DEPARTMENT OF ACCOUNTANCY AND FINANCE

European evidence on the effects of audit office changes on clients' financial reporting quality

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European Evidence on the Effects of Audit Office Changes on Clients' Financial Reporting Quality

ABSTRACT

Prior research suggests that the financial reporting quality may be influenced by audit office-level characteristics. Yet, many factors are likely to influence whether within-firm office changes result in a positive or negative association with reporting quality. When clients switch to a different office within the same audit firm, they can potentially benefit from fresh perspectives and insights from the new audit team and partners. On the contrary, this transition may compromise the quality of the audit due to a decline in the team's understanding of the client's specific needs and the initial cost pressures required for the new team to prepare for the new assignment. Nevertheless, the ability of an audit office to provide a high-quality audit depends partly on how it relates to the network of offices in which it operates. Considering that changes in offices within the same audit firm reflect a challenge in efficiently allocating audit resources, we investigate whether there is a decline in financial reporting quality when a client changes to a different audit office within the same firm. We also examine whether teams from more connected offices are more capable of managing the transition and preserving reporting quality. Contrary to expectations, our analysis did not reveal any indication of a decline in financial reporting quality in a European context, and we did not find evidence that the adverse impact of changes in audit offices within the same firm, if any, on financial reporting quality lessens with greater network connectedness. Further, the additional testing results demonstrate that alterations in the auditor-client distance, as well as office upsizing, downsizing, upgrading, or downgrading of specialization, do not lead to a deterioration in financial reporting quality.

European Evidence on the Effects of Audit Office Changes on Clients' Financial Reporting Quality

INTRODUCTION

Compared to other professional service firms like law and architecture firms, audit firms have widely dispersed networks of offices, domestically and globally (Malhotra and Morris 2009). This spatial distribution of offices is needed because of the frequent face-to-face interaction required between clients and their auditors. The geographic decentralization of audit firms allows office-level auditors to improve client-specific knowledge (Choi et al. 2012). However, decentralization also decreases the proximity of offices within an audit firm network, which hinders auditors' ability to interact with one another (Beck et al. 2019).

This study explores if clients' financial reporting quality is affected by changing to another office within the same audit firm. Further, we examine if this is affected by the connectedness of the audit office network (i.e., the geographic distance among offices of the same audit firm; Seavey et al. 2017). A significant body of research shows that at least in the US (e.g., Francis et al. 1999; Reynolds and Francis 2000; DeFond and Francis 2005; Krishnan 2005) and the UK (Cameran et al. 2020), audit offices play a larger role in explaining audit outcomes than audit firms. For instance, research suggests that the higher audit quality by large audit firms is driven by their largest offices (i.e., larger Big 4 offices do better audits; (Francis and Michas 2013; Francis and Yu 2009; Choi et al. 2010).

To better understand differences across offices within audit firms, recent studies have started to focus on clients who change audit offices within the same audit firm (e.g., Hollingsworth et al. 2020; Greiner et al. 2021; Chen et al. 2019). Clients changing offices within the audit firm's network may benefit from fresh perspectives and insights from new engagement teams and audit partners; however, such changes may impair audit quality due to reduced client-specific knowledge and initial cost pressures associated with engagement teams tooling up on new assignments (Greiner et al. 2021). In this study, we extend the investigation of the impact of switching audit offices within the same audit firm on financial reporting quality by examining this in a multi-country setting, using data from 16 European countries. Furthermore, we argue that the effects of such changes are contingent on the network connectedness of an audit firm. We expect network connectedness to, at least partly, mitigate some of the negative effects of changing audit offices because geographical closeness between offices facilitates knowledge sharing and oversight between partners (Seavey et al. 2017).

To address our research questions, we investigate the impact of a change in issuing office on financial reporting quality and whether network connectedness moderates this effect. To measure the network connectedness of an audit firm, we calculate the average geodesic distance between offices of the same firm and assume, as in prior research (Seavey et al. 2017), that shorter distances between offices represent stronger "paths" of communication. Our sample period begins in 2011 and ends in 2021. The sample consists of data from 16 European countries. The proportion of within-firm office changes is 6.5% (*n* = 1,295), so most observations represent stable auditor-city relationships (*n*= 18,609; 93.5%). Contrary to expectations, our analyses do not provide any evidence that within-firm office changes are associated with a decline in financial reporting. We also do not find evidence that connectedness influences this association. In additional testing, we also do not find any evidence that financial reporting quality deteriorates due to alterations in the auditor-client distance, office size, or industry specializations.

Our study makes several contributions to the auditing literature. First, unlike prior research that focused on intra-firm office changes in the US (e.g., Greiner et al. 2021; Hollingsworth et al. 2020; Chen et al. 2019), our study investigates the external validity of these findings by examining intra-firm office changes in Europe. In fact, the degree to which larger audit firms perform superior audits in European countries remains uncertain. For instance, Bauwhede and Willekens (2004) found no indication of quality differentiation between Big Six and Non-Big Six auditors in the private client segment of the Belgian audit market. Similarly, Chen et al. (2021) observed that private clients of the Big Four exhibited more errors in accrual estimation and higher levels of discretionary accruals compared to their non-Big Four counterparts in the United Kingdom. In addition, given that the US surpasses any individual country within the European Union in size, the structure of audit firm networks differs substantially between these settings, potentially leading to different results. Furthermore, labor-related factors that are specific to cities, such as the average educational attainment level and the number of accountants available in the area, can have an impact on audit offices, the quality of audits, and the potential for non-Big 4 audit firms to compete with their Big 4 counterparts in conducting audits for public companies (Beck et al. 2018). Second, we address the call for research by Hollingsworth et al. (2020) on the contribution of audit firms to the decline in audit quality in intra-firm office changes by investigating whether ineffective knowledge sharing and distance between clients and new engagement teams may be contributing factors. Third, we extend the research that provides evidence on inter-office differences within firms, suggesting that individual offices within an audit firm may have distinct subcultures that can also affect audit quality (Francis 2022). Finally, our paper extends the recent work of Beck et al. (2019) and Seavey et al. (2017), who show how the audit offices' position in their audit firm's network affects audit engagement quality.

This paper has practical implications. The timing of this paper is crucial as the European Commission's audit market monitoring report highlighted persistently high levels of market concentration and deficiencies in audit firms' internal quality control systems (European Commission 2021). Our study provides insight into inter-office heterogeneity in audit firms, which may prove valuable to regulators, standards makers, and audit firms. Regulators can use this information to identify audit firms where audits are more likely to be of lower quality. Standard-setters may be able to use this information to develop standards that emphasize the potential for quality-control problems in the offices of multi-location audit firms. According to Segal-Horn and Dean (2009), audit firms that invest in internal consistency can offer greater service quality, speed, efficiency, shared knowledge, flexibility, and responsiveness than competing firms with weak internal consistency.

Furthermore, the post-Covid working model of audit firms is transforming into a hybrid one. Remote work presents challenges for team members, such as communication gaps, ambiguous roles and responsibilities, inaccurate resource scheduling due to time zone differences, ineffective collaboration due to geographical boundaries, lack of real-time updates on work progress, and insufficient technology infrastructure for the dispersed team. Therefore, network connectedness might be crucial. In addition, remote working might not be sustainable in the long term, given the importance of the auditor being in proximity to the client.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Within-Firm Office Changes

This paper focuses on office changes within the same audit firm. For example, in 2018 "Electricite de France SA" transitioned from the "Neuilly-sur-Seine" office to the "Paris "office of Deloitte France. Within-firm office changes can be driven by client or auditor factors. Client factors include events such as mergers, acquisitions, restructuring, and relocations. Auditor factors include resource needs, such as fulfilling client requirements, deploying specialized expertise, and adhering to rotation requirements (Hollingsworth et al. 2020). Drawing from the literature on partner rotation (e.g., Lennox et al. 2014), office changes might have a detrimental impact on audit quality due to the loss of knowledge specific to the client. Accordingly, the new audit team would face a learning curve that is too steep for an auditor to perform a high-quality audit in the early years of client engagement (PCAOB 2011). Conversely, it may result in a positive peer review effect and a fresh perspective on the audit (Lennox et al. 2014).

Studies on intra-firm office changes are limited in number and have only been conducted in the US. Chen et al. (2019) found that client companies are less likely to receive a GCO after switching to another audit office in the same audit firm. Hollingsworth et al. (2020) showed that companies that change their audit firm's office tend to have higher abnormal accruals. The reduction in audit quality is primarily driven by office changes initiated by the audit firm. Greiner et al. (2021) examined if the effects of office changes depend on the size of the absorbing office. They document a reduction in audit quality when a client is transferred to a smaller office within the same audit firm but do not find evidence that audit quality is affected when the client changes to a larger office within the audit firm.

Due to the limited research conducted on within-firm office changes and the emerging evidence suggesting that such changes may affect the audit, we formulate the following hypothesis:

H1: Financial reporting quality decreases when a client changes to another audit office in the same audit firm.

Network Connectedness

The extent to which audit firms can stretch their expertise across multiple offices is essential in understanding their reputation, expertise, and performance (He et al. 2022). Francis (2004) presents two competing arguments about the transfer of expertise in audit firms. According to the first viewpoint, audit firms may capture industry expertise by knowledge-sharing practices such as internal benchmarking of best practices, industry-tailored audit programs, and extending the 'reach' of professionals through travel and internal consulting. In an alternative perspective, individuals possess audit expertise uniquely through their deep knowledge of the clients, which the firm can not easily capture and transfer to other offices and clients. Evidence from prior research suggests that knowledge transfer is challenging and that local expertise matters most, as noted by Francis (2022).

Even though audit firms are classified as complex adaptive systems that have implemented remote working and virtual audits (Barac et al. 2021), the proximity between offices reduces the cost of interaction.[1] If audit partners are more dispersed, it is more difficult to coordinate actions, share knowledge and resources, and monitor each other. Recent studies support this idea and show that audit offices' position in their audit firm's network affects audit engagement quality. Seavey et al. (2017) document that more connected offices, facilitating knowledge sharing and oversight between partners in different offices, are associated with fewer client restatements and lower discretionary accruals. Moreover, reduced proximity between offices reduces inter-office audit quality spillovers, primarily due to reduced monitoring and knowledge sharing between offices (Beck et al. 2019). In addition, another recent paper provides some evidence of lower audit quality in clients with a change in the issuing office where the distance between the new and old issuing office within the same audit firm is farther (Hollingsworth et al. 2020).

Based on the above, we next posit that the negative association between audit office changes and financial reporting quality is less pronounced for audit firms that effectively share knowledge due to more network connectedness. In audit firms with geographically dispersed offices, those closer to other offices within their network offer

[1] Despite the growing reliance on virtual communication tools like Microsoft Teams® and Zoom® post pandemic, Michas et al. (2022) suggests it will remain important to connect partners in a socially cohesive way that exploits the opportunity to share their industry knowledge.

their partners increased opportunities to establish personal connections with their colleagues in other locations. Consequently, this facilitates greater knowledge sharing and communication among partners, contributing to higher quality in audit engagements (Seavey et al. 2017). As a result, we expect the negative relationship between office changes and financial reporting quality to be stronger for audit firms with lower network connectedness. We formulate the following hypothesis to test this prediction:

H2: Network connectedness moderates the negative effect of within-firm audit office changes on financial reporting quality

SAMPLE SELECTION AND RESEARCH DESIGN

Sample Selection

Our sample selection starts with 88,835 observations from the Audit Analytics – Europe database. We remove 3,367 observations from non-European countries or where country information was missing and 593 observations for which the auditor city information is not provided for the current or prior year. We also exclude 27,041 observations not audited by the largest global audit networks. Our emphasis on the largest global audit networks is motivated by substantial evidence demonstrating that large audit firms provide higher quality audits and enhance the credibility of their client's financial statements more than small audit firms (Lennox 1999). For instance, the largest global networks of BDO, Deloitte, EY, Grant Thornton, KPMG, and PwC clearly describe their global reach and global audit methodology on their official website, and regulators such as the PCAOB recognize these six audit firm networks as "global networks" (Ege et al. 2019). Additionally, 15,390 observations from the financial services sector were excluded leading to our initial sample of 42,444 observations. Furthermore, we remove observations for which data are missing in Orbis to calculate either discretionary accruals (*n* = 17,213) or one or more control variables (*n* = 1,387). We also remove 1,737 observations that have insufficient year data and countries that represent less than 1% of the total data that make less than 1% of the dataset. Finally, 2,203 observations are excluded from clients that changed audit firms. Details of the sample selection are presented in Panel A of Table 1.

The sample selection resulted in a final sample of 19,904 firm-year observations. The sample period begins in 2011 and ends in 2021. The sample consists of data from 16 European countries. The proportion of within-firm office changes is 6.5% (*n = 1,295*), so most observations represent stable auditor-city relationships (*n= 18,609;* 93.5%).[2] These numbers are relatively higher than those of prior US studies, which documented around 3% within-firm office changes (e.g., Greiner et al. 2021; Hollingsworth et al. 2020).

Research Design

Estimating Financial Reporting Quality

We follow prior research and measure discretionary accruals, our dependent variable as a proxy for financial reporting quality, using the residuals from a performance-adjusted modified Jones model (Dechow et al. 1995; Kothari et al. 2005; see Beuselinck et al. 2018 for a multi-country study) as follows:

Equation (1):

[2] Within-firm office changes are as frequent as audit firm changes. For instance, in our initial sample of 42,444 observations, there were 5.6% within-firm office changes and 8.4% audit firm changes.

$$\frac{TCA_{i,j,t}}{TOTASS_{i,j,t-1}} = \beta_0 \frac{1}{TOTASS_{i,j,t-1}} + \beta_1 \frac{\Delta REV_{i,j,t} - \Delta RECT_{i,j,t}}{TOTASS_{i,j,t-1}} + \beta_2 ROA_{i,j,t-1} + \beta_3 INFLATION_{i,t-1} + \beta_4 GDP\_GWT_{i,t-1} + \varepsilon_{i,j,t}$$

where $TCA_{i,j,t}$ is total current accruals in year t for firm i in country j.[3] $TOTASS_{i,j,t-1}$ is the firm i's book value of total assets at the beginning of year t. $\Delta REV_{i,j,t}$ is firm i 's change in revenues between years *t-1* and t. $\Delta RECT_{i,j,t}$ is firm i's change in receivables between year *t-1* and t. $ROA_{i,j,t-1}$ is lagged return on assets computed as operating income divided by the book value of total assets and is meant to control for firm performance. Finally, we include $INFLATION_{i,t-1}$ and $GDP\_GWT_{i,t-1}$ that respectively control for prior-year inflation and change in per-capita (real purchasing power based) gross domestic product (GDP). These variables are intended to capture the business cycle in each country, following the approach used by Beuselinck et al. (2018).

We estimate the model (Equation 1) by pooling observations across all countries within two-digit SIC industry and year groups because of the small number of firms in some industry groups in several countries following the approach by Chaney et al. (2011). We require a minimum of 10 observations for the discretionary accruals estimation in each two-digit SIC industry-year group. Then, for each firm i, we calculate discretionary accruals ($DACC_{i,j,t}$) as the estimated residual from Equation (1).

[3] Following prior research (Dechow et al. 1995; Leuz et al. 2003), we compute total current accruals as $TCA_{i,j,t} = (\Delta CA_{i,j,t} - \Delta CASH_{i,j,t}) - (\Delta CL_{i,j,t} - \Delta STD_{i,j,t}) - DEPR_{i,j,t}$ where $TCA_{i,j,t}$ is the total current accruals in year t for firm i from country j. $\Delta CA_{i,j,t}$ is change in total current assets in year t for firm i from country j. $\Delta CASH_{i,j,t}$ is change in cash and cash equivalents in year t for firm i from country j. $\Delta CL_{i,j,t}$ is change in total current liabilities in year t for firm i from country j. $\Delta STD_{i,j,t}$ is change in short-term debt in year t for firm i from country j. $DEPR_{i,j,t}$ is depreciation and amortization expense in year t for firm i from country j.

Hypothesis 1 (H1)

Our first hypothesis addresses the association between a change in issuing office and financial reporting quality. We initially test this relation using the following model:

$$|\mathrm{DACC}_i| = \beta_0 + \beta_1 OFFICE\_CHG + \beta_2 \sum_i CONTROLS + \beta_3 \sum_i FE + \varepsilon_i$$

The primary variable of interest in this analysis is office change (*OFFICE_CHG*). If office changes are associated with adverse changes in reporting quality, we would expect a positive relation between *OFFICE_CHG* and the level of discretionary accruals, suggesting that companies experiencing a change have a higher level of discretionary accruals than companies that have no change. On the contrary, if the change is associated with increased scrutiny of accruals, we would expect *OFFICE_CHG* to be negatively related to discretionary accruals, indicating that companies that undergo a switch in issuing office have more conservative accruals than companies that have no transition. (Hollingsworth et al. 2020).

Furthermore, we control for several factors associated with discretionary accruals identified in previous literature. Research has examined audit firm characteristics and their impact on accruals. We control for well-established attributes, including economic influence, tenure, industry expertise, and office size (Reynolds and Francis 2000; Francis and Yu 2009; Francis et al. 2005). Larger clients pose greater litigation risk, which makes auditors report more conservatively for larger clients (Reynolds and Francis 2000). The findings of Johnson et al. (2002) suggest lower audit quality (larger abnormal accruals) in the first three years following auditor changes compared with ongoing engagements of four or more years, which is consistent with lower initial audit quality on new engagements. Specialist auditors mitigate accrual-based earnings management more than non-specialist auditors (Krishnan 2003). Clients in larger offices show less aggressive earnings management behavior (Francis and Yu 2009). Accordingly, we expect a negative correlation for *INFLUENCE*, *TENURE*, *SPECIALIST*, and *OFFSIZE* with abnormal accruals. The remaining control variables represent client variables used in prior research, such as *SIZE* and *CFO*. Becker et al. (1998) find that larger clients are more likely to have higher earnings quality, and Dechow et al. (1995) show that operating cash flows (CFO) influence the magnitude of discretionary accruals. Therefore, we expect a negative coefficient on *SIZE* and *OCF*. Three variables are included in the model to control for the effects of debt, financial distress, and risk: *LEVERAGE*, *LOSS,* and *RISKY*. DeFond and Jiambalvo (1994) argue that companies with more debt (*LEVERAGE*) are more likely to use accruals to increase earnings due to debt covenant constraints and predict that debt level positively correlates with discretionary accruals. Firms with negative earnings (*LOSS*) are expected to affect accruals quality negatively. The intuition is that firms that report losses have lower incentives to manage discretionary accruals than firms that report positive earnings (Francis and Yu 2009). We capture firms that operate in an industry characterized by greater litigation-related and/or business risk using an indicator variable *RISKY* (Francis et al. 1994; Frankel et al. 2002; Hollingsworth et al. 2020). Riskier firms will likely manage earnings to meet market expectations; hence, we expect a positive correction with accruals. Finally, we include *GROWTH* and *STD* as measures of client growth and financial variability, respectively, following Greiner et al. (2021)

Hypothesis 2 (H2)

Our second hypothesis addresses whether the effect of an office switch on reporting quality will vary based on the network connectedness of the audit firm. We capture within-firm network connectedness by calculating the average geodesic distance between offices of the same audit firm and assume, as in prior research (Seavey et al. 2017), that shorter distances between offices represent stronger "paths" of communication. To measure the network connectedness of an audit firm, we collected the latitude and longitude of the cities with a local audit office using Google Map API in Python. Next, we generated all possible office pairings for all local offices of the same national audit firm. We calculated the geodesic distance (i.e., the shortest distance in kilometers between two points on an ellipsoid).[4] Equation (2) measures l_i, which is the average geodesic distance d_{id} in kilometers between office i and office j for all (i,j) office pairings of the same audit firm in a particular country:

(2) $l_i = \frac{1}{n} \sum_j d_{ij}$

Following Seavey et al. (2017), we compute P_i as the inverse of l_i to ensure higher values for more connected networks as shown in Equation (3):

[4] We calculated the shortest path between two points on an ellipsoid (i.e., the geodesic) with Stata's geodist() function.

(3) $P_i = \frac{1}{l_i} = \frac{n}{\sum_i d_{ij}}$

We also compute the *influence* of each office on the network based on the relative size of each office to other offices in the same audit firm. To do so, we sum audit fees by the audit firm and year in each country and then divide the office's total fees by the audit firm's total fees (in effect, calculating influence for each office of an audit firm by year). Next, we compute $CONNECT_i$ by multiplying the *influence* by P_i, as shown in Equation (4).

(4) $CONNECT_i = influence\ x\ P_i$

While hypothesis H1 addresses the effects of office change on reporting quality, the main contribution of this paper is to examine whether the impact of an office switch on audit quality will vary based on the network connectedness of the audit firm. To test our hypothesis H2, we include the interaction effects of office change and network connectedness *OFFICE_CHG X CONNECT*, where we expect the interaction effect to be negative.

(5) $\mathrm{DACC}_i = \beta_0 + \beta_1 OFFICE\_CHG + \beta_2 OFFICE\_CHG\ X\ CONNECT + \beta_3 \sum_i CONTROLS + \beta_4 \sum_i FE + \varepsilon_i$

Detailed variable definitions are presented in the Appendix. All continuous variables are winsorized at their distributions' 1st and 99th percentiles. We also capture unobservable time-invariant factors by controlling for year and industry-fixed effects likely to affect reporting quality. Finally, because firm-year observations within the same country and industry may share common (and possibly unobservable) characteristics, we cluster standard errors at the firm-country and firm-industry levels (Beuselinck et al. 2018).

RESULTS

Descriptive Statistics and Correlation Matrix

Panel A of Table 2 presents descriptive statistics on variables in our discretionary accruals model. The absolute value of discretionary accruals (|*DACC*|) has a mean (median) of 0.076 (0.047).[5] The mean of *OFFICE_CHG* (0.065) indicates approximately 6.5 percent of our sample experiences a change in engagement office location within the same audit firm. The mean (median) natural log of total assets (*SIZE*) is 13.1 (13), and approximately 26 percent of the firms report a loss (*LOSS*) in the current period. Companies in our sample have a mean (median) leverage of 55 percent (56 percent) of total assets and operating cash flows make 6.6 percent (7.7 percent) of total assets. Approximately 39 percent of companies are audited by a specialist auditor (*SPECIALIST*). Firms in high-risk industries (*RISKY*) comprise 27 percent of our firm-year observations. The average geodesic distance between offices of the same firm is, on average, 217 kilometers (median: 303 kilometers).[6] Finally, clients are at a mean (median) of 69 kilometers (11 kilometers) from their respective auditors (*DIST_TOCLIENT*).[7]

Attributes of Within-firm Office Changes

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[5] For comparison, Beuselinck et al. (2018) reported a mean (median) of 0.066 (0.037) for MNC parent unconsolidated absolute discretionary accruals.

[6] This represents the average geodesic distance in kilometres between all office pairings of the same audit firm in a specific country and year. However, in the empirical analysis, we take the inverse of this amount and multiply it by the influence of each office on the network because of different audit office sizes on audit outcomes. For comparison, the mean (median) value for the distance to the nearest large office of the same firm in the US is 633 (422) km (Beck et al. 2019).

[7] In the US, 80 percent of clients are audited by an office within 100 km of the clients' headquarters, and the median distance between an audit office and its client's headquarters is less than 20 km (Beck et al. 2019).

Panel B of Table 2 explores the factors contributing to office changes.[8] We focus on partner changes, headquarters relocation, switching to a larger or smaller office, and transitioning to a specialist or non-specialist office.[9] Nearly half of the office changes (46%) were due to clients following a partner to a new location. Client headquarters relocation is not an important factor, as only 1% of offices changes were from clients that changed headquarters address. Further, changes are equally often to a larger than to a smaller office than before. Changes are also equally often from a non-specialist office to an industry specialist as the other way around (with about 60% being from a non-specialist to another non-specialist office).

Mean Comparison Tests

While we were able to obtain an understanding from Panel B of Table 2 on what drives office changes (e.g., following the same partner), the descriptive statistics in Panel C of Table 2 provide additional insight into how observations that experienced audit office change companies differ from observations that did not experience office changes. The absolute value of discretionary accruals (|*DACC*|) test of differences reveals no significant difference between firm-year observations that do not involve a switch to another office within the firm and those that change offices (p = *0.838*). Clients tend to move to an office that is farther *DIST_TOCLIENT* ($p < 0.001$) and engagements that experience an office change belong to offices from audit firms that have less *CONNECT*

[8] A random sample of 100 office changes were checked to ascertain whether they were caused by the closure of an office. However, our findings indicated that none of the changes were a result of an office closure.
[9]opinion shopping does not seem to play much of a role in within-firm office changes in our sample. This is because, out of the 1,295 observations that switched offices, only five observations were associated with a revised/GC opinion before the switch.

($p < 0.001$) compared to those that do not. We also compare variables associated with the performance of the company. The descriptive statistics indicate that office change companies have lower operating cash flows ($p < 0.001$) and are more likely to operate in a "risky" industry ($p < 0.001$). Further, we compare a few audit firm characteristics and the audit-client relationship. It is reasonable for clients who switch offices to have a shorter *TENURE* than clients who do not switch offices, as the successor office is likely to be in their first year of engagement ($p < 0.001$). The companies that change offices tend to be engaged with a smaller audit office (*OFFICESIZE*) subsequent to the change than those companies that do not change audit offices (p < 0.001); thus, office change companies have greater *INFLUENCE* ($p < 0.001$) within the local audit office than companies that do not change offices ($p < 0.001$). There is no significant difference in the level of industry expertise *SPECIALIST* ($p = 0.388$).

Pairwise Correlation

Panel D of Table 2 presents the pairwise correlations among our variables in the main tests. The correlation between *TENURE* and *OFFICE_CHG* is positive, indicating that clients who have employed the same auditor for three years or less tend to switch offices. We further observe that audit office size (*OFFSIZE*), audit office specialist indicator (*SPECIALIST*), and client influence (*INFLUENCE*) exhibit negative correlations with the absolute value of discretionary accruals (|*DACC*|). Panel D further indicates that most correlations among independent variables have an absolute coefficient of less than 0.62. Therefore, multicollinearity does not pose a threat to our models.[10]

RESULTS

Primary Testing Results

Models 1 and 2 of Table 3 report the results of the regression models used to test the relation between the level of the absolute value of discretionary accruals ($|DACC|$) and an issuing office change (*OFFICE_CHG*) in addition to the moderating effect of (*CONNECT)*. We find a negative and nonsignificant coefficient on *OFFICE_CHG* (β_1 =-0.002, p = 0.563) in Model 1 of Table 3, failing to support H1. Our data do thus not support the suggestion that reporting quality is reduced if the client's engagement office is switched to another office within the same firm in a European context. Overall, the coefficients on our control variables are generally consistent with predictions based on prior research.

In our second hypothesis, we examine whether reduced financial reporting quality due to office changes within the same audit firm is less pronounced in audit firms with greater network connectedness. The results of this analysis can be found in Model 2 of Table 5. Surprisingly, we find a positive and insignificant coefficient on *OFFICE_CHG X CONNECT* (β_2 =0.015, p = 0.077), failing to support H2. This lack of support suggests that reduced reporting quality resulting from intra-firm office changes is not less pronounced in audit firms with greater network connectedness. To visualize our findings, we

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[10] The variance inflation factors (VIFs) for the variables in our multivariate regression models are all below 2.5 (not tabulated), which provides additional evidence that the issue of multicollinearity is not a concern in our study.

generated a line graph (Figure 1) that illustrates a crossover interaction. Specifically, our results show that at lower levels of audit firm network connectedness, offices involved in within-firm switches have better financial reporting quality, as indicated by a lower |DACC|. However, as the level of network connectedness increases, clients from offices involved in a switch exhibit a greater |DACC|, surpassing the |DACC| of clients from offices that did not undergo a switch, indicating reduced reporting quality.

Additional Testing

Auditor-Client Proximity

To effectively plan audits, identify risks, and interpret evidence, auditors must obtain client-specific knowledge, including information about internal control structures and opportunities for substandard reporting (Knechel, W. Robert., Salterio, Steven E., Ballou, Brian. 2007). However, transitioning an audit engagement from one office to another within the same audit firm may lead to challenges in maintaining effective communication between the engagement office and the client due to less proximity to the client. The latter, in turn, can create two types of information frictions for partners who live far away: first, a lack of familiarity and understanding of the client's top management and organizational culture due to infrequent visits, and second, reduced interaction with audit teams due to geographical distance (Francis et al. 2021).

To assess how clients' distance from the audit office affects reporting quality during within-firm office switches, we assume that clients farther from the office require more time for the audit team to travel and be on-site, potentially leading to challenges in obtaining client-specific information, which may result in lower reporting quality.

The results of this analysis can be found in Table 4. We see a positive and insignificant coefficient on *OFFICE_CHGXDIST_TOCLIENT* (β =2.831, p = 0.118). According to the results, changes in distance between the issuing office and the client have a negligible effect on reporting quality in within-firm office changes.

Office Size

The literature provides evidence of the influence of office-level attributes of engagement auditors on their clients' financial reporting quality and/or audit quality (DeFond and Zhang 2014). The size of the engagement auditor's office is a specific area of emphasis in this literature (e.g., Francis and Yu 2009; Choi et al. 2010; Francis and Michas 2013). Therefore, we partition the office changes from a smaller to a larger office and from a larger to a smaller office.

The results of this analysis can be found in Model 1 of Table 5. We find a positive insignificant coefficient on *CHANGE2LARGER* (β =0.000, p = 0.956) and negative insignificant coefficient on *CHANGE2SMALLER* (β =-0.003, p = 0.319). The results show that upsize or downsize changes do not affect reporting quality in within-firm office changes.

Industry Specialization

Prior research suggests that clients of industry specialists exhibit better reporting quality than non-specialists (e.g., Balsam et al. 2003). Therefore, in the event of a transition from a non-specialist office to an industry-specialized office within the same audit firm, it is plausible that the reporting quality may improve or deteriorate correspondingly. As a result, we differentiate between office changes from a specialist to a non-specialist office and those from a non-specialist to a specialist office. The results of this analysis can be found in Model 2 of Table 5. We find a positive insignificant coefficient on *SPECIALIST_Up* (β =0.006, p = 0.310) and a negative insignificant coefficient on *SPECIALIST_Down* (β =-0.007, p = 0.196). The results show that upgrading to a specialist office or downgrading to a non-specialist office does not affect reporting quality in within-firm office changes.

Country Effect

Since our sample comprises sixteen different countries, there could be variations among the findings. Hence, we divide the results by country and present the significant coefficients on the primary variables *OFICE_CHG* and *OFICE_CHGxCONNECT* in Table 6. The coefficient on *OFFICE_CHG* is positive and significant in Austria (β =+0.081, p-value = .003) while negative and significant in Poland (β =-0.031, p-value = .065), Spain(β =-0.037, p-value = .011), Sweden(β =-0.016, p-value = .051) and Switzerland(β =-0.023, p-value = .025). The coefficient on *OFICE_CHGxCONNECT* is positive and significant in Poland (β =+0.274, p-value = .063), Spain (β =+0.160, p-value = .023) and United Kingdom (β =+0.062, p-value = .094).

DISCUSSION AND CONCLUSION

There is evidence that the quality of audits is affected by office-level characteristics. Yet, many factors are likely to influence whether within-firm office changes result in a positive or negative association with financial reporting quality. This study examines the impact of within-firm office changes on financial reporting quality. Clients who change offices within the audit firm's network may benefit from fresh perspectives and insights from new engagement teams and audit partners; however, such changes may impair audit quality due to reduced client-specific knowledge and initial cost pressures associated with engagement teams tooling up on new assignments (Greiner et al. 2021). Surprisingly, our results do not show a negative effect on financial reporting quality, indicating that engagement offices involved in within-firm switches could manage the transition effectively. One possible explanation for this finding is that the potential benefits of a "fresh-eyes effect" may offset the negative impact of losing client-specific knowledge. This effect may be particularly relevant in within-firm office changes, where successor offices may have similar audit styles and methodologies as their predecessors (Francis et al. 2014).

Nevertheless, the ability of an audit office to provide a high-quality audit depends partly on how it relates to the network of offices in which it operates through knowledge sharing (Seavey et al. 2017). Hence, we aimed to examine the impact of audit firm network connectedness on the quality of financial reporting in within-firm office changes. This finding suggests that allocating audit resources efficiently can be challenging for audit firms even with greater network connectedness.

In the additional testing, we examined the impact of change in client's distance from the audit office and partitioned the office changes by office size and industry specialization for the additional testing. Results do not show an impact due to changes in auditor-client distance, upsizing, downsizing, or even upgrading or downgrading in office specialization. In addition, we portioned the results by country. We noted reduced reporting quality in small countries such as Austria and better reporting quality in larger countries such as Poland, Spain, Sweden, and Switzerland.

Our study has certain limitations, both in terms of development and design. First, audit quality is notoriously difficult to define and measure (Duh et al. 2019; Knechel et al. 2012), so future research could examine alternative proxy measures. Second, we derive reporting quality inferences from a measure of discretionary accruals. As our proxy is based on a number of assumptions and modeling choices, it may be subject to measurement error (Hollingsworth et al. 2020). Third, as private businesses account for most of the EU economy market for audit services (van Tendeloo and Vanstraelen 2008), future research can consider data on private firms in European countries. The results reported in the paper must be interpreted in light of these limitations.

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TABLE 1

Sample and Variables Description

Panel A: Sample Selection

Total observations from Audit Analytics Europe with audit opinion data	88,835
Less:	
Observations with missing countries or in non-European countries	(3,367)
Observations with missing city information	(593)
Observations not audited by the largest global audit networks	(27,041)
Observations from the financial services sector	(15,390)
Initial Sample	**42,444**
Observations with missing DACC variables	(17,213)
Observations with missing control variables	(1,387)
Observations with limited year and country data	(1,737)
Observations with audit firm changes	(2,203)
Final Sample	**19,904**

Panel B: Office Changes by Country

Country	OFFICE_CHG=0	OFFICE_CHG=1	N
Austria	322	10	332
Belgium	484	59	543
Denmark	532	45	577
Finland	758	50	808
France	2,398	377	2,775
Germany	2,055	68	2,123
Greece	262	11	273
Ireland	268	1	269
Italy	1,105	49	1,154
Netherlands	544	68	612
Norway	909	39	948
Poland	1,013	55	1,068
Spain	526	58	584
Sweden	2,227	105	2,332
Switzerland	1,093	33	1,126
United Kingdom	4,113	267	4,380
Total	**18,609**	**1,295**	**19,904**

TABLE 2

Panel A: Descriptive Statistics for the Full Sample (N=19,904)

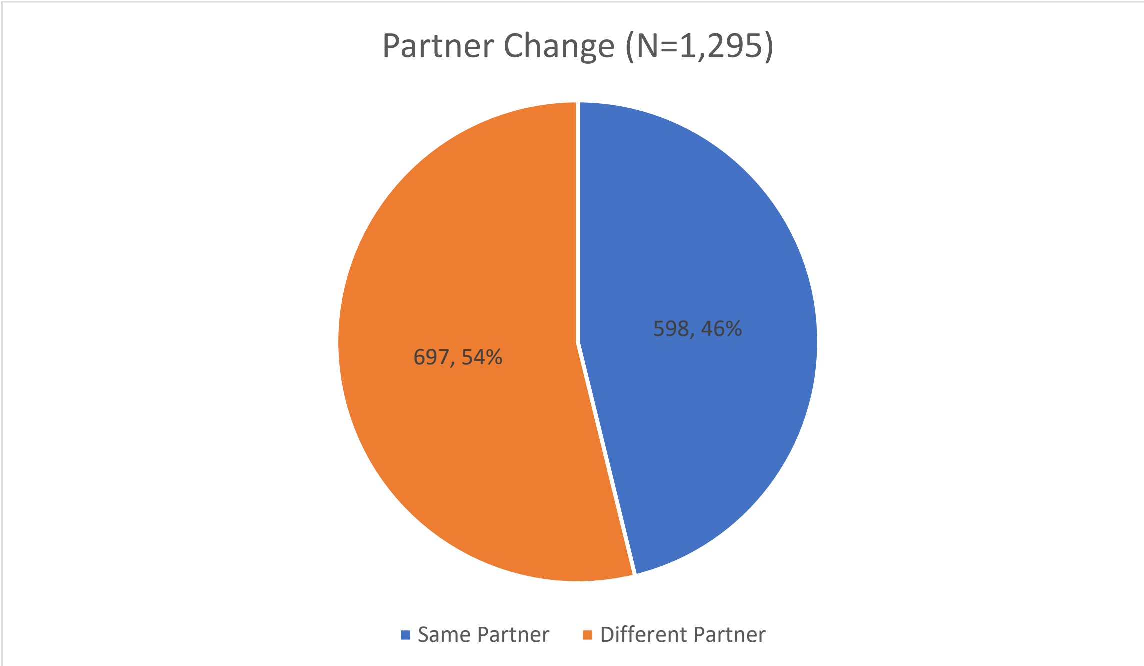
	Mean	SD	Min	p25	p50	p75	Max
|DACC |	0.076	0.12	0.00078	0.021	0.047	0.094	0.55
OFFICE_CHG	0.065	0.25	0	0	0	0	1
CONNECT	0.17	0.22	0	0.0067	0.10	0.23	1.26
DIST_TOCLIENT	69.0	134.9	0.34	3.62	11.0	61.7	666.6
SIZE	13.1	2.27	7.54	11.4	13.0	14.6	18.6
LEVERAGE	0.55	0.22	0.089	0.41	0.56	0.69	1.24
RISKY	0.27	0.44	0	0	0	1	1
OCF	0.066	0.14	-0.76	0.029	0.077	0.13	0.41
TENURE	0.25	0.43	0	0	0	0	1
OFFSIZE	16.0	2.34	10.4	14.2	16.1	17.9	20.0
SPECIALIST	0.39	0.49	0	0	0	1	1
LOSS	0.26	0.44	0	0	0	1	1
INFLUENCE	17.8	29.1	0	0.67	3.64	18.9	100
STD	0.13	0.14	0.0022	0.038	0.081	0.15	0.85
GROWTH	0.10	0.51	-0.76	-0.066	0.026	0.15	4.28

This table presents the distributional characteristics of the variables used in the main analyses. All continuous variables are winsorized at the 1st and 99th percentiles of their distributions. All variables are defined in the Appendix.

TABLE 2 (Continued)

Panel B: Descriptive Statistics for Office Changes

Partner Changes



HQ Relocation

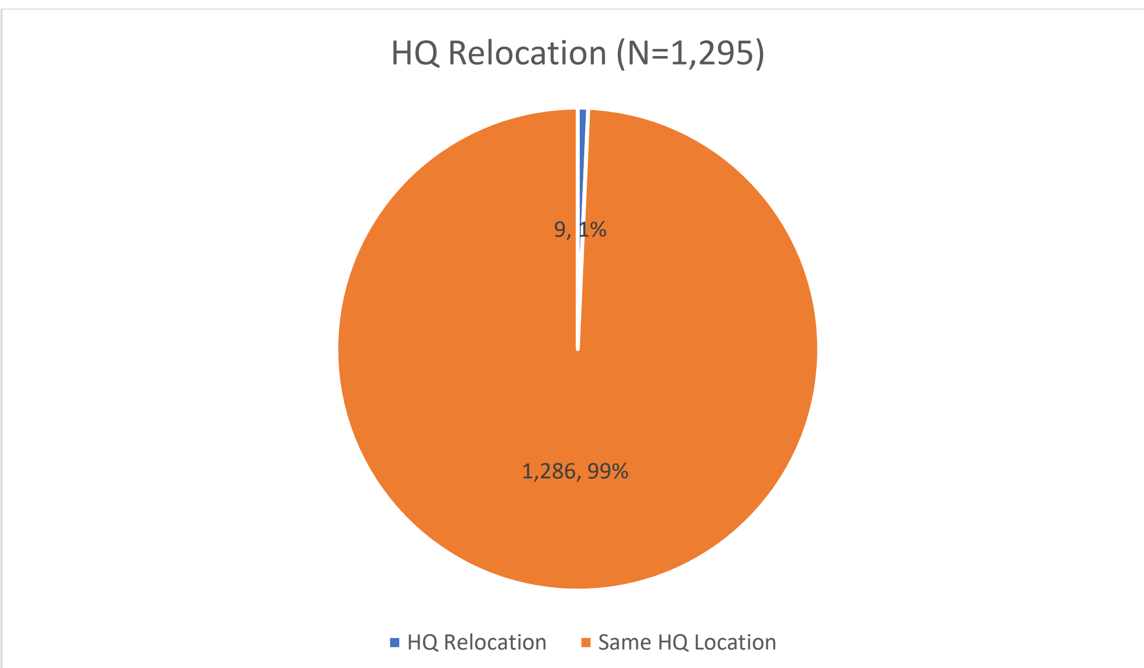
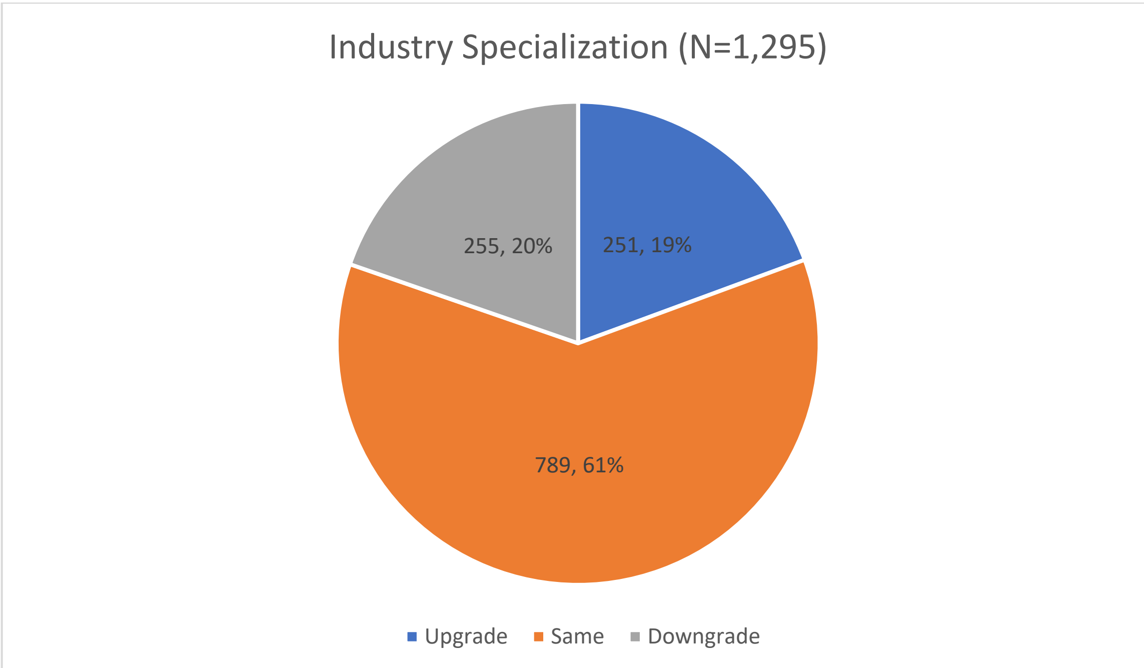


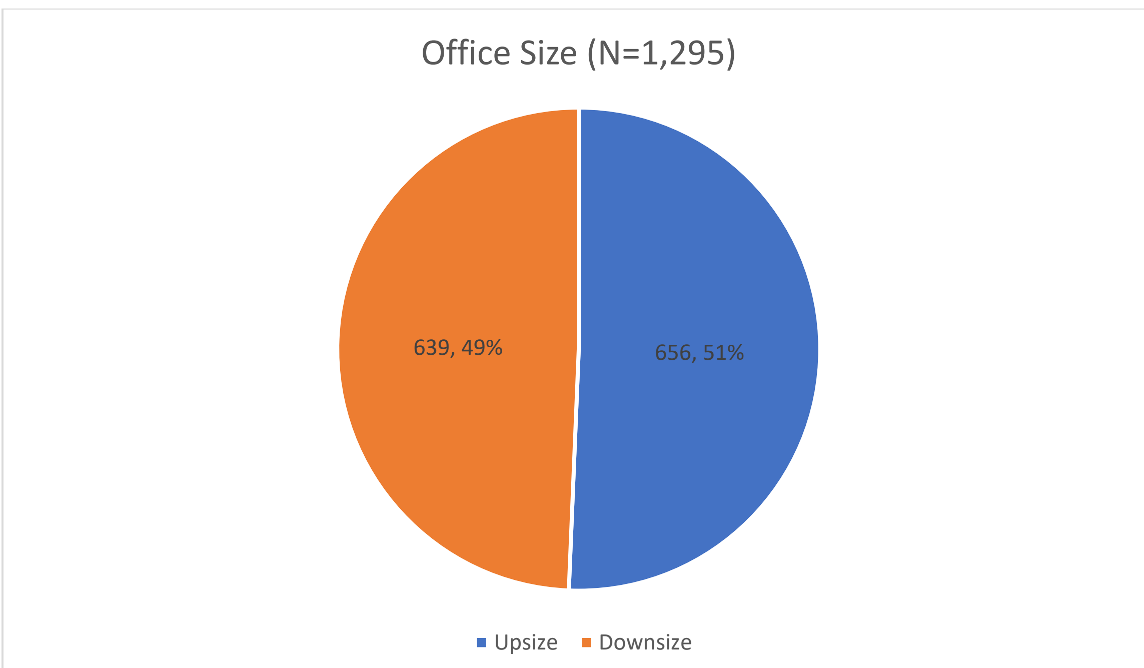
TABLE 2 (Continued)

Panel B: Descriptive statistics for Office Changes (continued)

Industry Specialization



Office Size



Panel B focuses on the 1,295 observations that experienced an office change. It shows potential drivers for the change such as partner changes, headquarters relocation, switching to a larger or smaller office, and transitioning to a specialist or non-specialist office.

Panel C: Mean Comparison Tests

	OFFICE_CHG=1			OFFICE_CHG=0					
Variable	**Mean**	**SD**	**Median**	**Mean**	**SD**	**Median**	**Diff.**	**t-stat**	**p-value**
|DACC|	0.079	0.109	0.0471	0.08	0.125	0.0473	0.001	-0.204	0.838
CONNECT	0.141	0.241	0.0359	0.168	0.223	0.104	0.027	-3.919	<0.001
DIST_TOCLIENT	101.347	156.331	28.85	66.766	132.980	10.5	-34.581	(-7.767)	<0.001
SIZE	12.905	2.273	12.71	13.083	2.267	12.97	0.177	-2.713	0.007
LEVERAGE	0.549	0.214	0.554	0.553	0.215	0.559	0.004	-0.676	0.499
RISKY	0.302	0.459	0	0.264	0.441	0	-0.038	(-2.904)	0.004
OCF	0.052	0.146	0.0716	0.067	0.138	0.0777	0.015	-3.661	<0.001
TENURE	0.811	0.392	1	0.206	0.404	0	-0.605	(-53.546)	<0.001
OFFSIZE	15.52	2.535	15.47	16.038	2.319	16.15	0.518	-7.146	<0.001
SPECIALIST	0.399	0.49	0	0.387	0.487	0	-0.012	(-0.869)	0.385
LOSS	0.28	0.449	0	0.259	0.438	0	-0.021	(-1.604)	0.109
INFLUENCE	26.353	35.773	6.578	17.247	28.494	3.526	-9.106	(-8.961)	<0.001
STD	0.126	0.153	0.0788	0.126	0.144	0.081	<0.001	-0.069	0.945
GROWTH	0.106	0.518	0.0211	0.103	0.507	0.0266	-0.003	(-0.207)	0.836
N	**1,295**			**18,609**			**19,904**		

***,**,* Denote statistical significance at the 1 percent, 5 percent, and 10 percent levels (two-tailed), respectively. This table presents how observations that experienced audit office change companies differ from observations that did not experience office changes. All variables are defined in the Appendix.

TABLE 2 (continued)

Panel D: Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) |DACC |	1.000														
(2) OFFICE_CHG	0.002	1.000													
	(0.755)														
(3) CONNECT	-0.014	-0.030	1.000												
	(0.053)	(0.000)													
(4) DIST_TOCLIENT	0.057	0.062	-0.002	1.000											
	(0.000)	(0.000)	(0.826)												
(5) SIZE	-0.216	-0.019	0.190	-0.066	1.000										
	(0.000)	(0.008)	(0.000)	(0.000)											
(6) LEVERAGE	0.103	-0.005	0.049	0.001	0.243	1.000									
	(0.000)	(0.523)	(0.000)	(0.838)	(0.000)										
(7) RISKY	0.059	0.022	-0.038	-0.007	-0.204	-0.092	1.000								
	(0.000)	(0.002)	(0.000)	(0.355)	(0.000)	(0.000)									
(8) OCF	-0.130	-0.027	0.034	-0.034	0.260	0.007	-0.060	1.000							
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.299)	(0.000)								
(9) TENURE	0.038	0.347	0.008	0.075	-0.053	-0.011	0.014	-0.045	1.000						
	(0.000)	(0.000)	(0.289)	(0.000)	(0.000)	(0.120)	(0.054)	(0.000)							
(10) OFFSIZE	-0.072	-0.055	0.385	-0.030	0.410	0.113	-0.038	0.060	-0.063	1.000					
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)						
(11) SPECIALIST	-0.029	0.006	0.062	-0.011	0.172	0.037	0.001	0.033	-0.015	0.173	1.000				
	(0.000)	(0.386)	(0.000)	(0.116)	(0.000)	(0.000)	(0.864)	(0.000)	(0.030)	(0.000)					
(12) LOSS	0.213	0.012	-0.021	0.059	-0.283	0.082	0.069	-0.493	0.018	-0.044	-0.037	1.000			
	(0.000)	(0.093)	(0.003)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.010)	(0.000)	(0.000)				
(13) INFLUENCE	-0.035	0.077	-0.270	-0.031	0.057	0.011	-0.007	0.032	0.039	-0.614	-0.106	-0.054	1.000		
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.112)	(0.318)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)			
(14) STD	0.203	-0.001	-0.042	0.029	-0.224	0.098	0.085	0.034	-0.006	-0.098	-0.030	0.042	-0.003	1.000	
	(0.000)	(0.884)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.404)	(0.000)	(0.000)	(0.000)	(0.635)		
(15) GROWTH	0.142	0.004	-0.018	0.046	-0.094	-0.076	0.048	-0.063	0.031	-0.034	-0.005	0.024	-0.010	0.214	1.000
	(0.000)	(0.550)	(0.011)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.487)	(0.001)	(0.173)	(0.000)	

This table shows Pearson correlations among regression variables. All variables are defined in the Appendix.

Table 3
Main Testing: Multivariate Analysis of Discretionary Accruals and Issuing Office Changes

	Model 1			Model 2		
DV=|DACC |	**ALL**	**pval**	**tstat**	**ALL**	**pval**	**tstat**
OFFICE_CHG	-0.002	0.563	-0.579	-0.004	0.228	-1.213
CONNECT				0.003	0.514	0.655
OFFICE_CHGxCONNECT				0.015*	0.077	1.783
SIZE	-0.007***	0.000	-13.072	-0.007***	0.000	-13.022
LEVERAGE	0.055***	0.000	9.944	0.055***	0.000	9.955
RISKY	0.009***	0.000	3.781	0.009***	0.000	3.783
OCF	-0.023*	0.081	-1.760	-0.023*	0.083	-1.747
TENURE	0.004**	0.024	2.286	0.004**	0.026	2.260
OFFSIZE	0.001	0.237	1.190	0.000	0.420	0.809
SPECIALIST	0.001	0.668	0.430	0.001	0.647	0.458
LOSS	0.024***	0.000	9.087	0.024***	0.000	9.070
INFLUENCE	-0.000	0.691	-0.399	-0.000	0.712	-0.370
STD	0.078***	0.000	8.593	0.078***	0.000	8.594
GROWTH	0.017***	0.000	5.197	0.017***	0.000	5.190
Constant	0.118***	0.000	10.999	0.120***	0.000	10.872
Observations		19,901			19,901	
R-squared		0.119			0.120	
YEAR FE		YES			YES	
INDUSTRY FE		YES			YES	

***,**,* Denote statistical significance at the 1 percent, 5 percent, and 10 percent levels (two-tailed), respectively.

The table reports OLS coefficient estimates, p-values and t-statistics based on heteroscedasticity-robust standard errors clustered by firm country and firm industry. All variables are defined in the Appendix. Detailed variable definitions are presented in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles of their distributions. The model includes industry and year fixed effects to control for unobservable industry- and year-specific determinants of financial reporting quality. Since firm-year observations within the same country and industry may share common (and possibly unobservable) characteristics, we cluster standard errors at the country and industry levels.

Table 4
Additional Testing: Multivariate Analysis of Discretionary Accruals and Issuing Office Changes: Moderated by Auditor-Client Distance

DV=|DACC|	coeff.	pval	tstat
OFFICE_CHG	-0.005	0.170	-1.381
DIST_TOCLIENT	1.137	0.113	1.594
OFFICE_CHG x DIST_TOCLIENT	2.831	0.118	1.575
SIZE	-0.007***	0.000	-12.716
LEVERAGE	0.055***	0.000	9.929
RISKY	0.009***	0.000	3.774
OCF	-0.023*	0.085	-1.737
TENURE	0.003**	0.043	2.046
OFFSIZE	0.001	0.241	1.179
SPECIALIST	0.001	0.663	0.437
LOSS	0.023***	0.000	9.103
INFLUENCE	-0.000	0.728	-0.349
STD	0.078***	0.000	8.514
GROWTH	0.017***	0.000	5.183
Constant	0.117***	0.000	10.775
Observations		19,901	
R-squared		0.120	
INDUSTRY FE		YES	
YEAR FE		YES	

***,**,* Denote statistical significance at the 1 percent, 5 percent, and 10 percent levels (two-tailed), respectively. Detailed variable definitions are presented in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles of their distributions. The model includes industry and year fixed effects to control for unobservable industry- and year-specific determinants of financial reporting quality. Since firm-year observations within the same country and industry may share common (and possibly unobservable) characteristics, we cluster standard errors at the country and industry levels.

Table 5
Additional Testing: Multivariate Analysis of Discretionary Accruals and Issuing Office Changes: Office Size and Industry Specialization

	Model 1			Model 2		
DV=|DACC|	**coeff.**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**
CHANGE2LARGER	0.000	0.956	0.055			
CHANGE2SMALLER	-0.003	0.319	-1.001			
SPECIALIST_Up				0.006	0.310	1.020
SPECIALIST_Down				-0.007	0.196	-1.301
SIZE	-0.007***	0.000	-13.044	-0.007***	0.000	-13.091
LEVERAGE	0.055***	0.000	9.954	0.055***	0.000	9.954
RISKY	0.009***	0.000	3.782	0.009***	0.000	3.766
OCF	-0.023*	0.082	-1.756	-0.023*	0.080	-1.767
TENURE	0.004**	0.023	2.303	0.003**	0.024	2.287
OFFSIZE1	0.001	0.252	1.151	0.001	0.234	1.197
SPECIALIST	0.001	0.667	0.431	0.001	0.539	0.616
LOSS	0.024***	0.000	9.076	0.024***	0.000	9.036
INFLUENCE	-0.000	0.721	-0.357	-0.000	0.658	-0.444
STD	0.078***	0.000	8.583	0.078***	0.000	8.606
GROWTH	0.017***	0.000	5.202	0.017***	0.000	5.199
Constant	0.118***	0.000	11.007	0.119***	0.000	11.105
Observations	19,901			19,901		
R-squared	0.120			0.120		
INDUSTRY FE	YES			YES		
YEAR FE	YES			YES		

***,**,* Denote statistical significance at the 1 percent, 5 percent, and 10 percent levels (two-tailed), respectively. Detailed variable definitions are presented in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles of their distributions. The model includes industry and year fixed effects to control for unobservable industry- and year-specific determinants of financial reporting quality. Since firm-year observations within the same country and industry may share common (and possibly unobservable) characteristics, we cluster standard errors at the country and industry levels.

Table 6
Additional Testing: Multivariate Analysis of Discretionary Accruals and Issuing Office Changes: Moderated by Audit Firm Network Connectedness Per Country

	Austria			Belgium			Denmark			Finland		
DV=|DACC|	**coeff.**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**
OFFICE_CHG	0.083***	0.001	7.669	0.003	0.920	0.104	0.001	0.961	0.051	-0.005	0.618	-0.526
CONNECT	0.006	0.667	0.456	-0.007	0.299	-1.121	0.001	0.976	0.031	-0.015**	0.043	-2.563
OFFICE_CHGxCONNECT	-0.120*	0.081	-2.177	0.006	0.828	0.225	0.008	0.921	0.103	0.046	0.183	1.506
Observations	332			545			577			808		

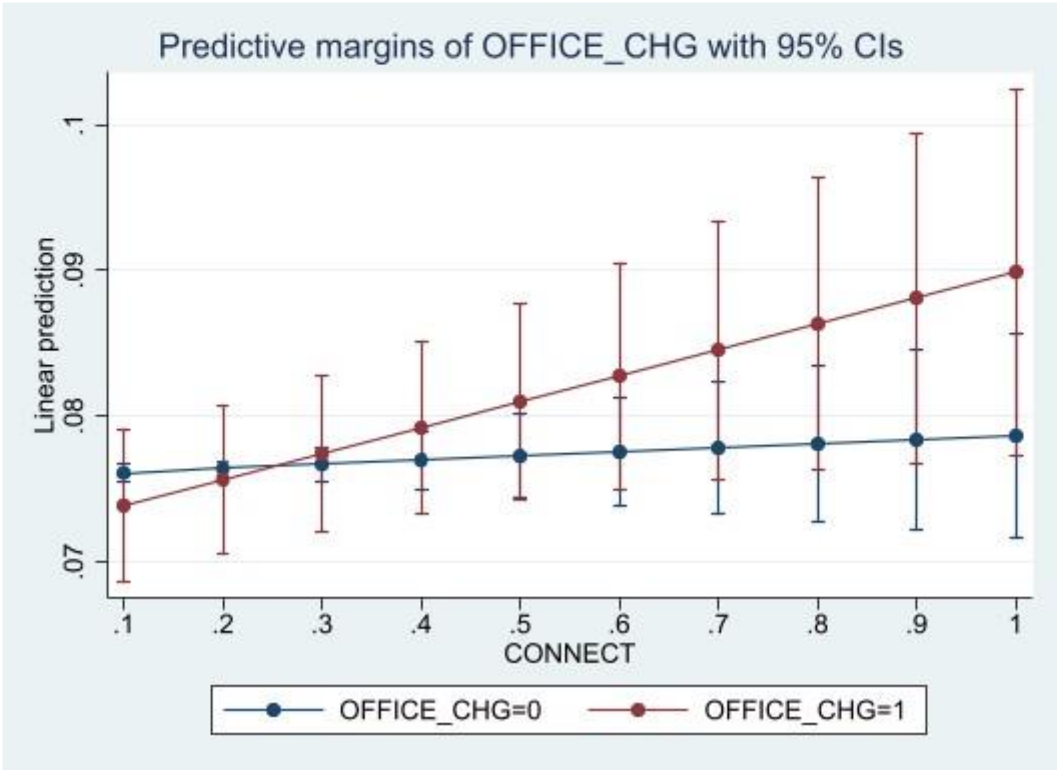
	France			Germany			Greece			Ireland		
DV=|DACC|	**coeff.**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**
OFFICE_CHG	-0.010	0.313	-1.087	0.001	0.756	0.323	0.002	0.970	0.038	-0.033	0.412	-0.872
CONNECT	-0.009	0.738	-0.348	0.086	0.342	1.019	-0.001	0.944	-0.073	0.012	0.512	0.691
OFFICE_CHGxCONNECT	0.050	0.228	1.321	-0.018	0.908	-0.120	0.026	0.571	0.595	0.000	.	.
Observations	2,775			2,123			273			269		

	Italy			Netherlands			Norway			Poland		
DV=|DACC|	**ALL**	**pval**	**tstat**	**ALL**	**pval**	**tstat**	**ALL**	**pval**	**tstat**	**coeff.**	**pval**	**tstat**
OFFICE_CHG	-0.025	0.136	-1.683	-0.007	0.785	-0.283	0.021	0.639	0.489	-0.030*	0.066	-2.174
CONNECT	-0.025	0.453	-0.794	-0.010	0.401	-0.893	-0.057	0.281	-1.168	0.015	0.606	0.540
OFFICE_CHGxCONNECT	0.146	0.751	0.329	0.026	0.271	1.196	-0.113	0.681	-0.428	0.269*	0.066	2.177
Observations	1,154			612			948			1,068		

	Sweden			Spain			Switzerland			United Kingdom		
DV=|DACC|	**ALL**	**pval**	**tstat**	**ALL**	**pval**	**tstat**	**ALL**	**pval**	**tstat**	**ALL**	**pval**	**tstat**
OFFICE_CHG	-0.017**	0.049	-2.373	-0.037**	0.011	-3.633	-0.023**	0.024	-3.001	0.002	0.781	0.289
CONNECT	0.006	0.775	0.297	-0.008	0.892	-0.142	0.036	0.115	1.844	-0.011	0.662	-0.457
OFFICE_CHGxCONNECT	0.074	0.165	1.551	0.159**	0.024	3.009	0.019	0.569	0.602	0.061*	0.100	1.896
Observations	2,331			584			1,126			4,380		

Figure 1:

Crossover Interaction between OFFICE_CHG and CONNECT on |DACC|



Appendix

Variables Description

Variable	**Definition and Measurement**
|*DACC*|	Absolute value of discretionary accruals using the residuals from a performance-adjusted modified Jones model (Dechow et al. 1995; Kothari et al. 2005)
CONNECT	A measure of network connectedness of an audit firm within a specific country and year from Equation (4)
DIST_TOCLIENT	
OFFICE_CHG	1 if the company had a change in the issuing office, 0 otherwise
AUDITOR_CHG	1 if the company changed auditor during the current year, 0 otherwise
LEVERAGE	Calculated as the ratio of the total liabilities to total assets
SIZE	Calculated as the natural logarithm of total assets
CFO	Calculated as the cash flow from operations scaled by total assets
LOSS	1 if the company reports a loss in current fiscal year, 0 otherwise
RISKY	1 if the company operates in a risky industry, and 0 otherwise. Risky industries are defined as drugs (2833–2836), computers (3570–3577), electronics (3600–3674), retail (5200–5961), business services (7300–7379), and R&D services (8731–8734)
OFFICESIZE	Calculated as a natural log of office-level total audited assets in year t
SPECIALIST	1 if the audit firm is considered the city-level industry expert, 0 otherwise;
INFLUENCE	Calculated as the client audit fees over the total office fees in year t
TENURE	1 if the client has employed the same auditor for 3 years or less, and zero otherwise.
STD	Calculated as the standard deviation of sales scaled by total assets at the beginning of the year in years t-2 to t;
GROWTH	Calculated as the annual growth rate of the client's sales revenue from t-1 to t