

The Effect of Audit Partner on Accounting Comparability*

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This study examines the effect of audit partner on accounting comparability. Given that an actual audit engagement is completed by an audit partner and other audit team members, the role of the individual audit partner is substantial in the auditing process. We focus on the effects at engagement partner level since the engagement-level analysis reflects audit style most concretely and accurately, and thus exhibits more direct effect of auditor's characteristics on financial statement. We conjecture that if audit styles of engagements are similar to each other, the engagements are more likely to yield consistent and comparable accounting information. Consistent with this conjecture, we find that a pair of clients audited by the same audit partner exhibits greater comparability (measured by the similarity of discretionary accruals of the two firms, but not by the similarity of total accruals) than a pair of clients audited by two different partners. This finding suggests the importance of investigation at the audit partner-level effect. In addition, we find that accounting comparability between a pair of clients is only observed when they are audited by the same partner in Big 4 audit firms, but not when they are audited by the same partner in non-Big 4 audit firms. The finding implies that Big 4 partners use relatively similar audit approach for different clients but non-Big 4 partners are more likely to accept the accounting methods preferred by client firms rather than applying their unique styles to their clients. As a result, among non-Big 4 audit firms, the effect of an individual audit partner is relatively less prevalent. Overall, these results provide some evidence about the individual audit partner's effect on accounting comparability and the variability of audit quality in Big 4 versus non-Big 4 audit firms.

Key words: Accounting Comparability, Audit Partner, Auditor Type

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I. Introduction

This study examines the effect of audit

partner on accounting comparability. De Franco, Kothari, and Verdi(2011) define comparability based on the idea that "the accounting system is a mapping from economic events to fi-

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nancial statement.” According to Financial Accounting Standards Board(FASB, 2010), information comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.¹⁾

Following Francis, Pinnuck, and Watanabe (2014), we define accounting comparability as “the closeness of two firms’ reported earnings due to the consistency with which rules are applied across firms.” Comparable firms are likely to have similar accruals and thus earnings structure because they are exposed to the same economic shock under the same industry. For outside information users, accounting comparability is important in that comparability can reduce information gathering cost and increase the quality and quantity of information (FASB 1980, 2010).²⁾ For information users such as investors and analysts in financial market, more comparable accounting information is likely to decrease their time and efforts to get the information, leading them to make more accurate decisions(Barth, Landsman, Lang and Williams 2013; Choi, Choi, Myers, and Ziebart 2013; De Franco et al. 2011;

Fang, Maffett, and Zhang 2014; Kim, Kraft, and Ryan 2013). Therefore, accounting comparability can be a vital factor for investors’ decision-making and their asset allocation. For example, De Franco et al.(2011) document that comparability help analysts to predict future earnings more accurately and Cho, Choi, and Moon(2015) report that comparability helps to reduce the cost of equity capitals. These findings provide the direct evidence that equity investors benefit from the comparability.

Higher comparability is beneficial not only for investors but also for external auditors.³⁾ If accounting comparability among client firms is higher, the information gathering cost is likely to decrease since auditors can easily understand the ground financial information of clients. Before starting audit procedures for a new client, auditors can diminish audit risk (especially for inherent risk) through finding out information about industry environment and regulations of other incumbent clients which produce similar accounting information in the same industry. Therefore, the auditors are able to input smaller efforts and thus to perform more efficient audit. These

1) With verifiability, timeliness and understandability, comparability is one of the four qualities of accounting information which enhance two qualitative characteristics of useful financial information (i.e., relevance and faithful representation) in the conceptual framework for financial reporting of International Financial Reporting Standards(IFRS, QC19). It facilitates the comparison of financial reporting of one firm to that of another firm and comparison among fiscal periods.

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

3) In this study, the terminology ‘auditor’ implies audit firm. Separately, we use the term ‘audit partner’ when we refer to an individual audit partner. Because most Korean audit firms have only one audit office and they are located in Seoul, we do not separately examine the effect of audit office in this study.

advantages could ultimately contribute to the increase in audit quality (Zhang 2012; Ki and Kwon 2014; Ki, Kwak, and Ahn 2015).

The role of external auditor is judging whether the substance of transaction is appropriately recorded in financial statement using their professional skepticism (International Standards on Auditing, ISA 200).⁴⁾ In this process, individual auditor's discretion is intervened in the financial statement, and it determines audit style of individual auditors (Francis et al. 2014). Consequently, if audit styles of engagements are similar to each other, the engagements are more likely to yield consistent and comparable accounting information. Consistent with this argument, Francis et al. (2014) found that comparability is higher between a pair of clients audited by same audit firm than that between two clients audited by two different audit firms. In addition, focusing on audit office rather than audit firm, Kawada (2014) document similar findings.

Rather than scant prior studies that focus on audit firm- or audit office-level effect of comparability (e.g., Francis et al. 2014; Kawada 2014), we focus on the effect at audit engagement partner level. Given that an actual audit engagement is completed by an audit partner and other audit team members, the

role of the audit partner is substantial in the audit engagement. As a result, recent studies tend to focus their attentions to the partner-level characteristics that affect audit quality rather than audit firm- or office-level characteristics (e.g., Chen, Lin, and Lin 2008; Chi and Chin 2011; Zerni 2012; Gul, Wu, and Yang 2013; Bae, Choi, and Lee 2014; Choi, Lee, and Bae 2015; Park and Chung 2015). These studies generally argue that the analysis at partner level enables researchers to find a more direct effect of auditor's characteristics on financial statement, because the unit of analysis, which can reflect audit style most concretely and accurately, is the audit engagement level rather than audit firm level. Accordingly, we predict that a pair of two clients audited by the same engagement partner are likely to have higher accounting comparability than a pair of two clients audited by two different audit partners working in the same audit firm. In addition, we predict that financial statement audited by Big 4 audit partners are likely to show relatively more comparability than those audited by non-Big 4 audit partners. It is because Big 4 audit firms provide more standardized audit methodologies, firm-wide knowledge sharing and robust training programs than non-Big 4 au-

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

dit firms(Khurana, Michas, and Raman 2011). In addition, because they are more independent, they are likely to require the clients to follow his or her style in deciding appropriate accounting treatments. Therefore, partners in Big 4 audit firms are more likely to apply similar audit style to different clients. In contrast, non-Big 4 audit partners are more likely to acquiesce to clients' preferences and thus accept the accounting methods preferred by clients, rather than requiring the clients to follow their own style. As a result, the effect of the same audit partner on comparability is likely to be higher for Big 4 audit partners than for non-Big 4 audit partners.

Following previous studies on comparability between two firms(Francis et al. 2014; Kawada 2014), we apply their research model with a slight modification. We made a pair of clients in the same audit firm, industry, and the same year based on first two-digit industry classification codes. Then, we employ two proxies for comparability: total accrual difference and discretionary accrual difference between two clients in a pair since accruals can be a direct measure of accounting treatment of client managers and audit style of individual auditors. Thus, our measure of comparability represents relative differences in accounting treatments between two clients audited by the two (the same or different) audit partners working at the same audit firm. We test our research question using 51,304 pairs of firm-year ob-

servations, which consists of all firms listed in Korean stock market over the period of 2003-2012. Among them, we identify that 1,731 pairs are audited by the same audit partners.

Empirical findings are summarized as follows. First, we find that a pair of clients audited by the same partner exhibits greater comparability than a pair of clients audited by two different partners working in the same audit firm. But this effect is observed only when the comparability is measured by the difference in the discretionary accruals, not when it is measured by the difference in total accruals. While both variables are the joint outcome of client firms' characteristics and audit partners' choices on appropriate accounting treatments, total accruals are more likely to be related to the clients' operating characteristics than discretionary accruals are. Therefore, we argue that this finding supports our arguments on the effect of the same audit partner on the comparability of financial reporting. Second, we notice that the significant effects of the same partner exist only among the pairs of the two firms audited by the same Big 4 partners, but not by the same non-Big 4 partners. However, the difference is not significant statistically. Overall, these results provide some evidence that unique styles of individual Big 4 audit partner have influence on financial statement comparability and that Big 4 audit firm maintains relatively stable audit quality across different partners. In con-

trast, non-Big 4 partners are more likely to accept the accounting methods preferred by client firms rather than applying their unique styles to their clients. As a result, among non-Big 4 audit firms, the effect of an individual audit partner is relatively less prevalent.

As far as we are aware of, this is the first attempt to analyze comparability at partner level in Korea.⁵⁾ There have been several studies which analyzed industry expertise or experience of auditor at partner level(e.g., Chi and Chin 2011; Zerni 2012; Bae et al. 2014), but financial statement comparability has not been dealt with audit partner information. In this respect, this study contributes to the research on both comparability and auditing by demonstrating the role of audit partners. The findings in this study clearly reveal that the client firms' accounting treatments (such as the choice of accruals) are greatly influenced by audit partners, thereby suggesting the need to perform audit partner-level research in the future, rather than audit-firm level research, to investigate the effect of auditing or the determinants of audit quality in more detail.

This study also provides practical implications to several market participants. Regulators

(e.g. Financial Supervisory Service of Korea, the equivalent of Securities and Exchange Commission (SEC) in U.S.) in various countries now consider the disclosure of audit partner identity publicly. For example, Public Company Accounting Oversight Board(PCAOB) issued PCAOB Release No. 2011-007 (2011), proposing audit firms to disclose the name of engagement partner in audit report. Although the proposal is a kind of compromise compared with previous proposal that requires the signature of the audit partner(PCAOB 2009), many audit firms opposed both proposals strongly (Hamilton 2009), by arguing that individual partner does not influence audit quality and therefore the disclosure is unnecessary.⁶⁾ By showing a clear effect of audit partner on accounting comparability, this study contributes to the controversy for the disclosure of audit partner identity. According to the findings in this study, outside investors can be benefited by observing the identity of audit partner and use the information in their evaluations on the financial statements. It would help them to enhance the effectiveness and efficiency of the evaluation procedures. By documenting this, this study suggests im-

5) We notice that a contemporaneous study of Choi and Bae(2016) which also investigates a similar issue. Our study is different from Choi and Bae(2016) in that we focus on the firm-pairs that are audited by same audit firm, while Choi and Bae(2016) include all the pairs regardless of the identity of audit firms. Thus, we are able to perform in-depth analyses on the effect of audit partners without concerns for the differences in audit firms. In addition, we separately examine the effect of Big 4 versus non-Big 4 partners, thereby showing the superior role of Big 4 audit partners.

6) Refer to Carcello and Li(2013) for further details on the proposed regulations and controversy surrounding the regulations. Starting 2009, the U.K. required the signature of audit partner name to be included in the audit report.

portant policy implications to regulators. Audit firms could use the findings in this study to generate more training tools and monitoring mechanism to enhance and maintain stable audit quality across different engagements by different partners. Analyzing audit approach used by higher-quality partners could be helpful for such a purpose.

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

II. Prior Literature and Hypothesis Development

2.1 Benefits of Financial Statement Comparability

As demand for internationally comparable accounting information increases, IFRS has

been adopted in many countries and research interest in accounting comparability has been rapidly grown.⁷⁾ Several recent studies examine the benefits of financial statement comparability in various settings. De Franco et al.(2011) is the first study that define the way to measure comparability empirically. They define comparability as the difference between a firm's earnings-return relationship and industry average relationship. Using the proxy, they find that accounting comparability is positively related to the number of analyst following and forecast accuracy, and negatively associated with dispersion among forecasts. Therefore, more comparable accounting information is likely to decrease the costs of gathering and interpreting information, leading investors to make more accurate decisions.

Consistent with this view, focusing on equity market, several studies find that higher comparability, measured by the same way as DeFranco et al.(2011), leads to enhanced liquidity and firm-specific information(Barth et al. 2013), and increased foreign mutual fund ownership(DeFond, Hu, Hung, and Li

7) Accounting comparability can be divided into two distinct categories. One is the accounting comparability of accounting standard itself and the other one is the comparability considering the implementation stage of accounting standard. In this study, we pay attention to the comparability focusing on implementation stage of accounting methods by external auditors. With respect to accounting standard itself, there are many empirical studies which find the difference of accounting comparability between IFRS and local generally accepted accounting principles(GAAP). For example, Barth, Landsman, Lang, and Williams(2012) find that non-U.S. firms adopting IFRS show greater comparability than U.S. firms which apply their domestic accounting standards(U.S. GAAP). Using 3 proxies of accounting comparability - similarity of accounting function, degree of information transfer, and similarity of information content of earnings and book value of equity, Yip and Young(2012) find that mandatory IFRS adoption increases cross-country accounting comparability. Lang, Maffett, and Owens(2010) also find that cross-country earnings co-movement increases with IFRS adoption.

2011), the informativeness of stock prices(Choi et al. 2013), and the use of relative performance evaluation(Wu and Zhang 2011; Ozkan, Singer, and You 2012), and the lower cost of capital(Cho et al. 2015). In debt market, comparability is negatively associated with the contracting cost of private loans(Fang, Li, Xin, and Zhang 2012) and the price of firms' credit risk(Kim et al. 2013). Alternatively, comparability can be a vital factor for business managers' decision-making such as their asset allocation decisions because it allows managers more in-depth analyses through comparison between the target firm and its industry peers(Campbell and Yeung 2012; Chen, Collins, and Mergenthaler 2015). In addition, Brochet, Jagolinzer, and Riedl(2013) document that improved comparability after the adoption of IFRS results in capital market benefits. Overall, these studies suggest that comparability enhances information environment in the capital market.

Higher comparability provides benefit not only for investors but also for external auditors. Zhang(2012) investigates the relation between comparability and audit engagement. He finds that accounting comparability is positively associated with audit quality and audit accuracy, and negatively related to audit effort. Furthermore, comparability is negatively related to audit delay, audit fees, and the

probability of issuing going concern opinion. He argues that comparability is helpful for auditors because it enables them to easily assess client's inherent business risk and increase audit efficiency through understanding their incumbent clients. In Korean audit market, Ki and Kwon(2014) also report that higher comparability is negatively related to audit efforts and positively related to audit quality, especially for non-industry expert auditors. Additionally, Ki et al.(2015) document that while comparability enables auditors to exert less audit efforts, auditors continuously exert similar level of effort for complex firms, suggesting the existence of the significant interaction between comparability and operational complexity of clients. Summarizing, both Ki and Kwon(2014) and Ki et al.(2015) reveal that comparability is an important factor that influencing auditor behavior in Korea.

2.2 Comparability at Audit Firm Level versus Office Level

Recently, studies start to look into whether external auditors affect the financial statement comparability. Francis et al.(2014) develop a different way to measure comparability as the differences between two pair of firms by comparing accruals of the two firms.⁸⁾ Using the measure, they find that two clients

8) Note that the definition of the accounting comparability in De Franco et al.(2011) and several subsequent studies is different from that used in Francis et al.(2014)). De Franco et al.'s(2011) definition refers to the similarities of the

audited by the same Big 4 audit firms are more likely to have comparable earnings than those audited by different Big 4 audit firms. It's because two clients audited by the same Big 4 audit firms are subject to the same audit style. Audit style is an aggregate of internal working rules for the implementation of audit methodologies, and the enforcement of accounting standards such as GAAP and IFRS(Francis et al. 2014).

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

(2014) provide evidence that the auditors (both audit firms and offices) play a role of an economic agent improving financial statement comparability by using a consistent approach in their audit procedures to their different clients.

2.3 Hypothesis Development

It is the "lead engagement partners who play a essential role in planning and implementing the audit and ultimately in determining the appropriate type of audit report to be issued to the client"(Ferguson, Francis, and Strokes 2003). PCAOB has recently started to pay attention to the engagement's partner information and considered the disclosure of partner name on the audit reports to enhance audit accountability and transparency(PCAOB 2011). Consistent with the PCAOB's movement, several countries have already required engagement partner signature or the disclosure of the identity(e.g., Australia, Taiwan, Sweden, Germany, France, Belgium, and Luxembourg). Additionally, some studies support the movement by providing empirical results showing that the disclosure of the identity improves audit quality(Carcello and Li 2013). With respect to audit expertise, Chi and Chin(2011) report that not only audit firm-level industry

effect of accounting earnings on returns between a specific firm and the industry average. In contrast, Francis et al.'s (2014) definition refers to the difference in the accounting accruals between two pair of firms. Thus, De Franco et al.'s (2011) measure is estimated for each firm observation but Francis et al.'s(2014) measure is estimated for each match.

expertise but also individual partner-level industry expertise is a significant determinant of audit quality. Zerni(2012) also finds that audit partner-level industry expertise is one of the important factors to determine audit fees. According to Jamal and Tan (2010), the type of auditor and type of accounting standards jointly influence financial reporting quality. That is, engagement partner type and thus his/her audit style matters in implementing accounting standards. Gul et al.(2013) and Choi et al.(2015) also document that each partner has own distinct characteristics. In sum, these findings suggest that the effect of audit partner-level characteristics is one of the important concerns for both regulators and researchers.⁹⁾

Collectively, prior literatures describe that individual auditor's abilities are not homogeneous since some part of their abilities are inseparably belonging to the individuals(Gul et al. 2013). Some of the individual partners' knowledge and industry expertise are their own assets which are not transferable to the

other partners within an audit firm(Zerni 2012; Chi and Chin 2011). Furthermore, the unit of analysis which can reflect audit style most concretely and accurately is the audit engagement level rather than audit firm or office level. Therefore, the effect of individual audit partners on comparability may be different within the same audit firm.¹⁰⁾

Summarizing, we expect that an individual audit partner exerts similar audit style across his or her engagements and thus accounting comparability improves within his or her clientele.¹¹⁾ We propose this prediction as the first research hypothesis.

Hypothesis 1: A pair of clients audited by the same partner will exhibit greater comparability than a pair of clients audited by two different partners.

Secondly, we would like to examine whether there is a difference between Big 4 and non-Big 4 partners with respect to their effect on accounting comparability. There have been

9) Although it is not directly related to the comparability dealt in this study, there are a few Korean studies which examine the effect of audit partners on various settings. Please refer to Bae et al.(2014), Cho et al.(2015), Park and Chung(2015) and Choi, Sonu, Lee, and Ha(2016) for such examples.

10) Upon this assumption, engagement partner information can be valuable for information users such as investors and financial analysts to evaluate financial statement. When investors want to choose a stock in a certain industry, they need to compare financial data of one company with its alternatives to evaluate them. If the audit partner of firm A is the same as the partner of firm B, the partner information could be useful for investors' understanding the nature of accounting treatments of the two firms. Therefore, accounting comparability at engagement partner level is important for information users to enhance the effectiveness and efficiency of the evaluation procedure.

11) As explained previously, both Gul et al.(2013) and Choi et al.(2015) document that, using fixed effects model, each partner has own distinct characteristics. Our study is different from theirs in that we specifically focus on comparability. However, we acknowledge that our first hypothesis is broadly consistent with theirs. Our first hypothesis is also consistent with the main finding of a contemporaneous study by Choi and Bae(2016).

many studies which find the different effect of Big 4 versus non-Big 4 auditors. Some find that Big 4 audit firms provide superior audit quality than non-Big 4 audit firms since they bear higher litigation risk and reputation concern(Becker, DeFond, Jiambalvo, and Subramanyam 1998; Francis and Krishnan 1999; Khurana and Raman 2004). There are also studies documenting the existence of Big 4 audit fee premium(Choi, Kim, Liu, and Simunic 2008; Craswell, Francis, and Taylor 1995; DeFond, Francis, and Wong 2000; Ireland and Lennox 2002).

With respect to comparability, Francis et al.(2014) find that a pair of clients audited by the same Big 4 audit firms exhibit higher comparability of earnings than a pair of clients audited by the same non-Big 4 audit firms. It is because the Big 4 audit firms provide more standardized audit methodologies, firm-wide knowledge sharing, and robust training programs(Francis and Yu 2009). Both Choi et al.(2008) and Khurana et al.(2011) argue that Big 4 auditors provide relatively similar quality audit service in different situations. Therefore, we expect that partners in Big 4 audit firms are more likely to provide higher- and stable-quality audit service, resulting in greater comparability. In addition, because Big 4 audit partners are more independent,

they are likely to require the clients to follow his or her style in deciding appropriate accounting treatments. Big 4 audit partners could restrict discretionary accruals choice by managers and force the client firms to choose the more appropriate accounting methods recommended by the partners. As a result, financial statements of the two pair of firms audited by the same Big 4 partners could be more comparable than those of the two pair of firms audited by the same non-Big 4 partners.

In a similar context, individual accountants in non-Big 4 audit firms could learn from engagement-specific experience due to the lack of training and standardized audit methodologies(Khurana et al. 2011; Lennox and Li 2014). In addition, they are more likely to acquiesce to client's preferences(Becker et al. 1998). Thus, individual audit partners in non-Big 4 audit firms provide relatively lower-quality audit service. Therefore, rather than restricting clients' aggressive accounting method choices, non-Big 4 audit partners are more likely to allow them than Big 4 audit partners do. In such case, audit partner effects are likely to be less pronounced in the accounting method choices of clients audited by non-Big 4 than Big 4, leading to lower financial statement comparability between the pair of two firms audited by the same partner.¹²⁾ This reason-

12) In contrast to this view, one may argue that the difference among non-Big 4 audit partners could be larger, resulting in greater variations in audit quality depending on audit partners in non-Big 4 auditors than Big 4 auditors. Although we

ing leads to second hypothesis stated below:

Hypothesis 2: The effect of the same audit partner on accounting comparability is higher for Big 4 audit partners than for non-Big 4 audit partners.

III. Sample, Data, and Research Design

3.1 Sample and Data

The sample that we use in this study consists of all Korean firms listed in Korean stock market over the period of 2003-2012. We obtain data on audit partner identity proprietarily because the audit partner information is not disclosed in Korea publicly. We matched audit partner name of each engagement with financial statement data based on the stock code number and fiscal year. The financial statement data is retrieved from KIS Value III and TS2000 databases. In this process, we deleted firm-year observations which financial information or audit partner information is not available. We also exclude the firms which belong to financial industry due to

their specific characteristics and different accounts of financial statement. After all, there remain 5,105 firm-year observations in our final dataset.

For analyzing comparability, we first made firm-pairs audited by the same audit firm, in the same industry, and in the same year without overlapping. Especially, we compose the pairs for the partners that working in the same audit firms only. It is because we try to control for the any potential differences that could be caused by the differences in audit firms. Similarly, to control for any potential influence of different industry and year, we match the pair of two firms only when they belong to the same industry and year. These procedures lead to 87,173 firm-pairs from 5,105 firm-year observations. Substantial portion of the data are deleted during the pair-matching process because we, following prior studies, require at least 10 observations in each year-industry combination. Also, all the variables except for indicator variables are truncated at 1% and 99% level. The above sample selection process finally results in 51,304 pairs of firm-year observations which are used in our subsequent analyses.¹³⁾

Table 1 demonstrates the number of audit

do not formally introduce this view in developing hypothesis, if this logic is valid, it implies that the comparability could be higher among non-Big 4 audit partners than Big 4 partners. In that case, our hypothesis 2 should be rewritten as a null hypothesis, given that two conflicting predictions are all possible.

13) The number of pairs are much larger than the number of clients in each year. For example, if there exist 3 (4 or 5) clients in an industry and all of them are audited by the same audit firm, the number of pairs in the industry is 3 (6 or 10). The exact number of pairs can be calculable by using the notation of nC_2 , where n represents the number of clients

〈Table 1〉 Sample Distributions by Year and Auditor Type

Year	Big 4		Non - Big 4	
	Number of audit partners	Number of client-pairs	Number of audit partners	Number of client-pairs
2003	325	2,284	175	366
2004	341	2,817	183	398
2005	367	4,028	191	363
2006	394	4,817	179	337
2007	402	4,718	179	348
2008	426	4,719	182	218
2009	428	5,399	203	245
2010	450	5,671	203	246
2011	468	6,646	203	282
2012	472	7,081	212	321
Total	4,073	48,180	1,910	3,124

partners and the number of client firm-pairs used in our samples by year and by auditor types (Big 4 versus non-Big 4). In Big 4 subsample, both the number of audit partners and the number of firm-pairs are increasing over time during the sample period while they are relatively evenly distributed across years in the non-Big 4 subsample.

3.2 Research Design

To test our hypotheses, we apply the following Eq. (1) which is used in Francis et al. (2014) and Kawada(2014) with a slight modification.

$$\begin{aligned}
 TA(DA)_{Diff_{ij}} = & \beta_0 + \beta_1 * TA(DA)_{min_{ij}} \\
 & + \beta_2 * Same_partner_{ij} + \beta_3 * size_diff_{ij} \\
 & + \beta_4 * size_min_{ij} + \beta_5 * lev_diff_{ij} \\
 & + \beta_6 * lev_min_{ij} + \beta_7 * mb_diff_{ij} \\
 & + \beta_8 * mb_min_{ij} + \beta_9 * cfo_diff_{ij} \\
 & + \beta_{10} * cfo_min_{ij} + \beta_{11} * lossprob_diff_{ij} \\
 & + \beta_{12} * lossprob_min_{ij} + \beta_{13} * std_sale_diff_{ij} \\
 & + \beta_{14} * std_sale_min_{ij} + \beta_{15} * std_cfo_diff_{ij} \\
 & + \beta_{16} * std_cfo_min_{ij} + \beta_{17} * std_growth_diff_{ij} \\
 & + \beta_{18} * std_growth_min_{ij} \\
 & + Year \& Industry \text{ fixed effect } + \varepsilon_{it} \quad (1)
 \end{aligned}$$

In Eq. (1), we omit time indicator t for the brevity. The definitions of variables are presented in Table 2.

in the industry audited by the same audit firm in the year and C represents 'Combination.' Thus, if none of two clients in an industry are audited by the same audit firm in a year, the number of pairs are zero and thus none of the observations in the industry for the year are used in our analysis.

〈Table 2〉 Variable Definitions

Variables	Definition
<i>TA_Diff_{ij}</i>	the absolute value of differences in total accrual between firm i and firm j in a pair;
<i>DA_Diff_{ij}</i>	the absolute value of differences in discretionary accrual between firm i and firm j in a pair using performance - matched modified Jones model;
<i>Same_partner_{ij}</i>	an indicator variable which equals 1 if the audit partner of firm i is the same audit partner of firm j, 0 otherwise;
<i>ta_min_{ij}</i>	the minimum value of total accruals between firm i and firm j in a pair;
<i>da_min_{ij}</i>	the minimum value of discretionary accruals between firm i and firm j in a pair;
<i>size_diff_{ij}</i>	the absolute value of the difference in firm size between firm i and firm j in a pair. Firm size is computed as the logarithm of total assets;
<i>size_min_{ij}</i>	the minimum value of firm size between firm i and firm j in a pair;
<i>lev_diff_{ij}</i>	the absolute value of the difference in leverage between firm i and firm j in a pair. Leverage is calculated as the ratio of total liability to total asset;
<i>lev_min_{ij}</i>	the minimum value of leverage between firm i and firm j in a pair;
<i>mb_diff_{ij}</i>	the absolute value of the difference in market-to-book ratio between firm i and firm j in a pair. The market-to-book ratio is calculated as the ratio of market value of equity to book value of equity;
<i>mb_min_{ij}</i>	the minimum value of market-to-book ratio between firm i and firm j in a pair;
<i>cfo_diff_{ij}</i>	the absolute value of the difference in cash flow from operation between firm i and firm j in a pair. Cash flow from operation is operating cash flow scaled by total asset at the beginning of the year;
<i>cfo_min_{ij}</i>	the minimum value of cash flow from operation between firm i and firm j in a pair;
<i>lossprob_diff_{ij}</i>	the absolute value of the difference in loss probability between firm i and firm j in a pair. Loss probability is defined as the proportion of years which the firm has minus net income in the past 4 years;
<i>lossprob_min_{ij}</i>	the minimum value of loss probability between firm i and firm j in a pair;
<i>std_sale_diff_{ij}</i>	the absolute value of the difference in standard deviation of sale between firm i and firm j in a pair. Standard deviation of sale is calculated over the preceding 4 years. The sale is sales of firm scaled by total asset at the beginning of the year;
<i>std_sale_min_{ij}</i>	the minimum value of standard deviation of sales between firm i and firm j in a pair;
<i>std_cfo_diff_{ij}</i>	the absolute value of the difference in standard deviation of annual operating cash flow between firm i and firm j in a pair. Standard deviation of operating cash flow is calculated over the preceding 4 years;
<i>std_cfo_min_{ij}</i>	the minimum value of standard deviation of cash flow from operation between firm i and firm j in a pair;
<i>std_growth_diff_{ij}</i>	the absolute value of the difference in standard deviation of sales growth between firm i and firm j in a pair. Standard deviation of sales growth is calculated over the preceding 4 years. Sales growth is computed as the sales of period t minus sales of period t-1 divided by sales of period t-1;
<i>std_growth_min_{ij}</i>	the minimum value of standard deviation of sales growth between firm i and firm j in a pair.

The main variables of our interest are *Same partner* and *TA_Diff (DA_Diff)*. *Same partner* (i.e., a main independent variable) is an indicator variable which takes the value of 1 if audit partner of client firm *i* is the same audit partner of client firm *j*, and 0 otherwise. *TA_Diff (DA_Diff_{ij})* is the absolute value of total accrual (discretionary accrual) difference between a pair of two client firms audited by the same audit firms. For the purpose of comparison, we first made a pair of client firms audited by the same audit firm in the same industry and the same year based on first two-digit industry classification codes. By making firm-pairs within the same industry, we were able to minimize the possibilities that external factors such as economic shocks or different characteristics of clientele of different auditors would bias the results. Then, following Francis et al.(2014), we compute total accrual and discretionary accrual difference between the clients firms in a pair as the proxies of comparability.¹⁴⁾

$$TA_Diff_{ijt} = abs(Total\ Accrual_{it} - Total\ Accrual_{jt}) \quad (2)$$

$$DA_Diff_{ijt} = abs(Discretionary\ Accrual_{it} - Discretionary\ Accrual_{jt}) \quad (3)$$

Total Accrual is computed as the difference between net income and operating cash flow, scaled by lagged total asset. To define *Discretionary Accrual*, we use the performance-matched modified Jones model in Kothari, Leone, and Wasley(2005). Using both total and discretionary accrual as dependent variable, we run the above Eq. (1).

When an individual auditor perform audit service, he or she makes his or her own professional judgment whether the accounting information in financial statement reflects the economic substance of transaction. The enforcement of accounting standards and the implementation of audit methodology would vary across individual audit partners who possess their own experience and discretion. Thus, although the two audit partners work for a same audit firm, individual partners' various audit styles may yield different accrual behaviors. In that sense, the accrual difference, especially discretionary accrual difference captures similarities in and differences between a pair of firms' implementation of accounting standard. As the difference becomes smaller, the accounting information of firm *i* would be more comparable with that of firm *j*. We predict that the pair of firms with same

14) In Eqs. (2) and (3), we empirically measure the differences in discretionary (total) accruals between two firms in the same pair. Thus, we empirically assume that the higher the comparability of financial statements, the smaller differences in discretionary (total) accruals. This proxy is different from that used in De Franco et al.(2011) which measures the difference in return-earnings relationship between a specific firm and industry average firm. Because we compare the comparability between two specific firms, the use of De Franco et al.'s(2011) measure is inappropriate in our setting.

audit partner exhibit little difference in accruals (as well as discretionary accruals), and thus a negative coefficient on *Same_partner* (β_2) in Eq. (1).

Similar to Francis et al.(2014), we include several control variables¹⁵⁾ which contain both of difference and level (minimum value between firms in a pair) variables. At first, we include minimum total or discretionary accrual between the firms in a pair to control for the effect of the level of them on the result. And then, we control for firm characteristics that may affect accrual behaviors such as firm size (*size_diff_{ij}* and *size_min_{ij}*), leverage (*lev_diff_{ij}* and *lev_min_{ij}*), market-to-book ratio (*mb_diff_{ij}* and *mb_min_{ij}*), cash flow from operation (*cfo_diff_{ij}* and *cfo_min_{ij}*) and probability of loss (*lossprob_diff_{ij}* and *lossprob_min_{ij}*). We also include standard deviation of sales (*std_sale_diff_{ij}* and *std_sale_min_{ij}*), standard deviation of cash flow from operation (*std_cfo_diff_{ij}* and *std_cfo_min_{ij}*), and standard deviation of sales growth (*std_growth_diff_{ij}* and *std_growth_min_{ij}*), following Kawada(2014). We do not provide expected directions of con-

trol variables since there was no theoretical background with respect to the control variables. Finally, we include year and industry fixed effects to control for time-invariant industry-type characteristics.

To test hypothesis 2, we partition the sample based on auditor type. We expect that accounting comparability between the client firms in a pair is greater when they are audited by the same partner in Big 4 subsample than in non-Big4 subsample. By constructing firm-pairs within the same audit firm, we only compare Big 4-Big 4 and non-Big4-non-Big 4 combinations. Big 4-non-Big 4 combinations are not analyzed since this study focuses on partner-level accounting comparability.¹⁶⁾

IV. Empirical Results

4.1 Descriptive statistics

Table 3 shows the descriptive statistics of the variables that are used in the empirical

15) There is no theoretical background or empirical evidence for the appropriate control variables which should be included in a regression determining earnings comparability(Lang et al. 2010). Therefore, we follow Francis et al.(2014), which control for variables widely used in literatures related to the similarities of earnings. They control for economic fundamentals such as volatility of operation, and propensity to manage earnings such as market-to-book ratio and leverage.

16) As explained before, analyses of partner-level accounting comparability require to construct firm-pairs within the same audit firm. If we compare firms in a pair which are audited by two different audit firms, the difference in accruals between the two client firms may reflect audit firm-level characteristics rather than partner-level characteristics. Thus, we construct firm-pairs within the same audit firm which makes it impossible to compare Big 4-non Big 4 combinations. Thus, our empirical results show the relative differences of audit partners against other partners working in the same audit firm.

〈Table 3〉 Descriptive Statistics

Variables	Mean	Std.	Q1	Median	Q3
<i>TA</i>	-0.0173	0.0679	-0.0531	-0.0166	0.0193
<i>DA</i>	0.0034	0.1049	-0.0538	0.0013	0.0605
<i>Same_partner</i>	0.0337	0.1806	0.0000	0.0000	0.0000
<i>Big4</i>	0.9391	0.2391	1.0000	1.0000	1.0000
<i>TA_diff</i>	0.0802	0.0650	0.0306	0.0640	0.1126
<i>TA_min</i>	-0.0582	0.0600	-0.0879	-0.0488	-0.0173
<i>DA_diff</i>	0.1206	0.0986	0.0451	0.0959	0.1712
<i>DA_min</i>	-0.0589	0.0859	-0.1098	-0.0479	-0.0017
<i>Inta</i>	26.7677	1.4288	25.7234	26.4725	27.5561
<i>size_diff</i>	1.5875	1.2672	0.5816	1.2403	2.3284
<i>size_min</i>	25.8973	0.9053	25.3067	25.7845	26.3770
<i>leverage</i>	0.4296	0.1782	0.2931	0.4241	0.5639
<i>lev_diff</i>	0.2088	0.1454	0.0884	0.1839	0.3070
<i>lev_min</i>	0.3328	0.1405	0.2182	0.3218	0.4383
<i>mb</i>	13.1200	26.0343	2.3288	5.3613	12.6000
<i>mb_diff</i>	15.6634	29.4374	2.2536	6.0418	15.2973
<i>mb_min</i>	4.3832	4.4623	1.5600	2.8600	5.5000
<i>cfo</i>	0.0502	0.0644	0.0115	0.0491	0.0874
<i>cfo_diff</i>	0.0778	0.0595	0.0308	0.0645	0.1109
<i>cfo_min</i>	0.0149	0.0551	-0.0173	0.0194	0.0523
<i>growth_diff</i>	0.1884	0.1852	0.0647	0.1381	0.2534
<i>growth_min</i>	-0.0115	0.1325	-0.0823	0.0024	0.0731
<i>lossprob_diff</i>	0.2440	0.2628	0.0000	0.2500	0.5000
<i>lossprob_min</i>	0.0455	0.1158	0.0000	0.0000	0.0000
<i>std_sale_diff</i>	0.1000	0.1003	0.0316	0.0700	0.1328
<i>std_sale_min</i>	0.0810	0.0490	0.0466	0.0701	0.1049
<i>std_cfo_diff</i>	0.0374	0.0342	0.0124	0.0272	0.0513
<i>std_cfo_min</i>	0.0363	0.0187	0.0232	0.0327	0.0458
<i>std_growth_diff</i>	0.2088	0.4096	0.0400	0.0922	0.1958
<i>std_growth_min</i>	0.0996	0.0703	0.0537	0.0811	0.1242

Notes:

This table presents the descriptive statistics of variables used in the empirical analyses. The sample is comprised of 51,304 pairs of firm-year observations over the period of 2003–2012. All variables are defined in Table 2.

analyses. The total pairs of firm-year observations generated from pair-matching process are 51,304 pairs. The dependent variable, total accrual difference between the firms in a pair has a mean of 0.0802 and the mean difference in discretionary accruals is 0.1206. The mean value of test variable *Same_partner* is 0.0337 which indicates that 3.4% of total

sample pairs are audited by same partner. The average proportion of firm-pairs audited by Big 4 audit firms is 93.91%. The high proportion of Big 4 is due to the partner data composition in which 68% of audit partners belong to Big 4 audit firms. In addition, more firm-pairs in the same industry are likely to be matched in a Big 4 audit firm than in a

〈Table 4〉 Year and Industry Distributions of Comparability Proxies

Panel A: Yearly distributions

Year	Sample size	<i>TA_diff</i>	<i>DA_diff</i>
2003	2,650	8.237	13.061
2004	3,215	7.741	12.486
2005	4,391	7.647	11.275
2006	5,154	7.898	12.317
2007	5,066	8.356	13.831
2008	4,937	8.824	14.385
2009	5,644	8.704	13.152
2010	5,917	7.858	10.382
2011	6,928	7.877	11.957
2012	7,402	7.356	9.663

Panel B: Industry distributions

Year	Sample size	<i>TA_diff</i>	<i>DA_diff</i>
Manufacturing	50,167	8.014	12.040
Electricity, Gas, Heating and Water	32	5.561	9.337
Construction	189	10.404	13.890
Wholesale and Retail	369	6.970	13.422
Transportation	99	6.694	9.406
Publication, Media, Communication and Information	90	9.827	13.322
Professional, Scientific and Technical Service	358	9.041	13.535

Notes:

This table reports the yearly (Panel A) and industry distributions of the dependent variables (*TA_diff* and *DA_diff*) used in the analyses. The sample is comprised of 51,304 pairs of firm-year observations over the period of 2003–2012. All variables are defined in Table 2.

non-Big 4 audit firm since there are more client firms of Big 4 in an industry than non-Big 4. We omit further discussion on the descriptive statistics for brevity.

We report detailed year- and industry-level distributions for our dependent variable (*TA_diff* and *DA_diff*) in Table 4. Panel A demonstrates the yearly statistics and we fail to notice any consistent trends. In Panel B, we report the industry-level statistics. At this

time, we find that there are greater variability among different industries.¹⁷⁾

Table 5 reports correlations among main variables. It shows that discretionary accrual difference is significantly and negatively correlated with *Same_partner*, consistent with hypothesis 1. However, there is no significant association between total accrual difference and *Same_partner*, indicating the possibility that total accruals do not reflect individual

〈Table 5〉 Correlation Coefficients Among Key Variables

	I	II	III	IV	V	VI	VII
I. <i>TA_diff</i>	1.000						
II. <i>DA_diff</i>	0.327 <.001	1.000					
III. <i>Same_partner</i>	-0.000 0.944	-0.009 0.050	1.000				
IV. <i>TA_min</i>	-0.547 <.001	-0.123 <.001	.007 0.109	1.000			
V. <i>DA_min</i>	-0.135 <.001	-0.487 <.001	0.007 0.127	0.406 <.001	1.000		
VI. <i>size_diff</i>	0.027 <.001	0.019 <.001	-0.047 <.001	-0.067 <.001	-0.034 <.001	1.000	
VII. <i>size_min</i>	-0.027 <.001	-0.012 0.007	-0.001 0.874	0.022 <.001	-0.014 0.001	-0.114 <.001	1.000

Notes:

This table reports the Pearson correlation coefficients of main variables. The sample is comprised of 51,304 pairs of firm-year observations over the period of 2003-2012. All variables are defined in Table 2.

17) In Panel A, we notice that the mean values of the two variables are slightly lower in year 2012 (the last year of our sample period). The empirical results after removing the year are not qualitatively different from those tabulated in this study. Thus, we fail to find any evidence that the data from year 2012 unduly influence our findings. For industry differences, we perform analyses with manufacturing industry (which composed of the majority of our sample) only but again fail to find any differences. Note that we include industry fixed effect indicator variables in Eq. (1) to control for the potential effect of the industry differences.

audit partners' audit style. As explained before, while differences in discretionary accruals are more likely to be due to the audit partners' choices rather than client firms' operational characteristics, differences in total accruals are more likely to be due to the latter than the former. Thus, this finding, at least partially, supports our prediction.

4.2 Univariate Analyses

Panel A of Table 6 exhibits the results of univariate analyses using pooled sample. With respect to total accrual differences (*TA_diff*), there is no statistically significant difference between columns (1) and (2), which represents the cases when audit partners of the two clients in a pair are the same (*Same_partner* = 1)

〈Table 6〉 Univariate Analyses

Panel A : Full sample

	Pooled sample (n=51,304 firm-pairs)			
	(1)	(2)	(3) = (1) - (2)	(4)
	<i>Same_partner</i> =1	<i>Same_partner</i> =0	difference	t-stat
<i>TA_diff</i>	0.08011	0.08022	- 0.00011	- 0.07
<i>DA_diff</i>	0.11605	0.12079	- 0.00473	- 2.05

Panel B : Firm-pairs audited by Big 4 audit partners

	Big 4 - Big 4 (n=48,180 firm-pairs)			
	(1)	(2)	(3) = (1) - (2)	(4)
	<i>Same_partner</i> =1	<i>Same_partner</i> =0	difference	t-stat
<i>TA_diff</i>	0.0794	0.0801	-0.0007	-0.42
<i>DA_diff</i>	0.1149	0.1209	-0.0060	-2.33

Panel C : Firm-pairs audited by non-Big 4 audit partners

	non-Big 4 - non-Big 4 (n=3,124 firm-pairs)			
	(1)	(2)	(3) = (1) - (2)	(4)
	<i>Same_partner</i> =1	<i>Same_partner</i> =0	difference	t-stat
<i>TA_diff</i>	0.0832	0.0822	0.0010	0.23
<i>DA_diff</i>	0.1209	0.1195	0.0014	0.26

Notes:

This table reports the univariate comparisons of the dependent variables. *TA_diff* (*DA_diff*) is the difference in total (discretionary) accruals between a pair of two firms. In each Panel, columns (1) and (2) show the mean value of the difference when the pair of firms are audited by the same (*Same_partner* = 1) or different partners (*Same_partner* = 0) working in an audit firm, respectively. Columns (3) and (4) demonstrate the mean differences between columns (1) and (2) and the t-statistics of the difference, respectively.

or different (*Same_partner* = 0) individuals, respectively. However, the mean discretionary accrual differences (*DA_diff*) reported in column (1), i.e., when audit partners of two clients are the same, is significantly lower than that reported in column (2), i.e., when audit partners of two clients are different ($t = -2.05$). This difference suggests that a pair of client firms audited by the same partner exhibit greater accounting comparability than a pair of firms audited by two different partners working in the same audit firm.

The results in Panel B and Panel C of Table 6 support hypothesis 2. In Panel B, the mean discretionary difference reported in column (1) is significantly lower than that reported in column (2) in Big 4 audit partner sample ($t = -2.33$), but such significant difference is not observed in the firm-pairs audited by non-Big 4 audit partners ($t = 0.26$) reported in Panel C. Thus, the effect of the same audit partner on accounting comparability is more pronounced in the pairs audited by Big 4 audit partners than in the pairs audited by non-Big 4 audit partners.

4.3 Regression Results for Hypothesis 1

Table 7 presents the regression results of hypothesis 1 which investigates whether a pair of firms audited by the same partner exhibit greater comparability than a pair of firms audited by two different partners working in the same audit firm. We estimate Eq. (1) using pooled sample and the dependent variables are total accrual difference and discretionary accrual difference between two firms in a pair in column (1) and column (2), respectively.

In column (1) of Table 7, the coefficient on *Same_partner* (0.03) is statistically insignificant, suggesting that total accruals of two firms are not comparable even when they are audited by the same partner. On the other hand, *Same_partner* in column (2) has a significantly negative coefficient (-0.44 , t -value = -2.39) when the dependent variable is discretionary accrual difference, consistent with hypothesis 1 that a pair of firms audited by the same partner are exposed to similar audit style, and thus they are more likely to show similar discretionary accruals.¹⁸⁾ Summarizing, we observe the expected results only when

18) In economic sense, the documented coefficient in column (2) is translated into the increase of comparability (decrease of discretionary accrual difference) by 0.44 when the same partner audits two clients. Considering that the median value of *DA_Diff* is 0.0959 in Table 3, it implies that the comparability (*DA_Diff*) increases by about 5%. We also test H1 using the different matching method. We divide full sample into 3 subgroups (big, medium, and small) by firm size and make firm-pairs audited by the same audit firm, in the same industry, in the same year, and belonging to the same firm size subgroup. It leads to 17,729 firm-pairs and 3.99% of total sample pairs are audited by same partner. When we use this sample, the results are qualitatively similar with the results presented in Table 7. The results are especially stronger in subgroup with large firm size.

〈Table 7〉 Regression Results for the Pooled Sample

VARIABLES	(1) <i>TA diff</i>	(2) <i>DA diff</i>
<i>Same_partner</i>	0.03 (0.22)	-0.44** (-2.39)
<i>TA_min (DA_min)</i>	-78.32*** (-76.34)	-65.30*** (-81.76)
<i>size_diff</i>	0.04 (1.20)	0.18*** (2.89)
<i>size_min</i>	0.10 (1.63)	0.29*** (3.19)
<i>lev_diff</i>	-3.13*** (-8.17)	-2.17*** (-4.14)
<i>lev_min</i>	-3.88*** (-7.68)	-4.71*** (-6.01)
<i>mb_diff</i>	0.00 (1.04)	-0.00 (-0.41)
<i>mb_min</i>	0.12*** (10.67)	0.11*** (6.80)
<i>cfo_diff</i>	-5.04*** (-4.93)	0.32 (0.27)
<i>cfo_min</i>	-62.28*** (-44.92)	-57.45*** (-27.98)
<i>lossprob_diff</i>	-1.28*** (-5.27)	-0.51** (-2.02)
<i>lossprob_min</i>	-3.55*** (-8.35)	-0.38 (-0.58)
<i>std_sale_diff</i>	1.03** (2.42)	0.87 (1.53)
<i>std_sale_min</i>	5.63*** (5.09)	0.26 (0.15)
<i>std_cfo_diff</i>	5.77*** (4.71)	1.82 (1.12)
<i>std_cfo_min</i>	13.27*** (6.21)	10.21** (2.35)
<i>std_growth_diff</i>	-0.14 (-1.40)	-0.04 (-0.26)
<i>std_growth_min</i>	-0.04 (-0.06)	-0.87 (-0.86)
Constant	3.83*** (2.70)	4.80** (2.03)
Observations	51,304	51,304
Adjusted R-squared	0.519	0.336
Year FE	YES	YES
Industry FE	YES	YES
Clustered by	Firm	Firm

Notes:

Table 7 shows the regression results of hypothesis 1 using Eq. (1), investigating the effect of same audit partner on accounting comparability. The sample is comprised of 51,304 pairs of firm-year observations over the period of 2003–2012. Column (1) report the results of using total accrual difference as a dependent variable, while Column (2) reports the results using discretionary accrual difference as a dependent variable. Continuous variables are truncated at the 1st and 99th percentiles. To adjust for heteroskedasticity, standard errors are clustered at the firm-level. The numbers reported in the parenthesis are t-statistics. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table 2.

the accounting comparability is measured by the difference in the discretionary accruals, not when it is measured by the difference in total accruals, consistent with the findings in univariate analysis. Considering the role of auditor is restricting discretionary accruals choices by managers and persuading the client firms to choose the more appropriate accounting methods, the findings are understandable.

The coefficients on control variables are generally consistent with prior literature except for the sign of coefficient on firm size. According to Francis et al.(2014), a pair of firms are more likely to have a similar accruals structure when the minimum value of accruals, firm size, and cash flows is larger. Although the minimum size variable (*size_min*) in Table 7 shows unexpected positive sign, the coefficients on minimum accruals (*TA_min* and *DA_min*) and minimum cash flows (*cfo_min*) are significantly negative, consistent with Francis et al. (2014).

4.4 Regression Results for Hypothesis 2

By partitioning the sample into two groups:

firm-pairs audited by Big 4 partners and those audited by non-Big 4 partners, we investigate whether the effect of audit partners on comparability varies with auditor type. Table 8 documents the multivariate results for our tests. Column (1) and (2) report the regression results using firm-pairs audited by Big 4 partners and column (3) and (4) show the results using those audited by non-Big 4 partners. We find that the coefficient on *Same_partner* is significantly negative only in column (2), indicating that accounting comparability between a pair of firms is greater when they are audited by the same partner in Big 4 than when they are audited by two different partners working in the same Big 4. This finding implies that Big 4 audit partners maintain relatively similar audit approach for different clients. In contrast, non-Big 4 audit partners generally accept the accounting methods preferred by client firms and thus the financial statements audited by the same non-Big 4 partners are not more comparable than those audited by the different non-Big 4 partners working in the same audit firm.¹⁹⁾ Once again, the expected results

19) One may argue that the differences in client characteristics, rather than the differences in audit quality, could explain the findings documented in Table 8. However, note that we compare the comparability within Big 4 clients in columns (1) and (2) and that within non-Big 4 clients in columns (3) and (4). The results in columns (1) and (2) imply that the same audit partners working in the same Big 4 audit firm provide more comparable audit service, compared with two different audit partners working in the same Big 4 audit firm. In contrast, the results in columns (3) and (4) imply that the same audit partners working in the same non-Big 4 audit firm do not provide more comparable audit service, compared with two different audit partners working in the same non-Big 4 audit firm. Thus, we compare the clients audited by the same auditor. Because we do not compare Big 4-non-Big 4 pairs, our results are less likely to be due to the differences in client characteristics audited by Big 4 versus non-Big 4 auditors. However, we acknowledge

are observed only when the comparability is measured by the difference in the discretionary accruals.

Although the evidence documented in Table 8 partially support our arguments in hypothesis 2, to test the hypothesis exactly, we need to compare the difference in estimated coefficient between Big 4 and non-Big 4 pairs. We notice that the difference in coefficient between in Column (2) and in Column (4) is statistically insignificant ($t = -0.79$). Therefore, this finding only weakly supports our second hypothesis.

4.5 Further Analyses on the Robustness of Results

Given that an engagement audit partner affects the accrual behavior of his engagements, we expect the influence of audit partner would increase as the experience of the audit partner in that engagement lengthens. According to Choi et al.(2016), the length of audit partner experience is positively associated with audit quality since audit partner can improve his or her knowledge and expertise through the experience. Therefore, We conjecture that accounting comparability between a pair of firms may increase with the

partner-engagement tenure as well. In Korea, the maximum period of partner-engagement tenure is 3 years due to the mandatory partner rotation rules.

To control for this possibility, we restrict the sample to 1,731 firm-pairs which are audited by the same audit partner in that year and additionally run the regression after replacing *TEN* (audit partner tenure) with *Same_partner*. The variable *TEN* takes the value of 1 if both partner-engagement tenures of firm *i* and firm *j* in a pair are at least 2 years, 0 otherwise. That is, if *TEN* is 1, the partners of each client in a pair have 2 or 3 years of partner-engagement experience. In Panel A of table 9, the coefficient on *TEN* is negative in both columns, indicating that comparability increases with the partner-engagement tenure, consistent with our expectation. Although the result for *TEN* in column (1) is not statistically significant, the tenure effect (-0.55) is marginally significant (at the 10% level in one-tailed test) for the differences in discretionary accruals (column (2)).

We also test whether comparability decreases when one of the two firms belong to the same pair and audited by the same partner in year $t-1$ decides to change its partner in year t . Thus, the partners of the two firms become

that economic fundamentals could be vastly different among non-Big 4 clients than among Big 4 clients and our regression models may fail to control for the differences fully. Thus, one never rule out the endogeneity entirely for a possible alternative explanation. Note that we are not able to perform frequently-used matching analysis because there are limited number of clients audited by the same audit partners in a year. Thus, it is almost impossible to find out matching clients audited by the same partners.

〈Table 8〉 Regression Results by Auditor Type

VARIABLES	Big 4 - Big 4		non-Big 4 - non-Big 4	
	(1) <i>TA diff</i>	(2) <i>DA diff</i>	(3) <i>TA diff</i>	(4) <i>DA diff</i>
<i>same_partner</i>	0.06 (0.42)	-0.46** (-2.28)	0.13 (0.36)	-0.04 (-0.09)
<i>TA_min (DA_min)</i>	-78.52*** (-72.40)	-65.58*** (-78.88)	-77.05*** (-35.59)	-61.50*** (-24.28)
<i>size_diff</i>	0.03 (0.98)	0.18*** (2.76)	0.10 (0.71)	-0.51** (-2.55)
<i>size_min</i>	0.07 (1.20)	0.29*** (3.04)	0.38* (1.66)	-0.51* (-1.81)
<i>lev_diff</i>	-3.04*** (-7.39)	-1.96*** (-3.42)	-4.76*** (-6.11)	-4.12*** (-3.71)
<i>lev_min</i>	-4.03*** (-7.51)	-4.69*** (-5.54)	-2.37** (-2.00)	-4.26*** (-2.92)
<i>mb_diff</i>	0.00 (1.02)	-0.00 (-0.46)	-0.00 (-0.51)	0.01* (1.79)
<i>mb_min</i>	0.12*** (10.53)	0.11*** (6.46)	0.07** (2.29)	0.17*** (2.86)
<i>cfo_diff</i>	-5.04*** (-4.77)	0.08 (0.07)	-6.93*** (-3.01)	1.11 (0.33)
<i>cfo_min</i>	-62.09*** (-42.46)	-58.31*** (-26.81)	-67.97*** (-17.95)	-45.64*** (-8.63)
<i>lossprob_diff</i>	-1.24*** (-4.97)	-0.61** (-2.27)	-1.98*** (-2.66)	0.75 (0.94)
<i>lossprob_min</i>	-3.41*** (-7.81)	-0.41 (-0.58)	-5.51*** (-4.30)	-0.03 (-0.02)
<i>std_sale_diff</i>	0.92** (2.07)	0.77 (1.30)	2.61*** (2.73)	2.16 (1.33)
<i>std_sale_min</i>	5.74*** (5.00)	-0.21 (-0.11)	4.40* (1.69)	8.33** (2.58)
<i>std_cfo_diff</i>	5.26*** (4.01)	1.79 (1.04)	12.82*** (3.38)	3.90 (0.86)
<i>std_cfo_min</i>	14.28*** (6.28)	11.90*** (2.62)	-0.80 (-0.12)	-16.31 (-1.64)
<i>std_growth_diff</i>	-0.15 (-1.52)	-0.04 (-0.29)	0.40 (0.72)	-0.78 (-1.01)
<i>std_growth_min</i>	0.12 (0.17)	-0.80 (-0.75)	-2.00 (-1.11)	-1.17 (-0.50)
Constant	4.30*** (2.91)	4.84** (1.97)	-1.88 (-0.33)	26.14*** (3.73)
Observations	48,180	48,180	3,124	3,124
Adjusted R-squared	0.522	0.338	0.503	0.311
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Clustered by	Firm	Firm	Firm	Firm

Notes:

Table 7 shows the regression results of hypothesis 2 using Eq. (1), investigating whether the effect of audit partner on accounting comparability is different between Big 4 and non-Big 4 audit partners. Column (1) and (2) report the results of using 48,180 firm-pairs audited by Big 4 audit partners, while Column (3) and (4) report the results using 3,124 firm-pairs audited by non-Big 4 audit partners. Continuous variables are truncated at the 1st and 99th percentiles. To adjust for heteroskedasticity, standard errors are clustered at the firm-level. The numbers reported in the parenthesis are t-statistics. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table 2.

〈Table 9〉 The Effect of Partner-engagement Tenure and Partner Change

Panel A : Partner-engagement Tenure		
VARIABLES	(1) <i>TA_diff</i>	(2) <i>DA_diff</i>
<i>TEN</i>	-0.26 (-0.92)	-0.55 ⁺ (-1.33)
<i>TA_min (DA_min)</i>	-0.83 ^{***} (-25.40)	-0.63 ^{***} (-25.53)
Controls	1,731	1,731
Observations	0.537	0.349
Adjusted R-squared	YES	YES
Year, Industry FE	YES	YES
Clustered by	Firm	Firm
Panel B : The Effect of Partner Change		
VARIABLES	(1) <i>TA_diff</i>	(2) <i>DA_diff</i>
<i>P_Change</i>	0.08 (0.20)	1.61 ^{***} (2.64)
<i>TA_min (DA_min)</i>	-0.81 ^{***} (-19.47)	-0.61 ^{***} (-11.68)
Controls	YES	YES
Observations	794	794
Adjusted R-squared	0.463	0.288
Year, Industry FE	YES	YES
Clustered by	Firm	Firm

Notes:

In Panel A, the sample is comprised of 1,731 firm-pairs which are audited by the same audit partner. We include *TEN* (an indicator variable having value of 1 if the partner has at least two years of tenure for both client firms in the pair, 0 otherwise) instead of *Same_partner* as a test variable. In Panel B, the sample consists of 794 firm-pairs which have same audit partner in the previous year. We include *P_Change* (an indicator variable having value of 1 if at least one of the partner of the pair of client firms changed from prior to current year, and 0 otherwise) instead of *Same_partner*. The numbers reported in the parenthesis are t-statistics. ⁺, ^{**}, and ^{***} denote significance at the 10%, 5%, and 1% levels based on one-tailed tests, respectively. All variables are defined in Table 2.

different in the current year. For this analysis, we use the subsample of 794 firm-pairs which are audited by the same audit partner in the previous year and include *P_Change*, an indicator variable which equals 1 if at least one of the engagement partners of the pair has been changed from the previous year, and thus the partners of the 2 clients in a pair are to be different in current year. In Panel B of Table 9, the coefficient on *P_Change* is positive and statistically significant in column (2) which means lower comparability in case of partner change. As always, the coefficient on *TA_diff* (0.08) reported in column (1) is not significant.

To sum up, the results of Table 9 enforce our argument that financial statement comparability improves when the engagements are audited by the same partner.

V. Summary and Concluding Remarks

Following Francis et al.(2014), we define accounting comparability as the closeness of two firms' reported earnings due to the consistency with which rules are applied across firms. Using this measure, we find that a pair of clients audited by the same audit partner working in an audit firm exhibit greater comparability than a pair of clients audited by two different partners working in the same

audit firm. In addition, we find that the association is significant only when they are audited by the same partner in Big 4. In contrast, when they are audited by the same partner in non-Big 4, the results are insignificant. Overall, these results provide some evidence about the individual audit partner's effect on comparability and the variability of audit quality in Big 4 versus non-Big 4 audit firms.

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

However, there are also potential limitations of this study. First, there is a concern about the validity of comparability measures. Although we use the proxies following related prior studies, possible measurement errors still could exist. Also, we cannot rule out the possibility

that some omitted variables may influence our results. Since studies on comparability is relatively new, we expect that future researches will shed light on the determinants of comparability more deeply. In addition, the limited range of engagements audited by one audit partner may restrict the implication of our findings. In reality, the possible number of engagements in which an audit partner can take responsibility is limited. If there are not enough comparable client firms which hire the same audit partner, the usefulness of partner identity will be limited for information users who want to evaluate the target firm and its alternatives. Third, our results could be subject to potential endogeneity concerns. Although the use of comparison within the clients of the same audit firm potentially weakens the concern, it is still possible that client characteristics may influence our findings.

Even with these all caveats, the results of this paper can help market participants since it shed light on one of the important determinants that improve comparability.

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감사파트너가 회계정보의 비교가능성에 미치는 영향

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요 약

이 연구는 개별 감사파트너가 회계정보의 비교가능성에 미치는 영향에 대해 조사하였다. 감사업무가 특정 감사파트너와 감사팀에 의해서 이루어진다는 점을 고려할 때 감사파트너의 역할은 매우 중요하다고 할 수 있다. 따라서 감사파트너의 특성에 따라 감사받은 피감기업의 재무제표에 포함된 회계정보의 특성이 달라질 수 있다. 이런 견해에서 본 연구에서는 두 가지 가설을 분석하였다. 첫째, 동일한 감사파트너가 감사한 두 기업은 동일한 회계법인 소속이지만 다른 파트너가 감사한 두 기업보다 회계처리의 비교가능성이 더 높을 것이다. 각 감사파트너마다 고유한 스타일이 있으며, 이런 스타일이 적절한 회계처리방법의 선택에 반영될 가능성이 높기 때문이다. 둘째, 대형회계법인 소속 감사파트너의 경우 이런 성향이 더욱 높은지 조사하였다. 대형회계법인의 경우 보다 철저한 교육훈련과 감사기법을 사용하기 때문에 상대적으로 감사파트너가 다르더라도 유사한 방법을 적용하는 경향이 높을 수 있기 때문이다. 국내 자료를 이용해서 실증분석한 결과는 이런 예측과 일관된다. 특히 재량적 발생액을 사용해서 회계처리의 비교가능성을 측정한 경우 더 뚜렷하게 이런 성향이 관찰되었다. 이런 발견을 종합하면, 감사파트너와 회계법인의 특성이 회계처리에 영향을 미친다고 결론내릴 수 있다.

주제어: 회계정보의 비교가능성, 감사파트너, 대형감사인

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- 저자 최종학은 서울대학교 경영대학 회계학 전공 교수로 재직 중이다. 서울대학교 경영대학 및 대학원 경영학과를 졸업하였으며, 일리노이대학에서 박사학위 취득 후 홍콩과기대학 조교수를 역임했다. 회계 분야 세계 저명 학술지들에 다수의 논문을 출판했으며, 현재 편집위원으로 활동하고 있다. 베스트셀러 '숫자로 경영하라' 1, 2, 3권과 수필집 '마흔, 감성의 눈을 떠라'를 저술하였다. 주요연구분야는 회계감사, 기업지배구조, 공시 등이다.
- 저자 정문기는 현재 성균관대학교 경영대학 회계학 전공 부교수로 재직 중이다. 성균관대학교 무역학과(경제학사)와 서울대학교 대학원 경영학과(경영학 석사)를 졸업하였으며, 성균관대학교 대학원에서 경영학 박사를 취득하였다. 삼일회계법인과 PwC New Jersey (USA)에서 약 30년간 공인회계사로서 회계실무를 수행하며 Partner(전무) 및 품질관리실장을 역임하였고, 금융감독원 회계심의위원회 위원, 한국공인회계사회 감사·인증기준위원회 위원, 한국회계학회 부회장 등을 역임하였다. 주요연구분야는 회계감사, 재무회계, 세무회계 등이다.