our growth measure from Equation (2) restricting our population to clients that receive internal control audits and thus likely have stronger incentives to avoid selecting/retaining auditors with a reputation for issuing ICMWs; our main effect for *CLIENT_GROWTH* is stronger under this specification. We also remove clients and fees related to auditor resignations (as indicated in Audit Analytics) from our growth measures to mitigate concerns that our estimated effects are auditor-driven and find similar results. We perform our analysis separately on Big 4 and non-Big 4 audit offices and draw similar conclusions, although our results are somewhat attenuated for Big 4 audit offices. As an additional test, we re-estimate Equation (1) using audit-office fixed effects to control for potential omitted

correlated variables with respect to audit office characteristics and continue to observe similar results from this specification.¹⁵

We perform numerous sensitivity analyses to help rule out measurement error related to our office-year variables of interest. We calculate ICMWs as the number of ICMWs in an office-year scaled by the number of clients in an office-year, instead of incorporating the number of ICMWs and the number of clients as two separate independent variables in our model.¹⁶ This variable thus reflects the proportion of clients that receive an ICMW in an audit office-year. We also measure ICMWs as the number of material weaknesses listed in the auditor's internal control audit report. Our results are robust to each of these alternative variable calculations.

VI. CONCLUSION

Extant literature documents significant reputational effects associated with publicly observable audit inputs (e.g., auditor size, industry specialization) and outcomes (e.g., restatements) for clients and their auditors. While these findings demonstrate situations in which auditors are incentivized to maintain their reputation for quality in order to attract and retain future business, we posit that this may not always be the case. Our study provides empirical support suggesting that the market for audit services penalizes auditors when they do their job but communicate information to the public that is critical of management (i.e., issue ICMWs). Our findings show that, on average, audit offices experience a decline in future growth following the issuance of an ICMW, suggesting that clients avoid auditors that have a history of disclosing items that make their clients look bad to the market. We provide evidence which suggests that the decline in future audit office growth is a

¹⁵ Coupled with the findings in Table 7, this analysis helps rule out the possibility that our findings are driven by either the quality of clients or partners/staff at the audit office.

¹⁶ Our decision to run our main test using *ICMW_COUNT* instead of the proportion of ICMWs is to ensure that our result is not driven by the number of clients in the office (i.e., the denominator in the proportion), which has a significant impact on office growth. See Kromnal (1993) and Firebough and Gibbs (1985).

product of the auditor's diminished ability to attract new clients. Our findings indicate that this effect is not driven by clients who leave offices because they received an ICMW, but by clients that receive clean internal control opinions and appear to avoid association with auditors that have a history of being critical of their other clients. Furthermore, we provide evidence of a more pronounced decline in future office growth when auditors issue ICMWs to their more visible clients or issue more severe ICMWs. Results from our portfolio composition analysis also indicate that a subset of clients with higher quality financial reporting are less deterred from selecting and retaining auditors that have a reputation for issuing ICMWs.

Overall, our findings contribute to the existing literature on the effect of observable audit outcomes on auditor reputation, and the effect of audit office reputations on auditor selection decisions. Notably, our findings contribute to the literature on auditor reputation by documenting evidence that association with items that make clients look bad may result in significant economic consequences for auditors. Our study is also informative to practitioners and regulators as they seek to address market incentives that may have a detrimental effect on overall audit quality or constrain information available to investors.

Furthermore, our study speaks to the potential implications of the auditor's decision to disclose or withhold information from the auditor's discussion of CAMs as part of the expanded auditor's report. Beginning with the implementation of SOX in 2002 and continuing through the recently enacted expanded auditor's report, there has been a trend toward increased direct-to-investor communications from the auditor. In the first major change to the auditor's report since the implementation of SOX, the PCAOB recently adopted a new auditor reporting standard that requires auditors to communicate additional information about the audit to investors and other users of the financial statements and is expected to produce benefits akin to those anticipated from the

implementation of SOX (PCAOB 2004; PCAOB 2017). As part of the expanded auditor's report, auditors must provide a description of CAMs, or a discussion of audit-specific information that was communicated to the audit committee and involved especially challenging, subjective, or complex auditor judgment.

Comment letters received from the public reveal that much of the anticipated impact of the expanded auditor's report lies in CAMs that divulge information that users of the financial statements could view as critical of management's accounting choices.¹⁷ There has been significant debate about the potential implications of the expanded auditor's report, particularly regarding how the increased direct-to-investor communication will impact the dialogue between auditors, audit committees and management (PCAOB 2016; SEC 2017). While the requirements of the expanded auditor's report could allow auditors to "engage in more robust conversations in areas arising from the most complex, subjective or challenging issues," it is equally likely that any inconsistent or competing information between auditors and their clients that is disclosed as part of the CAMs could serve as a source of tension or disagreement between management, audit committees and their auditors, potentially leading to "unintended consequences such as hindering the frequency, nature or candor in communication between audit committees and auditors" (EY 2017). Our study provides evidence in support of the latter.

Further, our study highlights the need for future research on the impact of audit committees and overall corporate governance that permits or encourages companies to avoid associating with auditors that might report information that could negatively impact the company. Future research could also examine engagement partner specific reputational implications of issuing ICMWs.

¹⁷ Comment letters received in response to the proposed standard for the expanded auditor's report are available at: <https://pcaobus.org/Rulemaking/Pages/Docket034Comments.aspx> and <https://www.sec.gov/comments/pcaob-2017-01/pcaob201701.htm> (PCAOB 2016; SEC 2017).

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Appendix: Variable Definitions

Variable	Definition
<i>Dependent Variables</i>	
<i>CLIENT_GROWTH</i>	Audit-office client growth. See Equation (2).
<i>FEE_GROWTH</i>	Audit-office fee growth. See Equation (2).
<i>ΔF_RISK</i>	The one-year change in the audit office average number of clients with an F-Score greater than 1.0, where F-Score is calculated following Dechow et al. (2011). Average F-Risk takes a value between zero and one for all offices.
<i>ΔMISSTATE</i>	The one-year change in the average number of clients that have a misstatement in their financial statements. Average misstating clients takes a value between zero and one for all offices.
<i>ICMW_PROP_NEW</i>	The proportion of ICMW opinions to total clients within the client's new audit office, measured prior to the client's switch, in year <i>t</i> .
<i>ΔCLIENT_MARKETSHARE</i>	Percent change in client market share from <i>t</i> to <i>t+1</i> calculated following Swanquist and Whited (2015).
<i>ΔFEE_MARKETSHARE</i>	Percent change in fee market share from <i>t</i> to <i>t+1</i> calculated following Swanquist and Whited (2015).
<i>Variables of Interest</i>	
<i>ICMW</i>	Indicator variable equal to one if an audit office issues an ICMW in year <i>t</i> , zero otherwise.
<i>ICMW_COUNT</i>	Equal to the number of clients within an audit office that receive an ICMW in year <i>t</i> .
<i>ICMW_LARGE</i>	Indicator variable equal to one if the audit office issues an ICMW in year <i>t</i> to a client whose MVE is above the median of clients within an audit office, zero otherwise.
<i>ICMW_LARGE_COUNT</i>	Equal to the number of clients whose MVE is above the median of clients within an audit office and receive an ICMW in year <i>t</i> .
<i>ICMW_SMALL</i>	Indicator variable equal to one if the audit office only issues ICMWs in year <i>t</i> to clients whose MVE is below the median of clients within an audit office, zero otherwise.
<i>ICMW_SMALL_COUNT</i>	Equal to the number of clients whose MVE is below the median of clients within an audit office and receive an ICMW in year <i>t</i> .
<i>LN_ISSUES</i>	Equal to the natural logarithm of one plus the maximum number of accounting issues identified per ICMW issued by an audit office.
<i>LN_DELAY</i>	Equal to the natural logarithm of one plus the maximum change in audit opinion delay among office clients that receive an ICMW in year <i>t</i> , where audit opinion delay is calculated as the number of days from a client's fiscal year end to the signature date of the client's audit opinion and is restricted to clients that receive a new ICMW.
<i>ICMW_PROP_OLD</i>	The proportion of ICMW opinions to total clients within the client's old audit office, measured prior to the client's switch, in year <i>t</i> .
<i>Control Variables</i>	
<i>Auditor-Level Variables</i>	
<i>BIG4</i>	Indicator variable equal to one if the audit office is part of PwC, Deloitte, KPMG or Ernst & Young.
<i>LITIGATION</i>	Equal to one if the audit firm is subject to pending litigation.
<i>NUM_CLIENTS</i>	Equal to the number of clients engaged by an audit office in year <i>t</i> .

<i>NUM_GCO</i>	Equal to the number of clients that receive a going concern opinion.
<i>NUM_IC_AUDITS</i>	Equal to the number of internal control audits performed by an audit office in year <i>t</i> .
<i>NUM_MISSTATE</i>	Equal to the number of misstatements at an office.
<i>NUM_RESANN</i>	Equal to the number of restatement announcements at an office.
<i>NUM_404AWEAK</i>	Equal to the number of clients whose management reports a 404(a) weakness when the company is not subject to reporting requirements of 404(b).
<i>Client-Level Variables</i>	
<i>ABFEES</i>	The residual from the following model: $\ln(\text{Fees}) = B_1\text{SIZE} + B_2\text{GROWTH} + B_3\text{ROA} + B_4\text{LOSS} + B_5\text{LEVERAGE} + B_6\text{NEWAUDITOR} + B_7\text{MSAOFFICES} + B_8\text{WEAKNESS} + B_9\text{IC_AUDIT} + B_{10}\text{BIG4} + \text{Year_FE} + \text{Ind_FE} + e$. Note: Fees = total audit fees; and NEWAUDITOR is an indicator variable equal to one if the client selected a new auditor during year <i>t</i> , and zero otherwise.
<i>ACC</i>	Calculated as abnormal accruals according to the Modified Jones Model (Dechow, Sloan, and Sweeney 1995).
<i>ACQ</i>	Equal to one if a client reports acquisition or merger activity in the current year, and zero otherwise.
<i>ARINV</i>	Changes in accounts receivable and inventory scaled by total assets.
<i>AT_GROWTH</i>	Calculated as the change in year over year growth in reported total assets. $(\text{Total assets}_t - \text{total assets}_{t-1}) / \text{total assets}_{t-1}$
<i>CASH</i>	Cash and short-term investments divided by total assets.
<i>CLIENTSIZE</i>	Natural logarithm of total client assets _{<i>t</i>} .
<i>EXPERT</i>	Indicator variable equal to one if the company's auditor is both the local and national leader (most audit fees) in the client's industry, and zero otherwise.
<i>LEVERAGE</i>	Total liabilities divided by total assets.
<i>LOSS</i>	Indicator variable equal to one if the company has a current net loss, zero otherwise.
<i>ROA</i>	Return on average total assets equal to net income divided by average total assets.
<i>TENURE</i>	Indicator variable equal to one if the company engages an auditor with tenure of more than three years, and zero otherwise.

Table 1: Descriptive Statistics

Table 1 presents the descriptive statistics for the full sample of office-level observations. Variable definitions are provided in Appendix 1.

VARIABLE NAMES	N	Mean	SD	p(25)	Median	p(75)
<i>DEPENDENT VARIABLES</i>						
CLIENT_GROWTH	4,996	-0.046	0.276	-0.200	0.000	0.052
FEE_GROWTH	4,996	0.054	0.440	-0.151	0.006	0.173
ΔF_RISK	4,996	0.012	0.238	-0.078	0.000	0.092
$\Delta MISSTATE$	4,996	-0.083	0.865	-0.002	0.000	0.000
<i>VARIABLES OF INTEREST</i>						
ICMW	4,996	0.251	0.434	0.000	0.000	1.000
ICMW_COUNT	4,996	0.371	0.738	0.000	0.000	1.000
ICMW_LARGE	4,996	0.145	0.352	0.000	0.000	0.000
ICMW_SMALL	4,996	0.082	0.274	0.000	0.000	0.000
ICMW_LARGE_COUNT	4,996	0.185	0.507	0.000	0.000	0.000
ICMW_SMALL_COUNT	4,996	0.178	0.528	0.000	0.000	0.000
LN_ISSUES	4,996	0.363	0.690	0.000	0.000	0.000
LN_DELAY	4,996	2.410	1.463	1.610	2.565	3.332
<i>CONTROL VARIABLES</i>						
NUM_CLIENTS	4,996	13.074	11.433	6.000	9.000	16.000
NUM_IC_AUDITS	4,996	6.788	9.307	1.000	4.000	8.000
BIG4	4,996	0.460	0.498	0.000	0.000	1.000
LITIGATION	4,996	0.657	0.475	0.000	1.000	1.000
NUM_MISSTATE	4,996	0.522	0.894	0.000	0.000	1.000
NUM_RESANN	4,996	0.146	0.412	0.000	0.000	0.000
NUM_GCO	4,996	2.573	5.512	0.000	1.000	2.000
NUM_404AWEAK	4,996	0.539	0.372	0.167	0.625	0.875
ΔAT_GROWTH	4,996	-0.025	0.737	-0.154	-0.012	0.119
$\Delta CLIENTSIZE$	4,996	0.098	0.512	-0.101	0.079	0.301
$\Delta ARINV$	4,996	-0.005	0.094	-0.033	-0.002	0.026
ΔACQ	4,996	0.004	0.223	-0.100	0.000	0.100
ΔACC	4,996	0.012	1.223	-0.287	-0.003	0.249
$\Delta LOSS$	4,996	0.003	0.222	-0.096	0.000	0.100
$\Delta LEVERAGE$	4,996	-0.005	1.598	-0.052	0.003	0.065
$\Delta CASH$	4,996	-0.002	0.107	-0.032	-0.001	0.030
ΔROA	4,996	0.003	0.636	-0.047	0.000	0.044
$\Delta ABFEES$	4,996	0.002	0.251	-0.109	-0.001	0.111
$\Delta EXPERT$	4,996	0.000	0.025	0.000	0.000	0.000
$\Delta TENURE$	4,996	0.054	0.205	-0.002	0.000	0.125

Table 2: Effect of ICMWs on Office Growth

Table 2 presents the results of our OLS regression analysis of Equation (1). The dependent variables are measures of one-year office growth as determined by number of clients engaged by an audit office or audit fees earned by an audit office. We exclude clients that receive an ICMW and subsequently switch auditors from our growth measures, as described in Equation (2). Our primary variables of interest are *ICMW*, which is an indicator variable equal to one if an audit office issues an ICMW in year *t*, zero otherwise, and *ICMW_COUNT*, which is equal to the number of clients within an audit office that receive an ICMW in year *t*. All variables are formally defined in the Appendix. *T*-statistics are presented in parentheses next to the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests). Robust standard errors are clustered by audit office.

	CLIENT_GROWTH		FEE_GROWTH	
	(1)	(2)	(3)	(4)
ICMW	-0.025 *** (-2.86)		-0.080 *** (-5.59)	
ICMW_COUNT		-0.022 *** (-4.66)		-0.061 *** (-7.17)
NUM CLIENTS	-0.004 *** (-3.45)	-0.004 *** (-3.33)	-0.005 *** (-2.77)	-0.004 *** (-2.64)
NUM IC AUDITS	0.005 *** (3.26)	0.005 *** (3.43)	0.004 ** (2.27)	0.005 *** (2.63)
BIGN	-0.013 (-0.96)	-0.013 (-0.99)	-0.038 ** (-1.98)	-0.038 ** (-1.99)
LITIGATION	-0.016 (-1.17)	-0.016 (-1.16)	-0.005 (-0.29)	-0.006 (-0.30)
NUM MISSTATE	-0.007 (-1.46)	-0.007 (-1.46)	0.002 (0.30)	0.002 (0.31)
NUM RES ANN	-0.020 * (-1.81)	-0.018 (-1.61)	-0.042 ** (-2.49)	-0.036 ** (-2.16)
NUM_GCO	0.004 ** (2.26)	0.004 ** (2.19)	0.004 * (1.67)	0.004 (1.59)
NUM_404AWEAK	0.030 (1.12)	0.030 (1.12)	0.007 (0.20)	0.003 (0.09)
ΔAT_GROWTH	0.011 (1.02)	0.011 (1.02)	-0.049 *** (-3.11)	-0.049 *** (-3.12)
ΔCLIENTSIZE	-0.045 *** (-3.14)	-0.045 *** (-3.13)	0.180 *** (9.05)	0.180 *** (9.07)
ΔARINV	0.069 (0.92)	0.069 (0.91)	0.003 (0.03)	0.001 (0.01)
ΔACQ	-0.017 (-0.78)	-0.018 (-0.80)	0.001 (0.02)	0.000 (0.00)
ΔACC	-0.001 (-0.18)	-0.001 (-0.18)	0.011 (1.63)	0.011 (1.64)
ΔLOSS	0.019 (0.81)	0.019 (0.80)	0.086 ** (2.55)	0.086 ** (2.54)
ΔLEVERAGE	-0.003 (-0.66)	-0.003 (-0.66)	-0.003 (-0.38)	-0.003 (-0.39)
ΔCASH	-0.063 (-0.85)	-0.063 (-0.85)	0.063 (0.62)	0.062 (0.61)
ΔROA	-0.007 (-0.60)	-0.007 (-0.60)	-0.034 ** (-1.99)	-0.034 ** (-1.99)
ΔABFEES	-0.021 (-0.76)	-0.020 (-0.73)	0.441 *** (9.97)	0.442 *** (10.01)
ΔEXPERT	0.059 (0.80)	0.064 (0.86)	0.240 * (1.77)	0.253 * (1.88)
ΔTENURE	-0.172 *** (-7.56)	-0.172 *** (-7.55)	-0.264 *** (-8.21)	-0.264 *** (-8.20)
Constant	0.092 *** (4.13)	0.094 *** (4.21)	0.395 *** (9.92)	0.398 *** (10.00)
Year FE	Yes	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes	Yes
Observations	4,996	4,996	4,996	4,996
<i>R</i> ²	0.076	0.077	0.184	0.186

Table 3: ICMW Visibility Analysis

Table 3 presents the results of our OLS regression analysis of Equation (1). The dependent variables are measures of one-year office growth, as described in Equation (2). Our primary variables of interest are ICMW_LARGE(SMALL), which is an indicator variable equal to one if the audit office issues an ICMW in year t to a client whose market value of equity (MVE) is above (below) the median of clients within the audit office, and zero otherwise, and ICMW_LARGE (SMALL)_COUNT, which is equal to the number of clients that receive an ICMW in year t whose MVE is above (below) the median of clients within the audit office. All variables are formally defined in the Appendix. T -statistics are presented in parentheses next to the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests). Robust standard errors are clustered by audit office.

	CLIENT_GROWTH		FEE_GROWTH	
	(1)	(2)	(3)	(4)
ICMW_LARGE	-0.033 *** (-3.10)		-0.088 *** (-5.03)	
ICMW_SMALL	-0.014 (-1.33)		-0.049 *** (-2.93)	
ICMW_LARGE_COUNT		-0.026 *** (-3.86)		-0.060 *** (-5.48)
ICMW_SMALL_COUNT		-0.010 * (-1.91)		-0.036 *** (-4.48)
NUM CLIENTS	-0.004 *** (-3.38)	-0.004 *** (-3.42)	-0.004 *** (-2.68)	-0.005 *** (-2.79)
NUM IC AUDITS	0.005 *** (3.18)	0.005 *** (3.43)	0.004 ** (2.10)	0.005 *** (2.60)
BIGN	-0.014 (-1.08)	-0.015 (-1.14)	-0.040 ** (-2.13)	-0.040 ** (-2.13)
LITIGATION	-0.016 (-1.16)	-0.016 (-1.14)	-0.006 (-0.30)	-0.006 (-0.31)
NUM MISSTATE	-0.006 (-1.40)	-0.006 (-1.41)	0.003 (0.38)	0.002 (0.34)
NUM RES ANN	-0.019 * (-1.78)	-0.017 (-1.51)	-0.041 ** (-2.46)	-0.033 ** (-1.97)
NUM_404AWEAK	0.031 (1.15)	0.029 (1.08)	0.007 (0.20)	-0.001 (-0.04)
NUM_GCO	0.004 ** (2.17)	0.004 ** (2.22)	0.004 (1.55)	0.004 * (1.66)
Δ AT_GROWTH	0.011 (1.02)	0.011 (1.01)	-0.049 *** (-3.12)	-0.049 *** (-3.12)
Δ CLIENTSIZE	-0.045 *** (-3.16)	-0.045 *** (-3.15)	0.179 *** (9.00)	0.179 *** (9.02)
Δ ARINV	0.069 (0.92)	0.068 (0.91)	0.002 (0.02)	0.001 (0.00)
Δ ACQ	-0.017 (-0.78)	-0.017 (-0.78)	0.001 (0.04)	0.002 (0.05)
Δ ACC	-0.001 (-0.18)	-0.001 (-0.17)	0.011 (1.64)	0.012 * (1.65)
Δ LOSS	0.019 (0.81)	0.019 (0.81)	0.086 ** (2.55)	0.086 ** (2.55)
Δ LEVERAGE	-0.003 (-0.66)	-0.003 (-0.67)	-0.003 (-0.39)	-0.003 (-0.40)
Δ CASH	-0.064 (-0.85)	-0.064 (-0.86)	0.061 (0.60)	0.060 (0.59)
Δ ROA	-0.007 (-0.59)	-0.007 (-0.59)	-0.034 ** (-1.97)	-0.034 ** (-1.98)
Δ ABFEES	-0.021 (-0.77)	-0.020 (-0.75)	0.440 *** (9.95)	0.440 *** (9.97)
Δ EXPERT	0.063 (0.84)	0.064 (0.85)	0.249 * (1.84)	0.255 * (1.91)
Δ TENURE	-0.172 *** (-7.54)	-0.172 *** (-7.55)	-0.264 *** (-8.20)	-0.264 *** (-8.20)
Constant	0.093 *** (4.14)	0.095 *** (4.25)	0.395 *** (9.90)	0.400 *** (10.03)
Year FE	Yes	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes	Yes
LARGE- SMALL	-0.019 (-1.55)	-0.016 * (-1.73)	-0.039 ** (-2.07)	-0.024 * (-1.77)
Observations	4,996	4,996	4,996	4,996
R^2	0.076	0.077	0.184	0.185

Table 4: ICMW Severity Analysis

Table 4 presents the results of our OLS regression analysis of Equation (1). The dependent variables are measures of one-year office growth as described in Equation (2). Our variables of interest are *LN_ISSUES*, equal to the natural logarithm of one plus the maximum number of accounting issues identified per ICMW issued by an audit office and *LN_DELAY*, equal to the natural logarithm of one plus the maximum change in audit opinion delay among clients that receive an ICMW in year *t*. All variables are formally defined in the Appendix. T-statistics are presented in parentheses next to the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests). Robust standard errors are clustered by audit office.

	CLIENT_GROWTH		FEE_GROWTH	
	(1)	(2)	(3)	(4)
LN_ISSUES	-0.017 ***	(-3.34)	-0.046 ***	(-5.15)
LN_DELAY		-0.013 ***		(-4.52)
NUM CLIENTS	-0.004 ***	(-3.42)	-0.005 ***	(-2.35)
NUM IC AUDITS	0.005 ***	(3.26)	0.004 **	(1.68)
BIGN	-0.013	(-0.99)	-0.037 **	(-1.89)
LITIGATION	-0.016	(-1.17)	-0.006	(-0.13)
NUM MISSTATE	-0.007	(-1.43)	0.002	(0.40)
NUM RES ANN	-0.019 *	(-1.73)	-0.040 **	(-2.33)
NUM_GCO	0.004 **	(2.23)	0.004 *	(1.71)
NUM_404WEAK	0.031	(1.16)	0.006	(-0.34)
ΔAT_GROWTH	0.011	(1.02)	-0.049 ***	(-3.18)
ΔCLIENTSIZE	-0.045 ***	(-3.15)	0.179 ***	(8.88)
ΔARINV	0.069	(0.92)	0.002	(-0.07)
ΔACQ	-0.017	(-0.78)	0.001	(0.02)
ΔACC	-0.001	(-0.17)	0.011	(1.50)
ΔLOSS	0.019	(0.79)	0.085 **	(2.53)
ΔLEVERAGE	-0.003	(-0.66)	-0.003	(-0.53)
ΔCASH	-0.063	(-0.85)	0.061	(0.62)
ΔROA	-0.007	(-0.59)	-0.034 **	(-1.99)
ΔABFEES	-0.021	(-0.77)	0.439 ***	(9.85)
ΔEXPERT	0.066	(0.91)	0.258 **	(1.84)
ΔTENURE	-0.171 ***	(-7.53)	-0.263 ***	(-8.26)
Constant	0.093 ***	(4.16)	0.395 ***	(10.80)
Year FE	Yes	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes	Yes
Observations	4,996	4,996	4,996	4,996
R ²	0.076	0.078	0.183	0.185

Table 5: Client Switching Analysis

Table 5 presents the results of our OLS regression analysis among clients that do not receive an ICMW in year t but switch auditors during the subsequent year. The dependent variable is *ICMW_PROP_NEW*, which is the proportion of ICMW opinions to total clients within the client's new audit office, measured prior to the client's switch, in year t . Our primary variable of interest is *ICMW_PROP_OLD*, which is the proportion of ICMW opinions to total clients within the client's old audit office, measured prior to the client's switch, in year t . All variables are formally defined in the Appendix. T -statistics are presented in parentheses next to the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests). Robust standard errors are clustered by audit office.

	ICMW_PROP_NEW (1)	
ICMW_PROP_OLD	-0.076 **	(-2.15)
NUM IC AUDITS	-0.000 **	(-2.47)
BIGN	-0.015 *	(-1.79)
LITIGATION	-0.011	(-1.17)
NUM MISSTATE	0.002	(1.16)
NUM_RES_ANN	0.004	(1.24)
NUM_GCO	-0.000	(-0.64)
NUM_404AWEAK	0.052 ***	(2.86)
1/NUMCLIENTS	-0.017 *	(-1.67)
Δ AT_GROWTH	-0.001	(-0.15)
Δ CLIENTSIZE	0.005	(0.86)
Δ ARINV	0.022	(0.53)
Δ ACQ	-0.003	(-0.17)
Δ ACC	0.003	(1.23)
Δ LOSS	-0.002	(-0.11)
Δ LEVERAGE	-0.001	(-0.48)
Δ CASH	0.004	(0.11)
Δ ROA	-0.013	(-1.24)
Δ ABFEES	0.004	(0.31)
Δ EXPERT	-0.022	(-1.26)
Δ TENURE	0.006	(0.50)
Constant	0.053 ***	(3.44)
Year FE	Yes	
MSA FE	Yes	
Observations	1,268	
R^2	0.175	

Table 6: Change in Client Portfolio Characteristics

Table 6 presents the results of our OLS regression analysis of Equation (1). The dependent variables are measures that capture the one-year change in the average F-Risk of an audit office's client portfolio (ΔF_RISK) and the one-year change in the average misstatements ($\Delta MISSTATE$). Our primary variables of interest are $ICMW$, which is an indicator variable equal to one if an audit office issues an ICMW in year t , zero otherwise, and $ICMW_COUNT$, which is equal to the number of clients within an audit office that receive an ICMW in year t . All variables are formally defined in the Appendix. T -statistics are presented in parentheses next to the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests). Robust standard errors are clustered by audit office.

	ΔF_RISK				$\Delta MISSTATE$			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
ICMW	-0.009	(-1.22)			-0.042	(-1.40)		
ICMW_COUNT			-0.011 ***	(-2.71)			-0.070 ***	(-3.42)
NUM CLIENTS	-0.001 *	(-1.71)	-0.001	(-1.55)	-0.007 **	(-2.28)	-0.007 **	(-2.04)
NUM IC AUDITS	0.002 **	(2.30)	0.002 **	(2.49)	0.002	(0.55)	0.003	(0.79)
BIGN	-0.010	(-1.04)	-0.010	(-1.08)	-0.040	(-1.60)	-0.043 *	(-1.75)
LITIGATION	-0.012	(-1.14)	-0.012	(-1.12)	-0.021	(-0.98)	-0.019	(-0.88)
NUM_GCO	0.001	(1.31)	0.001	(1.23)	0.008 *	(1.85)	0.007 *	(1.70)
NUM_404AWEAK	-0.010	(-0.49)	-0.009	(-0.47)	0.068 *	(1.78)	0.075 **	(1.97)
ΔAT_GROWTH	-0.013	(-1.60)	-0.013	(-1.61)	0.008	(0.57)	0.008	(0.54)
$\Delta CLIENTSIZE$	0.046 ***	(3.71)	0.046 ***	(3.73)	0.018	(0.76)	0.019	(0.81)
$\Delta ARINV$	0.584 ***	(8.05)	0.584 ***	(8.05)	-0.052	(-0.53)	-0.052	(-0.53)
ΔACQ	0.063 ***	(2.85)	0.063 ***	(2.83)	-0.008	(-0.17)	-0.011	(-0.24)
ΔACC	0.002	(0.30)	0.002	(0.30)	0.007	(0.94)	0.007	(0.96)
$\Delta LOSS$	-0.004	(-0.19)	-0.005	(-0.20)	-0.008	(-0.19)	-0.009	(-0.20)
$\Delta LEVERAGE$	-0.003	(-0.73)	-0.003	(-0.73)	-0.006	(-1.07)	-0.006	(-1.05)
$\Delta CASH$	-0.071	(-1.32)	-0.071	(-1.31)	-0.035	(-0.38)	-0.033	(-0.36)
ΔROA	-0.015	(-1.36)	-0.016	(-1.36)	-0.013	(-0.79)	-0.013	(-0.80)
$\Delta ABFEES$	0.020	(0.87)	0.021	(0.91)	0.021	(0.53)	0.029	(0.74)
$\Delta EXPERT$	-0.011	(-0.19)	-0.008	(-0.14)	1.021 *	(1.87)	1.039 *	(1.89)
$\Delta TENURE$	0.062 **	(2.37)	0.062 **	(2.38)	-0.075 *	(-1.72)	-0.073 *	(-1.68)
Constant	0.082 **	(2.40)	0.084 **	(2.46)	-0.157 ***	(-3.31)	-0.145 ***	(-3.07)
Year FE	Yes		Yes		Yes		Yes	
MSA FE	Yes		Yes		Yes		Yes	
Observations	4,996		4,996		4,996		4,996	
R^2	0.134		0.135		0.036		0.038	

Table 7: Effect of ICMWs on Year Over Year Office Growth

Table 7 presents the results of our OLS regression analysis of Equation (1). The dependent variables are measures of year over year office growth as determined by number of clients engaged by an audit office or audit fees earned by an audit office. Our primary variable of interest is *ICMW_COUNT*, which is equal to the number of clients within an audit office that receive an ICMW in year *t*. All variables are formally defined in the Appendix. T-statistics are presented in parentheses next to the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests). Robust standard errors are clustered by audit office.

Panel A: Year Over Year Client Growth

	Year _{t+1} (1)	Year _{t+2} (2)	Year _{t+3} (3)
ICMW_COUNT	-0.022 *** (-4.66)	-0.008 * (-1.70)	-0.005 (-0.87)
Control Variables	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes
Observations	4,996	4,324	3,710
<i>R</i> ²	0.077	0.078	0.091

Panel B: Year Over Year Fee Growth

	Year _{t+1} (1)	Year _{t+2} (2)	Year _{t+3} (3)
ICMW_COUNT	-0.061 *** (-7.17)	-0.029 *** (-4.27)	-0.003 (-0.76)
Control Variables	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes
Observations	4,996	4,324	3,710
<i>R</i> ²	0.186	0.164	0.145

Table 8: Effect of ICMWs on Market Share

Table 8 presents the results of our OLS regression analysis of Equation (1). The dependent variables are measures of one-year percent change in market share. Our primary variables of interest are *ICMW*, which is an indicator variable equal to one if an audit office issues an ICMW in year *t*, zero otherwise, and *ICMW_COUNT*, which is equal to the number of clients within an audit office that receive an ICMW in year *t*. All variables are formally defined in the Appendix. *T*-statistics are presented in parentheses next to the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively (based on two-tailed tests). Robust standard errors are clustered by audit office.

	Δ CLIENT_MARKETSHARE				Δ FEE_MARKETSHARE			
	(1)		(2)		(3)		(4)	
ICMW	-0.020 **	(-2.42)			-0.080 ***	(-6.61)		
ICMW_COUNT			-0.017 ***	(-3.61)			-0.055 ***	(-7.80)
NUM CLIENTS	-0.003 **	(-2.56)	-0.003 **	(-2.47)	-0.002	(-1.48)	-0.002	(-1.38)
NUM IC AUDITS	0.003 ***	(2.58)	0.003 ***	(2.73)	0.002	(1.39)	0.003 *	(1.76)
BIGN	-0.006	(-0.45)	-0.006	(-0.46)	-0.049 ***	(-2.91)	-0.049 ***	(-2.89)
LITIGATION	-0.011	(-0.89)	-0.011	(-0.89)	-0.011	(-0.65)	-0.012	(-0.69)
NUM MISSTATE	-0.008 *	(-1.82)	-0.008 *	(-1.82)	0.001	(0.23)	0.001	(0.23)
NUM RES ANN	-0.014	(-1.34)	-0.013	(-1.18)	-0.033 **	(-2.24)	-0.028 *	(-1.90)
NUM_GCO	0.002	(1.49)	0.002	(1.44)	0.002	(0.84)	0.002	(0.78)
NUM_404AWEAK	0.033	(1.38)	0.033	(1.36)	0.024	(0.78)	0.019	(0.62)
ΔAT_GROWTH	0.006	(0.70)	0.006	(0.70)	-0.035 ***	(-2.63)	-0.034 ***	(-2.62)
ΔCLIENTSIZE	-0.038 ***	(-2.93)	-0.038 ***	(-2.92)	0.161 ***	(8.97)	0.161 ***	(8.98)
ΔARINV	0.078	(1.17)	0.077	(1.16)	0.026	(0.27)	0.024	(0.25)
ΔACQ	-0.011	(-0.55)	-0.012	(-0.57)	-0.019	(-0.69)	-0.020	(-0.69)
ΔACC	-0.001	(-0.23)	-0.001	(-0.22)	0.012 *	(1.86)	0.012 *	(1.86)
ΔLOSS	0.020	(0.89)	0.020	(0.89)	0.074 **	(2.46)	0.074 **	(2.45)
ΔLEVERAGE	-0.002	(-0.55)	-0.003	(-0.55)	-0.001	(-0.10)	-0.001	(-0.10)
ΔCASH	-0.035	(-0.60)	-0.035	(-0.60)	0.057	(0.68)	0.055	(0.66)
ΔROA	-0.005	(-0.54)	-0.005	(-0.54)	-0.026 *	(-1.73)	-0.026 *	(-1.73)
ΔABFEES	-0.014	(-0.61)	-0.013	(-0.58)	0.376 ***	(9.82)	0.376 ***	(9.84)
ΔEXPERT	0.083	(0.88)	0.087	(0.92)	0.187 *	(1.83)	0.198 **	(1.98)
ΔTENURE	-0.158 ***	(-7.22)	-0.158 ***	(-7.21)	-0.248 ***	(-8.79)	-0.248 ***	(-8.78)
Constant	0.093 ***	(4.56)	0.094 ***	(4.62)	0.251 ***	(7.81)	0.252 ***	(7.86)
Year FE	Yes		Yes		Yes		Yes	
MSA FE	Yes		Yes		Yes		Yes	
Observations	4,996		4,996		4,996		4,996	
<i>R</i> ²	0.043		0.044		0.147		0.148	