

PCAOB INSPECTION FINDINGS AND AUDIT FIRM CONTESTING

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DEDICATION

This dissertation is dedicated to my wife, Annie Browne, whose endless love and support have accompanied me throughout the construction and refinement of this document. I could not fully express the extent of my appreciation for her.

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Accounting firms that perform audits of publicly-traded clients are subject to inspections by the Public Company Accounting Oversight Board (PCAOB). During the inspection process, the PCAOB allows audit firms to respond to the final draft of their report. This response is thereafter made public alongside the report on the PCAOB's website. This dissertation examines a specific aspect of the PCAOB inspection response, namely the audit firm contesting process. In this document, the term *contesting* is used to refer to when an audit firm provides a response to the inspection report defending its professional judgment and audit procedures.

In the first chapter, I examine the *motivations* of an audit firm's decision to contest PCAOB deficiency findings. I theorize and investigate three factors that may affect an audit firm's decision to proceed in that manner. These factors relate to: the audit firm's spatial competition; the firm's vested interest in the PCAOB inspection process; and the firm's concerns about future regulatory actions. In the second chapter, I examine the *consequences* of an audit firm's decision to contest PCAOB's deficiency findings. Specifically, I theorize that publicly-traded clients, audit firms, and the PCAOB may react subsequent to contesting. As such, I investigate the impact of contesting on: auditor dismissals, abnormal audit fees, audit effort, audit quality, and PCAOB's inspection rigor. Taken together, the findings from the tests documented in this dissertation fill a significant gap in the literature by finding evidence that

audit firms are motivated to contest via regulatory concerns, and that both, clients and the PCAOB, react negatively to contesting events.

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CHAPTER ONE: MOTIVATIONS OF AN AUDIT FIRM'S DECISION TO CONTEST

PCAOB FINDINGS

Introduction

This dissertation investigates a specific outcome of the Public Company Accounting Oversight Board (PCAOB) inspection regime, namely audit firm contesting of the PCAOB inspection report. Established by the Sarbanes-Oxley Act of 2002 (SOX), the PCAOB is a non-profit organization that regulates the audits of publicly-traded companies (subsequently referred to as “audit clients” or “companies”). As part of its oversight of the audit profession, the PCAOB conducts inspections of public accounting firms (subsequently referred to as “audit firms” or “auditors”). These inspections comprise an assessment of the soundness of (i) audits performed by audit firms and (ii) their system of quality control over their audit processes. Once inspections are complete, the PCAOB publishes a summary of its procedures and findings in an inspection report, which is made public on its website. Although the PCAOB and audit firms are aware of the specific engagements inspected, the identities of those engagements are not made public in the inspection report (PCAOB 2002). During the inspection process, audit firms are given an opportunity to provide a response, which is made public alongside the final inspection report. In this chapter, I examine the *motivations* of an audit firm's decision to contest PCAOB deficiency findings.

There is limited research on audit firm responses to PCAOB inspection reports, but at the moment of this dissertation there is no research investigating why audit firms decide to provide such responses. Church and Shefchik (2012) analyze the content of PCAOB inspection reports and find that inspection report responses of Big 4 firms contain more elements of disagreement than the responses of non-Big 4 firms. A working paper by Ege et al. (2017) investigates

inspection report responses of annually-inspected audit firms. The researchers find a positive relationship between audit firms with negative tone in their annual inspection responses and both, the likelihood of receiving future Part I deficiencies, and the likelihood of future Part II disclosures. Although these studies provide the groundwork for research on audit firm responses, this chapter builds upon those foundations by specifically examining motivations of audit firm contesting. Specifically, neither of these prior studies examines the response content of triennially-inspected audit firms, which is notable given that there is more variation and nuance in the response comments of triennially-inspected audit firms. Further, the motivations that drive an audit firm to respond in a negative fashion (*i.e.*, to contest PCAOB's findings) remain an empirical unknown. This gap in the extant literature is significant for various reasons, as illustrated below.

As found in prior research, various stakeholders (*i.e.*, clients, the PCAOB, and audit firms) use information contained in PCAOB inspection reports to make decisions (Gramling et al. 2011; Abbott et al. 2013; Gunny and Zhang 2013; Nagy 2014; Lamoreaux 2016; Abbott et al. 2017; Aobdia 2017; DeFond and Lennox 2017; He et al. 2018). Specifically, companies' interpretation of contesting events is especially significant because, as found in Abbott et al. (2013), the information contained in PCAOB's inspection reports can be used as grounds for auditor dismissals. Following that vein, this study is based on the premise that audit firm responses to the PCAOB inspection reports provide insight into the interactions between audit firms and the PCAOB.

To briefly contextualize this interaction, there first must be an understanding of the PCAOB's inspection process, which progresses as follows. The PCAOB inspection team uses a risk-based approach to select a sample of audit engagements to review. The team then reviews

the previously completed audits and identifies deficiencies. If the inspection team is unable to resolve any identified issues via discussion with the engagement team or further work paper reviews, the inspection team provides a comment form detailing the identified issues to the audit firm and offers an opportunity for the audit firm to respond. If the comment form depicts a material issue and the audit firm's response is insufficient, the information in the comment form officially becomes a noted deficiency. When the draft inspection report is complete, the PCAOB collects the audit firm's response, if any, and makes it public on its website alongside the final inspection report (PCAOB 2012; PCAOB 2014).

Given that there is no formal remediation process, inspection report comments offer the sole opportunity for audit firms to justify their point of view to the PCAOB and the general public about any deficiencies noted. It is important to note that not every audit firm elects to provide a response. In addition, responses generally fall into one of two categories: audit firms express some form of gratitude or commitment to audit quality; or audit firms decide to contest. In the latter case, the response may range from mild to severe and the length of the response can vary greatly.¹ Because not all audit firms that respond also choose to contest their report, the motivations for contesting is an empirical question. Following the lead of Abbott et al. (2013), the analysis in this chapter is focused on triennially-inspected audit firms.² This methodological decision responds to the fact that there is a stark contrast in the contesting rates of annually-inspected firms and those of triennially-inspected firms. Based on the sample collected for this dissertation, 91% of observations from annually-inspected firms that responded to their PCAOB

¹ The mean word count of unique contest responses in the sample for this study is 383 words, excluding the word for supporting documentation. The 95th and 99th percentile are 1,155 and 2,652 words respectively.

² Abbott et al. (2013) claim that the setting for annually-inspected audit firm inspections is not particularly meaningful for examining the link between inspection report content and dismissals. The researchers substantiate their position as follows. First, no annually-inspected audit firm received a clean report (containing no deficiencies) through 2010. Second, the dismissal decision is much less elastic for clients of annually-inspected audit firms, and the consequences of dismissal to the annually-inspected audit firm are less severe. Third, the Big 4 audit quality can be assumed to be high due to the Big 4 audit premium and Big 4 brand name.

inspection report contain an indication of disagreement with the PCAOB. In contrast, only 25% of the observations from triennially-inspected firms that responded to their PCAOB inspection report contain an indication of contesting behavior.³ As shown later in this chapter, there is less variation in the reports of triennially-inspected firms in terms of the number and severity of deficiencies received by annually-inspected firms.⁴ Nonetheless, reports of annually-inspected firms are far less numerous.

Further, Gunny and Zhang (2013) investigate the relationship between the clients of auditors that received GAAP-deficient inspection reports and audit quality, as proxied by discretionary accruals and a greater propensity to issue a restatement. The authors find a negative association for clients of triennially-inspected auditors, suggesting auditors that receive GAAP-deficient reports are more likely to conduct audits of poorer quality. They find no results for clients of annually-inspected auditors and conclude that PCAOB inspections are not informative regarding audit quality for larger audit firms (Gunny and Zhang 2013). Lastly, Ege et al. (2017) examine the association between tone in inspection responses for annually-inspected audit firms and subsequent Part I findings as well as the likelihood of subsequent Part II findings release. The authors find a positive relationship between negative tone and both Part I and Part II hypotheses. Given that Ege et al. (2017) focus solely on annually-inspected firms, in combination with the aforementioned reasons, this dissertation examines triennially-inspected audit firm responses only.

³ These computations are based on the entire sample of hand-collected inspection reports through 2015 and reflect the judgment elucidated in the Methodology and Research Design section.

⁴ The mean and lower quartile number of deficiencies received by annually-inspected (triennially-inspected) firms are 34.01 (12.79) and 16.00 (1.00), respectively. The mean of the proportion of annually-inspected (triennially-inspected) firms that receive a GAAP-deficient inspection report is 58% (22%). Further, there is no statistically significant decrease or increase in the instances of contesting over time.

I theorize that audit firms contest because they fear that the disclosed deficiencies may increase their exposure to reputation risk and view contesting as a means to alleviate that exposure. Previous literature shows that regulatory intervention, such as PCAOB inspections, can intensify an audit firm's exposure to litigation and reputation risk (DeFond and Zhang 2014; Knechel et al. 2007; Skinner and Srinivasan 2012; Weber et al. 2008). Further, audit firms have been found to make certain decisions, such as charging audit fee premiums, in response to that exposure (Dye 1993; Carcello and Palmrose 1994; Khurana and Raman 2004). The PCAOB issues a deficiency whenever it finds that the work conducted on sampled audit engagements is not sufficient to support the audit opinions rendered (PCAOB 2012). Audit firms that receive a deficient report could suffer increased reputation risk. In confirmation of these assertions, Abbott et al. (2013) find that clients of triennially-inspected audit firms are more likely to dismiss auditors that receive a GAAP-deficient report. Consequently, it is reasonable to expect that an audit firm's assessment of its own exposure to reputation risk will be dependent on whether there are deficiencies disclosed in its inspection report.

In this chapter, I identify a non-exhaustive set of factors that may influence an audit firm's decision to contest the findings disclosed in their PCOAB inspection report. Specifically, I test the following three factors: the audit firm's spatial competition; the firm's vested interest in the PCAOB inspection process; and the firm's concerns about future regulatory actions. Audit firms that contest are in essence defending their professional judgment. Deficient inspection reports may directly lead to negative consequences for their recipients. As such, an audit firm may decide to contest as a means to alleviate the potential concerns of its clients. For instance, a GAAP-deficient report can lead to an auditor dismissal due to concerns about audit quality, as found in Abbott et al. (2013).

In this chapter, I examine motivations to contest for which the clients of the audit firm appear to be the intended audience. First, an audit firm may be more likely to contest if its *spatial competition* is comparatively high. Abbott et al. (2013) highlights the sensitivity of clients in evaluating inspection report information with respect to dismissal decisions. Further, triennially-inspected audit firms have less of a buffer against reputation risk than annually-inspected firms (Ghosh and Lustgarten 2006; Abbott et al. 2013). Specifically, the clients of triennially-inspected audit firms tend to be smaller, which in turn facilitates auditor switching. Audit firms may perceive reputation risk to be high if they fear that their clients may be more likely to switch because they can find a new auditor with ease. As a result, spatial competition is a potential motivation for contesting.

In contrast, audit firms may be speaking directly to the PCAOB. During inspection fieldwork, the PCAOB inspection team interacts directly with auditors, informing them of any exceptions noted and providing them an opportunity for a response (PCAOB 2012; PCAOB 2014). Contesting could just be a byproduct of this process, driven by the interactions of the audit firm with the PCAOB in an attempt to defend its procedures and professional judgment. Further, audit firms could be concerned that a deficient inspection report leads to future disciplinary actions by regulators, such as the SEC or the PCAOB itself. Both regulatory bodies have limited time and resources and, thus, they could prioritize by investigating audit firms that have already been identified as deficient. Prior literature (Dechow et al. 2011; Nicholls 2016) has found that the SEC investigates companies that exhibit stronger evidence of suspected financial manipulation. Consequently, audit firms may contest due to regulatory concerns. That is, contest in anticipation or repulsion of future regulatory scrutiny.

PCAOB regulations only apply to publicly-traded clients. As a result, the impact of such clients in the view of a potential dismissal must also be considered. An audit firm that has a client portfolio comparatively *more* reliant on publicly-traded clients may perceive that it has more to lose because inspections relate to publicly-traded clients. As such, the firm may disproportionately fear dismissal, not due to a more competitive environment, but due to having more at stake when facing the potential loss of publicly-traded clients. Conversely, an audit firm that has a client portfolio comparatively *less* reliant on publicly-traded clients may instead perceive that it has more to lose with each prospective client dismissal due to a potential loss of traction among publicly-traded clients.

The empirical results of the tests presented later in this chapter fail to confirm a meaningful relationship between contesting and spatial competition. I find evidence of a *positive* relationship between an audit firm's likelihood to contest and regulatory concerns. To test this relation, I employ four distinct deficiency measures: (i) the number of noted deficiencies; (ii) the severity of the deficiencies noted (*i.e.*, whether they are GAAP-related); (iii) the number of revenue-specific deficiencies; and (iv) the number of complex deficiencies (*i.e.*, relating to matters such as derivatives and fair value). Each of these factors in isolation may increase an audit firm's motivation to contest. Thus, audit firms perceive increased pressure from the PCAOB via the number of deficiencies and the severity of those deficiencies, and increased pressure is more likely to compel audit firms to defend their professional judgment and procedures via contesting. Regarding the relationship between contesting and revenue-specific deficiencies, I consider that audit firms do not want to be perceived as having missed the mark on fundamental accounting matters such as revenue recognition, and thus choose to contest. Further, the results regarding complex accounting matters suggest that an audit firm is likely

more compelled to contest deficiencies due to matters of complexity because they are heavily rooted in differences in professional judgment. Lastly, further tests fail to provide an association between an audit firm's vested interest in PCAOB inspections, measured via the percentage publicly-traded companies in its client portfolio, and the likelihood of contesting. In summary, it appears that audit firms are motivated to contest due to regulatory concerns, not client retention concerns.

The analyses in this chapter contribute to the literature by offering insight into why audit firms contest PCAOB inspections. The results indicate that regulatory concerns are a primary motivator. This is especially important, given that past PCAOB literature largely ignores audit firms' responses to the inspection report. This gap in the literature is almost paradoxical, particularly after considering that prior studies have established that PCAOB inspection reports are used by different stakeholders to make decisions (Gramling et al. 2011; Abbott et al. 2013; Gunny and Zhang 2013; Nagy 2014; Lamoreaux 2016; Abbott et al. 2017; DeFond and Lennox 2017; He et al. 2018). This study adds to the literature by investigating how audit firms respond to regulatory information, providing insight into their behavior surrounding the PCAOB inspection process.

The remainder of this paper is structured as follows. Section 2 reviews the extant literature and Section 3 develops the hypotheses. Section 4 discusses the methodology and sample selection. Section 5 details the empirical results. Section 6 concludes this chapter.

Background and Literature Review

PCAOB Inspections

In the 1970s, the Senate and House of Representatives held hearings about holding CPAs accountable for their work. Consequently, the American Institute of Certified Public Accountants

(AICPA) created a voluntary self-regulatory framework comprising the Securities and Exchange Commission Practice Section (SECPS). The SECPS included any audit firm that audited public companies, subjecting all audit firms to peer review every three years. Over the years, this self-regulated peer review system was criticized from the perception that audit firms were not adequately reviewing their peers, as evidenced by a low frequency of modified and adverse peer review opinions. Criticism intensified in the late 1990s and early 2000s when major accounting scandals such as Enron and WorldCom compelled the U.S. Congress to pass the Sarbanes-Oxley Act of 2002 (hereafter, SOX). SOX imposed a new inspection system governed by a newly created independent body, the PCAOB.

Audit firms that perform *more* than 100 public companies audits are inspected annually by the PCAOB, and those that perform 100 or fewer public companies audits are inspected at least once every three years.⁵ PCAOB inspections include a detailed examination of (i) a sample of audits performed by the firm and, (ii) its system of quality control over its audit processes. To accomplish these tasks, the PCAOB sends an inspection team, typically comprising experienced former auditors, to conduct fieldwork at an audit firm's office. For inspections of small audit firms, sometimes fieldwork is conducted at the PCAOB office and via phone with the audit firm. Although the length of fieldwork varies across inspections, the inspection team usually conducts fieldwork for approximately one week, during which time the inspection team analyzes audit work papers and interacts with the engagement team.⁶

⁵ This is as written in SOX Section 104. The PCAOB also outlines this distinction on their website (<https://pcaobus.org/Inspections/pages/inspectedfirms.aspx>).

⁶ See Riley et al. (2008); CAQ (2012).

The PCAOB uses a risk-based approach to identify past audits to sample and review work papers related to certain aspects of each sampled audit engagement.⁷ The PCAOB samples, on average, 50 to 75 clients per inspection for annually-inspected audit firms and 3 clients per inspection for triennially-inspected audit firms.⁸ In addition to reviewing completed audit engagements, the inspection team also evaluates the audit firm's quality control systems by reviewing the firm's training, compliance, and other policies and procedures. If the inspection team concludes that any work on the engagement is *not* sufficient to support a previously rendered audit opinion, the inspection team approaches the engagement team for a discussion regarding the work in question. If the inspection team is unable to resolve the issue, a comment form detailing any exceptions noted is provided to the audit firm. At this time, the PCAOB offers an opportunity for the audit firm to respond to the comment form(s). If the comment form depicts a material issue and the audit firm response is insufficient, the comment form becomes a noted deficiency.

After fieldwork, the PCAOB begins drafting the inspection report. Thereafter, when the draft of the inspection report is complete, the PCAOB collects any audit firm response and makes it public on the PCAOB website alongside the final inspection report (PCAOB 2012; PCAOB 2014). The final inspection report details the procedures of the inspection as well as deficiencies identified, if any. Part I of the report discloses public information, including audit firm characteristics (e.g., number of partners, number of staff, number of issuer clients) and the specific deficiencies identified during the inspection. After the PCAOB has completed the final

⁷ The PCAOB's risk-based sample selection process is not made public. Nonetheless, the PCAOB has made public statements elaborating on how it assesses risk. Specifically, the PCAOB assesses risk at both the client-level (client size, client industry, client financial operations, etc.) and the auditor-level (prior inspection results, individual audit partner considerations, etc.). The PCAOB may also consider other macroeconomic factors, such as economic trends. Further, within each audit engagement, the PCAOB focuses on areas of the audit that represent the auditing challenges and significant audit risks. (PCAOB 2008; PCAOB 2016).

⁸ See Church and Stefchik (2012).

draft of the report, it permits audit firms to submit a response. Any comments that pertain to public information are contained in Part I, whereas comments that pertain to nonpublic or sensitive information are redacted and included in Part II of the report. The audit firm's response is included in the published report subsequent to Part I contents.⁹ Although the PCAOB and the inspected audit firm know the names of the companies included in the inspection, the identity of the companies whose financial statements were inspected are not made public. Rather, the inspection report will refer to the deficiencies found in different audit engagements using generic labels such as "Issuer A", "Issuer B", etc. (CAQ 2012; PCAOB 2012; PCAOB 2014).

PCAOB Inspections and Audit Quality

The majority of extant PCAOB inspection literature has inquired whether PCAOB's inspections improve audit quality. Gramling et al. (2011), find that triennially-inspected audit firms with disclosed deficiencies in their inspection reports are more likely to issue going concern opinions for their financially distressed clients in future periods. Gunny and Zhang (2013) uncover that clients of triennially-inspected auditors that received seriously deficient inspection reports were subsequently associated with lower audit quality, as proxied by discretionary accruals and a greater propensity to issue a restatement. The authors do not find notable results for annually-inspected auditors, proposing that PCAOB inspections may not have impact on audit quality for larger audit firms (Gunny and Zhang 2013). Eutsler (2017) examines whether account-specific inspection deficiencies (*i.e.*, revenue-related deficiencies) are related to that auditor's account-specific audit quality. To accomplish this, he builds a selection model to approximate the PCAOB's risk-based inspection process. His results confirm an association

⁹ The audit firm's response is included in the published report, preceded by the following language: "Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report." (PCAOB 2012).

between account-specific deficiencies and account-specific audit quality as well as a general improvement in audit quality as a result of being subject to PCAOB inspection (Eutsler 2017).

Additional studies examine the relationship between inspections and audit quality indirect point of view. For instance, Nagy (2014) finds that audit firms that are associated with publicly disclosed quality control reports (*i.e.*, audit firms that failed to remediate identified quality control issues within the allowed 12-month period) lost a greater amount of market share in the subsequent year than did audit firms that are not associated with quality control reports. The author concludes that public quality control reports thus signal low audit quality (Nagy 2014). Son et al. (2017) investigate the effect of deficient inspection reports on shareholder voting and find some evidence that the shareholders of clients with weak corporate governance cast votes against the ratification of deficient audit firms. DeFond and Lennox (2017) find that PCAOB inspections assisted in remediating internal control audit deficiencies. Inspections thus led to improved audit quality for internal control audits, although such improvements in audit quality came at an increased cost to clients (DeFond and Lennox 2017). Abbott et al. (2017) examine the relationship between audit firms' PCAOB inspection reports and the seasoned equity offering (SEO) underpricing of their clients to discern whether investors value the content in PCAOB inspection reports. The authors confirm a significant negative relationship between SEO underpricing and clients of triennially-inspected audit firms that receive clean PCAOB inspection reports (Abbott et al. 2017).

PCAOB Inspections in the International Context

Researchers have taken advantage of international contexts to further illuminate on the possible benefits of the PCAOB inspection process. For instance, in response to the fact that not all countries allow access to the PCAOB to perform its inspections, Lamoreaux (2016) conducts

a cross-country study to examine the relationship between PCAOB access to auditors of foreign SEC registrants and audit quality. The author finds that auditors from countries with PCAOB access exhibited higher audit quality, regardless of whether the country had a local audit regulator (Lamoreaux 2016). Fung et al. (2017) investigate non-U.S. listed foreign clients of non-U.S. auditors and find that first-time PCAOB inspections improve audit quality.

Looking instead at cross-listed U.S. clients of foreign auditors, Krishnan et al. (2017) find improved audit quality and value relevance after the first year of inspection. Similarly, Song and Sun (2017) examine the impact of PCAOB inspection access on audit fees, auditor choice, and auditor effort for U.S. listed foreign firms. The authors find that once a foreign nation cooperates with the PCAOB by allowing inspection access, audit firms subsequently charge lower audit fees to their clients. In addition, accounting restatement rates decrease, particularly for clients with abnormally high audit fees prior to inspection access (Song and Sun 2017). He et al. (2018) investigate whether the behavior of institutional investors in the U.S. is different for foreign companies whose auditors face the risk of PCAOB inspection. The results of their study indicate that after a U.S. listed foreign company becomes accessible to PCAOB inspection, the number and percentage of share ownership by institutional investors in the U.S. increase (He et al. 2018).

PCAOB Inspections and Audit Firm Responses

To date, there is limited empirical research that examines audit firm responses to PCAOB's inspection reports. Church and Shefchik (2012) investigate inspection reports in detail to uncover trends in deficiencies and other report traits over time. The finding most relevant to this dissertation is their response content comparisons across audit firms. Specifically, they categorize responses as follows: (i) no mention of disagreement; (ii) difference in professional judgment; (iii) disagreement with no specific defense; and, (iv) disagreement with a specific

defense. Overall, they find that the responses of Big 4 firms comprised some manner of disagreement significantly more often than responses of other firms (Church and Shefchik 2012). In addition, Ege et al. (2017) examines inspection report responses of annually-inspected audit firms and categorize sentences within responses as exhibiting a positive or negative tone. The researchers find a positive relationship between audit firm responses with a negative tone and the likelihood of receiving future Part I deficiencies. In addition, they find a positive relationship between audit firm responses with a negative tone and the likelihood of future Part II disclosures. Ege et al. (2017) observe that annually-inspected audit firms were more likely to use negative tone in responses in the early years of the PCAOB inspection regime (*i.e.*, 2004–2008), as opposed to later years (*i.e.*, 2010–2012).

Hypothesis Development

It is unclear what may motivate audit firms to contest the deficiency findings noted in their PCAOB inspection report. As detailed in the preceding literature review, extant PCAOB inspection studies find that inspection reports contain valuable information which various stakeholders may consult as part of their auditor retention decisions. I posit that audit firms may have a distinct audience in mind when contesting. To elaborate, audit firms appear compelled to defend their judgments and performed audit procedures. As such, they contest to alleviate concerns that may arise with an outside party, such as a regulator or client. For instance, a GAAP-deficient report can lead companies to dismiss their auditors, as found in Abbott et al. (2013).

First, given the findings of Abbott et al. (2013), I consider the perspective that audit firms contest because they fear that disclosed deficiencies may increase their exposure to reputation risk. As demonstrated by studies examining reputational effects after the collapse of Enron,

exposure to reputation risk varies across firms (Chaney and Philipich 2002; Krishnamurthy et al. 2006; Nelson et al. 2008). In addition, previous literature shows that regulatory intervention, such as PCAOB inspections, intensifies an audit firm's exposure to litigation and reputation risk (DeFond and Zhang 2014; Knechel et al. 2007; Skinner and Srinivasan 2012; Weber et al. 2008). Audit firms make certain decisions, such as charging audit fee premiums, to ameliorate litigation and reputation risk (Dye 1993; Carcello and Palmrose 1994; Khurana and Raman 2004). Given that the PCAOB issues a deficiency whenever it finds that the work conducted on sampled engagements is not sufficient to support the audit opinions rendered (PCAOB 2012), audit firms that receive a deficient report could suffer increased reputation risks. In confirmation of this, Abbott et al. (2013) find that clients of triennially-inspected audit firms are more likely to dismiss auditors that received a GAAP-deficient report. Therefore, it is reasonable to assert that an audit firm's assessment of its own exposure to reputation risk will be affected by whether it receives a deficient inspection report.

If audit firms recognize the potentially negative reputational impact of inspection report findings, and contesting is seen as a way to alleviate such impact, then presumably all firms would contest. However, not all audit firms choose to proceed in that manner. It follows that an audit firm will contest only if it believes that the benefits of doing so would outweigh the costs. Consequently, audit firms that assess their own reputation risk as relatively high after receiving a deficient report (*i.e.*, those that have *more to lose*) would be more likely to contest. Specifically, the audit firm must compensate its employee(s) for constructing and reviewing a written response for the PCAOB, which can feature thorough elucidation and documentation. At a minimum, therefore, the benefits of contesting must exceed that cost. As not all audit firms proceed to contest, I consider that assessments of reputation risk differ across audit firms. A

possible benefit to contesting is alleviation of reputation risk. Thus, there must be some factor(s) that lead certain audit firms to assess their reputation risk as high and subsequently contest PCAOB's inspection findings.

To explore potential audit firm motivations for contesting, I consult seminal studies to develop a non-exhaustive list of factors that could bear some influence on audit firms' contesting decisions. One of these factors comes from the spatial competition theory, which dictates that suppliers must compete for clients based on their relative position within a local market (Biscaia and Mota 2013). In the context of the audit profession, much of the extant audit quality literature relates this theory to audit firm competition (Francis et al. 1999; Ferguson et al. 2003; Reynolds and Francis 2000; Francis et al. 2005; Francis and Yu 2009; Francis et al. 2013). Specifically, audit firms are comprised of various professionals with specialized knowledge on their clients. Francis and Yu (2009) contend that local office size is positively related to human capital, as well as to the amount of in-house expertise that an audit firm may have available. Keune et al. (2016) find that non-Big 4 leaders increase local market competition. Further, Boone et al. (2017) investigate the 2007 PCAOB censure of Deloitte and theorize that firm losses (in the form of increased switching risk and loss of fee growth) could be less pronounced for offices in which there is less spatial competition (*i.e.* Deloitte had greater market power). However, they also argue that there may not be a noteworthy difference across Deloitte's offices, as client concerns about audit quality may override the ease with which a client could find a substitute auditor. Their results confirm the latter, finding that audit quality concerns trumps market power (Boone et al. 2017).

Other literature (DeFond and Zhang 2014; Knechel et al. 2007; Skinner and Srinivasan 2012; Weber et al. 2008) finds that regulatory intervention, such as PCAOB inspections, can

increase an audit firm's exposure to litigation and reputation risk. Further, audit firms take actions specifically to ameliorate litigation and reputation risks, such as in charging audit fee premiums (Dye 1993; Carcello and Palmrose 1994; Khurana and Raman 2004). In examining reputational effects after the collapse of Enron, various studies illustrate how Andersen's increased reputational risk negatively impacted the stock price for its clients (e.g., Chaney and Philipich 2002; Krishnamurthy et al. 2006; Nelson et al. 2008). These studies collectively demonstrate how reputation risk varies across firms and, as a result, it is a significant consideration for audit firms and their clients.

I posit that an audit firm is more likely to contest if its *spatial competition* is higher. To elaborate, spatial competition could lead to an increased assessment of reputational risk, creating an incentive to contest. Spatial competition theory and extant audit literature collectively suggest a strong link between an audit firm's decision making and its competitive environment. For instance, Boone et al. (2017) and Abbott et al. (2013), when taken together, highlight the sensitivity of clients in evaluating dismissal decisions.¹⁰ To investigate the *spatial competition* explanation, I follow past literature (Bills and Stephens 2016) to develop a proxy that uses the absolute difference of the market share distance between an audit firm and its closest competitor in the same city-industry. I propose the following directional hypothesis:

H1: An audit firm's spatial local competition is positively related to contesting.

In contrast, an audit firm could be motivated to contest with the PCAOB as its target audience. During fieldwork, the PCAOB interacts directly with auditors, informing them of any

¹⁰ Boone et al. (2017) find audit quality concerns override local market power, which could suggest spatial competition is not an ideal predictor of whether an audit firm will contest. Nonetheless, I entertain the possibility that triennially-inspected audit firms are more susceptible to increased exposure to reputation risk due to the lack of a premium or differentiation status as prestigious as the Big 4. Further, since Boone et al. (2017) is based on data from only one of the members of the Big 4 cohort. As such, the findings of their study may not be applicable to triennially-inspected firms.

exceptions noted and providing them an opportunity for a response (PCAOB 2012; PCAOB 2014). Because of this interaction, it follows that contesting could be a natural by-product of this process. As such, contesting could be driven in real time by interactions with the PCAOB, in an attempt to defend procedures and prevent future deficiencies or regulatory actions. In addition, an audit firm may be concerned that receiving PCAOB inspection deficiencies will lead to a greater chance of subsequent scrutiny or regulatory action by the PCAOB. Extant literature has demonstrated that, as the SEC has limited resources, it investigates firms that exhibit stronger evidence of suspected financial manipulations (Dechow et al. 2011; Nicholls 2016). Similarly, the PCAOB has limited time and resources, which explains why its inspections are conducted following a risk-based approach (PCAOB 2012; PCAOB 2014; Aobdia 2017). Using its risk-based approach, the PCAOB could be more likely to select firms that received deficiency finding(s) to investigate further.

To test for this regulatory concern, I measure the following proxies based on deficiencies in the inspection report: (a) the number of all deficiencies noted; (b) the severity of the deficiencies noted (*i.e.*, a GAAP-deficient inspection report); (c) the number of revenue deficiencies noted; and (d) the number of complex deficiencies noted (*i.e.*, derivatives, specialists, and estimates). These are distinct constructs that capture different phenomena. The *number* of deficiencies noted could be positively related to contesting if an audit firm feels more scrutiny with each deficiency received. This would be an understandable occurrence if each noted deficiency added pressure to the audit firm. The *severity* of deficiencies noted could be positively related to contesting if an audit firm perceives more reputation risk if the deficiency is GAAP-level exception, as opposed to a GAAS-level exception. This is a logical expectation, given that Abbott et al. (2013) document that firms with GAAP-level deficiencies are dismissed

at a higher rate than those with GAAS-level deficiencies. In contrast, it is possible that an audit firm would be *less* likely to contest as the severity of the findings in their inspection report increases. This can surface as a result of audit firms becoming overwhelmed by the severity of their deficiency findings or having less basis to argue a difference in opinion. Consequently, both hypotheses are stated as follows:

H2a: *The number of the deficiencies in an audit firm's inspection report is **positively** related to contesting.*

H2b: *The severity of the deficiencies in an audit firm's inspection report is **not** related to contesting.*

In addition, other aspects of deficiencies may manifest as motivations for audit firm contesting. Perhaps the deficiencies motivate audit firms differently depending on the account to which they relate. As such, I consider whether the number of *revenue* deficiencies noted in a report could capture a distinct account-specific assessment by the audit firm. Given that revenue deficiencies could be seen as particularly egregious, I expect a positive relationship for the number of *revenue* deficiencies noted and contesting. This is consistent with increasing pressure or risk assessed with each deficiency. In contrast, deficiencies can relate to complex accounting matters, such as derivatives or fair value assessments. Thus, the number of *complex* deficiencies is included to capture how complex accounting matters influence the contest decision process. On the one hand, I contend that complexity could be positively related to contesting if an audit firm is more compelled to contest on matters of differences in professional judgment. This expectation is due to the fact that generally the more complex an accounting matter is; the more judgment is involved in its treatment. On the other hand, complexity could be negatively related to contesting and instead serve as a deterrent. The hypotheses for revenue deficiencies and complexity deficiencies are stated as follows:

H3a: *The number of revenue deficiencies in an audit firm's inspection report is **positively** related to contesting.*

H3b: *The number of complex deficiencies in an audit firm's inspection report is **not** related to contesting.*

Lastly, the PCAOB only regulates publicly-traded clients, so inspection reports only pertain to this particular segment of audit firms' practice. Thus, contesting could instead arise as a manifestation of *vested interest* in the PCAOB inspection regime. To elaborate, an audit firm that has a client portfolio comparatively *more* reliant on publicly-traded clients may perceive that it has more to lose because it has more at stake in the inspection process. An audit firm may disproportionately fear dismissal due to having more at stake when facing the potential loss of publicly-traded clients. In this case, audit firms with a higher vested interest are expected to be more likely to contest, given that contesting is as a possible means to combat reputation risk exposure. However, the converse is also feasible. An audit firm that has a client portfolio that is comparatively *less* reliant on publicly-traded clients may perceive that it has more to lose with each prospective client dismissal because it wants to protect its presence with publicly-traded clients. In this case, an audit firm with lower vested interest is more likely to contest, viewing contesting as means to protect (and possibly grow) its publicly-traded client portfolio.

PT, the proxy for *vested interest*, is measured using the percentage of publicly-traded companies to the total number of companies in an audit firm's portfolio. While information about privately-owned clients is not publicly available, I address this limitation by hand-collecting data from the *Accounting Today Top 100 Audit Firms* publication list for the years 2005–2015. Thus, *PT* is calculated as audit fees per the Audit Analytics database divided by net revenue per hand-collected data. The analysis is run using a reduced sample due to missing data.

Because the sign of the relationship between vested interest and contesting is an empirical unknown, I state my hypothesis in the null:

*H4: The percentage of publicly-traded clients of an audit firm's client portfolio is **not** related to contesting.*

Methodology and Research Design

Measurement of CONTEST and SEVERE_CONTEST

In this study, I use a dictionary-based approach to develop the main test variable, *CONTEST*. Specifically, I consulted seminal textual analysis studies (e.g., Loughran et al. (2016); Bonsall et al. (2017)), to determine the optimal approach for the particular context of this study. Readability-based measures such as the Fog Index and Bog Index were deemed inappropriate because their purpose is to assess the complexity or economic reality of businesses based on public statements made by management. In addition, existing dictionaries, such as the Harvard's GI and Loughran and McDonald (2011) word lists, do not apply to this study due to the unique circumstances and diction of audit firm responses to PCAOB's inspection reports. Rather, I follow a targeted phrases approach, used in studies such as Loughran et al. (2009).

To determine how to operationalize contesting, I reviewed all inspection reports featuring an audit firm response for content and tone.¹¹ During that review, I observed various recurring words and phrases in responses where audit firms appear to contest the findings of the PCAOB in some manner. In particular, the word "judgment" (used often in the context of "professional judgment") was identified across all suspected instances of contesting. Further, I affirmed that "judgment" in this context captured contesting as a statement of difference in opinion by the audit firm, and that the term was not used otherwise in non-contesting responses. In an attempt to

¹¹ In the future, a second reader will be employed to verify the judgment involved in the dictionary development procedures.

make the report classification process as standardized and accurate as possible, I then subsequently analyzed all reports that were pre-identified as contesting, and compiled the top words and phrases that appeared throughout such reports. The identified top words and phrases are then used to determine whether a response should be classified as contesting or non-contesting.¹²

During the review and analysis of the reports, there were also observed occasional instances of audit firms using language strikingly harsher in tone. In particular, the phrase “strongly disagree” was identified as a term commonly occurring across this particular subset of observed instances. Consequently, I theorize that the findings for tests of all hypotheses could be more pronounced in these instances, which are then designated as *severely* contesting. Similar to the development of *CONTEST*, I compiled the top terms and phrases that appeared throughout the reports identified as *severely* contesting, and I included the three most commonly used terms in the dictionary.¹³ See Figure 1 for the operationalization of both *CONTEST* and *SEVERE_CONTEST* in a decision-tree format.

[Insert Figure 1 about here]

Further, three distinct samples of audit firm responses are included in this dissertation for reference. Figure 2, Panel A displays a sample response of a non-contesting firm; Panel B a sample response of a contesting firm; and Panel C a sample response of a *severely* contesting firm.

[Insert Figure 2 about here]

¹² The words “judgment”, “disagree”, and “do not agree” were the most prevalent among inspection reports identified as contesting reports. Using the dictionary-based approach, the word “judgment” identifies by far the most instances. 74% of reports I initially identified as contesting reports contain “judgment”, contrasted with “disagree” and “do not agree” which capture 32% and 9% respectively.

¹³ The words “strongly disagree,” “take exception,” and “unfair” were the most prevalent among inspection reports identified as *severely* contesting reports, identifying 44%, 26%, and 22% of instances respectively. Intriguingly, “ludicrous” also appears in 4% of the reports but does not identify additional instances of severe contesting and, thus, was not included in the dictionary.

Models and Variables

The test variables for Chapter 1 regressions are as follows: *SLC* (H1) is defined as a continuous variable equal to the absolute difference of the market share distance between an audit firm and its closest competitor in the same city-industry. *NUMDEF* (H2a) is defined as a continuous variable equal to the total number of deficiencies disclosed in the audit firm's most recent inspection report. *GAAPDEF* (H2b) is defined as a dichotomous variable equal to 1 if the audit firm received at least one GAAP-level deficiency in its most recent report, 0 otherwise. *REVDEF* (H3a) is defined as a continuous variable equal to the number of revenue-related deficiencies received in the most recent inspection report. *COMPDEF* (H3b) is defined as a continuous variable equal to the number of deficiencies related to complex accounting matters (*i.e.*, derivatives, specialists, or estimates) received in the most recent inspection report, 0 otherwise. *PT* (H4) is defined as a continuous variable equal to the percentage of an audit firm's client portfolio that is publicly-traded, computed as audit fees per Audit Analytics divided by net revenue (hand-collected) per the *Accounting Today* Top 100 Audit Firms list.

I define and test contesting in two distinct ways; as a dichotomous variable (*CONTEST_DUMMY*), and as a discrete variable (*CONTEST_DISC*). *CONTEST_DUMMY* equals 1 if the audit firm contested its most recent inspection report, 0 otherwise. *CONTEST_DISC* equals to 2 if the audit firm contested the findings in its inspection report; 1 if the audit firm only issue a response but did not contest the findings of its report; and 0 if the audit firm did not exercise its right to respond. I also run regressions using *SEVERE_CONTEST*, which equals 2 if the audit firm severely contested the most recent inspection report, 1 if the audit firm contested to the most recent inspection report but did not severely contest, and 0 if the

audit firm neither severely contested nor contested. Lastly, I utilize other alternate measures of *CONTEST* to test the sensitivity of this measure. For all variable definitions, refer to Table 1.

[Insert Table 1 about here]

Regarding the measures for audit quality, I consulted extant literature and most notably, the extensive audit review in DeFond and Zhang (2014). In that study, the authors analyze commonly used proxies that investigate the various different dimensions of audit quality (e.g., directness, egregiousness, measurement issues, strengths and weaknesses) and conclude that no single category fully represented audit quality. Consequently, I measure audit quality using three distinct measures: (i) the magnitude of the client's absolute discretionary accruals (*ABSDA*); (ii) the percentage of going concern opinions issued out of all opinions issued (*GCO*); and, (iii) the percentage of restatements issued out of all audit engagements (*RSTMT*). To ensure accurate measurement of *ABSDA*, I develop two different constructs, *ABSDA1* and *ABSDA2*. The accruals estimation procedures in Ball and Shivakumar (2006) are used to estimate *ABSDA1*, and the performance-matched accruals estimation procedures in Kothari et al. (2005) are used to estimate *ABSDA2*.

The logit regression model below tests the hypotheses:

$$CONTEST_{it} = \beta_0 + \beta_1 TEST_{ijt-1} + \beta_2 PRPT2_{it-2} + \beta_3 OFFICE_{it-1} + M_CONTROLS_{ijt-1} + \varepsilon_{it-1} \quad (1)$$

where *i* designates audit firm, *j* client, and *t* time.¹⁴

CONTEST is the dependent variable measure of contesting. Measurement depends on the model as follows. In Model 1a, the variable is *CONTEST_DUMMY*; 1b, *CONTEST_DISC*; 1c, *SEVERE_CONTEST*; 1d, *CONTEST_DUMMY_SERIAL*; 1e, *CONTEST_DUMMY_2YR*;

¹⁴ Note that *t* represents the time at which the inspection report is made available to the public.

1f, *CONTEST_DUMMY_1YR*; 1g, *CONTEST_DISC_SERIAL*; 1h, *CONTEST_DISC_2YR*; and 1i, *CONTEST_DISC_1YR*. *TEST* is the test variable, which differs across tests of each hypothesis as follows: *SLC* for Hypothesis 1; *NUMDEF* for Hypothesis H2a; *GAAPDEF* for Hypothesis H2b; *REVDEF* for Hypothesis H3a; *COMPDEF* for Hypothesis H3b; and *PT* for Hypothesis 4. See Table 1 for variable definitions.

To improve the sensitivity of the model, I control for correlates that could otherwise influence the results. *PRPT2* is defined as 1 if the audit firm had its Part II quality control findings made public (failed to remedy within 12 months), 0 otherwise. It is included to control for the impact that Part II findings release may have on the likelihood to contest. *OFFICE* is defined as the number of clients for the audit office per the most recent inspection report. This controls for the impact that larger or smaller audit offices may contest at different rates. I follow the approach used in Francis and Michas (2013) to develop *M_CONTROLS*, which comprises portfolio-based, standardized controls of various client characteristics.¹⁵ Although it is unclear whether client characteristics could influence an audit firm's decision to contest, I incorporate several control variables to minimize the potential impact of individual-client effects on a firm's contesting decisions. *RSTMT* and *GCO*, as previously defined, are included to control for differences in audit quality impacting the likelihood to contest. Further, various audit studies have demonstrated a relationship between audit quality and industry specialization (Balsam et al. 2003; Krishnan 2003; Reichelt and Wang 2010). This additional potentially confounding effect is controlled with the inclusion of *INDSPEC* in the regression model.

LASSETS controls for audit firm size. *TENURE* controls for potential differences in auditor tenure. *LEV*, *ROA*, *LOSS*, *ALTMAN*, and *LIQUID* are included to control for individual

¹⁵ Each *M_CONTROLS* variable is standardized, giving it a mean of 0 and standard deviation of 1. See Francis and Michas (2013) for more details.

client risk characteristics. *EMPLOY* controls for client size. *ISSUE*, *INVREC*, *FOREIGN*, and *EXORD* are included to control for client complexity. *BTM* and *CHGSALE* are included to control for differences in audit demand between high-growth and low-growth clients. *OCF* controls for correlation between accruals and cash flows. *STDEARN* controls for companies with more volatile earnings. Lastly, *YR_FE* and *IND_FE* are sets of fixed effects indicators for fiscal year and industry (two-digit SIC), respectively.

Sample Selection

The sample selection started with gathering the inspection reports for all triennially-inspected U.S. audit firms from 2005–2015 for a total of 1,875 reports from the PCAOB’s website. All relevant information regarding audit firm characteristics and deficiency findings were subsequently hand-collected. I thereafter examined the reports, noting whether audit firms responded, and transcribed their responses. All pertinent financial and auditor-related information was obtained from Compustat and Audit Analytics, respectively.

The initial audit firm-year data comprised 157,852 audit firm-year observations from Audit Analytics, and 64,259 client-year observations from Compustat. After screening for missing Audit Analytics data, there were 93,870 audit firm-year observations. All three databases were then merged (*i.e.*, Audit Analytics, Compustat, and PCAOB report responses). Observations missing necessary regression variable information (such as observations where the audit firm did not respond) and companies in the financial sector (*i.e.*, SIC 4900–4999 and 6000–6999) were eliminated. I also removed industries with fewer than 10 observations per year to estimate discretionary accruals. The final main regression sample comprises 2,119 audit firm-year observations from years 2005–2015.

As the percentage of publicly-traded clients for each audit firm's client portfolio is not publicly available, I calculate the metric by taking audit fees per the Audit Analytics database divided by net revenue per data hand-collected from the *Accounting Today's Top 100 Audit Firms* list. Because the inclusion of *PT* substantially limits the sample, I run the regression analyses separately for the test of Hypothesis 2. The final supplemental regression sample comprises 151 client-year observations from years 2005–2015. Table 2 summarizes the sample reconciliation processes.

[Insert Table 2 about here]

Empirical Results

Descriptive Statistics and Correlation Matrix

Descriptive statistics are shown in Table 3. Panel A displays the main regression descriptive statistics, while Panel B displays the supplementary regression descriptive statistics. Statistics for *M_CONTROLS* are omitted because these variables were standardized using the approach in Francis and Michas (2013), forcing a mean of 0 and a standard deviation of 1. When applicable, control variables are generally comparable to extant literature. For instance, the mean of *RSTMT* in the sample is 0.0842, as compared with 0.050 (0.017) in the Abbott et al. (2013) study for GAAP-deficient (clean) triennially-inspected audit firms respectively.

[Insert Table 3 about here]

The Pearson correlations matrix is featured in Table 4. Although most correlations are reasonably low (*i.e.*, none higher than 0.50 in either direction), there are exceptions. The exceptions mostly arise with variables that share similar operationalizations and are, thus, not included in the same regression (*i.e.*, the various *CONTEST* variables are highly correlated, as are *SLC* and *MKTSHARE*, which both measure very similar constructs). Nonetheless,

multicollinearity may be a concern in the regression models, which could lead to unreliable results. To combat the possible confounding effects of multicollinearity on the regression results, I estimate the variance inflation factor (VIF) for each of the regressions. The most significant VIF for the main regressions is 3.88, which is below the commonly used threshold for multicollinearity concerns of 10.00. In the supplemental regressions, some of the VIF's are close to 10.00, resulting in the elimination of a few variables such as *PRPT2*. In sum, measures have been appropriately taken to alleviate possible concerns about multicollinearity in the regression analyses.

[Insert Table 4 about here]

Regression Results

The main regression results for this chapter are presented in Tables 5 through Table 8. The tables are uniformly split into three panels. Panel A contains three separate regression results where *CONTEST_DUMMY*, *CONTEST_DISC*, and *SEVERE_CONTEST* are the dependent variables. For ease of reference, these regressions are referred to as Models 1a, 1b, and 1c, respectively. Panel B comprises regression results for tests using the dummy variables *CONTEST_SERIAL*, *CONTEST_2YR*, and *CONTEST_1YR* as dependent variables. These regressions are referred to as Models 1d, 1e, and 1f, respectively. Lastly, Panel C displays results for the discrete versions of *CONTEST_SERIAL*, *CONTEST_2YR*, and *CONTEST_1YR*. These are termed Models 1g, 1h, and 1i, respectively.

The results of Hypothesis 1 testing (the impact of spatial competition on contesting) are in Table 5, Panel A through Panel C. In Panel A, the coefficient of *SLC* is not significant under the tests of Models 1a, 1b, and 1c comprising all three main contesting variables (*i.e.*, *CONTEST_DUMMY*, *CONTEST_DISC*, and *SEVERE_CONTEST*, respectively). Thus, the tests

fail to find evidence in support for H1. However, control variables *PRPT2* and *OFFICE* display strong significance ($p < 0.01$) in the tests of both Models 1a and 1b. In addition, *RSTMT* is significant at the $p < 0.01$ level for Model 1b. *INDSPEC* is significant at the $p < 0.05$ level for the *SEVERE_CONTEST* regression; *PRPT2* is significant at the $p < 0.10$ level. these tests are not able to provide evidence of spatial competition as a motivation for contesting. The various tests in Panel B similarly lack significance for the main test variable, *SLC*. *PRPT2*, *OFFICE*, and *RSTMT* are significant at the $p < 0.01$ or 0.05 level in every Panel B test. Lastly, the results from Panel C lead to similar inferences. That is, no significance on the variable of interest but strong significance for *PRPT2* and *OFFICE*.

[Insert Table 5 about here]

Table 6 displays the results for Hypothesis 2a regarding the impact of the number of deficiencies on contesting. In Panel A, all three coefficients on the test variable, *NUMDEF*, are positive and strongly significant ($p < 0.01$). This indicates that the number of deficiencies an audit firm receives in an inspection report is positively related to the likelihood that the audit firm would contest that report. The coefficient on *NUMDEF* in the Model 1c test suggests that audit firms are also more likely to *severely* contest as the number of deficiencies increases. In Panel B, likewise all three coefficients on *NUMDEF* are positive and significant at the highest level. Panel C confirms the same result. In summary, the tests strongly suggest that the number of deficiencies received increases the likelihood that an audit firm would contest as a result of increased pressures to defend its judgment when receiving PCAOB inspection findings.

[Insert Table 6 about here]

Table 7 shows the tests for Hypothesis 2b, which examines the relationship between the severity of deficiencies and contesting. The severity of deficiencies refers to whether the audit

firm received at least one GAAP-level deficiency in the most recent inspection report. Panel A testing in both Model 1a and Model 1b find a strong and positive relationship on the coefficients of *CONTEST_DUMMY* and *CONTEST_DISC*, respectively. The *SEVERE_CONTEST* result in Model 1c is just as powerful at $p < 0.01$. Consequently, Panel A strongly suggests a relationship between an audit firm receiving GAAP-related deficiencies in the most recent inspection report and the likelihood of both contesting as well as the likelihood of severely contesting. Similarly, Panel B presents evidence of a positive relationship at the $p < 0.05$ level for serial contesting firms (Model 1d) and at the $p < 0.01$ level for the 2-year and 1-year contesting windows (Models 1e and 1f, respectively). Panel C further reinforces the existence of a relationship with significance at the $p < 0.01$ level for all three tests. Taken together, it is evident that audit firms contest not only due to the number of deficiencies but also due to the severity of deficiencies.

[Insert Table 7 about here]

Table 8 displays the results from Hypothesis 3a testing of the relationship between the number of revenue deficiencies and audit firm contesting. In Panel A, the coefficients on the test variable *REVDEF* are positive and significant at the $p < 0.01$ level for tests of Models 1a, 1b, and 1c. The Model 1a and 1b results suggest that there is a relationship between the existence of revenue-specific deficiencies and contesting, and the Model 1c result suggests a relationship between the existence of revenue-specific deficiencies and *severely* contesting. This could be due to the fact that revenue deficiencies are relatively common and not particularly complicated, thus not warranting an overly strong response by their recipients. Panel B's tests are mixed, with only Model 1d (relating to serial contesters) displaying strong ($p < 0.01$) significance for the test variable. Panel B tests therefore indicate no evidence for the relationship between contesting and

revenue deficiencies unless the audit firm is a serial contester. Lastly, Panel C tests unanimously find evidence of strong positive significance for the test variable.

Although most tests of Hypothesis 3a find strong evidence in favor of the relationship between contesting and revenue deficiencies, the lack of results in Models 1e and 1f suggest that contesting may be sensitive to its variable definition. Taken together, there is nonetheless compelling evidence to suggest that audit firms are motivated to contest by receiving revenue-specific deficiencies in their report. This could be an artifact of the egregious nature of revenue deficiencies, and consequently audit firms do not want to be seen as having missed the mark on such a fundamental accounting matter.

[Insert Table 8 about here]

Table 9 reports regression results of Hypothesis 3b testing of the relationship between the number of complex deficiencies and audit firm contesting. In Panel A, all tests highlight strong ($p < 0.01$) and positive significance on the variable of interest, *COMPDEF*. Like previously discussed constructs, this result suggests a relationship between the complexity of deficiencies and contesting as well as *severely* contesting. Panel B exhibits mixed results. That is, no significance in Model 1d testing for serial testers; significance at the $p < 0.10$ level in Model 1e; and significance at the $p < 0.05$ level in Model 1f. In these tests, like the tests of other hypotheses, the control variables *PRPT2*, *OFFICE*, and *RSTMT* are significant at $p < 0.05$ or better, depending on the test. Panel C finds strong significance across all three tests using discrete measures for serial contesting and contesting in 2-year and 1-year windows. Mirroring the results of Hypothesis 3a tests, Models 1e and 1f comprise less powerful measures of contesting than the other models. In summary, although there is some sensitivity to the measure, these tests strongly suggest a positive relationship between deficiencies related to complex

accounting matters and the likelihood of audit firm contesting. As a result, an audit firm is likely more compelled to contest on matters of complexity, possibly due to the fact that these areas are prone to differences in professional judgment.

[Insert Table 9 about here]

Lastly, Table 10 illustrates the results for the supplemental regression run on the smaller subsample of audit firm-year observations that contain the data for *PT*, which represents the ratio of publicly-traded clients to all clients in an audit firm's portfolio ($n = 151$). There are only three regressions in this subsample, using all dummy variables. Specifically, these variables are the *CONTEST_DUMMY*, *CONTEST_2YR*, and *CONTEST_1YR* measures used in Models 1a, 1e and 1f, respectively. All other variables were dropped from analysis due to lack of data or multicollinearity concerns, as discussed above. No significance is found in any of the tests, with the exception of the *RSTMT* control variable, which is positive and significant to varying degrees in each test ($p < 0.01$ in standard in 2-year window tests; $p < 0.10$ in 1-year window test). Consequently, no conclusions can be drawn from whether the percentage of publicly-traded clients in an audit firm's portfolio has any impact on the audit firm's decision to contest.

[Insert Table 10 about here]

Conclusion

This chapter examines the motivations of audit firm contesting PCAOB inspection reports. The empirical results of the tests presented in this chapter are not able to confirm a meaningful relationship between contesting and spatial competition. Thus, it cannot be determined whether audit firms contest in response to increased assessment of reputation risk because of spatial competition. However, the results demonstrate a *positive* relationship between an audit firm's likelihood to contest and four distinct deficiency factors: (i) the number of noted

deficiencies; (ii) the severity of the deficiencies noted (*i.e.*, whether they are GAAP-related); (iii) the number of revenue-specific deficiencies; and (iv) the number of complex deficiencies (*i.e.*, relating to matters such as derivatives and fair value).. The existence of each of these factors in an inspection report separately increases an audit firm's motivation to contest. I conclude that audit firms perceive increased pressure from the PCAOB via the number of deficiencies and the severity of those deficiencies, and increased pressure is more likely to compel audit firms to defend their professional judgment and procedures via contesting.

Regarding the relationship between contesting and revenue-specific deficiencies, I consider that audit firms do not want to be seen as having missed the mark on fundamental accounting matters such as revenue, and thus are more likely compelled to contest. The results regarding complex accounting matters suggest that audit firms are more compelled to contest deficiencies related to matters of complexity, possibly because this type of deficiency is heavily rooted in differences in professional judgment. Lastly, in conducting supplemental analysis I find no evidence of an association between an audit firm's vested interest in PCAOB inspections, measured via the percentage publicly-traded clients in its portfolio, and the likelihood of contesting. In summary, it appears that audit firms are motivated to contest due to regulatory concerns, not client retention concerns.

This chapter is inevitably limited in some aspects. This study only examines triennially-inspected audit firms and, as such, the results are only directly pertinent to the profession's understanding of those firms, not the Big 4 or other annually-inspected audit firms. Further, similar to all other triennially-inspected audit firm literature, the exclusion of annually-inspected audit firms inevitably limits the conclusions that can be drawn about how audit firms behave. Although extant literature (Gramling et al. 2011; Abbott et al. 2013; Gunny and Zhang 2013;

Nagy 2014; Lamoreaux 2016; Abbott et al. 2017; Aobdia 2017; DeFond and Lennox 2017; He et al. 2018) collectively finds that audit firms and their issue clients value information contained within inspection reports, this chapter's findings are reliant on that assumption being true. In addition, the value of this chapter's findings is reliant on value placed specifically on the *contesting* process, but I contend that the process is inherently valuable because audit firms engage in the discretionary elements of the process.

Further, there are data limitations inherent to this chapter. The most notable limitation is that issuer clients are not identified in the inspection report information, meaning that deficiencies are not able to be linked to the clients to which they relate. As such, no direct inference can be drawn about the firm's individual clients. In addition, because triennially-inspected audit firms are inspected only once at least every three years, there are limitations with respect to timing issues and the number of years available to meaningfully analyze. As data accumulates over the years, future research can better investigate inspection report information with lesser data restrictions. Lastly, future research in this area should investigate contesting behavior in greater detail, perhaps employing an index-based measure of contesting behavior for more nuanced testing of audit firm motivations.

CHAPTER TWO: CONSEQUENCES OF AN AUDIT FIRM'S DECISION TO CONTEST PCAOB FINDINGS

Introduction

In this document, contesting refers to when an audit firm responds to the findings in an inspection report by defending its professional judgment and audit procedures. This chapter examines the *consequences* of an audit firm's decision to contest PCAOB deficiency findings. As discussed in Chapter 1, extant literature that examines why audit firms decide to issue a response to PCAOB inspection reports is almost non-existent. The different tests performed in this dissertation seek to remedy that gap.

Since the PCAOB began inspecting firms in 2003, regulators and auditors have asked whether the inspection process has helped improve audit quality. Prior studies conclude that audit firms and client issuers find value in PCAOB inspections and use the information contained in the reports to judge audit quality (e.g., Gramling et al. 2011; Abbott et al. 2013; Gunny and Zhang 2013; Nagy 2014; Lamoreaux 2016; Abbott et al. 2017; Aobdia 2017; DeFond and Lennox 2017; He et al. 2018). Significantly, Abbott et al. (2013) finds that triennially-inspected audit firms that are issued GAAP-deficient inspection reports are more likely to be dismissed by their clients. Although their study provides valuable insights into the immediate repercussions of receiving a PCAOB inspection report with findings, no previous study has examined the posterior consequences of an audit firm's decision to contest the findings of their PCAOB inspection. As such, this chapter explores the question: would contesting be beneficial for audit firms, or would it come with negative consequences?

As discussed in Chapter 1, there is limited research on audit firm responses to PCAOB inspection reports. Notably, a working paper by Ege et al. (2017) investigates inspection report

responses of annually-inspected audit firms. The authors find that audit firms which exhibit negative tone in their annual inspection responses are more likely to receive Part I deficiencies in subsequent reports and more likely to have their Part II findings released to the public. However, no study has yet examined the response content of triennially-inspected audit firms, which is of note because of the insight that can be gleaned regarding the dynamic between audit firm and regulator beyond annually-inspected audit firms. Although Ege et al. (2017) investigate the consequences of receiving future deficiencies and future Part II findings release, there are other distinct consequences that remain important empirical questions.

In this chapter, I identify and explore various possible consequences of an audit firm's decision to contest the findings in their PCAOB inspection report. I assess whether there is a reaction by the clients of contesting firms, by the contesting firms themselves, or by the PCAOB. The first potential reaction I investigate is whether the clients of contesting firms respond to contesting by dismissing their auditors. For this, I follow the lead of Abbott et al. (2013) and test for the incremental impact of contesting on the likelihood that the clients of audit firms receiving PCAOB deficient reports would be dismissed. Audit firm contesting could alleviate the chance of dismissal if audit clients view contesting positively and as an act of good faith on the part of their auditors. On the other hand, contesting could exacerbate the chance of dismissal if audit clients view contesting negatively and as a sign that their auditors are pushing back against the PCAOB out of desperation or an inability to admit their own mistakes.

The second potential reaction I investigate is whether audit firms themselves further react after contesting their PCAOB inspection findings. Audit firms could increase audit rigor in an attempt to minimize the likelihood of future deficiencies. However, audit firms could instead decrease audit rigor in response to client retention concerns. Specifically, contesting audit firms

could increase fees, audit report lags, and audit quality as their commitment to audit quality increases in an attempt to minimize the likelihood of future deficiencies. Conversely, they could decrease audit rigor in response to client retention concerns. To determine the ultimate direction of audit firms' reaction, I investigate whether contesting drives firms to subsequently alter their behavior in relation to their non-contesting counterparts. Specifically, I investigate whether audit firms change their fees or adjust the rigor of future audits. I explore audit firm rigor in two distinct manners. That is, I examine whether contesting firms adjust their audit effort (manifested via audit report lags), and whether such adjustments are associated with audit quality differences after contesting.

Lastly, the third potential reaction I investigate is whether the PCAOB further responds to contesting by adjusting the scrutiny of subsequent inspections of contesting auditors. The PCAOB could view contesting as a sign of resistance and consequently scrutinize the firm more closely in future inspections. For this, I examine two distinct measures. First, I test the number of deficiencies in subsequent inspection reports (as a reflection of an increase in Part I rigor). If the PCAOB increases the scrutiny of subsequent inspections, all else being equal, the number of deficiencies should increase. Second, I test the likelihood that Part II quality control findings will be released (as a reflection of an increase in Part II rigor). If the PCAOB increases scrutiny over quality controls, it may be harder for audit firms to remedy the deficiencies identified by the PCAOB before they must be disclosed in Part II of the report.

Although the empirical results for abnormal audit fees, audit report lags, and audit quality all lack significance across the board, the tests of clients' and PCAOB's response to contesting produce interesting results. With respect to the reaction from clients, I find that contesting audit firms are more likely to be dismissed by their clients than non-contesting firms. I attribute this

effect to a perspective in which clients view contesting negatively. Consequently, those clients appear to interpret their auditors' response to the PCAOB as a negative signal and incorporate this information in their decision to rehiring or dismissing their audit firm. With respect to the reaction from the PCAOB, I find that contesting audit firms both receive more deficiencies in their subsequent inspection reports and are more likely to have Part II quality control issues released to the public due to timely remediation failure. Thus, it is possible that the PCAOB perceives contesting as unwarranted resistance and scrutinizes the audit firm's work more closely in future inspection cycles.

Also of note is a finding regarding severely contesting within the context of PCAOB reaction. The tests find that severe contenders are *less* likely to receive subsequent deficiencies, which is in direct contrast with the results from standard contesting measures. I suspect this could be due to several possibilities. First, severe contesters are initially inspected but subsequently dropped out of the PCAOB inspection regime by not having publicly-traded clients, meaning that the opportunities to severely contest tends to decrease over time. Second, this result may instead indicate that the PCAOB inspectors are possibly under undue pressure to identify deficiencies (Farrell and Shabad 2005) and severe contesters could be in fact defending themselves against future findings. Consequently, the PCAOB is possibly more willing to consider arguments featured in severely contesting responses more closely when it comes time for future inspections. Regardless of the explanation, this finding runs contrary to the main findings from the main regression tests and, as such, remains an unresolved empirical issue for future research.

This chapter makes various contributions to the literature. In conjunction with Chapter 1, this study is the first to offer insight into triennially-inspected audit firm responses to PCAOB

inspections. This is important as prior literature has demonstrated that audit firms, their clients, and the PCAOB use the information contained in PCAOB inspection reports as a decision making factor. This chapter finds that audit firm clients and the PCAOB appear to react to audit firm contesting. Specifically, clients react by increasing the likelihood of dismissal and the PCAOB reacts by increasing future Part I and Part II inspection rigor. Further, the PCAOB actually decreases future Part I inspection rigor in response to *severely* contesting behavior, revealing a dynamic to audit firm and regulator interactions previously overlooked by academic research. Thus, in examining the consequences of contesting, this study presents compelling evidence that information can affect multiple stakeholders differently, which is significant due to continuing calls from regulators and researchers to investigate whether PCAOB inspections impact audit firm decision-making (Churck and Shefchik 2012; Houston and Stefaniak 2013; PCAOB 2013; Bhaskar 2017). As such, the results of this study have important ramifications for future research and practical implications for regulators, audit firms, and their clients.

The remainder of this chapter is structured as follows. Section 2 reviews the extant literature and Section 3 develops the hypotheses. Section 4 discusses the methodology and sample selection. Section 5 details the empirical results. Section 6 concludes this chapter.

Background and Literature Review

PCAOB Inspection Literature

As discussed in Chapter 1, the PCAOB inspection regime arose out of criticism of the SECPS self-regulatory framework and, more significantly, regulation in response to major accounting scandals in the early 2000s (e.g., SOX). Nonetheless, PCAOB inspections have not been immune to criticism. Some have criticized the PCAOB inspection regime for lack of inspector auditing expertise (Palmrose 2006; DeFond 2010); pressure on inspectors to identify

deficiencies (Farrell and Shabad 2005); and emphasis of compliance over quality in identifying deficiencies (Lennox and Pittman 2010). However, extant PCAOB inspection literature (Gramling et al. 2011; Gunny and Zhang 2013; Nagy 2014; Lamoreaux 2016; DeFond and Lennox 2017) finds that inspection reports contain information that different users can consult in decision making, such as when companies are evaluating whether to retain or switch their auditors.

A particularly relevant study in the context of this investigation is Abbott et al. (2013), which examines PCAOB inspection reports as potential perceived signals of audit quality for triennially-inspected clients. The authors categorize reports into three levels of increasing severity: (i) clean, (ii) GAAS-deficient, and (iii) GAAP-deficient. The authors find that GAAP-deficient inspection reports were more likely to be followed by an auditor dismissal than were clean and GAAS-deficient reports. Additionally, auditors hired subsequent to such dismissals were usually triennially-inspected auditors with no prior GAAP-deficient inspection reports (Abbott et al. 2013). An additional relevant study is Aobdia (2017), wherein the author examines the impact of the PCAOB individual engagement inspection process on the behavior of auditors and client issuers. He finds that audit firms that received at least one deficiency on their previous inspection increased their audit efforts for the inspected engagements, as well as for engagements of other offices or partners that also received deficiency findings. Audit firms that did not receive deficiency findings instead reduced their efforts on subsequent engagements. Aobdia speculates that this result was due to an increased understanding of the placement of the deficiency findings “bar” necessary for a clean report to be issued. In addition, he finds that audit firms that received at least one (zero) deficiency were subsequently more (less) likely to be dismissed. Overall, the

results indicate that both, audit firms and client issuers, find value in the PCAOB individual engagement inspection process (Aobdia 2017).

A few behavioral studies examine how audit firms perceive the PCAOB inspection regime. For instance, Houston and Stefaniak (2013) survey 107 audit partners from large audit firms to obtain a better understanding of how auditors view the PCAOB inspection process. They find that a majority of partners assert to be able to choose and predict the year of inspection as well as the particular engagements that will be chosen by the PCAOB for review. In addition, audit partners perceive PCAOB inspections as increased exposure to reputation and litigation risk, a viewpoint that is even more pronounced for less experienced partners. It is interesting to note that in their survey, 100 percent of audit partners had at least one of their audit engagements selected for inspection (Houston and Stefaniak 2013). In a similar vein, Johnson et al. (2017) directly interview 20 experienced auditors to investigate auditor perceptions of PCAOB inspections; their findings include a few noteworthy observations. Audit firm procedures and systems of quality control are significantly influenced by their desire for clean PCAOB inspection reports. Consequently, auditors express fear of enforcement more so that alignment with the PCAOB's views on audit quality in many instances indicates that they believe compliance with PCAOB standards is at least somewhat out of their control. The researchers also observe that auditors systematically consider costs and benefits to compliance (Johnson et al. 2017). The results of both of these studies are worth particular consideration when trying to predict how audit firms react to PCAOB inspections and how, in turn, the PCAOB responds to audit firms' reactions.

There are other significant PCAOB inspection studies that examine how inspections impact the behavior of audit firms and other parties. Using a controlled experiment setting,

Bhaskar (2017) investigates how the risk-based nature of PCAOB inspections influences auditor effort and decision-making. The author finds that a risk-based sampling within the context of PCAOB inspections decreases the quality of auditor decision-making for low-risk clients relative to both, high-risk clients and a hypothetical regime with no inspection pressure. In doing so, the study highlights the potential unintended impact of PCAOB's risk-based inspection sampling on auditor behavior (Bhaskar 2017). Gipper et al. (2017) examine how investors respond to the PCAOB inspection regime and find that investors respond more strongly positively (negatively) to good (bad) earnings news following PCAOB inspection than earnings news not followed by a PCAOB inspection.

Hypothesis Development

The consequences of contesting and behavior of the various parties involved in the process (*i.e.*, clients, audit firms, and regulators) have not been empirically tested. First, it is unclear whether the clients of inspected audit firms interpret contesting as a positive or negative signal. Companies' interpretation of contesting events is important because, as found in Abbott et al. (2013), companies use the information contained in the auditor's inspection reports to decide on whether their auditors should be retained or dismissed. However, that study finds a limited dismissal reaction, only to GAAP-deficient inspection reports. As such, examining clients' reaction to a firm's contesting behavior can shed light on this subject. Audit firm contesting could alleviate the chance of a dismissal if the clients of the firm view contesting as an act of good faith on the part of their auditors. Conversely, contesting could exacerbate the chance of dismissal if the clients of the firm perceive contesting negatively in some way. Specifically, clients could view contesting as an unnecessary argument with the PCAOB. Given that there is no clear directional expectation, I express Hypothesis 1 in the null as follows:

H1: Contesting is not related to an audit firm's dismissals by its clients subsequent to PCAOB inspection.

Second, it is unclear how an audit firm behaves subsequent to contesting. To gain insight into how contesting affects subsequent audit firm decision making, I examine whether contesting has an incremental effect on an audit firm's bargaining power with its clients, as proxied by abnormal audit fees. Contesting audit firms may charge comparatively higher audit fees for subsequent engagements due to their increased efforts (and costs) to avoid future deficiencies. Conversely, contesting audit firms may be concerned about their reputation and may be willing to concede on audit fees to ensure client retention. Consequently, I develop Hypothesis 2 with no directional expectation:

H2: Contesting is not related to audit fees subsequent to PCAOB inspection.

Next, I investigate whether audit firms revise audit effort or audit quality in future audits. This study builds upon the "findings bar" concept described by Aobdia (2017). In that study, the author investigates how audit firms set their audit quality to pass the deficiency finding bar. Accordingly, firms attempt to surpass the deficiency finding bar so that they receive a clean report while avoiding having to put forth unnecessary additional efforts. I contend that audit firms may behave in a similar fashion within the context of contesting. However, it is unclear whether audit firms will conscientiously revise their behavior with respect to audit quality, audit effort, neither, or both.

To elaborate, contesting audit firms may *increase* their audit effort relative to non-contesting firms because they are acting in good faith and want to minimize their mistakes. It follows that these firms will more likely approach audit engagements with a heightened sense of thoroughness. Consequently, following prior literature, I proxy for audit effort via audit report lags (O'Keefe et al. 1994; Knechel and Payne 2001; Knechel et al. 2009; Lee and Son 2009;

Tanyi et al. 2010; Lopez and Peters 2012; Munsif et al. 2012; Blankley et al. 2014; Pizzini et al. 2015; Sharma et al. 2017). As demonstrated in detail by Knechel et al. (2009), audit report lags work as a proxy for audit effort as, all else being equal, more thorough audits result in longer audit report lags. I theorize that contesting audit firms may *decrease* their audit effort relative to their non-contesting counterparts if by contesting these firms are just expressing disagreement and do not alter their audit procedures. To elaborate, this phenomenon could arise if contesting is a manifestation of audit firms airing grievances. Because there is no clear directional expectation, the hypothesis is stated in the null as follows:

H3: There is no difference in the audit report lag of contesting firms subsequent to PCAOB inspection relative to that of non-contesting firms.

It is unclear whether contesting audit firms exhibit audit quality on subsequent engagements any differently than non-contesting firms. If audit firms contest to alleviate reputational risk, they are likely to feel dismissal pressure from their clients. In this scenario, audit firms are compelled to contest to minimize reputational loss, but then subsequently scramble to appease their clients to minimize client retention. Audit firms that contest could also do so out of good faith and could already exhibit higher audit quality relative to non-contesting firms, everything else being equal. Hypothesis 4 is stated as follows:

H4: The audit quality of contesting firms subsequent to PCAOB inspection is no different relative to that of non-contesting firms.

Lastly, it is unclear if the PCAOB views audit firm contesting as a sign of good faith or as an act of resistance. The PCAOB's response to contesting is important because there is no formal remediation process and, although the PCAOB does engage with the audit team during fieldwork, the PCAOB does not offer official rebuttal responses to audit firm comments. I posit that contesting is likely to impact the likelihood of findings in future inspections the PCAOB

may view contesting as a sign of resistance and, thus, it may scrutinize contesting audit firm more carefully in future inspections as a precaution. This would improve detection power of those inspections, leading to an *increase* in the number of future deficiencies or an *increase* in the likelihood of Part II releases. Consequently, I examine both the number of deficiencies in subsequent inspection reports (as a reflection of an increase in Part I rigor) and the likelihood that Part II quality control findings will be released (as a reflection of an increase in Part II rigor). I state both hypotheses as follows:

H5a: Contesting is **positively** related to an audit firm's number of deficiencies received in the subsequent PCAOB inspection report.

H5b: Contesting is **positively** related to an audit firm's likelihood of a Part II findings release.

Methodology and Research Design

Measurement of CONTEST and SEVERE_CONTEST

In this study, I use a dictionary-based approach to develop the measurement of the main test variable, *CONTEST*, as detailed in Chapter 1. See Figure 1 for the operationalization of both *CONTEST* and *SEVERE_CONTEST* in a decision-tree format.

[Insert Figure 1 about here]

Models and Variables

The test variables for Chapter 2 regressions are the various measurements for contesting, defined as follows. *CONTEST_DUMMY* is defined as 1 if the audit firm contested the most recent inspection report, 0 otherwise. *CONTEST_DISC* is an ordinal variable that equals 2 if the audit firm contested the most recent inspection report, 1 if the audit firm responded but did not

contest, and 0 if the audit did not respond. *SEVERE_CONTEST* is defined as 2 if the audit firm severely contested the most recent inspection report, 1 if the audit firm contested to the most recent inspection report but did not severely contest, and 0 if the audit firm neither severely contested nor contested.

CONTEST_DUMMY_SERIAL is defined as 1 if the audit firm responded to and contested two or more inspection reports at any time, 0 otherwise. *CONTEST_DUMMY_2YR* is defined the same variable as *CONTEST_DUMMY* except for an additional restriction that contest must have happened within 2 most recent years (instead of 3). *CONTEST_DUMMY_1YR* is defined similarly, but with the restriction that contest must have happened within the most recent year (instead of 3).

CONTEST_DISC_SERIAL is defined as 2 if the audit firm responded to and contested two or more inspection reports at any time, 1 if the audit firm responded to at least one report but did not contest to any reports, and 0 if the audit firm neither responded nor contested to any reports. *CONTEST_DISC_2YR* and *CONTEST_DISC_1YR* are the same definitions as *CONTEST_DISC* but with two-year and one-year windows for contesting instead of three. In addition, models are designated with letters (a, b, c, etc.) respectively to indicate which of these variables are used in the regression. For example, models measuring *CONTEST_DUMMY* are designated with an “a”, *CONTEST_DISC* with a “b”, etc. For all variable definitions, refer to Table 1.

[Insert Table 1 about here]

For tests of Hypothesis 1, in which I examine the impact of contesting on dismissals, a logit regression model is constructed as follows:

$$DISMISS_{ijt} = \beta_0 + \beta_1 CONTEST_{it-1} + \beta_2 MWIC_{ijt-1} + \beta_3 GCO_{it-1} + \beta_4 FEECUT_{ijt-1} + \beta_5 ABSDA_{ijt-1} + \beta_6 RSTMT_{it-1} + \beta_7 INDSPEC_{it-1} + \beta_8 LEV_{ijt-1} + \beta_9 ROA_{ijt-1} +$$

$$\beta_{10}LOSS_{ijt-1} + \beta_{11}LIQUID_{ijt-1} + \beta_{12}TENURE_{ijt-1} + \beta_{13}FEWCLIENT_{it-1} + \beta_{14}LASSETS_{ijt-1} + \beta_{15}NUMDEF_{it-1} + \beta_{16}GAAPDEF_{it-1} + \beta_{17}NUMDEF_{it-1} + \beta_{18}GAAPDEF_{it-1} + \beta_{19}PRPT2_{it-2} + YR_FE_{t-1} + IND_FE_{t-1} + \varepsilon_{it-1} \quad (2)$$

where i designates audit firm, j client, and t designates time.

DISMISS is the dependent variable, defined as 1 if a client dismisses its audit firm, 0 otherwise. *CONTEST* is the test variable for contesting, measured in distinct ways, as previously defined. Following extant literature (Antle and Nalebuff 1991; Carcello and Neal 2003; Ghosh and Lustgarten 2006; Ettredge et al. 2007; Cenker and Nagy 2008; Lopez and Peters 2011; Abbott et al. 2013; DeFond and Zhang 2014; Newton et al. 2016), I control for factors that otherwise could influence the auditor dismissal process.

MWIC is defined as 1 if the client received a material weakness in internal controls per SOX 404, 0 otherwise. It is included to control for variance in client financial reporting quality. *GCO*, as previously defined, is included to control for audit quality. Together, *MWIC* and *GCO* control for opinion shopping. *FEECUT* is defined as 1 for the client who receives a fee reduction subsequent to the year that its audit firm receives a deficient inspection report, 0 otherwise. *GCO*, *ABSDA* and *RSTMT*, as previously included, are included to further control for audit quality. *INDSPEC* is defined as 1 if the audit firm is an industry specialist at the city level, 0 otherwise. It is included to control for different amounts of switching between clients of industry specialist and non-specialist audit firms.

LEV is defined as the client's leverage. *ROA* is defined as the client's return on assets. *LOSS* is defined as 1 if the client reported a net loss, 0 otherwise. *LIQUID* is the client's liquidity, calculated as the ratio of cash to total assets. *LEV*, *ROA*, *LOSS*, and *LIQUID* are included to collectively control for client risk characteristics. *TENURE* is defined as 1 if the audit firm has been with the client for 3 years or less, 0 otherwise. It is included to control for different

amounts of switching between short tenure and longer tenure clients despite mixed prior evidence. *FEWCLIENT* is defined as 1 if the audit firm audits fewer than 5 issuer clients, 0 otherwise. It is included to control for audit firm size. *LASSETS* is defined as the natural logarithm of the client's total assets. It is included to control for client size.

NUMDEF is defined as the number of all deficiencies received in the audit firm's most recent inspection report. *GAAPDEF* is defined as 1 if the audit firm received a GAAP-level deficiency in its most recent report, 0 otherwise. *REVDEF* is defined as the number of revenue-related deficiencies received in the most recent inspection report. *COMPDEF* is defined as the number of deficiencies related to a complex accounting matter (*i.e.*, derivatives, specialists, or estimates) received in the most recent inspection report, 0 otherwise. *NUMDEF*, *GAAPDEF*, *REVDEF*, and *COMPDEF* are included to control for different effects of deficiency findings. *PRPT2* is included to control for the effects of Part II findings releases. *YR_FE* and *IND_FE* are fixed effects controls for fiscal year and industry (two-digit SIC) respectively.

For tests of Hypothesis 2, in which I examine the impact of contesting on abnormal audit fees, I construct an OLS regression model following Ghosh and Lustgarten (2006) and Craswell et al. (1995):

$$\begin{aligned}
 ABNAFEE_{ijt} = & \beta_0 + \beta_1 CONTEST_{it-1} + \beta_2 MWIC_{ijt-1} + \beta_3 MKTSHARE_{ijt-1} + \beta_4 LASSETS_{ijt-1} \\
 & + \beta_5 INVREC_{ijt-1} + \beta_6 EMPLOY_{ijt-1} + \beta_7 ISSUE_{ijt-1} + \beta_8 FOREIGN_{ijt-1} + \\
 & \beta_9 EXORD_{ijt-1} + \beta_{10} LOSS_{ijt-1} + \beta_{11} LEV_{ijt-1} + \beta_{12} ROA_{ijt-1} + \beta_{13} LIQUID_{ijt-1} + \\
 & \beta_{14} TENURE_{ijt-1} + \beta_{15} BTM_{ijt-1} + \beta_{16} CHGSALE_{ijt-1} + \beta_{17} OFFICE_{it-1} + \\
 & \beta_{18} NUMDEF_{it-1} + \beta_{19} GAAPDEF_{it-1} + \beta_{20} COMPDEF_{it-1} + \beta_{21} REVDEF_{it-1} \\
 & + \beta_{22} PRPT2_{it-2} + YR_FE_{t-1} + IND_FE_{t-1} + \varepsilon_{it-1}
 \end{aligned} \tag{3}$$

Following prior literature, control variables are included for factors that otherwise could influence the regression as follows. *MKTSHARE* is defined as the ratio of total audit fees for the audit office to total audit fees for the city in which the office resides. It controls for variance in audit firm market share. *EMPLOY* is defined as the square root of the client's number of

employees. It is included to control for client size. *ISSUE* is defined as 1 if the sum of long-term debt or equity issued within the past 3 years by the client is at least 5 percent of its total assets, 0 otherwise. *INVREC* is defined as the client's inventory and receivables deflated by total assets. *FOREIGN* is defined as 1 if the client incurs foreign income tax, 0 otherwise. *EXORD* is defined as 1 if the client reports extraordinary gains or losses, 0 otherwise. *ISSUE*, *INVREC*, *FOREIGN*, and *EXORD* are included to collectively control for client complexity.

In this model, *TENURE* is included to control for initial engagement fee discounting (Sankaraguruswamy and Whisenant 2005). *BTM* is defined as the client's book-to-market ratio, winsorized at 0 and 4. *CHGSALE* is defined as the client's sales change lagged by the previous year's beginning total assets. *BTM* and *CHGSALE* are included to control for differences in audit demand between high-growth and low-growth clients (Choi and Wong 2007). All other variables are as previously defined.

For tests of Hypothesis 3, in which I examine the impact of contesting on audit report lag, I construct an OLS regression model following Hay et al. (2006), Hay and Knechel (2010), and Sharma et al. (2017):

$$\begin{aligned}
 ARL_{ijt} = & \beta_0 + \beta_1 CONTEST_{it-1} + \beta_2 MWIC_{ijt-1} + \beta_3 GCO_{it-1} + \beta_4 LASSETS_{ijt-1} + \\
 & \beta_5 NONAFEE_{ijt-1} + \beta_6 BUSYFYE_{ijt-1} + \beta_7 LOSS_{it-1} + \beta_8 LEV_{ijt-1} + \beta_9 ALTMAN_{jt-1} \\
 & + \beta_{10} ROA_{ijt-1} + \beta_{11} INVREC_{ijt-1} + \beta_{12} FOREIGN_{ijt-1} + \beta_{13} EXORD_{ijt-1} + \\
 & \beta_{14} OCF_{ijt-1} + \beta_{15} OFFICE_{it-1} + \beta_{16} NUMDEF_{it-1} + \beta_{17} GAAPDEF_{it-1} + \\
 & \beta_{18} COMPDEF_{it-1} + \beta_{19} REVDEF_{it-1} + \beta_{20} PRPT2_{it-2} + YR_FE_{t-1} + \\
 & IND_FE_{t-1} + \varepsilon_{it-1}
 \end{aligned} \tag{4}$$

Following prior literature, control variables are included for factors that otherwise could impact audit report lags as follows. *NONAFEE* is defined as the natural logarithm of the client's non-audit fees. It is included to control for the impact of non-audit services. *BUSYFYE* is defined as 1 if client has a December fiscal year-end, 0 otherwise. It is included to control for the impact of busy season. *ALTMAN* is defined as the client's Altman-Z financial distress score. *OCF* is

defined as the client's cash flow from operations. Both are included to control for client characteristics, specifically financial distress. All other variables are as previously defined.

For tests of Hypothesis 4, in which I examine the impact of contesting on audit quality, I construct OLS regression models following Choi et al. (2010) and Reichelt and Wang (2010):

$$AQ_{ijt} = \beta_0 + \beta_1 CONTEST_{it-1} + \beta_2 MWIC_{ijt-1} + \beta_3 INDSPEC_{it-1} + \beta_4 LASSETS_{ijt-1} + \beta_5 LOSS_{ijt-1} + \beta_6 LEV_{ijt-1} + \beta_7 BTM_{it-1} + \beta_8 CHGSALE_{ijt-1} + \beta_9 OCF_{ijt-1} + \beta_{10} STDEARN_{ijt-1} + \beta_{11} ALTMAN_{ijt-1} + \beta_{12} ROA_{ijt-1} + \beta_{13} TENURE_{ijt-1} + \beta_{14} OFFICE_{it-1} + \beta_{15} NUMDEF_{it-1} + \beta_{16} GAAPDEF_{it-1} + \beta_{17} COMPDEF_{it-1} + \beta_{18} REVDEF_{it-1} + \beta_{19} PRPT2_{it-2} + YR_FE_{t-1} + IND_FE_{t-1} + \varepsilon_{it-1} \quad (5)$$

where AQ is equal to $ABSDA1$, $ABSDA2$, GCO , or $RSTMT$ as the regression is tested with each proxy for audit quality. Control variables are included following extant literature (Francis and Yu 2009; Choi et al. 2010b; Reichelt and Wang 2010; DeFond and Zhang 2014; Newton et al. 2016). $STDEARN$ is defined as the standard deviation of the client's income before extraordinary items for the past 4 years. It is included to control for the impact of earnings on audit quality. All other variables are as previously defined.

For tests of Hypothesis 5, in which I examine the impact of contesting on the number of deficiencies in the subsequent inspection report as well as the likelihood of Part II findings release, I construct two models, an OLS regression model and logit model respectively as follows:

$$POSTDEF_{it} = \beta_0 + \beta_1 CONTEST_{it-1} + \beta_2 MWIC_{ijt-1} + \beta_3 GCO_{it-1} + \beta_4 ABSDA_{ijt-1} + \beta_5 RSTMT_{it-1} + \beta_6 OFFICE_{it-1} + \beta_7 INDSPEC_{it-1} + \beta_8 LASSETS_{ijt-1} + \beta_9 LOSS_{ijt-1} + \beta_{10} LEV_{ijt-1} + \beta_{11} BTM_{ijt-1} + \beta_{12} CHGSALE_{ijt-1} + \beta_{13} OCF_{ijt-1} + \beta_{14} STDEARN_{ijt-1} + \beta_{15} ALTMAN_{ijt-1} + \beta_{16} ROA_{ijt-1} + \beta_{17} TENURE_{ijt-1} + \beta_{18} NUMDEF_{it-1} + \beta_{19} GAAPDEF_{it-1} + \beta_{20} COMPDEF_{it-1} + \beta_{21} REVDEF_{it-1} + \beta_{22} PRPT2_{it-2} + YR_FE_{t-1} + IND_FE_{t-1} + \varepsilon_{it-1} \quad (6)$$

$$PRPT2_{it} = \beta_0 + \beta_1 CONTEST_{it-1} + \beta_2 MWIC_{ijt-1} + \beta_3 GCO_{it-1} + \beta_4 ABSDA_{ijt-1} + \beta_5 RSTMT_{it-1} + \beta_6 OFFICE_{it-1} + \beta_7 INDSPEC_{it-1} + \beta_8 LASSETS_{ijt-1} + \beta_9 LOSS_{ijt-1} + \beta_{10} LEV_{ijt-1} + \beta_{11} BTM_{ijt-1} + \beta_{12} CHGSALE_{ijt-1} + \beta_{13} OCF_{ijt-1} + \beta_{14} STDEARN_{ijt-1} + \beta_{15} ALTMAN_{ijt-1} + \beta_{16} ROA_{ijt-1} + \beta_{17} TENURE_{ijt-1} + \beta_{18} NUMDEF_{it-1} + \beta_{19} GAAPDEF_{it-1} + \beta_{20} COMPDEF_{it-1} + \beta_{21} REVDEF_{it-1} +$$

$$+ YR_FE_{t-1} + IND_FE_{t-1} + \varepsilon_{it-1} \quad (7)$$

I theorize that factors that influence an audit firm's ability or willingness to address deficiencies for this model's control variables. *MWIC* controls for variance in client financial reporting quality. I include *GCO*, *ABSDA*, and *RSTMT* to control for differences in audit quality, *BIG4* to control for differences in audit firm size, *INDSPEC* to control for industry specialist expertise, and *TENURE* to control for an audit firm's familiarity with its client, all of which could impact the audit firm's ability to contest. I also control for the variability in each inspection report, various client characteristics, etc., all consistent with previous models. All variables are as previously defined.

Sample Selection

The sample collection procedures follow those outlined in Chapter 1 with a few exceptions. In contrast to chapter 1, *PT* is not included in the models in this chapter, which releases some data restrictions. In addition, the regression analyses utilize client-year data as unit of analysis, which is the most common approach in studies outside a strict audit firm decision context. The final main regression sample comprises 8,088 client-year observations from the years 2005-2015. Table 2 summarizes the sample reconciliation processes.

[Insert Table 2 about here]

Empirical Results

Descriptive Statistics and Correlation Matrix

Descriptive statistics are shown in Table 3, Panel C. The means for this chapter's test variables, which are the various measures for contest, range from 7.99% to 35.09%.

SEVERE_CONTEST has a mean of mere 0.78%, indicative of how rare these particularly severe

instances occur. Otherwise, dependent and control variables are at least somewhat comparable to prior literature, although this chapter's sample is distinct from most other research. For example, the mean of *FEECUT* is 9.67%, compared with 12.24% in Abbott et al. (2013). Somewhat similarly, *DISMISS* is 19.23%, compared with 17.90% for triennially-inspected audit firms with a clean report in Abbott et al. (2013). Other examples include *LEV* (here the mean is 59.45%; in Choi et al. 2010 the mean is 53.20%), and *INDSPEC* (42.93% here vs. 47.10% in Choi et al. 2010).

[Insert Table 3 about here]

The Pearson correlation matrix is displayed in Table 4. Although most correlations are reasonably low (*i.e.*, not higher than 0.50 in either direction), there are exceptions. However, these exceptions mostly arise with variables pairs that are closely related due to construction and, thus, and not included in the same regression (e.g., various *CONTEST* variables are highly correlated, as are *SLC* and *MKTSHARE*, which both measure very similar constructs). Nonetheless, multicollinearity may be a concern in the regression models, which would provide inaccurate results. Consequently, to combat the possibility of confounding effects on the regression results, I also perform variance inflation factor (VIF) analyses for each of the regressions. The most significant result for the main regressions is 2.76, which is below the commonly used threshold for multicollinearity of 10.00.

[Insert Table 4 about here]

Regression Results

Table 11 through Table 19 depict the main regression results for this chapter. All tables are uniformly split into three panels. Panel A contains three separate regression results wherein *CONTEST_DUMMY*, *CONTEST_DISC*, and *SEVERE_CONTEST* are the test variables. These

models are designated with the number of the model and “a”, “b”, and “c” respectively. Panel B comprises regression results for tests using the dummies *CONTEST_SERIAL*, *CONTEST_2YR*, and *CONTEST_IYR* as test variables. These models are designated with the number of the model and “d”, “e”, and “f” respectively. Lastly, Panel C displays results for the discrete versions of *CONTEST_SERIAL*, *CONTEST_2YR*, and *CONTEST_IYR*. These models are designated with the number of the model and “g”, “h”, and “i” respectively.

Table 11, Panel A reports the main regression results for Hypothesis 1 (dismissal) testing using Model 2. Panel B and Panel C report the main regression results using other alternate measures for contesting. In Panel A, the coefficients on the test variable in each regression for models 2a, 2b, and 2c are all positive and significant at the $p < 0.01$ level. In addition, a substantial amount of control variables are significant, such as *MWIC* (positive and $p < 0.01$), *GCO* (positive and $p < 0.01$), *FEECUT* (negative and $p < 0.01$), and *FEWCLIENT* (positive and $p < 0.01$). The result from these models strongly suggests that audit firms that contest or *severely* contest are more likely to be dismissed by their clients than non-contesting audit firms.

Panel B displays the results of models 2d, 2e, and 2f. In all tests, the coefficients on the dummy test variable in each regression are positive and significant at the $p < 0.01$ level as well. Panel C displays the results of models 2g, 2h, and 2i. In these tests, the coefficients on the discrete test variable in the Model 2h and Model 2i regressions are positive and significant. However, there is no significance on the coefficient in Model 2g test of serial contesters, which serves as the sole exception. Taken together, these tests indicate that contesting can exacerbate the chance of dismissal. An explanation for this result is that clients view contesting negatively, perhaps seeing it as resistance that is unnecessary, out of desperation, or not in good faith.

Consequently, when making the decision to dismiss or re-hire, audit clients appear to interpret contesting acts as a negative consideration working against the incumbent audit firm.

[Insert Table 11 about here]

Table 12 relates to tests of Hypothesis 2 (abnormal audit fees) using Model 3. Panel A reports the main regression results, while Panel B and Panel C report the main regression results using alternate measures for contesting. In Panel A, the coefficients on test variables in models 3a, 3b, and 3c are all not significant. It appears that various controls (most notably, *EMPLOY* which is significant at well below $p < 0.01$) are explaining the variance. In Panel B, reporting dummy variable tests of models 3d, 3e, and 3f, test variable coefficients are also not significant. Lastly, Panel C discrete variable testing (models 3g, 3h, and 3i) likewise exhibits a lack of significance in all variables of interest. Unfortunately, because in all tests the coefficient on the test variable lacks significance, it is not possible to make inferences regarding the relationship between contesting and abnormal audit fees.

[Insert Table 12 about here]

Table 13, Panel A reports the main regression results for Hypothesis 3 (audit report lag) testing using Model 4. Panel B and Panel C report the regression results using alternate measures for contesting. In Panel A, the coefficients on all test variables in models 4a, 4b, and 4c are not significant. Nonetheless, there is strong significance on most of the control variables. In Panel B, the results are uniformly similar to those in Panel A, a lack of significance in all test variable coefficients for models 4d, 4e, and 4f. Lastly, in Panel C for tests of models 4g, 4h, and 4i, the results likewise find no significance on the variables of interest. Unfortunately, in all tests the coefficient on the test variable lacks significance, and therefore one is unable to make any inferences regarding the relationship between contesting and audit report lag. Taken together

with the lack of results from Hypothesis 2 (in Table 12), it is unclear whether contesting has an effect on auditor effort.

[Insert Table 13 about here]

Collectively, Table 14 through Table 17 test for the consequence of contesting on audit quality. Table 14, Panel A reports the main regression results for Hypothesis 4a testing (*ABSDAI*); panels B and C report the regression results using alternate measures for contesting. Tables 15 through Table 17 display the same information for tests of Hypothesis 4b (*ABSDA2*), Hypothesis 4c (*GCO*), and Hypothesis 4d (*RSTMT*), respectively. All of these regressions are run using Model 5.

In Table 14, Panel A, all three variables of interest in models 5a, 5b, and 5c exhibit no significant relationship with accruals as defined in Ball and Shivakumar (2006). Rather, various client-specific controls (*LASSETS*, *LOSS*, *LEV*, *BTM*, *CHGSALE*, *OCF*, *STDEARN*, *ALTMAN*, *ROA*, and *TENURE*) as well as one audit firm control (*OFFICE*) are significant, with most aforementioned controls significant at the $p < 0.01$ level. In Panel B, the dummy test variables in models 5d, 5e, and 5f all lack significance as well, due to a similar combination of strongly significant control variables. In Panel C, there are very similar results, no significance on the discrete variables in models 5g, 5h, and 5i, but plenty of significant control variables.

[Insert Table 14 about here]

In Table 15, Panel A, all three variables in models 5a, 5b, and 5c exhibit no significant relationship with accruals defined following the performance-matched procedures in Kothari et al. (2005). The results are nearly identical to Table 14, Panel A, in that various client-specific controls are significant, but the test variables are not significant. In Panel B, the dummy test variables in models 5d, 5e, and 5f all lack significance as well, due to a similar combination of

strongly significant control variables. In Panel C, there are very similar results, no significance on the discrete test variables in models 5g, 5h, and 5i but plenty of significant control variables.

[Insert Table 15 about here]

In Table 16, Panel A, as with the prior two proxies, all three variables in models 5a, 5b, and 5c exhibit no significant relationship with going concern opinions (measured as the percentage of going concern opinion issued out of all opinions issued). The results are slightly different, but similar in that various client-specific controls are largely significant. In Panel B, the dummy variables in model 5d, 5e, and 5f testing all lack significance. In Panel C, similarly the discrete variables in model 5g, 5h, and 5i testing all are lacking significance as well. The significance of control variables hardly alters from panel to panel.

[Insert Table 16 about here]

In the final table for audit quality testing, Table 17, Panel A, all three variables in models 5a, 5b, and 5c exhibit no significant relationship with restatements (measured as the percentage of restatements issued out of all audit clients). The results are different, however, in that a lack of power is more prevalent than a plethora of significant controls. Notably, the tests in Panel A exhibit a much lower R^2 than the Panel A tests of *ABSDA1*, *ABSDA2*, and *GCO*. In Panel B, the dummy variables in models 5d, 5e, and 5f all lack significance due to similar circumstance. In Panel C, similarly the discrete variables in models 5g, 5h, and 5i all are lacking significance.

[Insert Table 17 about here]

In summary, in all four series of Hypothesis 4 tests examining the impact of contesting on audit quality, the coefficient on all test variables lack significance, and no inferences can be made regarding the relationship between contesting and its impact on audit quality.

Table 18, Panel A reports the main regression results for Hypothesis 5a testing (subsequent deficiencies) using Model 6. Panels B and C report the regression results using alternate measures for contesting. In Panel A, the results are intriguingly mixed. The coefficient on the test variable in Model 6a is positive and significant ($p < 0.01$); the coefficient in Model 6b is not significant; and the coefficient in Model 6c is actually *negative* and significant ($p < 0.01$). In Panel B (dummies), the Model 6d test variable lacks significance; the Model 6e test variable is positive and significant at the $p < 0.10$ level; and the Model 6f test variable is positive and significant at the $p < 0.01$ level. In Panel C (discrete), all variables are significant ($p < 0.01$ for Model 6g; $p < 0.05$ for models 6h and 6i). Although there is variation in the results, which may indicate that the measurement of contest in this relationship is somewhat sensitive, overall the coefficients on the test variables in most tests are positive and significant. In sum, the results indicate that contesting audit firms receive more future inspection report deficiencies than their non-contesting counterparts. It could be then that the PCAOB views contesting as resistance and scrutinizes the audit firm's work more closely in the future.

In addition, considering the result of Model 6c (regarding severe contesters) in Panel A, the likelihood of receiving deficiencies *decreases* for severe contesters. This result runs contrary to the *increased* likelihood for contesters. I speculate that this could be a product of time, where severe contesters are present more so in the initial years of the PCAOB inspection regime but gradually exit due to removing their publicly-traded clients. This could also be due to a high propensity of PCAOB inspectors to find deficiencies, but then subsequently soften when confronted heavily on those matters. Intriguingly, this finding runs contrary to the main findings from the other main regression tests, and as such begs additional data points and subsequent analysis.

[Insert Table 18 about here]

Table 19, Panel A reports the main regression results for Hypothesis 5b (Part II release) using Model 7. Panels B and C report the regression results using alternate measures for contesting. In Panel A, the test variable in Model 7a lacks significance, but the test variables in models 7b and 7c are both positive and strongly significant at the $p < 0.01$ level. In Panel B (dummies), both the test variables in models 7d and 7e lack significance, but the test variable in Model 7f is positive and significant at the $p < 0.05$ level. Lastly, in Panel C (discrete), the serial contesting test variable in Model 7g is not significant, whereas the test variables in models 7h and 7i are significant and at the $p < 0.01$ level. In conclusion, there does not appear to be any relationship between serial contesters and Part II findings release. Overall, the coefficients on the non-serial test variables in most tests is positive and significant, indicating that contesting and *severely* contesting audit firms are more likely to have their Part II findings released to the public than their non-contesting counterparts. Mirroring the results in Hypothesis 5a testing, I suspect that the PCAOB views contesting as resistance and scrutinizes the audit firm's work more closely in the future.

[Insert Table 19 about here]

Conclusion

This chapter investigates the consequences of audit firm contesting PCAOB inspection reports. Although the regressions for abnormal audit fees, audit report lags, and audit quality lack significance across the board, the tests of client and PCAOB behavior in response to contesting are promising. With respect to the reaction from clients, I find that contesting audit firms are more likely to be dismissed by their clients than are non-contesting firms. I attribute this

behavior to a perspective in which clients see contesting negatively and believe that their auditor is defending against the PCAOB in a manner not in good faith. Consequently, those clients find the behavior worthy of negative consideration when it comes time to evaluate rehiring or dismissing their audit firm. With respect to the reaction from the PCAOB, I find that contesting audit firms both receive more deficiencies in their subsequent inspection report and are more likely to have their Part II quality control issues released to the public due to timely remediation failure. It is possible that the PCAOB perceives contesting as unwarranted resistance and scrutinizes the audit firm more closely in the future. Nonetheless, this difference could indirectly arise out of audit firm behavior that is somehow distinct between contesting and non-contesting firm, and that contesting firms exhibit more aggressive or reckless behavior. Regardless, contesting exhibits a positive relationship with future Part I and Part II inspection rigor.

Lastly, also of note is a finding regarding severely contesting within the context of PCAOB reaction. Severely contesting has a *negative* relation with future deficiencies, in contrast with the results from various regular contesting measures. This could be due to a situation in which severe contesters are inspected in the early years of the PCAOB inspection regime but subsequently dropped out by virtue of no longer having publicly-traded clients in their portfolio. Instead, this result may be the effect of pressure on PCAOB inspectors to identify deficiencies (Farrell and Shabad 2005), and consequently severe contesters push back more heavily to findings. Consequently, in this event, maybe the PCAOB is more willing to consider arguments featured in severely contesting responses than contesting responses when it comes time for future inspections. Regardless of the explanation, this finding runs contrary to the main findings from the other main regression tests, and as such remains a compelling question for future research.

The present study has inherent assumptions and limitations. This study only investigates triennially-inspected audit firms; thus, inferences are inevitably limited in scope to those firms. Similar to all other triennially-inspected audit firm literature, the exclusion of annually-inspected audit firms inevitably limits the conclusions that can be drawn about how audit firms behave. Underlying the entire study is the assumption that auditors and clients value the information contained within PCAOB inspection reports. If auditors would not value the information and perceive that clients and regulators would not value it as well, then it is logical to conclude that auditors would not feel compelled to comment on reports, even if they disagree with PCAOB's assessments. Furthermore, audit quality is an unobservable. As such, each proxy for audit quality has different strengths and weaknesses. Although I employed multiple proxies that measure different aspects of audit quality, per the suggestion of DeFond and Zhang (2014), I could not guarantee that audit quality is being truly and fully captured. Despite these limitations, this study's results provide insight into audit firm motivations to contest the PCAOB inspection process.

Further, there are data limitations inherent to this chapter like those in Chapter 1. The largest limitation is that issuer clients are not identified in the inspection report information, meaning that deficiencies are not able to be linked to the clients to which they relate. As such, no direct inference can be drawn about each client as a distinct audit engagement. In addition, because triennially-inspected audit firms are inspected only once at least every three years, there are limitations with respect to timing issues and the number of years available to meaningfully analyze. Hopefully future research can more effectively examine inspection report information. Lastly, in addition to the investigation of severe contesters, future research in this area could

investigate contesting behavior consequences in other contexts and with a larger sample size to gain more insight into what occurs uniquely to contesting firms.

TABLE 1
Variable Definitions

Panel A: Chapter I

<i>Test Variables</i>	
<i>SLC</i>	the absolute difference of the market share distance between an audit firm and its closest competing audit firm in the same city-industry
<i>PT</i>	the percentage of an audit firm's client portfolio that is publicly-traded, computed as audit fees per Audit Analytics divided by net revenue (hand-collected) per the <i>Accounting Today</i> Top 100 Audit Firms list
<i>NUMDEF</i>	the number of all deficiencies received in the audit firm's most recent inspection report
<i>GAAPDEF</i>	1 if the audit firm received at least one GAAP-level deficiency in its most recent report, 0 otherwise
<i>REVDEF</i>	the number of revenue-related deficiencies received in the most recent inspection report
<i>COMPDEF</i>	the number of deficiencies related to a complex accounting matter (i.e., derivatives, specialists, or estimates) received in the most recent inspection report, 0 otherwise
<i>Dependent Variables</i>	
<i>CONTEST_DUMMY</i>	1 if the audit firm responded and contested to the most recent inspection report, 0 otherwise
<i>CONTEST_DISC</i>	2 if the audit firm responded to and contested the most recent inspection report, 1 if the audit firm responded but did not contest, and 0 if the audit firm neither responded nor contested
<i>SEVERE_CONTEST</i>	2 if the audit firm responded to and severely contested the most recent inspection report, 1 if the audit firm contested to the most recent inspection report but did not severely contest, and 0 if the audit firm neither severely contested nor contested
<i>CONTEST_DUMMY_SERIAL</i>	1 if the audit firm responded to and contested two or more inspection reports at any time, 0 otherwise
<i>CONTEST_DUMMY_2YR</i>	same variable as <i>CONTEST_DUMMY</i> except for an additional restriction that contest must have happened within 2 most recent years (instead of 3)
<i>CONTEST_DUMMY_1YR</i>	same variable as <i>CONTEST_DUMMY</i> except for an additional restriction that contest must have happened within the most recent year (instead of 3)
<i>CONTEST_DISC_SERIAL</i>	2 if the audit firm responded to and contested two or more inspection reports at any time, 1 if the audit firm responded to at least one report but did not contest to any reports, and 0 if the audit firm neither responded nor contested to any reports
<i>CONTEST_DISC_2YR</i>	same variable as <i>CONTEST_DISC</i> except for an additional restriction that contest must have happened within 2 most recent years (instead of 3)
<i>CONTEST_DISC_1YR</i>	same variable as <i>CONTEST_DISC</i> except for an additional restriction that contest must have happened within the most recent year (instead of 3)

<i>Control Variables</i>	
<i>ABNAFEE</i>	abnormal audit fees calculated as the client's actual audit fee minus predicted audit fee using an audit fee expectation model based on Ghosh and Lustgarten (2006) and Craswell et al. (1995)
<i>ABSDA1</i>	the client's absolute value of discretionary accruals calculated following the procedures detailed in Ball and Shivakumar (2006)
<i>ABSDA2</i>	the client's absolute value of discretionary accruals calculated following the performance-matched procedures detailed in Kothari et al. (2005)
<i>ALTMAN</i>	the client's Altman-Z financial distress score
<i>BTM</i>	the client's book-to-market ratio, winsorized at 0 and 4
<i>CHGSALE</i>	the client's sales change lagged by the previous year's beginning total assets
<i>EMPLOY</i>	the square root of the client's number of employees
<i>EXORD</i>	1 if the client reports extraordinary gains or losses, 0 otherwise
<i>FOREIGN</i>	1 if the client incurs foreign income tax, 0 otherwise
<i>GCO</i>	the percentage of going concern opinion issued out of all opinions issued
<i>INDSPEC</i>	1 if the audit firm is an industry specialist at the city level, 0 otherwise
<i>INVREC</i>	the client's inventory and receivables deflated by total assets
<i>ISSUE</i>	1 if the sum of long-term debt or equity issued within the past 3 years by the client is at least 5 percent of its total assets, 0 otherwise
<i>LASSETS</i>	the natural logarithm of the client's total assets
<i>LEV</i>	the client's leverage
<i>LIQUID</i>	the client's liquidity, calculated as the ratio of the client's cash to total assets
<i>LOSS</i>	1 if the client reported a net loss, 0 otherwise
<i>MWIC</i>	1 if the client received a material weakness in internal controls per SOX 404, 0 otherwise
<i>OCF</i>	the client's cash flow from operations
<i>OFFICE</i>	the number of clients for the audit office per the most recent inspection report
<i>PRPT2</i>	1 if the audit firm had its Part II quality control findings made public (failed to remedy within 12 months), 0 otherwise
<i>ROA</i>	the client's return on assets
<i>RSTMT</i>	the percentage of restatements issued out of all audit engagements
<i>STDEARN</i>	the standard deviation of the client's income before extraordinary items for the past 4 years
<i>TENURE</i>	1 if the audit firm has been with the client for 3 years or less, 0 otherwise
<i>IND_FE</i>	industry fixed effects
<i>YEAR_FE</i>	year fixed effects

TABLE 1
Variable Definitions

Panel B: Chapter II

<i>Test Variables</i>	
<i>CONTEST_DUMMY</i>	1 if the audit firm responded and contested to the most recent inspection report, 0 otherwise
<i>CONTEST_DISC</i>	2 if the audit firm responded to and contested the most recent inspection report, 1 if the audit firm responded but did not contest, and 0 if the audit firm neither responded nor contested
<i>SEVERE_CONTEST</i>	2 if the audit firm responded to and severely contested the most recent inspection report, 1 if the audit firm contested to the most recent inspection report but did not severely contest, and 0 if the audit firm neither severely contested nor contested
<i>CONTEST_DUMMY_SERIAL</i>	1 if the audit firm responded to and contested two or more inspection reports at any time, 0 otherwise
<i>CONTEST_DUMMY_2YR</i>	same variable as <i>CONTEST_DUMMY</i> except for an additional restriction that contest must have happened within 2 most recent years (instead of 3)
<i>CONTEST_DUMMY_1YR</i>	same variable as <i>CONTEST_DUMMY</i> except for an additional restriction that contest must have happened within the most recent year (instead of 3)
<i>CONTEST_DISC_SERIAL</i>	2 if the audit firm responded to and contested two or more inspection reports at any time, 1 if the audit firm responded to at least one report but did not contest to any reports, and 0 if the audit firm neither responded nor contested to any reports
<i>CONTEST_DISC_2YR</i>	same variable as <i>CONTEST_DISC</i> except for an additional restriction that contest must have happened within 2 most recent years (instead of 3)
<i>CONTEST_DISC_1YR</i>	same variable as <i>CONTEST_DISC</i> except for an additional restriction that contest must have happened within the most recent year (instead of 3)
<i>Dependent Variables</i>	
<i>DISMISS</i>	1 if a client dismisses its audit firm, 0 otherwise
<i>ABNAFEE</i>	abnormal audit fees calculated as the client's actual audit fee minus predicted audit fee using an audit fee expectation model based on Ghosh and Lustgarden (2006) and Craswell et al. (1995)
<i>ARL</i>	the natural logarithm of audit report lag
<i>ABSDA1</i>	the client's absolute value of discretionary accruals calculated following the procedures detailed in Ball and Shivakumar (2006)
<i>ABSDA2</i>	the client's absolute value of discretionary accruals calculated following the performance-matched procedures detailed in Kothari et al. (2005)
<i>GCO</i>	the percentage of going concern opinion issued out of all opinions issued
<i>RSTMT</i>	the percentage of restatements issued out of all audit clients
<i>POSTDEF</i>	the number of all deficiencies received in the subsequent inspection report
<i>PRPT2</i>	1 if the audit firm had its Part II quality control findings made public (failed to remedy within 12 months), 0 otherwise

<i>Control Variables</i>	
<i>ALTMAN</i>	the client's Altman-Z financial distress score
<i>BTM</i>	the client's book-to-market ratio, winsorized at 0 and 4
<i>BUSYFYE</i>	1 if client has a December fiscal year-end, 0 otherwise
<i>CHGSALE</i>	the client's sales change lagged by the previous year's beginning total assets
<i>COMPDEF</i>	the number of deficiencies related to a complex accounting matter (i.e., derivatives, specialists, or estimates) received in the most recent inspection report, 0 otherwise
<i>EMPLOY</i>	the square root of the client's number of employees
<i>EXORD</i>	1 if the client reports extraordinary gains or losses, 0 otherwise
<i>FEECUT</i>	1 for the client who receives a fee reduction subsequent to the year that its audit firm receives a deficient inspection report, 0 otherwise
<i>FEWCLIENT</i>	1 if the audit firm audits fewer than 5 issuer clients, 0 otherwise
<i>FOREIGN</i>	1 if the client incurs foreign income tax, 0 otherwise
<i>GAAPDEF</i>	1 if the audit firm received a GAAP-level deficiency in its most recent report, 0 otherwise
<i>INDSPEC</i>	1 if the audit firm is an industry specialist at the city level, 0 otherwise
<i>INVREC</i>	the client's inventory and receivables deflated by total assets
<i>ISSUE</i>	1 if the sum of long-term debt or equity issued within the past 3 years by the client is at least 5 percent of its total assets, 0 otherwise
<i>LASSETS</i>	the natural logarithm of the client's total assets
<i>LEV</i>	the client's leverage
<i>LIQUID</i>	the client's liquidity, calculated as the ratio of the client's cash to total assets
<i>LOSS</i>	1 if the client reported a net loss, 0 otherwise
<i>MKTSHARE</i>	the ratio of total audit fees for the audit office to total audit fees for the city in which the office resides
<i>MWIC</i>	1 if the client received a material weakness in internal controls per SOX 404, 0 otherwise
<i>NONAFEE</i>	the natural logarithm of the client's non-audit fees
<i>NUMDEF</i>	the number of all deficiencies received in the audit firm's most recent inspection report
<i>OCF</i>	the client's cash flow from operations
<i>OFFICE</i>	the number of clients for the audit office per the most recent inspection report
<i>REVDEF</i>	the number of revenue-related deficiencies received in the most recent inspection report
<i>ROA</i>	the client's return on assets
<i>STDEARN</i>	the standard deviation of the client's income before extraordinary items for the past 4 years
<i>TENURE</i>	1 if the audit firm has been with the client for 3 years or less, 0 otherwise
<i>IND_FE</i>	industry fixed effects
<i>YEAR_FE</i>	year fixed effects

TABLE 2
Sample Reconciliation

PCAOB Data		Observations
Procedure		Observations
Triennial PCAOB inspection reports issued 2005 - 2015		1,875
Less: Inspection reports missing information for regression variables		<u>(698)</u>
Total inspection reports analyzed in the study		1,177
Audit Analytics and Compustat Data		Observations
Procedure		Observations
Initial audit firm-year data from Audit Analytics from 2005 - 2015		157,852
Less: Audit firm observations with zero audit fees		(24,350)
Audit firm observations missing information for regression variables		<u>(39,632)</u>
Total number of audit firm-year observations with complete audit data		93,870
Initial client-year data from Compustat from 2005 - 2015		64,259
Less: Client observations missing financial regression information and lost after merge with Audit and PCAOB data		(49,864)
Clients with SIC codes #4900-4999 and #6000-6999		<u>(6,307)</u>
Total number of client-year observations with complete data 2005 - 2015 (Ch. II Main Reg.)		8,088
Total number of audit firm-year observations with complete data 2005 - 2015 (Ch. I Main Reg.)		2,119
Less: Audit-firm observations missing information for PT variable (hand-collected from <i>Accounting Today</i> Top 100 Firms List)		<u>1,968</u>
Total number of audit firm-year observations with complete data 2005 - 2015 (Ch. I Suppl. Reg.)		151

TABLE 3
Descriptive Statistics - Chapter I

Panel A: Chapter I Main Regressions					<i>N = 2,119</i>
Variables	Mean	Std. Dev.	1st Quartile	Median	3rd Quartile
Test Variables					
<i>SLC</i>	0.5653	0.4619	0.0272	1.0000	1.0000
<i>NUMDEF</i>	0.4046	1.3217	0.0000	0.0000	0.0000
<i>GAAPDEF</i>	0.0252	0.1566	0.0000	0.0000	0.0000
<i>REVDEF</i>	0.0936	0.5881	0.0000	0.0000	0.0000
<i>COMPDEF</i>	0.0160	0.1333	0.0000	0.0000	0.0000
Dependent Variables					
<i>CONTEST_DISC</i>	0.2810	0.6173	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY</i>	0.0895	0.2855	0.0000	0.0000	0.0000
<i>CONTEST_DISC_SERIAL</i>	0.1595	0.3662	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY_SERIAL</i>	0.0662	0.2488	0.0000	0.0000	0.0000
<i>CONTEST_DISC_2YR</i>	0.2734	0.6021	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY_2YR</i>	0.1835	0.3872	0.0000	0.0000	0.0000
<i>CONTEST_DISC_1YR</i>	0.2632	0.5889	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY_1YR</i>	0.0759	0.2650	0.0000	0.0000	0.0000
<i>SEVERE_CONTEST</i>	0.1043	0.3177	0.0000	0.0000	0.0000
Control Variables					
<i>PART2</i>	0.0190	0.1365	0.0000	0.0000	0.0000
<i>OFFICE</i>	21.6563	25.1042	4.0000	11.0000	31.0000
<i>GCO</i>	0.2262	0.3426	0.0000	0.0000	0.3333
<i>RSTMT</i>	0.0842	0.2169	0.0000	0.0000	0.0000
<i>INDSPEC</i>	0.5485	0.4977	0.0000	1.0000	1.0000
<i>M_CONTROLS</i>			<i>N/A</i>		
Panel B: Chapter I Supplemental Regressions					<i>N = 151</i>
Variables	Mean	Std. Dev.	1st Quartile	Median	3rd Quartile
Test Variables					
<i>PT</i>	0.2919	0.3202	0.0693	0.2009	0.3692
Dependent Variables					
<i>CONTEST_DISC</i>	1.1722	0.7001	1.0000	1.0000	2.0000
<i>CONTEST_DUMMY</i>	0.3444	0.4767	0.0000	0.0000	1.0000
<i>CONTEST_DISC_SERIAL</i>	0.7417	0.4391	0.0000	1.0000	1.0000
<i>CONTEST_DUMMY_SERIAL</i>	0.4040	0.4923	0.0000	0.0000	1.0000
<i>CONTEST_DISC_2YR</i>	1.1325	0.6800	1.0000	1.0000	2.0000
<i>CONTEST_DUMMY_2YR</i>	0.3046	0.4618	0.0000	0.0000	1.0000
<i>CONTEST_DISC_1YR</i>	1.0966	0.6700	1.0000	1.0000	2.0000
<i>CONTEST_DUMMY_1YR</i>	0.2649	0.4427	0.0000	0.0000	1.0000
<i>SEVERE_CONTEST</i>	0.6293	0.5174	0.0000	1.0000	1.0000
Control Variables					
<i>OFFICE</i>	33.6689	25.9974	12.0000	29.0000	50.0000
<i>GCO</i>	0.1383	0.2101	0.0000	0.0000	0.2105
<i>RSTMT</i>	0.0782	0.1480	0.0000	0.0000	0.1000
<i>INDSPEC</i>	0.5430	0.4998	0.0000	1.0000	1.0000
<i>M_CONTROLS</i>			<i>N/A</i>		

TABLE 3
Descriptive Statistics - Chapter II

Panel C: Chapter II Main Regressions		<i>N</i> = 8,088			
Variables	Mean	Std. Dev.	1st Quartile	Median	3rd Quartile
Test Variables					
<i>CONTEST_DISC</i>	0.3509	0.6657	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY</i>	0.1934	0.3945	0.0000	0.0000	0.0000
<i>CONTEST_DISC_SERIAL</i>	0.2307	0.4213	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY_SERIAL</i>	0.1356	0.3434	0.0000	0.0000	0.0000
<i>CONTEST_DISC_2YR</i>	0.3302	0.6286	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY_2YR</i>	0.1076	0.3099	0.0000	0.0000	0.0000
<i>CONTEST_DISC_1YR</i>	0.3188	0.6148	0.0000	0.0000	0.0000
<i>CONTEST_DUMMY_1YR</i>	0.0799	0.2711	0.0000	0.0000	0.0000
<i>SEVERE_CONTEST</i>	0.1264	0.3408	0.0000	0.0000	0.0000
Dependent Variables					
<i>DISMISS</i>	0.1923	0.3942	0.0000	0.0000	0.0000
<i>ABNAFEE</i>	21.3302	60.1670	6.6999	12.5000	23.1115
<i>ARL</i>	4.4016	0.2867	4.2766	4.4308	4.4998
<i>ABSDA1</i>	0.2451	0.5424	0.0626	0.1618	0.3680
<i>ABSDA2</i>	0.1964	0.1998	0.0694	0.1231	0.2337
<i>GCO</i>	0.2021	0.2398	0.0000	0.1333	0.2857
<i>RSTMT</i>	0.1004	0.1579	0.0000	0.0417	0.1429
<i>POSTDEF</i>	0.2905	1.1896	0.0000	0.0000	0.0000
<i>PART2</i>	0.0135	0.1153	0.0000	0.0000	0.0000
Control Variables					
<i>ALTMAN</i>	-1.5550	3.9046	-4.0755	-2.8431	-0.7768
<i>BTM</i>	1.2849	1.4586	0.1757	0.5405	2.0833
<i>BUSYFYE</i>	0.6570	0.4747	0.0000	1.0000	1.0000
<i>CHGSALE</i>	0.0833	0.3704	-0.0659	0.0271	0.1989
<i>COMPDEF</i>	0.0252	0.1567	0.0000	0.0000	0.0000
<i>EMPLOY</i>	0.4769	0.6327	0.1703	0.3066	0.5468
<i>EXORD</i>	0.0048	0.0689	0.0000	0.0000	0.0000
<i>FEECUT</i>	0.0967	0.2956	0.0000	0.0000	0.0000
<i>FEWCLIENT</i>	0.7437	0.4366	0.0000	1.0000	1.0000
<i>FOREIGN</i>	0.3426	0.4746	0.0000	0.0000	1.0000
<i>GAAPDEF</i>	0.0271	0.1625	0.0000	0.0000	0.0000
<i>INDSPEC</i>	0.4293	0.4950	0.0000	0.0000	1.0000
<i>INVREC</i>	0.2773	0.2291	0.0735	0.2300	0.4424
<i>ISSUE</i>	0.7238	0.4472	0.0000	1.0000	1.0000
<i>LASSETS</i>	10.2663	1.5047	9.1600	10.1818	11.2602
<i>LEV</i>	0.5945	0.5598	0.2336	0.4259	0.7217
<i>LIQUID</i>	0.1987	0.2175	0.0371	0.1157	0.2869
<i>LOSS</i>	0.5840	0.4929	0.0000	1.0000	1.0000
<i>MKTSHARE</i>	0.4484	0.4514	0.0203	0.1795	1.0000
<i>MWIC</i>	0.0806	0.2722	0.0000	0.0000	0.0000
<i>NONAFEE</i>	3.6867	15.5646	0.0000	0.9212	3.5584
<i>NUMDEF</i>	0.5023	1.4460	0.0000	0.0000	0.0000
<i>OCF</i>	-0.1035	0.3471	-0.1868	0.0093	0.0975
<i>OFFICE</i>	40.7807	30.3242	13.0000	38.0000	61.0000
<i>REVDEF</i>	0.1146	0.5946	0.0000	0.0000	0.0000
<i>ROA</i>	-0.1195	0.2357	-0.1827	0.0239	0.0266
<i>SLC</i>	0.4485	0.4513	0.0203	0.1795	1.0000
<i>STDEARN</i>	8.3528	26.8707	1.0834	2.8842	7.2584
<i>TENURE</i>	0.4496	0.4975	0.0000	0.0000	1.0000

TABLE 4
Pearson Correlation Matrix

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
1 ABNAFEE	-0.036																									
2 ABSDAI	-0.086	0.359																								
3 ABSDA2	-0.059	0.190	0.377																							
4 ALTMAN	-0.013	0.029	0.085	0.193																						
5 ARL	-0.110	0.116	0.326	0.431	0.243																					
6 BTM	-0.036	0.035	0.032	0.109	0.028	0.055																				
7 BUSYFYE	-0.001	0.111	0.051	-0.134	-0.069	-0.141	0.039																			
8 CHGSALE	-0.009	0.003	0.020	0.031	0.030	0.027	-0.001	0.004																		
9 COMPDEF	-0.016	-0.002	-0.019	-0.003	0.025	-0.015	-0.009	0.008	0.139																	
10 CONTEST_DISC	-0.021	-0.007	-0.018	0.000	0.015	-0.012	-0.006	0.010	0.225	0.862																
11 CONTEST_DUMMY	-0.002	0.000	-0.026	0.008	0.025	-0.004	-0.015	0.003	0.048	0.540	0.404															
12 CONTEST_DUMMY_SERIAL	-0.023	-0.005	-0.016	0.006	0.012	-0.005	-0.002	0.013	0.226	0.819	0.978	0.444														
13 CONTEST_DISC_2YR	-0.024	0.006	-0.006	0.009	0.016	0.005	-0.007	0.020	0.111	0.849	0.732	0.600	0.784													
14 CONTEST_DUMMY_2YR	-0.026	-0.002	-0.010	0.006	0.010	-0.002	-0.006	0.018	0.222	0.808	0.977	0.422	0.987	0.811												
15 CONTEST_DISC_1YR	-0.001	-0.005	-0.038	-0.007	0.011	-0.036	-0.001	0.013	0.147	0.756	0.808	0.374	0.786	0.653	0.783											
16 CONTEST_DUMMY_1YR	-0.017	-0.009	-0.015	0.008	0.004	-0.009	0.005	0.009	0.253	0.652	0.921	0.252	0.916	0.537	0.916	0.726										
17 DISMISS	0.019	0.013	-0.021	0.031	0.114	0.029	0.016	-0.028	-0.009	0.082	0.016	0.152	0.018	0.054	-0.012	0.021	-0.029									
18 EMPLOY	0.546	-0.096	-0.235	-0.196	-0.039	-0.260	-0.013	0.084	-0.026	-0.002	-0.011	0.000	-0.018	-0.022	-0.022	0.016	-0.011	0.015								
19 EXORD	-0.004	0.011	-0.018	-0.004	0.005	0.005	0.009	0.000	0.034	-0.001	0.012	-0.011	0.015	0.006	0.017	-0.001	0.017	-0.020	0.009							
20 FEECUT	-0.004	0.015	0.012	0.005	-0.013	0.013	0.000	0.012	0.188	0.436	0.536	0.230	0.553	0.444	0.558	0.428	0.517	-0.038	-0.023	0.013						
21 FEWCLIENT	0.023	0.005	0.011	-0.012	-0.020	-0.007	-0.004	-0.010	-0.260	-0.542	-0.819	-0.183	-0.811	-0.448	-0.809	-0.658	-0.877	0.030	0.015	-0.024	-0.514					
22 FOREIGN	0.115	-0.046	-0.165	-0.197	-0.039	-0.139	-0.002	0.037	-0.029	-0.014	-0.013	-0.005	-0.015	-0.018	-0.015	0.009	-0.008	0.030	0.222	0.017	-0.011	0.006				
23 GAAPDEF	-0.014	-0.015	0.009	0.014	0.031	0.037	-0.019	-0.011	0.189	0.273	0.279	0.158	0.287	0.299	0.298	0.260	0.239	-0.019	-0.003	-0.001	0.256	-0.271	0.006			
24 GCC	-0.066	0.109	0.294	0.573	0.239	0.483	0.083	-0.130	0.019	-0.004	-0.023	0.014	-0.006	0.007	-0.003	-0.023	-0.009	0.052	-0.179	0.004	0.001	0.003	-0.271	-0.014		

TABLE 4
Pearson Correlation Matrix

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
26 INDSPEC	0.025	-0.008	-0.010	-0.017	0.028	0.028	-0.006	0.008	-0.026	-0.012	-0.006	-0.007	-0.023	-0.006	-0.020	-0.035	-0.028	0.013	0.441	0.022	-0.003	0.028	0.003	0.003	-0.154	0.007
27 INVREC	0.007	-0.074	-0.076	-0.134	-0.010	-0.055	-0.113	0.093	-0.040	0.003	-0.006	0.007	-0.008	0.003	-0.006	-0.001	-0.013	-0.002	0.127	0.007	-0.001	0.010	0.010	0.137	-0.003	-0.109
28 ISSUE	-0.038	0.055	0.103	0.287	0.033	0.099	0.129	0.065	0.023	-0.001	0.006	0.007	0.009	0.003	0.008	0.013	0.015	0.008	-0.070	-0.013	-0.003	-0.022	-0.054	-0.003	0.181	
29 LASSETS	0.292	-0.154	-0.492	-0.419	-0.145	-0.526	0.058	0.108	-0.006	0.003	0.002	-0.006	-0.005	-0.024	-0.014	0.038	0.009	0.013	0.540	0.005	-0.018	0.001	0.287	-0.012	-0.385	
30 LEV	-0.037	0.166	0.293	0.766	0.213	0.418	0.077	-0.056	0.034	-0.003	0.001	0.004	0.002	0.003	0.001	-0.009	0.005	0.021	-0.080	0.007	0.001	-0.007	-0.100	0.009	0.505	
31 LIQUID	-0.017	0.106	0.160	0.026	-0.110	-0.043	0.028	-0.042	0.005	-0.001	0.004	-0.005	0.006	0.004	0.008	-0.014	0.008	-0.002	-0.155	-0.019	-0.005	-0.010	-0.080	0.014	-0.066	
32 LOSS	-0.068	0.001	0.227	0.485	0.173	0.363	0.072	-0.201	0.020	0.001	0.008	0.007	0.011	-0.003	0.005	0.008	0.020	0.040	-0.230	0.004	0.006	-0.015	-0.199	0.005	0.359	
33 MKTSHARE	0.027	-0.008	-0.014	-0.023	0.030	0.026	-0.005	0.011	-0.035	-0.011	-0.022	-0.007	-0.023	-0.003	-0.019	-0.030	-0.020	0.010	0.050	0.030	-0.007	0.027	0.021	0.003	0.016	
34 MWIC	0.016	0.007	-0.002	0.022	0.026	-0.002	0.098	0.022	0.025	0.024	0.009	0.035	0.013	0.021	0.003	0.026	0.002	0.045	0.017	-0.001	-0.015	0.006	0.006	0.010	-0.014	
35 NONAFEE	0.848	-0.021	-0.057	-0.037	-0.001	-0.083	-0.040	0.020	-0.011	-0.013	-0.015	0.014	-0.015	-0.012	-0.015	0.005	-0.012	0.011	0.479	-0.001	-0.003	0.017	0.067	-0.011	-0.048	
36 NUMDEF	-0.030	-0.004	0.008	0.040	0.044	0.056	0.001	0.006	0.351	0.440	0.547	0.222	0.560	0.435	0.563	0.432	0.532	-0.005	-0.010	0.009	0.542	-0.566	0.003	0.394	0.032	
37 OCF	0.064	-0.111	-0.379	-0.610	-0.074	-0.250	-0.106	0.090	-0.006	0.018	0.010	0.016	0.006	0.006	0.003	0.020	0.001	-0.009	0.243	0.018	-0.003	0.003	0.214	-0.016	-0.403	
38 OFFICE	-0.01	-0.02	-0.01	0.019	0.016	-0	-0	0.014	0.250	0.480	0.706	0.162	0.691	0.374	0.687	0.633	0.760	-0.010	0.003	0.000	0.438	-0.791	-0.006	0.284	-0.008	
39 PART2	-0.019	-0.005	0.010	0.041	0.026	0.046	0.013	0.007	0.232	0.090	0.152	0.042	0.161	0.107	0.168	0.050	0.152	-0.025	-0.025	0.007	0.167	-0.180	0.012	0.111	0.022	
40 POSTDEF	-0.018	-0.001	-0.005	0.013	0.028	0.017	-0.007	0.005	0.136	0.350	0.380	0.133	0.353	0.264	0.349	0.352	0.333	-0.008	0.005	-0.012	0.230	-0.280	0.010	0.357	0.002	
41 REVDEF	-0.009	-0.008	-0.012	0.019	0.011	-0.002	0.013	0.006	0.371	0.291	0.335	0.106	0.308	0.185	0.303	0.274	0.313	-0.013	-0.006	0.014	0.254	-0.408	-0.023	0.223	0.010	
42 ROA	0.062	-0.191	-0.442	-0.841	-0.145	-0.359	-0.105	0.143	-0.023	0.005	-0.001	0.002	-0.005	-0.006	-0.006	0.010	-0.010	-0.028	0.254	0.014	-0.009	0.014	0.232	-0.013	0.521	
43 RSTMT	0.011	0.001	0.001	0.001	-0.010	-0.025	0.003	0.031	0.001	0.025	0.006	0.027	0.007	0.025	0.004	0.012	-0.004	0.048	-0.015	0.001	0.003	0.003	-0.012	0.005	0.005	
44 SEVERE_CONTEST	-0.018	-0.006	-0.018	-0.002	0.026	-0.014	-0.011	0.007	0.229	0.984	0.987	0.517	0.960	0.828	0.959	0.913	0.984	0.071	-0.004	0.002	0.588	-0.811	-0.012	0.319	-0.007	
45 SLC	0.027	-0.008	-0.014	-0.023	0.030	0.026	-0.005	0.011	-0.035	-0.010	-0.022	-0.007	-0.022	-0.004	-0.019	-0.033	-0.028	0.010	0.050	0.031	-0.007	0.027	0.022	0.003	0.016	
46 STDEARN	0.396	0.017	-0.076	0.035	-0.011	-0.061	0.042	-0.026	-0.009	-0.003	-0.009	0.010	-0.012	-0.014	-0.016	0.009	-0.007	0.018	0.293	0.063	-0.006	0.011	0.098	-0.003	-0.009	
47 TENURE	-0.014	-0.045	-0.023	-0.060	-0.080	-0.047	-0.057	0.001	0.004	-0.059	-0.012	-0.090	-0.009	-0.042	0.004	-0.022	0.016	-0.441	0.011	0.009	0.012	-0.011	-0.013	-0.001	-0.078	

TABLE 4
Pearson Correlations Matrix

Variables	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	
26 <i>INDSPEC</i>	0.066																						
27 <i>INVREC</i>	-0.048	-0.150																					
28 <i>ISSUE</i>	-0.012	-0.031	-0.033																				
29 <i>LASSETS</i>	0.009	0.054	0.184	-0.315																			
30 <i>LEV</i>	-0.070	0.315	-0.016	-0.192	-0.153																		
31 <i>LIQUID</i>	-0.067	-0.182	0.244	-0.344	0.293	0.110																	
32 <i>LOSS</i>	0.968	0.074	-0.054	-0.010	0.009	-0.082	-0.077																
33 <i>MKTSHARE</i>	0.030	-0.007	0.047	0.061	0.022	-0.015	0.033	-0.022															
34 <i>MWIC</i>	0.038	0.006	-0.028	0.212	-0.020	-0.013	-0.055	0.040	-0.003														
35 <i>NONAFEE</i>	-0.011	-0.030	0.009	-0.010	0.030	-0.012	0.012	-0.068	0.016	-0.022													
36 <i>NUMDEF</i>	0.033	0.158	-0.267	0.396	-0.318	-0.287	-0.495	-0.013	-0.026	0.034	-0.01												
37 <i>OCF</i>	-0.066	-0.016	0.017	0.022	0.010	-0.003	0.020	0.045	0.014	-0.008	0.568	0.002											
38 <i>OFFICE</i>	-0.005	-0.008	0.001	0.034	0.034	0.001	0.023	-0.005	-0.011	-0.018	0.382	-0.024	0.143										
39 <i>PART2</i>	-0.027	-0.02	0.012	0.016	0.007	-0.011	0.006	0.009	-0.002	-0.016	0.356	0.023	0.485	0.072									
40 <i>POSTDEF</i>	0.012	-0.029	0.022	0.018	0.028	-0.013	-0.005	0.009	0.014	-0.003	0.363	-0.001	0.312	0.202	0.224								
41 <i>REVDEF</i>	0.026	0.213	-0.289	0.473	-0.489	-0.231	-0.590	0.046	-0.029	0.038	-0.026	0.793	-0.021	-0.03	0.001	-0.010							
42 <i>ROA</i>	0.003	-0.001	0.052	0.009	0.007	-0.003	0.005	-0.001	0.032	0.013	0.004	-0.012	0.002	-0.01	0.002	0.003	-0.005						
43 <i>RSTMT</i>	-0.016	0.005	-0.001	0.001	-0.001	-0.004	0.002	-0.016	0.019	-0.015	0.626	0.019	0.333	0.177	0.392	0.328	0.006	0.025					
44 <i>SEVERE_CONTEST</i>	0.968	0.074	-0.054	-0.010	-0.009	-0.08	-0.077	0.990	-0.022	0.040	-0.013	0.045	-0.068	-0.01	-0.028	0.009	0.046	-0.001	-0.016				
45 <i>SIC</i>	-0.009	-0.099	0.034	0.343	0.027	-0.017	0.022	-0.008	0.033	0.314	-0.004	0.021	-0.009	-0.01	-0.013	0.003	-0.004	0.006	-0.005	-0.008			
46 <i>STDDEARN</i>	-0.025	0.020	-0.057	0.022	-0.038	-0.037	-0.052	-0.025	-0.045	-0.013	-0.017	0.073	-0.009	0.001	-0.009	0.005	0.074	-0.026	-0.055	-0.025	-0.015		
47 <i>TENURE</i>																							

Table 4 displays Pearson correlations between the dependent, test, and control variables in this study.

TABLE 5

Chapter I Regressions - Spatial Competition (HI)

Panel A: Main Regressions

N = 2,119

	<i>Model 1a</i>		<i>Model 1b</i>		<i>Model 1c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>SLC</i>	-0.2455	(-0.28)	-0.3688	(-0.50)	-0.1386	(-0.13)
<i>PRPT2</i>	1.4422 ***	(3.85)	1.6379 ***	(3.59)	1.5257 ***	(3.09)
<i>OFFICE</i>	0.0516 ***	(12.84)	0.1388 ***	(15.75)	0.1158 ***	(12.77)
<i>GCO</i>	0.1574	(0.59)	0.0810	(0.35)	0.1759	(0.55)
<i>RSTMT</i>	0.7292 ***	(2.75)	0.2789	(1.12)	0.6346 **	(2.04)
<i>INDSPEC</i>	0.2880	(0.36)	0.2670	(0.39)	0.0585	(0.06)
<i>M_CONTROLS</i>	Included		Included		Included	
<i>Pseudo R-Squared</i>	0.2315		0.3652		0.3638	

Panel B: Alternate Measures - Dummy

N = 2,119

	<i>Model 1d</i>		<i>Model 1e</i>		<i>Model 1f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>SLC</i>	0.5769	(0.53)	-0.3124	(-0.53)	-1.0941	(-1.20)
<i>PRPT2</i>	1.1302 **	(2.54)	0.8356 **	(2.44)	1.7519 ***	(4.62)
<i>OFFICE</i>	0.0662 ***	(13.18)	0.0222 ***	(7.12)	0.0439 ***	(11.22)
<i>GCO</i>	-0.4379	(-1.30)	0.0946	(0.52)	0.2936	(1.05)
<i>RSTMT</i>	0.6864 **	(2.11)	0.4960 ***	(2.59)	0.6168 **	(2.19)
<i>INDSPEC</i>	-0.2788	(-0.28)	0.1525	(0.28)	1.1170	(1.34)
<i>M_CONTROLS</i>	Included		Included		Included	
<i>Pseudo R-Squared</i>	0.3349		0.1034		0.2104	

Panel C: Alternate Measures - Discrete

N = 2,119

	<i>Model 1g</i>		<i>Model 1h</i>		<i>Model 1i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>SLC</i>	-0.0499	(-0.06)	-0.3688	(-0.50)	-0.5003	(-0.67)
<i>PRPT2</i>	0.4376	(1.00)	1.6379 ***	(3.59)	1.6717 ***	(3.66)
<i>OFFICE</i>	0.1228 ***	(15.83)	0.1389 ***	(15.74)	0.1363 ***	(15.62)
<i>GCO</i>	0.1181	(0.49)	0.0810	(0.35)	0.0790	(0.34)
<i>RSTMT</i>	0.4019	(1.59)	0.2789	(1.12)	0.2305	(0.90)
<i>INDSPEC</i>	0.1790	(0.24)	0.2670	(0.39)	0.4101	(0.60)
<i>M_CONTROLS</i>	Included		Included		Included	
<i>Pseudo R-Squared</i>	0.3659		0.3652		0.3588	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of spatial competition on contesting (Hypothesis 1).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel A.

M_CONTROLS comprises standardized variables of *ABNAFEE*, *ABSDA1*, *ABSDA2*, *ALTMAN*, *BTM*, *CHGSALE*, *EMPLOY*, *EXORD*, *FOREIGN*, *INVREC*, *ISSUE*, *LASSETS*, *LEV*, *LIQUID*, *LOSS*, *MWIC*, *OCF*, *ROA*, *STDEARN*, and *TENURE*.

TABLE 6

Chapter I Regressions - Number of Deficiencies (H2a)

Panel A: Main Regressions N = 2,119

	<i>Model 1a</i>		<i>Model 1b</i>		<i>Model 1c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>NUMDEF</i>	0.6114 ***	(10.12)	0.7402 ***	(8.72)	0.9407 ***	(8.96)
<i>PRPT2</i>	0.1485	(0.34)	0.6444	(1.23)	0.1119	(0.20)
<i>OFFICE</i>	0.0335 ***	(7.45)	0.1059 ***	(12.26)	0.0719 ***	(7.87)
<i>GCO</i>	0.1691	(0.58)	-0.0936	(-0.38)	0.1215	(0.34)
<i>RSTMT</i>	0.8067 ***	(2.82)	0.3370	(1.30)	0.7499 **	(2.23)
<i>INDSPEC</i>	0.0569	(0.29)	-0.1640	(-1.03)	-0.1471	(-0.65)
<i>M_CONTROLS</i>	Included		Included		Included	
<i>Pseudo R-Squared</i>	0.3216		0.4103		0.4544	

Panel B: Alternate Measures - Dummy N = 2,119

	<i>Model 1d</i>		<i>Model 1e</i>		<i>Model 1f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>NUMDEF</i>	0.4419 ***	(6.91)	0.3984 ***	(7.93)	0.6742 ***	(10.63)
<i>PRPT2</i>	-0.0856	(-0.17)	-0.1348	(-0.34)	0.4778	(1.06)
<i>OFFICE</i>	0.0524 ***	(9.93)	0.0064 *	(1.65)	0.0228 ***	(4.66)
<i>GCO</i>	-0.4356	(-1.23)	0.0716	(0.38)	0.2938	(0.94)
<i>RSTMT</i>	0.6589 *	(1.93)	0.4994 **	(2.53)	0.6891 **	(2.21)
<i>INDSPEC</i>	0.2314	(0.99)	-0.1473	(-1.15)	0.1363	(0.64)
<i>M_CONTROLS</i>	Included		Included		Included	
<i>Pseudo R-Squared</i>	0.3815		0.1353		0.3243	

Panel C: Alternate Measures - Discrete N = 2,119

	<i>Model 1g</i>		<i>Model 1h</i>		<i>Model 1i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>NUMDEF</i>	0.6651 ***	(8.68)	0.7402 ***	(8.72)	0.7519 ***	(8.82)
<i>PRPT2</i>	-0.7983	(-1.52)	0.6445	(1.23)	0.6690	(1.28)
<i>OFFICE</i>	0.0950 ***	(12.34)	0.1059 ***	(12.26)	0.1032 ***	(12.10)
<i>GCO</i>	-0.0188	(-0.07)	-0.0937	(-0.38)	-0.0970	(-0.39)
<i>RSTMT</i>	0.4672 *	(1.77)	0.3370	(1.30)	0.2786	(1.04)
<i>INDSPEC</i>	0.0496	(0.29)	-0.1640	(-1.03)	-0.1397	(-0.88)
<i>M_CONTROLS</i>	Included		Included		Included	
<i>Pseudo R-Squared</i>	0.4141		0.4103		0.4062	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of the number of deficiencies on contesting (Hypothesis 2a).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel A.

M_CONTROLS comprises standardized variables of *ABNAFEE*, *ABSDA1*, *ABSDA2*, *ALTMAN*, *BTM*, *CHGSALE*, *EMPLOY*, *EXORD*, *FOREIGN*, *INVREC*, *ISSUE*, *LASSETS*, *LEV*, *LIQUID*, *LOSS*, *MWIC*, *OCF*, *ROA*, *STDEARN*, and *TENURE*.

TABLE 7

Chapter I Regressions - Severity of Deficiencies (H2b)

Panel A: Main Regressions							N = 2,119
	Model 1a		Model 1b		Model 1c		
	CONTEST_DUMMY		CONTEST_DISC		SEVERE_CONTEST		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
<i>GAAPDEF</i>	1.8930 ***	(5.44)	1.5692 ***	(3.63)	1.9784 ***	(4.04)	
<i>PRPT2</i>	1.1190 ***	(3.03)	1.5370 ***	(3.27)	1.2431 **	(2.35)	
<i>OFFICE</i>	0.0484 ***	(11.88)	0.1350 ***	(15.40)	0.1107 ***	(12.02)	
<i>GCO</i>	0.2352	(0.87)	0.1066	(0.46)	0.2246	(0.77)	
<i>RSTMT</i>	0.7572 ***	(2.84)	0.2788	(1.11)	0.6580 **	(2.14)	
<i>INDSPEC</i>	0.0340	(0.18)	-0.0747	(-0.49)	-0.0868	(-0.38)	
<i>M_CONTROLS</i>	Included		Included		Included		
<i>Psuedo R-Squared</i>	0.2520		0.3710		0.3760		

Panel B: Alternate Measures - Dummy							N = 2,119
	Model 1d		Model 1e		Model 1f		
	CONTEST_SERIAL		CONTEST_2YR		CONTEST_1YR		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
<i>GAAPDEF</i>	0.9830 **	(2.38)	1.2430 ***	(4.04)	1.9728 ***	(5.66)	
<i>PRPT2</i>	0.9464 **	(2.07)	0.6813 *	(1.95)	1.5243 ***	(3.84)	
<i>OFFICE</i>	0.0639 ***	(12.66)	0.0192 ***	(5.91)	0.0404 ***	(9.99)	
<i>GCO</i>	-0.4036	(-1.19)	0.1212	(0.66)	0.3590	(1.27)	
<i>RSTMT</i>	0.7018 **	(2.17)	0.5033 ***	(2.62)	0.6499 **	(2.28)	
<i>INDSPEC</i>	0.2224	(0.99)	-0.1408	(-1.12)	0.0984	(0.48)	
<i>M_CONTROLS</i>	Included		Included		Included		
<i>Psuedo R-Squared</i>	0.3396		0.1104		0.2340		

Panel C: Alternate Measures - Discrete							N = 2,119
	Model 1g		Model 1h		Model 1i		
	CONTEST_SERIAL		CONTEST_2YR		CONTEST_1YR		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
<i>GAAPDEF</i>	1.8680 ***	(4.59)	1.5690 ***	(3.63)	1.5893 ***	(3.70)	
<i>PRPT2</i>	0.1493	(0.33)	1.5375 ***	(3.27)	1.5720 ***	(3.35)	
<i>OFFICE</i>	0.1189 ***	(15.45)	0.1350 ***	(15.39)	0.1325 ***	(15.25)	
<i>GCO</i>	0.1512	(0.62)	0.1066	(0.46)	0.1066	(0.46)	
<i>RSTMT</i>	0.4070	(1.60)	0.2788	(1.11)	0.2300	(0.88)	
<i>INDSPEC</i>	0.1234	(0.75)	-0.0747	(-0.49)	-0.0504	(-0.33)	
<i>M_CONTROLS</i>	Included		Included		Included		
<i>Psuedo R-Squared</i>	0.3764		0.3710		0.3649		

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of the number of deficiencies on contesting (Hypothesis 2a).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel A.

M_CONTROLS comprises standardized variables of *ABNAFEE*, *ABSDA1*, *ABSDA2*, *ALTMAN*, *BTM*, *CHGSALE*, *EMPLOY*, *EXORD*, *FOREIGN*, *INVREC*, *ISSUE*, *LASSETS*, *LEV*, *LIQUID*, *LOSS*, *MWIC*, *OCF*, *ROA*, *STDEARN*, and *TENURE*.

TABLE 8

Chapter I Regressions - Number of Revenue Deficiencies (H3a)

Panel A: Main Regressions							N = 2,119
	Model 1a		Model 1b		Model 1c		
	CONTEST_DUMMY		CONTEST_DISC		SEVERE_CONTEST		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
REVDEF	0.8926 ***	(4.90)	1.3847 ***	(6.04)	1.6206 ***	(5.58)	
PRPT2	1.0930 ***	(2.77)	1.3120 ***	(2.81)	0.9864 **	(1.93)	
OFFICE	0.0477 ***	(11.61)	0.1303 ***	(14.77)	0.1065 ***	(11.78)	
GCO	0.1684	(0.62)	0.0257	(0.11)	0.0929	(0.30)	
RSTMT	0.7779 ***	(2.92)	0.2880	(1.13)	0.6714 **	(2.13)	
INDSPEC	0.0869	(0.46)	-0.0936	(-0.61)	-0.0687	(-0.33)	
M_CONTROLS	Included		Included		Included		
Pseudo R-Squared	0.2503		0.3848		0.3931		

Panel B: Alternate Measures - Dummy							N = 2,119
	Model 1d		Model 1e		Model 1f		
	CONTEST_SERIAL		CONTEST_2YR		CONTEST_1YR		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
REVDEF	0.6066 ***	(3.19)	0.1594	(1.34)	0.1960	(1.41)	
PRPT2	0.7369	(1.54)	0.7545 **	(2.16)	1.6623 ***	(4.29)	
OFFICE	0.0629 ***	(12.41)	0.0210 ***	(6.50)	0.0425 ***	(10.50)	
GCO	-0.4348	(-1.28)	0.0958	(0.53)	0.2971	(1.06)	
RSTMT	0.7097 **	(2.17)	0.4966 **	(2.59)	0.6171 **	(2.18)	
INDSPEC	0.2557	(1.10)	-0.1300	(-1.04)	0.1413	(0.71)	
M_CONTROLS	Included		Included		Included		
Pseudo R-Squared	0.3449		0.1043		0.2113		

Panel C: Alternate Measures - Discrete							N = 2,119
	Model 1g		Model 1h		Model 1i		
	CONTEST_SERIAL		CONTEST_2YR		CONTEST_1YR		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
REVDEF	1.2620 ***	(5.81)	1.3847 ***	(6.04)	1.3820 ***	(6.06)	
PRPT2	0.0625	(0.14)	1.3120 ***	(2.81)	1.3520 ***	(2.90)	
OFFICE	0.1152 ***	(14.81)	0.1303 ***	(14.76)	0.1277 ***	(14.62)	
GCO	0.0948	(0.38)	0.0255	(0.11)	0.0166	(0.07)	
RSTMT	0.4294 *	(1.67)	0.2880	(1.13)	0.2557	(0.99)	
INDSPEC	0.1147	(0.69)	-0.0936	(-0.61)	-0.0624	(-0.39)	
M_CONTROLS	Included		Included		Included		
Pseudo R-Squared	0.3864		0.3848		0.3787		

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of the number of revenue deficiencies on contesting (Hypothesis 3a).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table I, Panel A.

M_CONTROLS comprises standardized variables of *ABNAFEE*, *ABSDA1*, *ABSDA2*, *ALTMAN*, *BTM*, *CHGSALE*, *EMPLOY*, *EXORD*, *FOREIGN*, *INVREC*, *ISSUE*, *LASSETS*, *LEV*, *LIQUID*, *LOSS*, *MWIC*, *OCF*, *ROA*, *STDEARN*, and *TENURE*.

TABLE 9

Chapter I Regressions - Number of Complex Deficiencies (H3b)

Panel A: Main Regressions							N = 2,119
	Model 1a		Model 1b		Model 1c		
	CONTEST_DUMMY		CONTEST_DISC		SEVERE_CONTEST		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
COMPDEF	1.4340 ***	(3.34)	3.3156 ***	(5.55)	3.3345 ***	(4.60)	
PRPT2	1.3226 ***	(3.47)	1.4963 ***	(3.15)	1.2159 **	(2.40)	
OFFICE	0.0507 ***	(12.44)	0.1365 ***	(15.53)	0.1138 ***	(12.60)	
GCO	0.1612	(0.60)	0.0250	(0.11)	0.1360	(0.44)	
RSTMT	0.7443 ***	(2.79)	0.2944	(1.16)	0.6510	(2.11)	
INDSPEC	0.0346	(0.18)	-0.0881	(-0.57)	-0.0694	(-0.34)	
M_CONTROLS	Included		Included		Included		
Pseudo R-Squared	0.2389		0.3837		0.3824		

Panel B: Alternate Measures - Dummy							N = 2,119
	Model 1d		Model 1e		Model 1f		
	CONTEST_SERIAL		CONTEST_2YR		CONTEST_1YR		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
COMPDEF	0.8131	(1.49)	0.6892 *	(1.79)	1.1306 **	(2.65)	
PRPT2	1.0427 **	(2.32)	0.7756 **	(2.24)	1.6570 ***	(4.32)	
OFFICE	0.0654 ***	(13.01)	0.0213 ***	(6.70)	0.0428 ***	(10.74)	
GCO	-0.4424	(-1.31)	0.0931	(0.52)	0.2927	(1.04)	
RSTMT	0.6959 **	(2.14)	0.4952 **	(2.47)	0.6150 **	(2.16)	
INDSPEC	0.2123	(0.93)	-0.1349	(-1.07)	0.1188	(0.60)	
M_CONTROLS	Included		Included		Included		
Pseudo R-Squared	0.3366		0.1047		0.2141		

Panel C: Alternate Measures - Discrete							N = 2,119
	Model 1g		Model 1h		Model 1i		
	CONTEST_SERIAL		CONTEST_2YR		CONTEST_1YR		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
COMPDEF	3.2700 ***	(6.31)	3.3156 ***	(5.54)	3.3156 ***	(5.55)	
PRPT2	0.2129	(0.47)	1.4963 ***	(3.15)	1.5379 ***	(3.24)	
OFFICE	0.1220 ***	(15.62)	0.1365 ***	(15.54)	0.1340 ***	(15.41)	
GCO	0.0561	(0.23)	0.0251	(0.11)	0.0224	(0.09)	
RSTMT	0.4309 *	(1.69)	0.2944	(1.17)	0.2481	(0.96)	
INDSPEC	0.0976	(0.58)	-0.0881	(-0.57)	-0.0636	(-0.41)	
M_CONTROLS	Included		Included		Included		
Pseudo R-Squared	0.3897		0.3837		0.3777		

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of the number of complex deficiencies on contesting (Hypothesis 3a).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel A.

M_CONTROLS comprises standardized variables of *ABNAFEE*, *ABSDA1*, *ABSDA2*, *ALTMAN*, *BTM*, *CHGSALE*, *EMPLOY*, *EXORD*, *FOREIGN*, *INVREC*, *ISSUE*, *LASSETS*, *LEV*, *LIQUID*, *LOSS*, *MWIC*, *OCF*, *ROA*, *STDEARN*, and *TENURE*.

TABLE 10

Chapter I Regressions - Percentage of Publicly-Traded Clients (*H4*)

Supplemental Regressions - Dummy Variables							<i>N = 151</i>
	<i>Model 1a</i>		<i>Model 1e</i>		<i>Model 1f</i>		
	<i>CONTEST_DUMMY</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>		
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	
<i>PT</i>	2.5088	(1.06)	3.2290	(1.43)	2.6468	(1.15)	
<i>OFFICE</i>	0.0006	(0.04)	0.0062	(0.42)	-0.0055	(-0.35)	
<i>GCO</i>	1.3086	(1.04)	1.1827	(1.01)	1.1400	(0.98)	
<i>RSTMT</i>	5.7402 ***	(2.90)	4.5700 ***	(2.99)	2.5661 *	(1.88)	
<i>INDSPEC</i>	-0.5544	(-0.73)	-0.4475	(-0.64)	-0.3300	(-0.47)	
<i>M_CONTROLS</i>	Included		Included		Included		
<i>Pseudo R-Squared</i>	0.4227		0.3830		0.3729		

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of the percentage of publicly traded clients on contesting (Hypothesis 4). This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel A.

Only *CONTEST_DUMMY*, *CONTEST_2YR*, and *CONTEST_1YR* are tested as dependent variables. All other dependent variables dropped due to multicollinearity or lack of available data. *PRPT2*, a control variable, also dropped due to lack of available data. *M_CONTROLS* comprises standardized variables of *ABNAFEE*, *ABSDA1*, *ABSDA2*, *ALTMAN*, *BTM*, *CHGSALE*, *EMPLOY*, *EXORD*, *FOREIGN*, *INVREC*, *ISSUE*, *LASSETS*, *LEV*, *LIQUID*, *LOSS*, *MWIC*, *OCF*, *ROA*, *STDEARN*, and *TENURE*.

TABLE 11

Chapter II Regressions - Dismissal (H1)

Panel A: Main Regressions

N = 8,088

	<i>Model 2a</i>		<i>Model 2b</i>		<i>Model 2c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: DISMISS</i>		<i>DV: DISMISS</i>		<i>DV: DISMISS</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>CONTEST</i>	1.3187 ***	(10.80)	0.5525 ***	(6.66)	0.5238 ***	(3.41)
<i>MWIC</i>	0.2707 ***	(2.72)	0.2802 ***	(2.83)	0.2215 **	(2.14)
<i>GCO</i>	0.3715 ***	(4.20)	0.3737 ***	(4.26)	0.3633 ***	(3.94)
<i>FEECUT</i>	-0.6667 ***	(-4.97)	-0.5993 ***	(-4.52)	-0.5887 ***	(-3.88)
<i>ABSDA1</i>	0.1399 **	(2.43)	0.1392 **	(2.43)	0.1374 **	(2.32)
<i>ABSDA2</i>	-0.3183 *	(-1.66)	-0.3196 *	(-1.67)	-0.3957 **	(-1.96)
<i>RSTMT</i>	0.2986 ***	(3.32)	0.3150 ***	(3.52)	0.3131 ***	(3.38)
<i>INDSPEC</i>	0.2419	(1.05)	0.2391	(1.04)	0.1905	(0.80)
<i>LEV</i>	-0.0390	(-0.59)	-0.0384	(-0.58)	-0.0060	(-0.09)
<i>ROA</i>	-0.0290	(-0.15)	-0.0230	(-0.12)	0.0110	(0.05)
<i>LOSS</i>	0.2737 ***	(3.61)	0.2747 ***	(3.64)	0.2901 ***	(3.68)
<i>LIQUID</i>	0.1508	(0.99)	0.1606	(1.06)	0.2595 *	(1.65)
<i>FEWCLIENT</i>	0.6235 ***	(5.88)	0.8080 ***	(6.05)	-0.1675	(-1.09)
<i>LASSETS</i>	0.0890 ***	(3.46)	0.0908 ***	(3.55)	0.0899 ***	(3.38)
<i>NUMDEF</i>	0.0679 **	(2.16)	0.0894 ***	(2.95)	0.0760 **	(2.06)
<i>GAAPDEF</i>	-0.5327 **	(-2.42)	-0.3836 *	(-1.77)	-0.6860 ***	(-2.87)
<i>COMPDEF</i>	0.3659	(1.64)	0.2727	(1.25)	0.3914	(1.44)
<i>REVDEF</i>	-0.1576 **	(-2.32)	-0.1271 *	(-1.90)	-0.1494 **	(-2.18)
<i>PRPT2</i>	-0.6669 *	(-1.95)	-0.7746 **	(-2.30)	-0.9259 **	(-2.23)
<i>Pseudo R-Squared</i>	0.0540		0.0445		0.0472	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of contesting on dismissals (Hypothesis 1).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 11

Chapter II Regressions - Dismissal (H1)

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 2d</i>		<i>Model 2e</i>		<i>Model 2f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: DISMISS</i>		<i>DV: DISMISS</i>		<i>DV: DISMISS</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>CONTEST</i>	0.5567 ***	(4.52)	0.9974 ***	(4.05)	0.9546 ***	(7.55)
<i>MWIC</i>	0.2797 ***	(2.83)	0.2625 ***	(2.61)	0.2767 ***	(2.80)
<i>GCO</i>	0.3755 ***	(4.28)	0.3528 ***	(3.97)	0.3767 ***	(4.18)
<i>FEECUT</i>	-0.5099 ***	(-3.87)	-0.6245 ***	(-4.74)	-0.6465 ***	(-4.87)
<i>ABSDAI</i>	0.1391 **	(2.44)	0.1347 **	(2.32)	0.1393 **	(2.44)
<i>ABSDA2</i>	-0.3137 *	(-1.64)	-0.2715	(-1.41)	-0.3029	(-1.58)
<i>RSTMT</i>	0.3143 ***	(3.52)	0.2989 ***	(3.30)	0.3056 ***	(3.41)
<i>INDSPEC</i>	0.2441	(1.07)	0.2424	(1.04)	0.2457	(1.07)
<i>LEV</i>	-0.0410	(-0.63)	-0.0398	(-0.60)	-0.0397	(-0.60)
<i>ROA</i>	-0.0050	(-0.03)	-0.0190	(-0.10)	-0.0086	(-0.04)
<i>LOSS</i>	0.2730 ***	(3.63)	0.2723 ***	(3.57)	0.2863 ***	(3.80)
<i>LIQUID</i>	0.1722	(1.14)	0.1438	(0.94)	0.1554	(1.03)
<i>FEWCLIENT</i>	0.4552 ***	(4.07)	0.2116 **	(2.27)	0.3442 ***	(3.61)
<i>LASSETS</i>	0.0857 ***	(3.35)	0.0867 ***	(3.38)	0.0946 ***	(3.69)
<i>NUMDEF</i>	0.1004 ***	(3.37)	0.0656 **	(2.13)	0.0684 **	(2.21)
<i>GAAPDEF</i>	-0.3780 **	(-1.75)	-0.5109 **	(-2.33)	-0.5405 **	(-2.45)
<i>COMPDEF</i>	0.2664	(1.21)	0.3130	(1.42)	0.3259	(1.48)
<i>REVDEF</i>	-0.1017	(-1.58)	-0.0943	(-1.46)	-0.0720	(-1.15)
<i>PRPT2</i>	-0.6811 **	(-2.02)	-0.7409 **	(-2.21)	-0.7695 **	(-2.30)
<i>Pseudo R-Squared</i>	0.0414		0.0627		0.0459	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of contesting on dismissals (Hypothesis 1).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 11

Chapter II Regressions - Dismissal (H1)

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 2g</i>		<i>Model 2h</i>		<i>Model 2i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: DISMISS</i>		<i>DV: DISMISS</i>		<i>DV: DISMISS</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>CONTEST</i>	-0.1298	(-0.88)	0.5949 ***	(6.91)	0.4135 ***	(4.64)
<i>MWIC</i>	0.2937 ***	(2.99)	0.2725 ***	(2.75)	0.2615 ***	(2.61)
<i>GCO</i>	0.3695 ***	(4.23)	0.3745 ***	(4.26)	0.3892 ***	(4.40)
<i>FEECUT</i>	-0.4467 ***	(-3.38)	-0.6355 ***	(-4.77)	-0.6088 ***	(-4.38)
<i>ABSDA1</i>	0.1405 **	(2.47)	0.1390 **	(2.40)	0.1379 **	(2.40)
<i>ABSDA2</i>	-0.3267 *	(-1.71)	-0.3077	(-1.61)	-0.3070	(-1.59)
<i>RSTMT</i>	0.3182 ***	(3.55)	0.3145 ***	(3.55)	0.3088 ***	(3.43)
<i>INDSPEC</i>	0.2322	(1.01)	0.2387	(1.04)	0.2188	(0.94)
<i>LEV</i>	-0.0406	(-0.63)	-0.0402	(-0.61)	-0.0411	(-0.62)
<i>ROA</i>	-0.0053	(-0.03)	-0.0201	(-0.10)	-0.0213	(-0.11)
<i>LOSS</i>	0.2823 ***	(3.76)	0.2759 ***	(3.65)	0.2617 ***	(3.43)
<i>LIQUID</i>	0.1670	(1.11)	0.1603	(1.06)	0.1733	(1.13)
<i>FEWCLIENT</i>	0.0828	(0.56)	0.7936 ***	(6.15)	0.7733 ***	(5.88)
<i>LASSETS</i>	0.0902 ***	(3.53)	0.0925 ***	(3.61)	0.0815 ***	(3.15)
<i>NUMDEF</i>	0.1111 ***	(3.78)	0.0814 ***	(2.66)	0.1109 ***	(3.61)
<i>GAAPDEF</i>	-0.3186	(-1.48)	-0.4076 *	(-1.87)	-0.3203	(-1.44)
<i>COMPDEF</i>	0.2360	(1.07)	0.2651	(1.21)	0.2442	(1.06)
<i>REVDEF</i>	-0.0740	(-1.19)	-0.1014	(-1.55)	-0.0496	(-0.77)
<i>PRPT2</i>	0.8634 ***	(-2.60)	-0.7837 **	(-2.33)	-0.8159 **	(-2.39)
<i>Pseudo R-Squared</i>	0.0389		0.0449		0.0417	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of contesting on dismissals (Hypothesis 1).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 12

Chapter II Regressions - Abnormal Audit Fees (H2)

Panel A: Main Regressions

N = 8,088

	<i>Model 3a</i>		<i>Model 3b</i>		<i>Model 3c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: ABNAFEE</i>		<i>DV: ABNAFEE</i>		<i>DV: ABNAFEE</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	-1.2479	(-0.58)	-0.3920	(-0.32)	0.6216	(0.22)
<i>MWIC</i>	0.3625	(0.18)	0.3506	(0.17)	0.1017	(0.04)
<i>MKTSHARE</i>	5.1471 ***	(3.90)	5.1512 ***	(3.90)	5.3723 ***	(3.61)
<i>LASSETS</i>	1.9695 ***	(3.28)	1.9697 ***	(3.28)	1.4677 **	(2.18)
<i>INVREC</i>	-11.6359 ***	(-3.64)	-11.6453 ***	(-3.65)	-14.0807 ***	(-3.91)
<i>EMPLOY</i>	56.9931 ***	(51.04)	56.9929 ***	(51.03)	62.0677 ***	(50.38)
<i>ISSUE</i>	-2.8750 **	(-2.14)	-2.8695 **	(-2.14)	-3.1023 **	(-2.06)
<i>FOREIGN</i>	0.4924	(0.39)	0.4994	(0.40)	0.6274	(0.44)
<i>EXORD</i>	-7.2486	(-0.90)	-7.1813	(-0.89)	-7.6619	(-0.77)
<i>LOSS</i>	1.5064	(1.04)	1.5029	(1.04)	1.3681	(0.84)
<i>LEV</i>	-0.9895	(-0.79)	-0.9912	(-0.79)	-1.3622	(-0.95)
<i>ROA</i>	-17.7018 ***	(-4.85)	-17.7114 ***	(-4.85)	-18.2934 ***	(-4.46)
<i>LIQUID</i>	11.3384 ***	(3.77)	11.3392 ***	(3.77)	11.7897 ***	(3.48)
<i>TENURE</i>	-0.9542	(-0.85)	-0.9017	(-0.82)	-1.2334	(-0.97)
<i>BTM</i>	1.8152 ***	(3.67)	1.8196 ***	(3.68)	2.0427 ***	(3.66)
<i>CHGSALE</i>	-3.6321 **	(-2.34)	-3.6272 **	(-2.33)	-3.0292 *	(-1.74)
<i>OFFICE</i>	0.0113	(0.38)	0.0126	(0.36)	-0.0306	(-0.58)
<i>NUMDEF</i>	-1.3016 **	(-2.37)	-1.3298 **	(-2.42)	-1.2509	(-1.57)
<i>GAAPDEF</i>	-2.1491	(-0.57)	-2.3097	(-0.62)	-2.5327	(-0.53)
<i>COMPDEF</i>	5.1100	(1.28)	5.2418	(1.32)	4.0981	(0.68)
<i>REVDEF</i>	-0.3593	(-0.34)	-0.3996	(-0.38)	-0.1735	(-0.14)
<i>PART2</i>	1.0476	(0.20)	1.1987	(0.23)	-3.8003	(-0.51)
<i>R-Squared</i>	0.3358		0.3358		0.3687	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on abnormal audit fees (Hypothesis 2).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 12

Chapter II Regressions - Abnormal Audit Fees (H2)

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 3d</i>		<i>Model 3e</i>		<i>Model 3f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: ABNAFEE</i>		<i>DV: ABNAFEE</i>		<i>DV: ABNAFEE</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	-0.1259	(-0.06)	0.3772	(0.26)	-0.4267	(-0.18)
<i>MWIC</i>	0.3561	(0.18)	0.3448	(0.17)	0.3590	(0.18)
<i>MKTSHARE</i>	5.1440 ***	(3.90)	5.1471 ***	(3.90)	5.1454 ***	(3.90)
<i>LASSETS</i>	1.9718 ***	(3.28)	1.9696 ***	(3.28)	1.9694 ***	(3.29)
<i>INVREC</i>	-11.6530 ***	(-3.65)	-11.6638 ***	(-3.66)	-11.6487 ***	(-3.66)
<i>EMPLOY</i>	56.9979 ***	(51.04)	56.9985 ***	(51.03)	56.9961 ***	(51.04)
<i>ISSUE</i>	-2.8690 **	(-2.13)	-2.8668 **	(-2.13)	-0.2870 **	(-2.14)
<i>FOREIGN</i>	0.5057	(0.40)	0.5087	(0.40)	0.5018	(0.40)
<i>EXORD</i>	-7.2061	(-0.90)	-7.1478	(-0.89)	-7.2002	(-0.90)
<i>LOSS</i>	1.4977	(1.03)	1.4884	(1.02)	1.4940	(1.03)
<i>LEV</i>	-99.0687	(-0.79)	-0.9919	(-0.79)	-0.9909	(-0.79)
<i>ROA</i>	-17.7365 ***	(-4.86)	17.7471 ***	(-4.86)	-17.7340 ***	(-4.88)
<i>LIQUID</i>	11.3267 ***	(3.77)	11.3423 ***	(3.79)	11.3310 ***	(3.77)
<i>TENURE</i>	-0.9186	(-0.80)	-0.8952	(-0.79)	-0.9325	(-0.82)
<i>BTM</i>	1.8238 ***	(3.68)	1.8261 ***	(3.69)	1.8229 ***	(3.68)
<i>CHGSALE</i>	-3.6259 **	(-2.33)	-3.6209 **	(-2.33)	-3.6224 **	(-2.33)
<i>OFFICE</i>	0.0075	(0.23)	0.0064	(0.22)	0.0074	(0.25)
<i>NUMDEF</i>	-1.3626 **	(-2.51)	-1.3880 **	(-2.55)	-1.3408 **	(-2.41)
<i>GAAPDEF</i>	-2.3305	(-0.61)	-2.4168	(-0.64)	-2.2478	(-0.60)
<i>COMPDEF</i>	5.2607	(1.33)	5.3150	(1.34)	5.2231	(1.31)
<i>REVDEF</i>	-0.4315	(-0.40)	-0.4420	(-0.42)	-0.4352	(-0.42)
<i>PART2</i>	1.2154	(0.23)	1.2919	(0.25)	1.2056	(0.23)
<i>R-Squared</i>	0.3358		0.3358		0.3358	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on abnormal audit fees (Hypothesis 2).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 12

Chapter II Regressions - Abnormal Audit Fees (H2)

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 3g</i>		<i>Model 3h</i>		<i>Model 3i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: ABNAFEE</i>		<i>DV: ABNAFEE</i>		<i>DV: ABNAFEE</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.2048	(0.10)	-0.2235	(-0.17)	-0.0923	(-0.07)
<i>MWIC</i>	0.3584	(0.18)	0.3554	(0.17)	0.4059	(0.20)
<i>MKTSHARE</i>	5.1404 ***	(3.89)	5.1487 ***	(3.90)	5.1456 ***	(3.89)
<i>LASSETS</i>	1.9705 ***	(3.28)	1.9704 ***	(3.28)	1.8374 ***	(3.05)
<i>INVREC</i>	-11.6563 ***	(-3.65)	-11.6481 ***	(-3.65)	-11.4555 ***	(-3.57)
<i>EMPLOY</i>	57.0012 ***	(51.03)	56.9950 ***	(51.03)	57.4413 ***	(51.21)
<i>ISSUE</i>	-2.8705 **	(-2.14)	-2.8689 **	(-2.13)	-3.1695 **	(-2.34)
<i>FOREIGN</i>	0.5066	(0.40)	0.5021	(0.40)	0.5621	(0.44)
<i>EXORD</i>	-7.2217	(-0.89)	-7.1843	(-0.90)	-6.6784	(-0.82)
<i>LOSS</i>	1.4907	(1.03)	1.4990	(1.03)	1.3908	(0.95)
<i>LEV</i>	-0.9917	(-0.79)	-0.9909	(-0.79)	-1.1349	(-0.90)
<i>ROA</i>	17.7480 ***	(-4.87)	-17.7250 ***	(-4.85)	-17.9842 ***	(-4.91)
<i>LIQUID</i>	11.3230 ***	(3.76)	11.3350 ***	(3.77)	11.0159 ***	(3.64)
<i>TENURE</i>	-0.9230	(-0.82)	-0.9161	(-0.81)	-1.1016	(-0.99)
<i>BTM</i>	1.8260 ***	(3.69)	1.9822 ***	(3.68)	1.8787 ***	(3.77)
<i>CHGSALE</i>	-3.6253 **	(-2.33)	-3.6257 **	(-2.33)	-3.6558 **	(-2.33)
<i>OFFICE</i>	0.0042	(0.11)	0.0097	(0.28)	0.0055	(0.16)
<i>NUMDEF</i>	-1.3752 **	(-2.52)	-1.3430 **	(-2.43)	-1.3746 **	(-2.45)
<i>GAAPDEF</i>	-2.3303	(-0.62)	-2.3120	(-0.62)	-2.2833	(-0.61)
<i>COMPDEF</i>	5.2625	(1.32)	5.2622	(1.33)	3.8817	(0.95)
<i>REVDEF</i>	-0.4436	(-0.42)	-0.4253	(-0.40)	0.0050	(0.00)
<i>PART2</i>	1.2540	(0.24)	1.2264	(0.23)	1.2832	(0.24)
<i>R-Squared</i>	<i>0.3358</i>		<i>0.3358</i>		<i>0.3354</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on abnormal audit fees (Hypothesis 2).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 13

Chapter II Regressions - Audit Report Lag (H3)

Panel A: Main Regressions

N = 8,088

	<i>Model 4a</i>		<i>Model 4b</i>		<i>Model 4c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: ARL</i>		<i>DV: ARL</i>		<i>DV: ARL</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0190	(1.59)	0.0016	(0.24)	0.0102	(0.68)
<i>MWIC</i>	0.0210 *	(1.90)	0.0212 *	(1.91)	0.0218 *	(1.82)
<i>GCO</i>	0.1099 ***	(11.71)	0.1100 ***	(11.71)	0.1158 ***	(11.22)
<i>LASSETS</i>	-0.0135 ***	(-5.19)	-0.0135 ***	(-5.18)	-0.0098 ***	(-3.46)
<i>NONAFEE</i>	0.0006 ***	(2.91)	0.0006 ***	(2.89)	0.0005 **	(2.38)
<i>BUSYFYE</i>	0.0036	(0.56)	0.0037	(0.56)	0.0060	(0.84)
<i>LOSS</i>	0.0646 ***	(9.42)	0.0647 ***	(8.44)	0.0642 ***	(7.66)
<i>LEV</i>	0.0557 ***	(5.69)	0.0556 ***	(5.68)	0.0568 ***	(5.30)
<i>ALTMAN</i>	0.0004	(0.17)	0.0004	(0.18)	-0.0010	(-0.41)
<i>ROA</i>	0.0287	(0.81)	0.0287	(0.89)	0.0113	(0.29)
<i>INVREC</i>	0.0110	(0.67)	0.0112	(0.68)	0.0117	(0.65)
<i>FOREIGN</i>	0.0070	(1.02)	0.0078	(0.99)	0.0121	(1.62)
<i>EXORD</i>	0.0144	(0.33)	0.0135	(0.30)	0.0672	(1.29)
<i>OCF</i>	0.0566 ***	(3.85)	0.0569 ***	(3.88)	0.0544 ***	(3.39)
<i>OFFICE</i>	-0.0004 **	(-2.37)	-0.0003 *	(-1.81)	-0.0004	(-1.60)
<i>NUMDEF</i>	0.0064 **	(2.15)	0.0072 **	(2.42)	0.0099 **	(2.36)
<i>GAAPDEF</i>	0.0242	(1.19)	0.0270	(1.33)	0.0297	(1.18)
<i>COMPDEF</i>	0.0266	(1.23)	0.0204	(1.11)	0.0427	(1.34)
<i>REVDEF</i>	-0.0031	(-0.54)	-0.0020	(-0.36)	-0.0010	(-0.15)
<i>PART2</i>	-0.0092	(-0.32)	-0.0120	(-0.42)	-0.0440	(-1.12)
<i>R-Squared</i>	<i>0.1301</i>		<i>0.1299</i>		<i>0.1338</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit report lag (Hypothesis 3).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 13

Chapter II Regressions - Audit Report Lag (H3)

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 4d</i>		<i>Model 4e</i>		<i>Model 4f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: ARL</i>		<i>DV: ARL</i>		<i>DV: ARL</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0076	(0.65)	0.0195	(1.44)	0.0024	(0.19)
<i>MWIC</i>	0.0211 *	(1.92)	0.0205 *	(1.85)	0.0211 *	(1.91)
<i>GCO</i>	0.1100 ***	(11.73)	0.1096 ***	(11.66)	0.1100 ***	(11.71)
<i>LASSETS</i>	-0.1357 ***	(-5.20)	-0.0136 ***	(-5.23)	-0.0135 ***	(-5.18)
<i>NONAFEE</i>	0.0006 ***	(2.90)	0.0006 ***	(2.88)	0.0006 ***	(2.90)
<i>BUSYFYE</i>	0.0036	(0.57)	0.0039	(0.59)	0.0037	(0.56)
<i>LOSS</i>	0.0646 ***	(8.42)	0.0643 ***	(8.39)	0.0647 ***	(8.44)
<i>LEV</i>	0.0557 ***	(5.70)	0.0560 ***	(5.71)	0.0556 ***	(5.68)
<i>ALTMAN</i>	0.0004	(0.15)	0.0003	(0.12)	0.0004	(0.16)
<i>ROA</i>	0.2833	(0.80)	0.0285	(0.81)	0.0287	(0.81)
<i>INVREC</i>	0.0112	(0.68)	0.0108	(0.66)	0.0112	(0.68)
<i>FOREIGN</i>	0.0068	(0.99)	0.0069	(1.01)	0.0068	(0.99)
<i>EXORD</i>	0.1400	(0.31)	0.0166	(0.37)	0.0136	(0.31)
<i>OCF</i>	0.0569 ***	(3.89)	0.0561 ***	(3.82)	0.0569 ***	(3.88)
<i>OFFICE</i>	-0.0004 **	(-2.05)	-0.0003 **	(-2.02)	-0.0003 **	(-2.00)
<i>NUMDEF</i>	0.0071 **	(2.42)	0.0063 **	(2.13)	0.0072 **	(2.40)
<i>GAAPDEF</i>	0.0264	(1.30)	0.0233	(1.15)	0.0266	(1.30)
<i>COMPDEF</i>	0.0248	(1.15)	0.0259	(1.20)	0.0241	(1.12)
<i>REVDEF</i>	-0.0022	(-0.38)	-0.0021	(-0.37)	-0.0019	(-0.33)
<i>PART2</i>	-0.0103	(-0.35)	-0.0098	(-0.33)	-0.0119	(-0.41)
<i>R-Squared</i>	<i>0.1299</i>		<i>0.1305</i>		<i>0.1299</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit report lag (Hypothesis 3).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 13

Chapter II Regressions - Audit Report Lag (H3)

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 4g</i>		<i>Model 4h</i>		<i>Model 4i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: ARL</i>		<i>DV: ARL</i>		<i>DV: ARL</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	-0.0177	(-1.56)	-0.0029	(-0.41)	-0.0055	(-0.78)
<i>MWIC</i>	0.0208 *	(1.88)	0.0211 *	(1.91)	0.0206 *	(1.86)
<i>GCO</i>	0.1100 ***	(11.72)	0.1100 ***	(11.73)	0.1089 ***	(11.60)
<i>LASSETS</i>	-0.0135 ***	(-5.19)	-0.0135 ***	(-5.18)	-0.0146 ***	(-5.60)
<i>NONAFEE</i>	0.0006 ***	(2.87)	0.0006 ***	(2.88)	0.0006 ***	(3.04)
<i>BUSYFYE</i>	0.0038	(0.58)	0.0037	(0.56)	0.0027	(0.41)
<i>LOSS</i>	0.0650 ***	(8.48)	0.0647 ***	(8.44)	0.0640 ***	(8.36)
<i>LEV</i>	0.0555 ***	(5.67)	0.0555 ***	(5.67)	0.0539 ***	(5.51)
<i>ALTMAN</i>	0.0004	(0.18)	0.0004	(0.17)	0.0006	(0.26)
<i>ROA</i>	0.0293	(0.82)	0.0289	(0.82)	0.0339	(0.96)
<i>INVREC</i>	0.0113	(0.68)	0.0113	(0.69)	0.0126	(0.77)
<i>FOREIGN</i>	0.0067	(0.97)	0.0067	(0.98)	0.0060	(0.90)
<i>EXORD</i>	0.0147	(0.33)	0.0137	(0.31)	0.0144	(0.33)
<i>OCF</i>	0.0569 ***	(3.88)	0.0570 ***	(3.89)	0.0554 ***	(3.78)
<i>OFFICE</i>	-0.0001	(-0.55)	-0.0003	(-1.49)	-0.0003	(-1.33)
<i>NUMDEF</i>	0.0081 **	(2.74)	0.0077 **	(2.56)	0.0081 **	(2.69)
<i>GAAPDEF</i>	0.0260	(1.28)	0.0275	(1.35)	0.0274	(1.35)
<i>COMPDEF</i>	0.0250	(1.16)	0.0237	(1.10)	0.0317	(1.44)
<i>REVDEF</i>	-0.0013	(-0.23)	-0.0017	(-0.30)	-0.0032	(-0.50)
<i>PART2</i>	-0.0129	(-0.44)	-0.0124	(-0.44)	-0.0139	(-0.48)
<i>R-Squared</i>	<i>0.1301</i>		<i>0.1299</i>		<i>0.1317</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit report lag (Hypothesis 3).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 14

Chapter II Regressions - Audit Quality (*H4a*)

Accruals I

Panel A: Main Regressions

N = 8,088

	<i>Model 5a</i>		<i>Model 5b</i>		<i>Model 5c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	DV: ABSDAI		DV: ABSDAI		DV: ABSDAI	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0170	(0.78)	0.0166	(1.33)	0.0261	(0.93)
<i>MWIC</i>	0.0144	(0.69)	0.0147	(0.71)	0.0190	(0.84)
<i>INDSPEC</i>	-0.0107	(-0.88)	-0.0109	(-0.90)	-0.0109	(-0.82)
<i>LASSETS</i>	-0.0444 ***	(-8.12)	-0.0443 ***	(-8.10)	-0.0465 ***	(-7.77)
<i>LOSS</i>	-0.1921 ***	(-12.99)	-0.1923 ***	(-13.03)	-0.1989 ***	(-12.29)
<i>LEV</i>	0.1001 ***	(5.56)	0.1002 ***	(5.59)	0.0998 ***	(5.06)
<i>BTM</i>	0.0129 **	(2.56)	0.0130 ***	(2.60)	0.0134 **	(2.42)
<i>CHGSALE</i>	0.1930 ***	(12.19)	0.1929 ***	(12.21)	0.1751 ***	(10.13)
<i>OCF</i>	0.1343 ***	(4.85)	0.1345 ***	(4.88)	0.1166 ***	(3.85)
<i>STDEARN</i>	0.0011 ***	(4.55)	0.0011 ***	(4.56)	0.0012 ***	(4.55)
<i>ALTMAN</i>	-0.0105 **	(-2.52)	-0.0105 ***	(-2.55)	-0.0116 **	(-2.55)
<i>ROA</i>	-0.7414 ***	(-11.15)	-0.7423 ***	(-11.19)	-0.7344 ***	(-10.09)
<i>TENURE</i>	-0.0415 ***	(-3.61)	-0.0421 ***	(-3.69)	-0.0397 ***	(-3.13)
<i>OFFICE</i>	-0.0006 *	(-1.88)	-0.0008 **	(-2.20)	-0.0008	(-1.59)
<i>NUMDEF</i>	0.0005	(0.08)	-0.0002	(-0.04)	-0.0026	(-0.33)
<i>GAAPDEF</i>	-0.0488	(-1.27)	-0.0476	(-1.24)	-0.0243	(-0.51)
<i>COMPDEF</i>	-0.0381	(-0.94)	-0.0391	(-0.99)	-0.0515	(-0.86)
<i>REVDEF</i>	-0.0044	(-0.41)	-0.0049	(-0.46)	0.0000	(-0.00)
<i>PART2</i>	-0.0337	(-0.63)	-0.0344	(-0.64)	-0.0113	(-0.15)
<i>R-Squared</i>	0.1341		0.1342		0.1398	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 14

Chapter II Regressions - Audit Quality (*H4a*)

Accruals I

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 5d</i>		<i>Model 5e</i>		<i>Model 5f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: ABSDAI</i>		<i>DV: ABSDAI</i>		<i>DV: ABSDAI</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0304	(1.38)	0.0028	(0.19)	0.0064	(0.26)
<i>MWIC</i>	0.0143	(0.69)	0.0144	(0.69)	0.0145	(0.69)
<i>INDSPEC</i>	-0.0107	(-0.88)	-0.0107	(-0.89)	-0.0107	(-0.89)
<i>LASSETS</i>	-0.0446 ***	(-8.16)	-0.0445 ***	(-8.14)	-0.0444 ***	(-8.18)
<i>LOSS</i>	-0.1926 ***	(-13.03)	-0.1920 ***	(-12.99)	-0.1919 ***	(-12.98)
<i>LEV</i>	0.1004 ***	(5.57)	0.1001 ***	(5.56)	0.1001 ***	(5.56)
<i>BTM</i>	0.0130 ***	(2.58)	0.0128 **	(2.55)	0.0128 **	(2.52)
<i>CHGSALE</i>	0.1929 ***	(12.19)	0.1929 ***	(12.19)	0.1928 ***	(12.18)
<i>OCF</i>	0.1345 ***	(4.88)	0.1345 ***	(4.86)	0.1345 ***	(4.88)
<i>STDEARN</i>	0.0011 ***	(4.55)	0.0011 ***	(4.56)	0.0011 ***	(4.55)
<i>ALTMAN</i>	-0.0106 **	(-2.54)	-0.0105 **	(-2.52)	-0.0105 **	(-2.52)
<i>ROA</i>	-0.7432 ***	(-11.20)	-0.7413 ***	(-11.15)	-0.7412 ***	(-11.15)
<i>TENURE</i>	-0.0419 ***	(-3.68)	-0.0419 ***	(-3.63)	-0.0419 ***	(-3.65)
<i>OFFICE</i>	-0.0007 **	(-2.20)	-0.0005 *	(-1.74)	-0.0005 *	(-1.77)
<i>NUMDEF</i>	0.0004	(0.07)	0.0012	(0.21)	0.0010	(0.17)
<i>GAAPDEF</i>	-0.0493	(-1.29)	-0.0467	(-1.21)	-0.0475	(-1.22)
<i>COMPDEF</i>	-0.0368	(-0.90)	-0.0402	(-0.99)	-0.0397	(-0.97)
<i>REVDEF</i>	-0.0046	(-0.44)	-0.0034	(-0.32)	-0.0034	(-0.30)
<i>PART2</i>	-0.0289	(-0.54)	-0.0360	(-0.67)	-0.0358	(-0.67)
<i>R-Squared</i>	0.1342		0.1340		0.1340	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 14

Chapter II Regressions - Audit Quality (*H4a*)

Accruals I

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 5g</i>		<i>Model 5h</i>		<i>Model 5i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: ABSDAI</i>		<i>DV: ABSDAI</i>		<i>DV: ABSDAI</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.3398	(1.60)	0.0146	(1.11)	0.0121	(0.90)
<i>MWIC</i>	0.0150	(0.72)	0.0145	(0.70)	0.0140	(0.67)
<i>INDSPEC</i>	-0.0111	(-0.91)	-0.0109	(-0.89)	-0.0097	(-0.79)
<i>LASSETS</i>	-0.0444 ***	(-8.12)	-0.0444 ***	(-8.11)	-0.0439 ***	(-7.99)
<i>LOSS</i>	-0.1926 ***	(-13.01)	-0.1922 ***	(-13.00)	-0.1910 ***	(-12.85)
<i>LEV</i>	0.1001 ***	(5.55)	0.1002 ***	(5.56)	0.1009 ***	(5.59)
<i>BTM</i>	0.0130 ***	(2.59)	0.0129 ***	(2.56)	0.0129 **	(2.56)
<i>CHGSALE</i>	0.1929 ***	(12.19)	0.1928 ***	(12.19)	0.1957 ***	(12.28)
<i>OCF</i>	0.1348 ***	(4.87)	0.1345 ***	(4.86)	0.1313 ***	(4.72)
<i>STDEARN</i>	0.0011 ***	(4.55)	0.0011 ***	(4.55)	0.0011 ***	(4.49)
<i>ALTMAN</i>	-0.0105 **	(-2.52)	-0.0105 **	(-2.52)	-0.0104 **	(-2.49)
<i>ROA</i>	-0.7426 ***	(-11.19)	-0.7422 ***	(-11.16)	-0.7386 ***	(-11.03)
<i>TENURE</i>	-0.0429 ***	(-3.77)	-0.0422 ***	(-3.66)	-0.0423 ***	(-3.69)
<i>OFFICE</i>	-0.0009 **	(-2.36)	-0.0007 **	(-2.06)	-0.0007 *	(-1.95)
<i>NUMDEF</i>	-0.0001	(-0.01)	-0.0002	(-0.03)	0.0000	(-0.00)
<i>GAAPDEF</i>	-0.0439	(-1.11)	-0.0479	(-1.25)	-0.0496	(-1.29)
<i>COMPDEF</i>	-0.0428	(-1.05)	-0.0397	(-0.98)	-0.0412	(-0.99)
<i>REVDEF</i>	-0.0045	(-0.42)	-0.0041	(-0.37)	-0.0016	(-0.14)
<i>PART2</i>	-0.0350	(-0.65)	-0.0351	(-0.65)	-0.0381	(-0.71)
<i>R-Squared</i>	<i>0.1343</i>		<i>0.1342</i>		<i>0.1348</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 15

Chapter II Regressions - Audit Quality (*H4b*)

Accruals II

Panel A: Main Regressions

N = 8,088

	<i>Model 5a</i>		<i>Model 5b</i>		<i>Model 5c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: ABSDA2</i>		<i>DV: ABSDA2</i>		<i>DV: ABSDA2</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0020	(0.29)	0.0010	(0.25)	0.0058	(0.69)
<i>MWIC</i>	0.0048	(0.74)	0.0048	(0.75)	0.0014	(0.21)
<i>INDSPEC</i>	0.0046	(1.22)	0.0046	(1.21)	0.0040	(1.00)
<i>LASSETS</i>	-0.0558 ***	(-32.89)	-0.0558 ***	(-32.88)	-0.0563 ***	(-31.06)
<i>LOSS</i>	-0.0441 ***	(-9.65)	-0.0441 ***	(-9.62)	-0.0450 ***	(-9.20)
<i>LEV</i>	0.0539 ***	(9.64)	0.0539 ***	(9.64)	0.0583 ***	(9.77)
<i>BTM</i>	0.0074 ***	(4.72)	0.0074 ***	(4.74)	0.0065 ***	(3.87)
<i>CHGSALE</i>	0.0679 ***	(13.82)	0.0679 ***	(13.82)	0.0676 ***	(12.93)
<i>OCF</i>	-0.0324 ***	(-3.78)	-0.0323 ***	(-3.77)	-0.0385 ***	(-4.20)
<i>STDEARN</i>	0.0004 ***	(5.95)	0.0004 ***	(5.93)	0.0004 ***	(5.75)
<i>ALTMAN</i>	-0.0105 ***	(-8.13)	-0.0105 ***	(-8.13)	-0.0113 ***	(-8.22)
<i>ROA</i>	-0.2748 ***	(-13.31)	-0.2749 ***	(-13.32)	-0.2790 ***	(-12.67)
<i>TENURE</i>	-0.0002	(-0.06)	-0.0003	(-0.07)	0.0003	(0.08)
<i>OFFICE</i>	-0.0001	(-1.06)	-0.0001	(-0.99)	-0.0001	(-0.82)
<i>NUMDEF</i>	0.0001	(0.07)	0.0001	(0.07)	-0.0022	(-0.91)
<i>GAAPDEF</i>	0.0084	(0.70)	0.0086	(0.73)	0.0207	(1.43)
<i>COMPDEF</i>	-0.0004	(-0.03)	-0.0006	(-0.05)	-0.0208	(-1.15)
<i>REVDEF</i>	-0.0030	(-0.90)	-0.0030	(-0.89)	0.0001	(0.03)
<i>PART2</i>	-0.0155	(-0.93)	-0.0157	(-0.94)	0.0173	(0.77)
<i>R-Squared</i>	0.3857		0.3857		0.3988	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 15

Chapter II Regressions - Audit Quality (*H4b*)

Accruals II

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 5d</i>		<i>Model 5e</i>		<i>Model 5f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	DV: ABSDA2		DV: ABSDA2		DV: ABSDA2	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	-0.0057	(-0.84)	-0.0055	(-1.17)	-0.0054	(-0.73)
<i>MWIC</i>	0.0048	(0.74)	0.0049	(0.76)	0.0048	(0.74)
<i>INDSPEC</i>	0.0046	(1.21)	0.0045	(1.20)	0.0046	(1.22)
<i>LASSETS</i>	-0.0558 ***	(-32.88)	-0.0558 ***	(-32.90)	-0.0559 ***	(-32.91)
<i>LOSS</i>	-0.0440 ***	(-9.59)	-0.0440 ***	(-9.59)	-0.0441 ***	(-9.62)
<i>LEV</i>	0.0538 ***	(9.65)	0.0538 ***	(9.64)	0.0539 ***	(9.64)
<i>BTM</i>	0.0073 ***	(4.68)	0.0073 ***	(4.70)	0.0073 ***	(4.70)
<i>CHGSALE</i>	0.0678 ***	(13.83)	0.0678 ***	(13.83)	0.0679 ***	(13.83)
<i>OCF</i>	-0.0323 ***	(-3.77)	-0.0321 ***	(-3.71)	-0.0322 ***	(-3.75)
<i>STDEARN</i>	0.0004 ***	(5.95)	0.0004 ***	(5.95)	0.0004 ***	(5.93)
<i>ALTMAN</i>	-0.0105 ***	(-8.11)	-0.0105 ***	(-8.11)	-0.0105 ***	(-8.13)
<i>ROA</i>	-0.2744 ***	(-13.30)	-0.2747 ***	(-13.33)	-0.2748 ***	(-13.32)
<i>TENURE</i>	-0.0003	(-0.08)	-0.0006	(-0.17)	-0.0003	(-0.10)
<i>OFFICE</i>	-0.0001	(-0.48)	-0.0001	(-1.01)	-0.0001	(-0.91)
<i>NUMDEF</i>	0.0004	(0.24)	0.0005	(0.30)	0.0005	(0.31)
<i>GAAPDEF</i>	0.0093	(0.78)	0.0098	(0.82)	0.0100	(0.83)
<i>COMPDEF</i>	-0.0014	(-0.11)	-0.0012	(-0.10)	-0.0013	(-0.11)
<i>REVDEF</i>	-0.0027	(-0.79)	-0.0028	(-0.84)	-0.0029	(-0.88)
<i>PART2</i>	-0.0172	(-1.03)	-0.0165	(-0.99)	-0.0163	(-0.97)
<i>R-Squared</i>	0.3858		0.3858		0.3858	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 15

Chapter II Regressions - Audit Quality (*H4b*)

Accruals II

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 5g</i>		<i>Model 5h</i>		<i>Model 5i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: ABSDA2</i>		<i>DV: ABSDA2</i>		<i>DV: ABSDA2</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0043	(0.65)	-0.0011	(-0.26)	-0.0010	(-0.24)
<i>MWIC</i>	0.0048	(0.75)	0.0048	(0.74)	0.0055	(0.84)
<i>INDSPEC</i>	0.0045	(1.20)	0.0046	(1.22)	0.0042	(1.12)
<i>LASSETS</i>	-0.0558 ***	(-32.89)	-0.0558 ***	(-32.89)	-0.0562 ***	(-32.91)
<i>LOSS</i>	-0.0442 ***	(-9.69)	-0.0441 ***	(-9.61)	-0.0446 ***	(-9.66)
<i>LEV</i>	0.0539 ***	(9.65)	0.0539 ***	(-9.64)	0.0534 ***	(9.52)
<i>BTM</i>	0.0074 ***	(4.75)	0.0074 ***	(4.70)	0.0076 ***	(4.81)
<i>CHGSALE</i>	0.0679 ***	(13.83)	0.0679 ***	(13.83)	0.0680 ***	(13.75)
<i>OCF</i>	-0.0323 ***	(-3.76)	-0.0323 ***	(-3.77)	-0.0326 ***	(-3.79)
<i>STDEARN</i>	0.0004 ***	(5.93)	0.0004 ***	(5.93)	0.0004 ***	(6.00)
<i>ALTMAN</i>	-0.0105 ***	(-8.13)	-0.0105 ***	(-8.13)	-0.0104 ***	(-8.08)
<i>ROA</i>	-0.2750 ***	(-13.33)	-0.2747 ***	(-13.33)	-0.2726 ***	(-13.12)
<i>TENURE</i>	-0.0004	(-0.10)	-0.0003	(-0.07)	0.0000	(-0.01)
<i>OFFICE</i>	-0.0001	(-1.22)	-0.0001	(-0.74)	-0.0001	(-0.85)
<i>NUMDEF</i>	0.0000	(0.02)	0.0003	(0.19)	0.0003	(0.17)
<i>GAAPDEF</i>	0.0090	(0.77)	0.0089	(0.74)	0.0093	(0.79)
<i>COMPDEF</i>	-0.0010	(-0.08)	-0.0007	(-0.06)	-0.0047	(-0.37)
<i>REVDEF</i>	-0.0030	(-0.91)	-0.0028	(-0.85)	-0.0022	(-0.60)
<i>PART2</i>	-0.0156	(-0.94)	-0.0159	(-0.95)	-0.0151	(-0.90)
<i>R-Squared</i>	0.3858		0.3857		0.3862	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 16

Chapter II Regressions - Audit Quality (*H4c*)

Going Concern Opinions

Panel A: Main Regressions

N = 8,088

	<i>Model 5a</i>		<i>Model 5b</i>		<i>Model 5c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: GCO</i>		<i>DV: GCO</i>		<i>DV: GCO</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.1808	(1.23)	0.0745	(0.89)	0.0066	(0.40)
<i>MWIC</i>	0.3077 **	(2.34)	0.3103 **	(2.36)	0.0351 ***	(2.61)
<i>INDSPEC</i>	0.1803 **	(2.21)	0.1793 **	(2.20)	0.0148	(1.86)
<i>LASSETS</i>	-0.1693 ***	(-4.40)	-0.1691 ***	(-4.39)	-0.0131 ***	(-3.67)
<i>LOSS</i>	1.0984 ***	(8.70)	1.0984 ***	(8.70)	0.0106	(1.11)
<i>LEV</i>	1.0455 ***	(10.66)	1.0441 ***	(10.65)	0.1524 ***	(12.99)
<i>BTM</i>	0.5198 ***	(18.20)	0.5192 ***	(18.18)	0.0690 ***	(20.92)
<i>CHGSALE</i>	-0.3946 ***	(-3.84)	-0.3945 ***	(-3.84)	-0.0358 ***	(-3.49)
<i>OCF</i>	-0.8804 ***	(-5.59)	-0.8755 ***	(-5.57)	-0.0721 ***	(-4.00)
<i>STDEARN</i>	0.0024	(1.62)	0.0023	(1.62)	0.0002	(1.21)
<i>ALTMAN</i>	0.0544 **	(2.49)	0.0545 **	(2.52)	0.0120 ***	(4.42)
<i>ROA</i>	-0.1791 ***	(-3.27)	-1.1799 ***	(-3.29)	-0.2633 ***	(-6.08)
<i>TENURE</i>	-0.3001 ***	(-3.82)	-0.3045 ***	(-3.90)	-0.0276 ***	(-3.66)
<i>OFFICE</i>	-0.0041 *	(-1.89)	-0.0044 *	(-1.88)	-0.0004	(-1.23)
<i>NUMDEF</i>	0.0252	(0.69)	0.0267	(0.71)	0.0049	(1.04)
<i>GAAPDEF</i>	-0.1746	(-0.70)	-0.1555	(-0.61)	-0.0085	(-0.30)
<i>COMPDEF</i>	-0.0731	(-0.29)	-0.0919	(-0.35)	-0.0135	(-0.38)
<i>REVDEF</i>	0.0427	(0.52)	0.0463	(0.56)	-0.0003	(-0.04)
<i>PART2</i>	-0.0830	(-0.24)	-0.1020	(-0.30)	-0.0021	(-0.05)
<i>R-Squared</i>	0.4366		0.4366		0.4420	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 16

Chapter II Regressions - Audit Quality (*H4c*)

Going Concern Opinions

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 5d</i>		<i>Model 5e</i>		<i>Model 5f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: GCO</i>		<i>DV: GCO</i>		<i>DV: GCO</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0975	(0.65)	0.1797	(1.61)	0.1957	(1.23)
<i>MWIC</i>	0.3089 **	(2.35)	0.3054 **	(2.32)	0.3070 **	(2.33)
<i>INDSPEC</i>	0.1800 **	(2.21)	0.1823 **	(2.24)	0.1804 **	(2.22)
<i>LASSETS</i>	-0.1700 ***	(-4.44)	-0.1701 ***	(-4.42)	-0.1688 ***	(-4.38)
<i>LOSS</i>	1.0908 ***	(8.70)	1.0961 ***	(8.68)	1.0996 ***	(8.71)
<i>LEV</i>	1.0447 ***	(10.65)	1.0488 ***	(10.77)	1.0463 ***	(10.66)
<i>BTM</i>	0.5192 ***	(18.18)	0.5194 ***	(18.21)	0.5192 ***	(18.19)
<i>CHGSALE</i>	-0.3950 ***	(-3.84)	-0.3913 ***	(-3.83)	-0.3973 ***	(-3.88)
<i>OCF</i>	-0.8761 ***	(-5.57)	-0.8852 ***	(-5.62)	-0.8805 ***	(-5.59)
<i>STDEARN</i>	0.0023	(1.63)	0.0024	(1.62)	0.0024	(1.63)
<i>ALTMAN</i>	0.0541 **	(2.48)	0.0536 **	(2.46)	0.0542 **	(2.49)
<i>ROA</i>	-1.1844 ***	(-3.30)	-1.1847 ***	(-3.29)	-1.1797 ***	(-3.27)
<i>TENURE</i>	-0.3055 ***	(-3.90)	-0.2946 ***	(-3.74)	-0.3023 ***	(-3.86)
<i>OFFICE</i>	-0.0041 *	(-1.72)	-0.0035 *	(-1.77)	-0.0038 *	(-1.81)
<i>NUMDEF</i>	0.0314	(0.88)	0.0254	(0.69)	0.0232	(0.62)
<i>GAAPDEF</i>	-0.1613	(-0.64)	-0.1756	(-0.69)	-0.1866	(-0.73)
<i>COMPDEF</i>	-0.0878	(-0.34)	-0.0760	(-0.29)	-0.0708	(-0.27)
<i>REVDEF</i>	0.0513	(0.63)	0.0483	(0.60)	0.0540	(0.67)
<i>PART2</i>	-0.0974	(-0.28)	-0.0975	(-0.28)	-0.1005	(-0.29)
<i>R-Squared</i>	0.4365		0.4369		0.4366	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 16

Chapter II Regressions - Audit Quality (*H4c*)

Going Concern Opinions

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 5g</i>		<i>Model 5h</i>		<i>Model 5i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	DV: GCO		DV: GCO		DV: GCO	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0505	(0.36)	0.0547	(0.62)	0.0744	(0.83)
<i>MWIC</i>	0.3108 **	(2.40)	0.3095 **	(2.35)	0.2823 **	(2.11)
<i>INDSPEC</i>	0.1800 **	(2.21)	0.1799 **	(2.21)	0.1821 **	(2.23)
<i>LASSETS</i>	-0.1693 ***	(-4.40)	-0.1691 ***	(-4.39)	-0.1671 ***	(-4.31)
<i>LOSS</i>	1.0990 ***	(8.70)	1.0988 ***	(8.71)	1.1054 ***	(8.70)
<i>LEV</i>	1.0429 ***	(10.66)	1.0439 ***	(10.65)	1.0416 ***	(10.60)
<i>BTM</i>	0.5185 ***	(18.17)	0.5188 ***	(18.18)	0.5212 ***	(18.17)
<i>CHGSALE</i>	-0.3948 ***	(-3.84)	-0.3949 ***	(-3.84)	-0.3883 ***	(-3.75)
<i>OCF</i>	-0.8757 ***	(-5.57)	-0.8759 ***	(-5.56)	-0.8923 ***	(-5.65)
<i>STDEARN</i>	0.0023	(1.63)	0.0024	(1.63)	0.0023	(1.62)
<i>ALTMAN</i>	0.0546 **	(2.52)	0.0545 **	(2.50)	0.0538 **	(2.46)
<i>ROA</i>	-1.1783 ***	(-3.30)	-1.1793 ***	(-3.27)	-1.1848 ***	(-3.26)
<i>TENURE</i>	-0.3070 ***	(-3.91)	-0.3059 ***	(-3.90)	-0.3037 ***	(-3.86)
<i>OFFICE</i>	-0.0039 *	(-1.55)	-0.0041 *	(-1.71)	-0.0043 *	(-1.79)
<i>NUMDEF</i>	0.0311	(0.88)	0.0281	(0.75)	0.0347	(0.92)
<i>GAAPDEF</i>	-0.1467	(-0.58)	-0.1541	(-0.61)	-0.2071	(-0.81)
<i>COMPDEF</i>	-0.1042	(-0.40)	-0.0945	(-0.36)	-0.0490	(-0.18)
<i>REVDEF</i>	0.0535	(0.66)	0.0506	(0.62)	0.0552	(0.60)
<i>PART2</i>	-0.1170	(-0.34)	-0.1103	(-0.32)	-0.1697	(-0.49)
<i>R-Squared</i>	0.4365		0.4365		0.4380	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 17

Chapter II Regressions - Audit Quality (*H4d*)

Restatements

Panel A: Main Regressions

N = 8,088

	<i>Model 5a</i>		<i>Model 5b</i>		<i>Model 5c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: RSTMT</i>		<i>DV: RSTMT</i>		<i>DV: RSTMT</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.2844	(1.03)	0.0193	(0.24)	0.0070	(0.42)
<i>MWIC</i>	0.3130 **	(2.50)	0.3144 **	(2.52)	0.0273 **	(2.05)
<i>INDSPEC</i>	0.0945	(1.18)	0.0929	(1.16)	0.0139 *	(1.77)
<i>LASSETS</i>	0.0252	(0.70)	0.0241	(0.66)	0.0018	(0.52)
<i>LOSS</i>	0.0484	(0.49)	0.0516	(0.52)	0.0032	(0.34)
<i>LEV</i>	0.1712	(1.45)	0.1707	(1.44)	0.0181	(1.56)
<i>BTM</i>	-0.0677 *	(-1.91)	-0.0698 **	(-2.03)	-0.0088 ***	(-2.70)
<i>CHGSALE</i>	0.2155 **	(2.10)	0.2134 **	(2.09)	0.0184 *	(1.81)
<i>OCF</i>	-0.1331	(-0.74)	-0.1278	(-0.71)	-0.0123	(-0.69)
<i>STDEARN</i>	0.0004	(0.31)	0.0004	(0.32)	0.0001	(0.50)
<i>ALTMAN</i>	-0.0192	(-0.70)	-0.0191	(-0.70)	-0.0020	(-0.74)
<i>ROA</i>	-0.0879	(-0.20)	-0.0826	(-0.19)	-0.0170	(-0.40)
<i>TENURE</i>	-0.1105	(-1.42)	-0.1185	(-1.53)	-0.0069	(-0.93)
<i>OFFICE</i>	-0.0006	(-0.28)	0.0003	(0.11)	0.0003	(0.83)
<i>NUMDEF</i>	-0.0075	(-0.20)	0.0071	(0.19)	0.0008	(0.18)
<i>GAAPDEF</i>	0.0877	(-0.35)	0.1300	(0.52)	-0.0052	(-0.18)
<i>COMPDEF</i>	0.0179	(0.07)	-0.0114	(-0.04)	0.0434	(1.22)
<i>REVDEF</i>	-0.0358	(-0.53)	-0.0221	(-0.33)	-0.0025	(-0.35)
<i>PART2</i>	-0.1889	(-0.50)	-0.2217	(-0.58)	0.0035	(0.08)
<i>R-Squared</i>	0.0228		0.0220		0.0192	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 17

Chapter II Regressions - Audit Quality (*H4d*)

Restatements

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 5d</i>		<i>Model 5e</i>		<i>Model 5f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: RSTMT</i>		<i>DV: RSTMT</i>		<i>DV: RSTMT</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.1045	(0.72)	0.1933	(1.50)	0.2822	(1.56)
<i>MWIC</i>	0.3134 **	(2.51)	0.3087 **	(2.47)	0.3124 **	(2.50)
<i>INDSPEC</i>	0.0934	(1.16)	0.0958	(1.19)	0.0941	(1.17)
<i>LASSETS</i>	0.0236	(0.66)	0.0237	(0.65)	0.0261	(0.77)
<i>LOSS</i>	0.0497	(0.50)	0.0488	(0.50)	0.0520	(0.55)
<i>LEV</i>	0.1715	(1.44)	0.1734	(1.47)	0.1728	(1.48)
<i>BTM</i>	-0.0693 **	(-2.00)	-0.0692 **	(-2.00)	-0.0686 **	(-1.99)
<i>CHGSALE</i>	0.2136 **	(2.09)	0.2155 **	(2.11)	0.2108 **	(2.05)
<i>OCF</i>	-0.1274	(-0.71)	-0.1378	(-0.78)	-0.1310	(-0.77)
<i>STDEARN</i>	0.0004	(0.31)	0.0004	(0.29)	0.0004	(0.33)
<i>ALTMAN</i>	-0.0195	(-0.71)	-0.0199	(-0.73)	-0.0197	(-0.72)
<i>ROA</i>	-0.0908	(-0.22)	-0.0830	(-0.19)	-0.0910	(-0.22)
<i>TENURE</i>	-0.1177	(-1.55)	-0.1077	(-1.37)	-0.1153	(-1.49)
<i>OFFICE</i>	-0.0002	(-0.10)	0.0005	(0.25)	0.0003	(0.01)
<i>NUMDEF</i>	0.0055	(0.15)	-0.0023	(-0.06)	-0.0102	(-0.29)
<i>GAAPDEF</i>	0.1208	(0.48)	0.0930	(0.38)	0.0669	(0.28)
<i>COMPDEF</i>	-0.0081	(-0.03)	0.0066	(0.02)	0.0189	(0.07)
<i>REVDEF</i>	-0.0241	(-0.36)	-0.0249	(-0.38)	-0.0238	(-0.36)
<i>PART2</i>	-0.2002	(-0.53)	-0.2032	(-0.55)	-0.2016	(-0.53)
<i>R-Squared</i>	<i>0.0221</i>		<i>0.0227</i>		<i>0.0226</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 17

Chapter II Regressions - Audit Quality (*H4d*)

Restatements

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 5g</i>		<i>Model 5h</i>		<i>Model 5i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: RSTMT</i>		<i>DV: RSTMT</i>		<i>DV: RSTMT</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	-0.1490	(-1.04)	0.0196	(0.23)	-0.0100	(-0.11)
<i>MWIC</i>	0.3132 **	(2.50)	0.3141 **	(2.55)	0.2660 **	(2.09)
<i>INDSPEC</i>	0.0949	(1.18)	0.0930	(1.16)	0.0850	(1.00)
<i>LASSETS</i>	0.0235	(0.65)	0.0240	(0.67)	0.0225	(0.60)
<i>LOSS</i>	0.0551	(0.55)	0.0516	(0.52)	0.0535	(0.53)
<i>LEV</i>	0.1704	(1.44)	0.1708	(1.45)	0.1650	(1.29)
<i>BTM</i>	-0.0710 **	(-2.05)	-0.0699 **	(-2.02)	-0.0703 **	(-2.02)
<i>CHGSALE</i>	0.2133 **	(2.07)	0.2133 **	(2.07)	0.2254 **	(2.17)
<i>OCF</i>	-0.1291	(-0.72)	-0.1288	(-0.70)	-0.1726	(-0.95)
<i>STDEARN</i>	0.0004	(0.32)	0.0004	(0.32)	0.0004	(0.30)
<i>ALTMAN</i>	-0.0190	(-0.70)	-0.0191	(-0.70)	-0.0170	(-0.61)
<i>ROA</i>	-0.0739	(-0.19)	-0.0827	(-0.20)	-0.0117	(-0.03)
<i>TENURE</i>	-0.1149	(-1.48)	-0.1188	(-1.55)	-0.1089	(1.40)
<i>OFFICE</i>	0.0022	(0.88)	0.0003	(0.13)	0.0007	(0.30)
<i>NUMDEF</i>	0.0152	(0.44)	0.0070	(0.18)	0.0181	(0.47)
<i>GAAPDEF</i>	0.1192	(0.47)	0.1296	(0.55)	0.1207	(0.48)
<i>COMPDEF</i>	-0.0033	(-0.01)	-0.0115	(-0.04)	0.0647	(0.24)
<i>REVDEF</i>	-0.0155	(-0.25)	-0.0216	(-0.33)	-0.0447	(-0.60)
<i>PART2</i>	-0.2266	(-0.58)	-0.2221	(-0.58)	-0.2552	(-0.66)
<i>R-Squared</i>	0.0222		0.0220		0.0215	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on audit quality (Hypothesis 4).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 18

Chapter II Regressions - Subsequent Deficiencies (*H5a*)

Panel A: Main Regressions

N = 8,088

	<i>Model 6a</i>		<i>Model 6b</i>		<i>Model 6c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: POSTDEF</i>		<i>DV: POSTDEF</i>		<i>DV: POSTDEF</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.3760 ***	(8.87)	0.0297	(1.21)	-0.6103 ***	(-13.33)
<i>MWIC</i>	0.1258 ***	(3.10)	0.1282 ***	(3.16)	0.1106 ***	(2.99)
<i>GCO</i>	0.0210	(0.59)	0.0231	(0.66)	-0.0007	(-0.02)
<i>ABSDA1</i>	0.0110	(0.49)	0.0123	(0.55)	-0.0003	(-0.02)
<i>ABSDA2</i>	0.0349	(0.48)	0.0355	(0.49)	0.0209	(0.31)
<i>RSTMT</i>	0.0121	(0.33)	0.0193	(0.52)	-0.0287	(-0.86)
<i>OFFICE</i>	0.0171 ***	(28.58)	0.0181 ***	(26.18)	0.0338 ***	(39.19)
<i>INDSPEC</i>	0.0244	(0.28)	0.0191	(0.22)	-0.0097	(-0.12)
<i>LASSETS</i>	-0.0091	(-0.81)	-0.0105	(-0.99)	-0.0208 **	(-1.99)
<i>LOSS</i>	0.0118	(0.42)	0.0152	(0.52)	0.0079	(0.30)
<i>LEV</i>	-0.0461	(-1.30)	-0.0477	(-1.33)	-0.0001	(-0.00)
<i>BTM</i>	-0.0013	(-0.13)	-0.0043	(-0.44)	-0.0197 **	(-2.11)
<i>CHGSALE</i>	0.0220	(0.70)	0.0201	(0.66)	-0.0347	(-1.21)
<i>OCF</i>	0.0934 *	(1.73)	0.1016 *	(1.88)	0.1437 ***	(2.89)
<i>STDEARN</i>	-0.0003	(-0.66)	-0.0003	(-0.61)	-0.0003	(-0.69)
<i>ALTMAN</i>	0.0169 **	(2.09)	0.0172 **	(2.11)	0.0094	(1.25)
<i>ROA</i>	0.1517	(1.16)	0.1570	(1.19)	0.0062	(0.05)
<i>TENURE</i>	0.0262	(1.17)	0.0155	(0.70)	0.0680 ***	(3.29)
<i>NUMDEF</i>	0.2671 **	(2.44)	0.0433 ***	(3.93)	0.1260 ***	(9.67)
<i>GAAPDEF</i>	1.5321 ***	(20.43)	1.5900 ***	(21.18)	1.5445 ***	(19.80)
<i>COMPDEF</i>	-0.1624 **	(-2.05)	-0.2111 ***	(-2.66)	0.2223 **	(2.27)
<i>REVDEF</i>	0.0841 ***	(4.00)	0.1047 ***	(4.99)	0.0699 ***	(3.56)
<i>PART2</i>	-0.2195 **	(-2.10)	-0.2756 ***	(-2.63)	0.0771	(0.63)
<i>R-Squared</i>	0.3179		0.3115		0.4804	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on subsequent deficiencies (Hypothesis 5a).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 18

Chapter II Regressions - Subsequent Deficiencies (*H5a*)

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 6d</i>		<i>Model 6e</i>		<i>Model 6f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: POSTDEF</i>		<i>DV: POSTDEF</i>		<i>DV: POSTDEF</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.0733	(1.48)	0.0512 *	(1.77)	0.1363 ***	(2.92)
<i>MWIC</i>	0.1274 ***	(3.13)	0.1265 ***	(3.10)	0.1268 ***	(3.12)
<i>GCO</i>	0.0233	(0.66)	0.0226	(0.63)	0.0226	(0.64)
<i>ABSDA1</i>	0.0120	(0.53)	0.0125	(0.55)	0.0123	(0.56)
<i>ABSDA2</i>	0.0372	(0.51)	0.0372	(0.51)	0.0375	(0.52)
<i>RSTMT</i>	0.0189	(0.51)	0.0180	(0.47)	0.0172	(0.48)
<i>OFFICE</i>	0.0180 ***	(27.10)	0.0188 ***	(32.00)	0.0183 ***	(31.21)
<i>INDSPEC</i>	0.0208	(0.22)	0.0183	(0.21)	0.0210	(0.25)
<i>LASSETS</i>	-0.0111	(-0.99)	-0.0108	(-0.94)	-0.0098	(-0.85)
<i>LOSS</i>	0.0143	(0.49)	0.0152	(0.51)	0.0161	(0.55)
<i>LEV</i>	-0.0473	(1.33)	-0.0478	(-1.33)	-0.0469	(-1.31)
<i>BTM</i>	-0.0042	(-0.41)	-0.0045	(-0.44)	-0.0040	(-0.41)
<i>CHGSALE</i>	0.0201	(0.63)	0.0203	(0.65)	0.0188	(0.59)
<i>OCF</i>	0.1016 *	(1.87)	0.0996 *	(1.83)	0.0989 *	(1.81)
<i>STDEARN</i>	-0.0003	(-0.63)	-0.0003	(-0.62)	-0.0003	(-0.60)
<i>ALTMAN</i>	0.0170 **	(2.09)	0.0170 **	(2.08)	0.0171 **	(2.07)
<i>ROA</i>	0.1542	(1.16)	0.1582	(1.20)	0.1586	(1.20)
<i>TENURE</i>	0.0159	(0.71)	0.0187	(0.83)	0.0177	(0.78)
<i>NUMDEF</i>	0.0436 ***	(4.04)	0.0432 ***	(3.99)	0.0378 ***	(3.40)
<i>GAAPDEF</i>	1.5838 ***	(21.08)	1.5814 ***	(21.01)	1.5610 ***	(20.60)
<i>COMPDEF</i>	-0.2043 ***	(-2.58)	-0.2079 ***	(-2.61)	-0.1971 **	(-2.48)
<i>REVDEF</i>	0.1045 ***	(4.99)	0.1068 ***	(5.09)	0.1070 ***	(5.11)
<i>PART2</i>	-0.2613 **	(-2.44)	-0.2731 ***	(-2.60)	-0.2663 **	(-2.53)
<i>R-Squared</i>	<i>0.3116</i>		<i>0.3115</i>		<i>0.3122</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on subsequent deficiencies (Hypothesis 5a).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 18

Chapter II Regressions - Subsequent Deficiencies (*H5a*)

Panel C: Alternate Measures - Discrete

N = 8,088

	<i>Model 6g</i>		<i>Model 6h</i>		<i>Model 6i</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: POSTDEF</i>		<i>DV: POSTDEF</i>		<i>DV: POSTDEF</i>	
	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>	<i>coeff.</i>	<i>t-stat</i>
<i>CONTEST</i>	0.3322 ***	(8.02)	0.0539 **	(2.10)	0.0531 **	(2.03)
<i>MWIC</i>	0.1233 ***	(3.03)	0.1279 ***	(3.13)	0.1070 ***	(2.62)
<i>GCO</i>	0.0255	(0.71)	0.0239	(0.66)	0.0245	(0.68)
<i>ABSDA1</i>	0.0157	(0.70)	0.0134	(0.59)	0.0138	(0.61)
<i>ABSDA2</i>	0.0368	(0.51)	0.0344	(0.44)	0.0482	(0.66)
<i>RSTMT</i>	0.0160	(0.44)	0.0196	(0.53)	0.0160	(0.43)
<i>OFFICE</i>	0.0224 ***	(29.87)	0.0193 ***	(28.43)	0.0193 ***	(28.32)
<i>INDSPEC</i>	0.0106	(0.11)	0.0161	(0.18)	0.0055	(0.06)
<i>LASSETS</i>	-0.0111	(-1.00)	-0.0115	(-1.02)	-0.0096	(-0.84)
<i>LOSS</i>	0.0234	(0.80)	0.0173	(0.60)	0.0143	(0.49)
<i>LEV</i>	-0.0485	(-1.35)	-0.0487	(-1.37)	-0.0469	(-1.31)
<i>BTM</i>	-0.0073	(-0.72)	-0.0055	(-0.54)	-0.0062	(-0.60)
<i>CHGSALE</i>	0.0193	(0.60)	0.0201	(0.65)	0.0215	(0.68)
<i>OCF</i>	0.1001 *	(1.85)	0.1025 *	(1.88)	0.1055 *	(1.94)
<i>STDEARN</i>	-0.0003	(-0.57)	-0.0003	(-0.60)	-0.0003	(-0.68)
<i>ALTMAN</i>	0.0173 **	(2.13)	0.0173 **	(2.12)	0.0168 **	(2.07)
<i>ROA</i>	0.1758	(1.33)	0.1629	(1.24)	0.1522	(1.15)
<i>TENURE</i>	0.0239	(1.08)	0.0166	(0.71)	0.0146	(0.66)
<i>NUMDEF</i>	0.0599 ***	(5.49)	0.0514 ***	(4.66)	0.0553 ***	(4.99)
<i>GAAPDEF</i>	1.5701 ***	(20.99)	1.5982 ***	(21.29)	1.6275 ***	(21.65)
<i>COMPDEF</i>	-0.1891 **	(-2.38)	-0.2155 ***	(-2.77)	-0.1328 *	(-1.75)
<i>REVDEF</i>	0.1188 ***	(5.66)	0.1105 ***	(5.25)	0.0432 *	(1.93)
<i>PART2</i>	-0.2927 ***	(-2.81)	-0.2845 ***	(-2.76)	-0.2530 **	(-2.44)
<i>R-Squared</i>	0.3168		0.3118		0.3065	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the OLS regression testing of the impact of contesting on subsequent deficiencies (Hypothesis 5a).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 19

Chapter II Regressions - Part 2 Release (H5b)

Panel A: Main Regressions

N = 8,088

	<i>Model 7a</i>		<i>Model 7b</i>		<i>Model 7c</i>	
	<i>CONTEST_DUMMY</i>		<i>CONTEST_DISC</i>		<i>SEVERE_CONTEST</i>	
	<i>DV: PRPT2</i>		<i>DV: PRPT2</i>		<i>DV: PRPT2</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>CONTEST</i>	0.2043	(0.70)	0.4837 ***	(2.68)	1.5617 ***	(3.82)
<i>MWIC</i>	-1.1886 *	(-1.99)	-1.1374 *	(-1.94)	-2.2261 *	(-1.88)
<i>GCO</i>	0.0577	(0.16)	0.0231	(0.06)	-0.0087	(-0.02)
<i>ABSDAI</i>	-0.0988	(-0.39)	-0.0926	(-0.36)	-0.2159	(-0.60)
<i>ABSDA2</i>	-0.1987	(-0.25)	-0.2154	(-0.27)	0.6189	(0.55)
<i>RSTMT</i>	-0.4678	(-1.02)	-0.4266	(-0.94)	-0.1704	(-0.31)
<i>OFFICE</i>	-0.0168 ***	(-2.85)	-0.0188 ***	(-3.30)	-0.0284 ***	(-2.98)
<i>INDSPEC</i>	-0.9632	(-0.95)	-1.0370	(-1.01)	-2.1111	(-1.22)
<i>LASSETS</i>	-0.2512 *	(-1.83)	-0.2502 *	(-1.82)	-0.3429	(-1.58)
<i>LOSS</i>	0.5331	(1.59)	0.5192	(1.55)	0.4444	(0.97)
<i>LEV</i>	-0.6863 *	(-1.68)	-0.6665	(-1.63)	-0.8823	(-1.31)
<i>BTM</i>	-0.0512	(-0.49)	-0.0456	(-0.45)	-0.0862	(-0.55)
<i>CHGSALE</i>	0.3275	(0.99)	0.3119	(0.99)	-0.2939	(-0.66)
<i>OCF</i>	-0.3899	(-0.66)	-0.4184	(-0.67)	-1.4149	(-1.54)
<i>STDEARN</i>	-0.0073	(-0.65)	-0.0085	(-0.75)	-0.0555	(-1.30)
<i>ALTMAN</i>	0.1840 **	(2.20)	0.1830 **	(2.17)	0.1333	(0.97)
<i>ROA</i>	2.8689 **	(2.11)	2.8770 **	(2.13)	3.9284 *	(1.88)
<i>TENURE</i>	0.3441	(1.37)	0.3169	(1.26)	0.0758	(0.21)
<i>NUMDEF</i>	0.7067 ***	(11.36)	0.6635 ***	(10.59)	0.7426 ***	(7.07)
<i>GAAPDEF</i>	-0.8566 **	(-2.13)	-0.8390 **	(-2.14)	-0.5562	(-1.02)
<i>COMPDEF</i>	1.6560 ***	(4.11)	1.5925 ***	(4.08)	1.5633 ***	(2.74)
<i>REVDEF</i>	0.1964 **	(2.34)	0.1766 **	(2.11)	0.0689	(0.68)
<i>Pseudo R-Squared</i>	<i>0.4365</i>		<i>0.4424</i>		<i>0.4404</i>	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of contesting on Part II release (Hypothesis 5b).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 19

Chapter II Regressions - Part 2 Release (H5b)

Panel B: Alternate Measures - Dummy

N = 8,088

	<i>Model 7d</i>		<i>Model 7e</i>		<i>Model 7f</i>	
	<i>CONTEST_SERIAL</i>		<i>CONTEST_2YR</i>		<i>CONTEST_1YR</i>	
	<i>DV: PRPT2</i>		<i>DV: PRPT2</i>		<i>DV: PRPT2</i>	
	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>	<i>coeff.</i>	<i>z-stat</i>
<i>CONTEST</i>	-0.4188	(-1.21)	0.2153	(0.78)	0.6606 **	(2.29)
<i>MWIC</i>	-1.2010 *	(-1.91)	-1.2011 *	(-1.99)	-1.2270 **	(-2.05)
<i>GCO</i>	0.0687	(0.18)	0.0622	(0.16)	0.0285	(0.08)
<i>ABSDAI</i>	-0.0973	(-0.37)	-0.0899	(-0.35)	-0.0727	(-0.26)
<i>ABSDA2</i>	-0.1905	(-0.20)	-0.1961	(-0.24)	-0.1758	(-0.22)
<i>RSTMT</i>	-0.4645	(-1.00)	-0.4680	(-1.02)	0.4811	(-1.05)
<i>OFFICE</i>	-0.0150 **	(-2.40)	-0.0162 ***	(-2.77)	-0.0157 ***	(-2.69)
<i>INDSPEC</i>	-0.8908	(-0.84)	-0.8912	(-0.85)	-0.8710	(-0.83)
<i>LASSETS</i>	-0.2431 *	(-1.77)	-0.2528 *	(-1.83)	-0.2431 *	(-1.76)
<i>LOSS</i>	0.5322	(1.57)	0.5286	(1.55)	0.5464	(1.63)
<i>LEV</i>	-0.7101 *	(-1.75)	-0.6900 *	(-1.70)	-0.6776 *	(-1.65)
<i>BTM</i>	-0.0541	(-0.51)	-0.0520	(-0.51)	-0.0428	(-0.41)
<i>CHGSALE</i>	0.3229	(0.99)	0.3243	(0.99)	0.3095	(0.94)
<i>OCF</i>	-0.3395	(-0.54)	-0.4053	(-0.66)	-0.4756	(-0.77)
<i>STDEARN</i>	-0.0064	(-0.56)	-0.0073	(-0.65)	-0.0084	(-0.73)
<i>ALTMAN</i>	0.1893 **	(2.26)	0.1846 **	(2.21)	0.1838 **	(2.19)
<i>ROA</i>	2.8472 **	(2.08)	2.9118 **	(2.15)	3.0006 **	(2.23)
<i>TENURE</i>	0.3446	(1.35)	0.3440	(1.33)	0.3407	(1.33)
<i>NUMDEF</i>	0.7180 ***	(11.52)	0.7069 ***	(11.41)	0.6865 ***	(11.08)
<i>GAAPDEF</i>	-0.7739 *	(-1.87)	-0.8457 **	(-2.10)	-0.9115 **	(-2.27)
<i>COMPDEF</i>	1.6630 ***	(3.99)	1.6620 ***	(4.11)	1.6962 ***	(4.25)
<i>REVDEF</i>	0.2173 **	(2.55)	0.1981 **	(2.35)	0.1920 **	(2.29)
<i>Pseudo R-Squared</i>	0.4377		0.4366		0.4406	

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of contesting on Part II release (Hypothesis 5b).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

TABLE 19

Chapter II Regressions - Part 2 Release (H5b)

Panel C: Alternate Measures - Discrete		N = 8,088					
	Model 7g		Model 7h		Model 7i		
	CONTEST_SERIAL		CONTEST_2YR		CONTEST_1YR		
	DV: PRPT2		DV: PRPT2		DV: PRPT2		
	coeff.	z-stat	coeff.	z-stat	coeff.	z-stat	
CONTEST	0.5485	(1.51)	0.6068 ***	(3.35)	0.6639 ***	(3.63)	
MWIC	-1.1566 *	(-1.93)	-1.1520 *	(-1.98)	-1.2178 **	(-2.03)	
GCO	0.0340	(0.10)	0.0212	(0.06)	-0.0479	(-0.13)	
ABSDAI	-0.0778	(-0.30)	-0.0640	(-0.26)	-0.0712	(-0.28)	
ABSDA2	-0.2615	(-0.32)	-0.2266	(-0.29)	-0.1861	(-0.97)	
RSTMT	-0.4044	(-0.88)	-0.3995	(-0.88)	-0.4408	(-0.88)	
OFFICE	-0.0185 ***	(-3.10)	-0.0185 ***	(-3.18)	-0.0165 ***	(-2.87)	
INDSPEC	-0.9641	(-0.93)	-0.8988	(-0.87)	-0.9506	(-0.90)	
LASSETS	-0.2540 *	(-1.88)	-0.2538 *	(-1.85)	-0.2189	(-1.55)	
LOSS	0.5107	(1.55)	0.5088	(1.53)	0.5516 *	(1.65)	
LEV	-0.6790 *	(-1.67)	-0.6666 *	(-1.62)	-0.6790 *	(-1.66)	
BTM	-0.0500	(-0.47)	-0.0469	(-0.45)	-0.0205	(-0.20)	
CHGSALE	0.3135	(0.96)	0.2962	(0.90)	0.2789	(0.85)	
OCF	-0.4161	(-0.67)	-0.4826	(-0.78)	-0.5241	(-0.87)	
STDEARN	-0.0076	(-0.66)	-0.0089	(-0.77)	-0.0096	(-0.83)	
ALTMAN	0.1869 **	(2.25)	0.1838 **	(2.19)	0.1935 **	(2.30)	
ROA	2.9437 **	(2.18)	2.9918 **	(2.22)	3.1331 **	(2.33)	
TENURE	0.3003	(1.19)	0.2921	(1.15)	0.2902	(1.14)	
NUMDEF	0.6750 ***	(10.38)	0.6484 ***	(10.26)	0.6348 ***	(10.18)	
GAAPDEF	-0.7770 *	(-1.94)	-0.8137 **	(-2.07)	-0.9136 **	(-2.32)	
COMPDEF	1.5479 ***	(3.85)	0.1593 ***	(4.11)	1.6300 ***	(4.12)	
REVDEF	0.1933 **	(2.33)	0.1770 **	(2.13)	0.1929 **	(2.24)	
<i>Pseudo R-Squared</i>	0.4383		0.4458		0.4511		

*, **, *** Denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

This table presents the logit regression testing of the impact of contesting on Part II release (Hypothesis 5b).

This test includes industry and year fixed effects (*IND_FE* and *YR_FE* respectively).

The variable definitions are in Table 1, Panel B.

FIGURE 1

Operationalization of *CONTEST* and *SEVERE_CONTEST*

Panel A: *CONTEST_DUMMY*

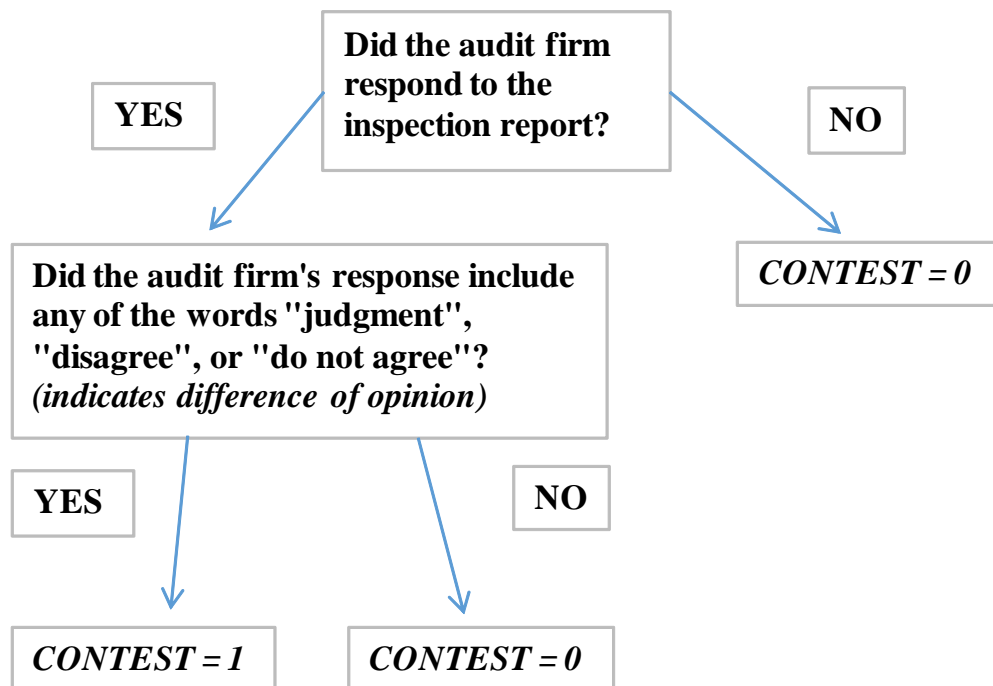


FIGURE 1

Operationalization of *CONTEST* and *SEVERE_CONTEST*

Panel B: *CONTEST_DISC*

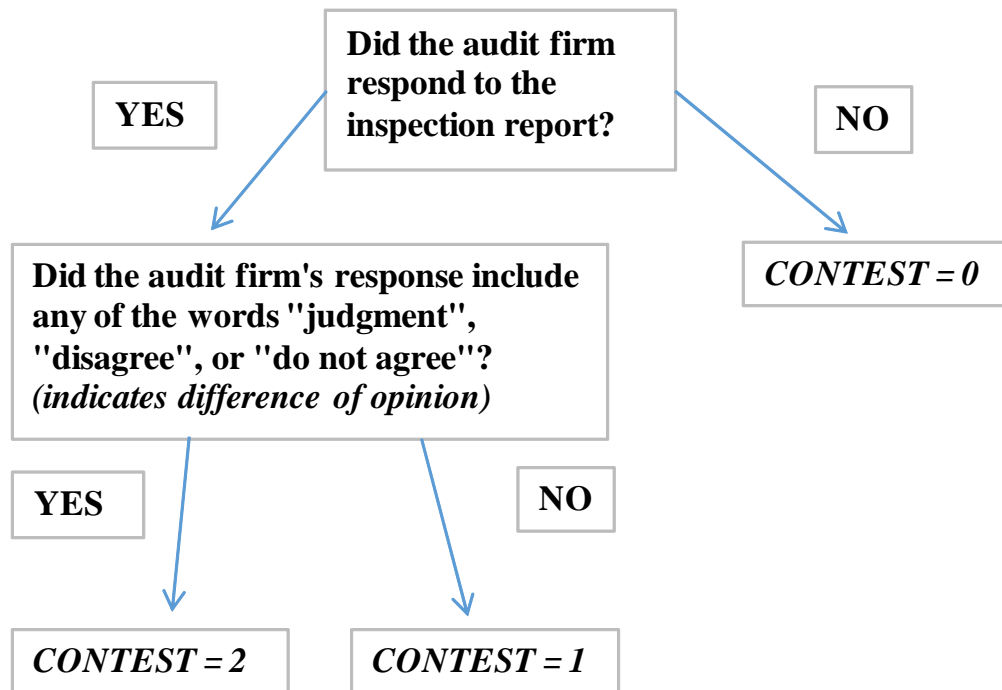


FIGURE 1

Operationalization of *CONTEST* and *SEVERE_CONTEST*

Panel C: *SEVERE_CONTEST*

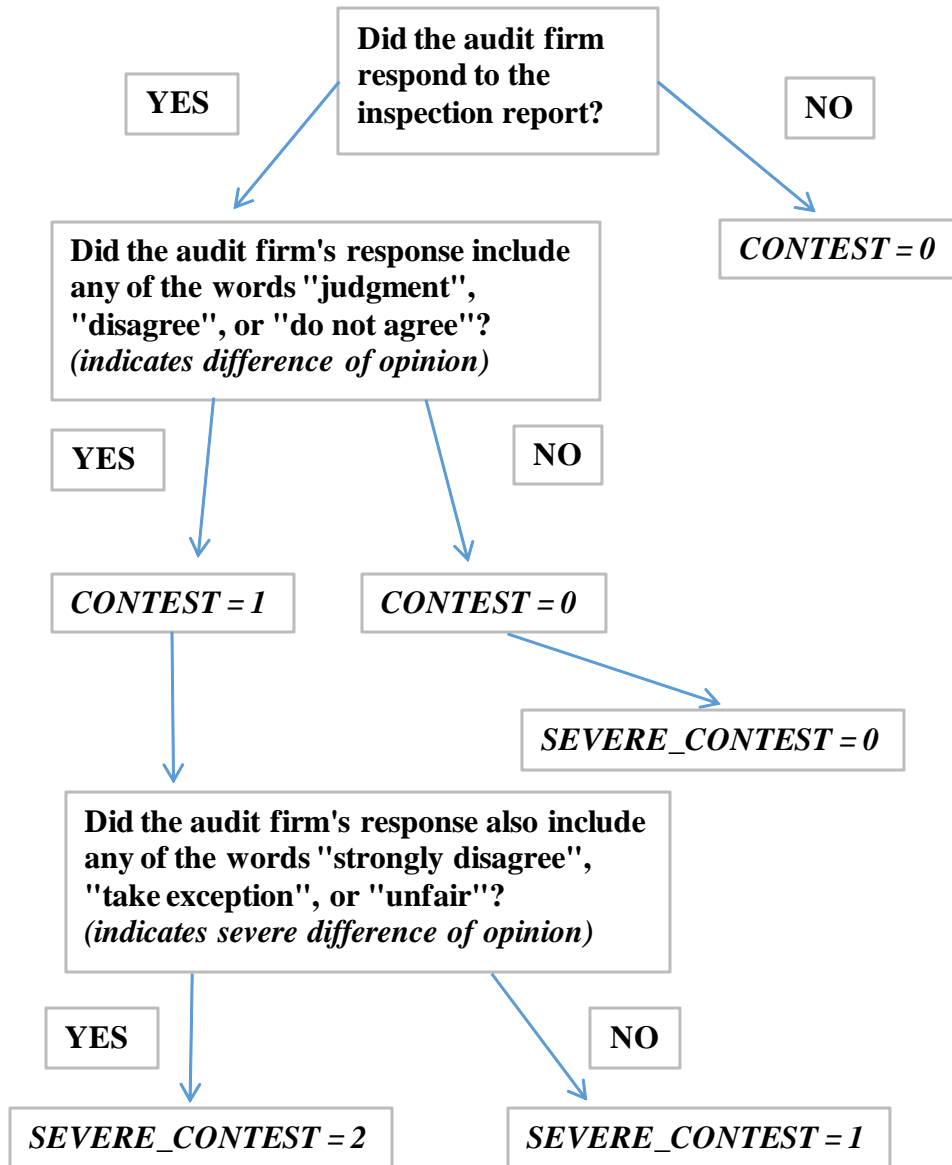


FIGURE 2
Example of Audit Firm Response
Panel A: Non-Contesting Firm

RE: Response to Part I of the PCAOB draft report on 2012 Inspection of Li and Company, PC

Dear Mr. Botic:

This letter is in response to Part I of the Public Company Accounting Oversight Board ("PCAOB") draft report on 2012 Inspection of Li and Company, PC (the "Firm") dated July 12, 2013. We would like to express our utmost respect and appreciation for their efforts. The professionalism, experience and knowledge of the inspection team are outstanding and their close scrutiny of public company auditing practices is just what our profession has needed.

The Firm has evaluated the audit deficiencies identified by the PCAOB inspection team after the date of the audit report and has taken appropriate actions to support its previously expressed opinions in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* pursuant to PCAOB Rule 3200T.

Li and Company, PC relentlessly pursues high quality of the public company audits. In that regard, the Firm is utilizing the thorough process and rigorous standards applied by the PCAOB inspection team and the feedback from your scrutiny in the engagement reviews as a means of improving the quality of the our audits and quality control system which are in place to ensure the highest standards of excellence in our audits.

CONTEST_DUMMY = 0
CONTEST_DISCRETE = 1
SEVERE_CONTEST = 0

FIGURE 2

Example of Audit Firm Response

Panel B: Contesting Firm

I disagree with several findings identified in this inspection report and have provided documentation and substantiation in reasonable support of those claims.

I firmly stand by my opinions and the fair presentation of the related financial statements.

My firm's policy is to encourage issuers to present the financial statements and related disclosures in as transparent a format as possible. I believe transparent disclosure in the nature of providing investors with timely, accurate, understandable, useful information is the foundation necessary for maintaining confidence in our equity markets. I also take seriously the auditor's role in insuring that reporting transparency is achieved. Financial reporting is not a compliance issue but a communication opportunity.

Accordingly, I accept the constructive criticisms put forth in this inspection report as an opportunity to improve my firm's audit quality. I consider it a joint responsibility of the PCAOB and all registered public accounting firms to strive to achieve the highest quality of reporting standards.

CONTEST_DUMMY = 1
CONTEST_DISCRETE = 2
SEVERE_CONTEST = 1

FIGURE 2

Example of Audit Firm Response Panel C: Severely Contesting Firm

Comments:

Attached is my Firm's response to your Draft Report of Inspection. As you can see I believe the report was extremely unfair and critically damaging.

Please reconsider your positions

CONTEST_DUMMY = 1
CONTEST_DISCRETE = 2
SEVERE_CONTEST = 2

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