

INDUSTRY COMPLEXITY AND THE IMPORTANCE OF INDUSTRY LEADERSHIP VERSUS ENGAGEMENT OFFICE SIZE ON THE QUALITY OF AUDIT OUTCOMES

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ABSTRACT

I examine how industry accounting complexity affects the relative importance of audit industry leadership and engagement office size, for quality of audit outcomes. Recent studies report that both office level industry leaders and larger engagement offices provide higher quality audits. Given the low correlation between industry leadership and office size, these findings are puzzling. I argue that the effects of these office level characteristics vary according to industry complexity. In a sample of clients of Big 4 auditors from 2003 – 2009, my results are consistent with this prediction. Office industry leadership affects audit quality to a greater extent for clients in industries with more complex accounting, while office size matters more for clients in less complex industries. I infer differential audit quality from properties of client earnings and the likelihood of a going concern report. Finally, I find that the differential effects are priced in the market for audit services, as industry leaders earn incrementally higher fees in complex industries.