

Auditor Style, Auditor Changes and Financial Statements Comparability

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Abstract

The term auditor style to determine a unique set of internal working rules each audit firm to perform audit standards and application generally accepted accounting principles between their clients are used. Audit style implies that two companies audited by the same auditor, subject to the same audit style, are more likely to have comparable earnings than two firms audited by two different audit firms with different styles. The sample consists of 44 companies listed in Tehran Stock Exchange for the period 2002 to 2013. The tests are based on pairs of firms and a total of 1958 pairs of firms as observations are used. In the present study used correlation method and multiple regression and is performed regression analysis for hypothesis test. The findings show that the clients of audit firms in the same industry and year than to their non-clients have more similar in accruals and earnings structure. Also the auditor style has an effect on clientele accruals, and that a change to the same auditor leads to more similar accruals. However, there is no evidence that a change to different auditors reduced comparability in the post-switch period. Finally the findings show that audit style is effective to comparability of financial statements.

Keywords: Auditor Style, Comparability, Auditor Changes, Discretionary Accruals

Introduction

Comparability is defined by the Financial Accounting Standards Board (FASB) as "the quality of information that enables users to identify similarities and differences in the financial performance of two firms" (FASB, 1980). The joint conceptual framework project of FASB and the International Accounting Standards Board (IASB) emphasize that comparability is a basic property of financial information which enhances its usefulness (FASB, 2010). Indeed the FASB states that comparability in financial reporting is the primary reason for developing accounting standards (FASB, 1980) and the centrality of comparability is stressed in accounting textbooks, particularly financial statement analysis texts (Phillips et al., 2013, Revsine et al., 2011).

The primacy of comparability as a qualitative characteristic of accounting makes it important to understand the factors that give rise to this characteristic. The emerging research into the determinants of comparability has focused on the role of accounting standards such as the adoption of IFRS (Barth et al., 2012, Lang et al., 2010).

The concept and use of the word comparability are different in the literature. For the purpose of our study we define accounting comparability as the closeness of two firms' reported earnings due to the consistency with which rules are applied across firms. In our empirical context, this means that firm-pairs in the same industry and fiscal year, and therefore subject to the same general economic shocks, are expected to have similar accruals and earning structure, all things being equal. However, there are frictions in the interpretation, implementation, and enforcement of accounting standards which can reduce inter-company comparability.

However, accounting standards on their own do not fully determine financial reporting outcomes; economic agents and institutional incentives also play an important role (Ball et al., 2003, Leuz et al., 2003).

Thus, the existence of uniform accounting standards does not necessarily lead to comparability of financial statements. But comparability is achieved when that two firms in the same industry and year, use the same accounting method for the same financial events. The subtle point is that, even when there is an absolute uniformity for a specific accounting standard, there is the possibility for the reduction of financial statements comparability as a result of different interpretations about the standard. So, the judgments and interpretations of people who are involved in the implementation of accounting standards, affect the comparability of financial statements. Although their judgments and interpretations about principles-based standards have a greater impact, previous research has shown that even in countries where the rules-based standards are used, comparability of financial statements is affected by involved people's judgments and interpretations, despite having detailed implementation interpretation and guidelines.

Finally, the financial statements, resulting from the accounting system, are achieved by auditors. Auditors' responsibility is to comment on financial statements preparation and its conformity with accounting standards. In other words, auditors' duty is to represent their opinion about the eligibility of financial statements preparation by using auditing standards. Audit institutions to ensure the efficiency and effectiveness of the audit process, use a unique set of internal working rules for interpretation and implementation of auditing standards and for interpretation and application of accounting standards. These working rules give rise to what we term audit style, with the consequence that audit firms have systematic differences in their audit approaches, and in their interpretation and enforcement of accounting standards. So the main question of this study is: does the auditor style have any effects on comparability of financial statements?

The current study focuses on the role of the auditor, and following Kothari et al. (2010) and Francis et al. (2013) researches. We argue that each audit firm has its own unique set of internal working rules that guide and standardize the auditor's application of auditing and accounting standards.

As a result, we expect reported accruals and earnings to be more consistent and comparable within an audit firm's clientele than between audit firm clienteles. The premise is that two firms in the same industry-year and audited by the same auditor are more likely to have the same type of accrual adjustments due to audit methodology, and to make the same set of accounting choices and judgments in implementing GAAP. Therefore, the accruals structure of these firms will be more similar than that of two firms with different auditors where the effect of audit style will be randomized away.

The existing debate and empirical evidence in regard to the production of comparability has focused almost exclusively on the role of standards themselves, especially FASB versus IFRS. The present study provides evidence that an economic institution -the auditor- is also an important factor in the production of financial statement comparability. If we confirm this hypothesis, evidence will be obtained in support of the joint FASB/IASB conceptual framework. It argues that accounting standards alone may not necessarily lead to comparability, but that the effects of standards are also dependent upon audit firms involved in the enforcement of GAAP.

The study makes several contributions to the literature. Our study provides evidence that an economic institution -the auditor- is also an important factor in the production of financial statement comparability. Consistent with the joint FASB/IASB conceptual framework, our results suggest that accounting standards alone may not necessarily lead to comparability, but that the effects of standards are also dependent upon audit firms involved in the enforcement of GAAP. As such, we document a new channel through which auditor characteristics affect audited financial statements.

Second, we contribute to the debate on principles versus rules in the development of accounting standards by regulators. Kothari et al. (2010) argue that regulators should not be concerned with the potential for non-comparability if accounting standards are principle-based, because accountants and auditors who are involved in the day-to-day application of principles will develop “working rules” to standardize accounting practice (Kothari et al., 2010). Our results suggest that this standardization process occurs within the clientele of one auditor; however, there are significant “style differences” between audit firms that reduces inter-auditor comparability.

Third, we contribute to the broader literature that examines the auditor’s role in the production of financial reports. This literature has mainly examined the role of auditing in curbing earnings management, which is related to the qualitative characteristic of “representational faithfulness” (FASB, 2010). We show that the unique style of audit firms affects the qualitative characteristic of comparability.

We extend the concept of unique styles in the production of financial reports from individuals to accounting firms. Our findings are analogous to the results of Francis et al. (2013). We found that two firms in the same industry-year and audited by the same auditor have more comparable earnings than two firms audited by two different auditors.

In the next sections, we first explain literature of the research and hypotheses development then research methodology is discussed, and finally it will be presented the findings, discussion and conclusion.

Literature Review and Hypotheses Development

This study examines the auditor style as one of the characteristics of an auditor, and tries to empirically evaluate the auditor style consequences on the audit results. Specifically, comparability of audited financial statements of companies will be studied through observation of differences between clients and non-clients of an audit firm; meanwhile, the evidence is obtained about the impact of auditor style.

Therefore the theoretical foundations of this study are based on two areas of research in accounting and auditing. The first area is in the field of comparability of financial statements and second, research that examines the relationship between audit quality and auditor characteristics.

De Franco et al. conceptually define financial statement comparability in two ways (De Franco et al., 2009). Their first definition is:

"Two firms have comparable accounting systems if, for a given set of economic events, they produce similar financial statements."

Their second conceptual definition of comparability is:

"Firms with correlated economic events and similar accounting of these events will have correlated financial statements over time."

The concept and use of the word comparability are different in the literature. For the purpose of our study we define accounting comparability as the closeness of two firms’ reported earnings due to the consistency with which rules are applied across firms.

Antle and Nalebuff (1991), document that financial statements are jointly produced by clients and their auditors. The seminal empirical studies linking statistical properties of client financial statements with audit characteristics are Becker et al. (1998) and Francis et al. (1999) who document that the clients of Big 4 auditors have smaller abnormal or unexpected accruals than do the clients of non-Big 4 auditors, based on the well-known model of expected accruals developed by Jones (1991) and extended by DeFond and Jiambalvo (1994)(Francis, 2011).

The basic research design which links earnings quality attributes to auditor characteristics is described in below:

Earnings quality = f(audit characteristics + controls for non-audit factors)

It is very important to emphasize that audit characteristics are not direct measures of audit quality; rather, the above design tests if there are systematic differences in audit outcomes (earnings quality) conditional on certain audit characteristics. If there are systematic differences, then there is evidence consistent with the audit characteristics affecting earnings quality from which one can then infer audit-quality differences (Francis, 2011).

Some of the accounting firm attributes that have been examined include accounting firm size (Big 4/non- Big 4), engagement office size (Francis and Yu, 2009, Choi et al., 2010), accounting firm industry expertise measured at both the national level and specific office level (Reichelt and Wang, 2010), accounting firm tenure with the client (Johnson et al., 2002), the presence of accounting firm alumni in executive positions in client firms (Lennox, 2000, Menon and Williams, 2004), and the accounting firm's fee dependence on the client (Frankel et al., 2002).

These studies find that earnings quality is higher when the auditor is larger in both overall size and engagement office size, and when the auditor has more industry expertise. On the other hand, earnings quality is lower in the initial years of engagement tenure, and when audit firm alumni hold key executive positions in client firms (Francis, 2011).

Auditors work for accounting firms and the outcome of the audit process is an audit report that is issued in the name of the accounting firm, along with the client's audited financial statements, which can be viewed as the joint outcome of client inputs and proposed auditor adjustments. For firms are crucial to understanding audit quality because firms hire and train audit personnel, and incentivize auditors through compensation and other organizational policies. Firms also devise the audit programs and testing procedures that guide the evidence collection process, and firms have internal administrative structures to assure quality and compliance with their audit policies (Francis, 2011).

The unique character of audit methodologies implies that each firm's audit approach will systematically detect or not detect the same client errors, including GAAP implementation errors. The implication is that financial statements will be more similar for firm-pairs with the same auditor than for firm-pairs with two different auditors each having different styles (Francis et al., 2013).

Kinney, classified the then Big 8 accounting firms based on their use of unstructured, intermediate, and structured audit technologies. While audit methods/procedures must comply with generally accepted audit standards (GAAS), the audit standards are themselves rather general in nature and much more principles-based than is U.S. GAAP. This means that each accounting firm must devise its own in-house working rules for the efficient and consistent implementation of GAAS across its client base (Kinney, 1986).

DeFond et al., point out that while comparability is the desired outcome of adopting a set of uniform accounting standards, uniformity alone does not necessarily result in comparability. In particular, the standards and in-house rules must also be faithfully implemented (DeFond et al., 2011).

While the importance of comparability has long been recognized by standard setters, and discussed in the academic literature at a conceptual and normative level, there is much less empirical research on comparability. Recent empirical papers have emerged in response to the development of new methodologies to measure comparability, and to the widespread adoption of IFRS. These papers examine how the adoption of IFRS affects financial statement comparability, and how improved comparability affects decisions by investors (Francis et al., 2013).

Francis et al. showed that the absolute value of difference in discretionary accruals of two companies, audited by the same Big 4 auditor, is lower than the absolute value of difference in discretionary accruals of two companies audited by two different Big 4 auditors and two companies

audited by non-Big 4 auditors. The cause of this difference in the amount of discretionary accruals can be justified by difference in auditor style. Their findings also showed when two companies were audited by different auditors in previous years and then they change their auditors and use the same one, their comparability of the financial statements increases. But if a reverse change occurs, no evidence has been found to reduce comparability (Francis et al., 2013).

Barth et al., examine the comparability of financial statements of non-U.S. firms that adopt IFRS with that of U.S. firms, and find that IFRS adoption by non-U.S. firms enhances their financial statement comparability with U.S. firms (Barth et al., 2012).

De Franco et al., find that earnings comparability within an industry is positively related to analysts' following and accuracy, and negatively related to analysts' optimism and dispersion in earnings forecasts (De Franco et al., 2011).

Bradshaw et al., also study analysts and find that the commonality of accounting policy choices, their measure of comparability, affects analyst coverage and behavior (Bradshaw et al., 2011).

DeFond et al., show that mutual funds increase their foreign investment in countries with mandatory IFRS adoption, which they argue is due to improved cross country earnings comparability (DeFond et al., 2011).

Lang et al., examine changes in cross-country financial statement comparability around mandatory IFRS adoption and document that IFRS adoption increases comparability, measured as cross-country earnings co-movement. Other recent papers have examined whether comparability affects the decisions of participants in the capital market (Lang et al., 2010).

Turning to the auditing literature, a large body of research has examined the association of auditor characteristics with clients' audited earnings. The seminal studies linking auditors and earnings attributes are Becker et al. and Francis et al., who document that Big 4 clients have smaller abnormal accruals than non-Big 4 clients (Becker et al., 1998, Francis, 1999). This stream of research has also examined other earnings attributes such as benchmark beating (Burgstahler and Dichev, 1997, Frankel et al., 2002), accruals quality (Dechow and Dichev, 2002, Doyle et al., 2007), and timely loss recognition (Basu, 1997, Krishnan, 2005).

Becker et al., document that the clients of Big 4 auditors have smaller abnormal or unexpected accruals than do the clients of non-Big 4 auditors (Becker et al., 1998).

Mohseni, in his dissertation argued that clients of other audit firms as members of certified public accountants society in the same industry and year have more similarity in accruals and earnings structure than clients of an audit organization (Mohseni, 2014).

It is expected that the auditor style affects the clients' financial statements. The previous research results confirm this fact. Therefore, we expect greater consistency between the financial statements of the two companies in the same industry-year and audited by same firm rather than two companies audited by two different firms. As mentioned in the previous sections, the cause of this expectation is the exposure of the two companies audited by same firm to the same audit style, while the two companies audited by two different firms are influenced by random audit style. Therefore, the first research hypothesis is stated as below:

1. *The comparability of financial statements of two companies which are exposed to the style of the same audit firm is more than two companies which are exposed to the style of two different audit firms.*

With the expectation of auditor style impact on comparability of financial statements, we can assume a situation during the course of review, in which two companies have changed their audit firm. In this case, there will be two states. In the initial state, these two companies had different auditors in previous years and then one of these companies changed its auditor, so that, the same

audit firm is the auditor of both companies. In this situation, after this change, we expected that the structures of discretionary accruals of given companies show more similarities to each other and this lessens the difference between discretionary accruals of two companies. This is due to the fact that the two companies are influenced a similar audit style. Under these expectations, the second research hypothesis is stated as below:

2. *The comparability of financial statements of two companies which have same auditor due to auditor change by one of them, is greater than when they have different auditors.*

In the second state, these two companies had a same auditor and then one of these companies changed its auditor. Therefore, after the change, they will have different auditors and will be exposed to different audit styles. Having such a picture, we expect to have some reduction in comparability of given companies, compared to the previous time. According to these expectations, the third research hypothesis is stated as below:

3. *Financial statements comparability of two companies which have different auditors, due to the change of auditor by one of them, is lower than the time when they have a same auditor.*

Methodology

The population of this study consists of all accepted companies in Tehran Stock Exchange during the years 2002-2013. The Financial sector (comprised of banks, insurance companies and financial services companies) is excluded for two reasons:

- (1) Entities in this sector have different operating characteristics, and as a result, possess risk and complexity properties that are unique in nature and different from those of other sectors.
- (2) The unique characteristics of those entities make it impossible to compute the control variables or makes computing the variable of no meaning.

Firms which do not comply with the sample criteria are deducted from the sample because of the potential noise and contaminating effect they might pose on the findings.

The following are the sample criteria and requirements:

- The firm's shares should be listed for trading on the TSE during the years (2002-2013).
- The firm's financial statements must be available for the years (2002-2013), to provide for the financial data needed to calculate the study variables.
- The firm's auditor is not audit organization (governmental audit).

The above-mentioned criteria of the population and sample should be considered as a limitation of the study, that is, as a result of these criteria a limited number of firms will be relevant for the analysis.

Based on the above stated contents, the study sample consists of 44 companies selected out of seven industries such as automotive industry and components manufacturing, various food and beverage products, chemical and pharmaceutical products, textiles, machinery and equipment, basic metals and other non-metallic mineral products. Since in the present study the testing is based on firm-pairs, the firm-pairs are determined through a major category in each industry based on all possible binary combinations. For example, if there are three firms A, B, and C, then the firm-pairs would be A-B, B-C, and A-C. Accordingly, in the present study, 1958 firm-pairs determined are as the original sample. According to the research hypotheses, other sub-categories will be used within the main category. For testing the first research hypothesis, we examined original sample. Here, we expect that pairs of firms audited by the same audit firm, subject to the same audit style, have a greater comparability compared to pairs of firms audited by two different audit firms with different styles. So, more similarities between accrual structures of firm-pairs, with a same auditor, are

expected. This lessens the differences between the discretionary accruals. To test this expectation, we estimate the following regression model:

$$\text{Diff_Abn_Accruals}_{ijt} = \beta_0 + \beta_1 \text{Same_audit}_{it} + \beta_2 \text{Controls} + E_{ijt} \quad (1)$$

Here:

Same_audit_{it} is an index variable. This variable is a kind of explanatory variable and its value is 1 for firm-pairs using same audit firm *i* in the year *t* and 0 for firm-pairs using different audit firms in the year *t*. Thus, this index variable compares the differences of discretionary accruals in firm-pairs exposed to the same audit style and firm-pairs exposed to random audit style. With the expectation of reduction in differences of discretionary accruals due to a same audit style, we predict a negative coefficient for this variable.

Where *Diff_Abn_Accruals_{ijt}* is the absolute value of the difference between signed abnormal accruals for firm-pairs in the same industry in year *t*. We calculate this variable for each firm *i* and firm *j* pairwise combination, for *J* firms in the same industry and fiscal year as follows:

$$\text{Diff_Abn_Accruals}_{ijt} = \text{abs}(\text{Abn_Accruals}_{it} - \text{Abn_Accruals}_{jt}) \quad (2)$$

Where *Abn_Accruals_{it}* are the abnormal accruals for firm *i* in year *t* and *Abn_Accruals_{jt}* the abnormal accruals for firm *j* in year *t*. Abnormal accruals are calculated using the Jones (1991) model of discretionary accruals, with control for contemporaneous performance as follows (Kothari et al., 2005):

$$\frac{\text{TA}}{\text{Assets}_{t-1}} = \alpha + \beta_1 \frac{1}{\text{Assets}_{t-1}} + \beta_2 \frac{(\Delta \text{Sales}_t - \Delta \text{Rec}_t)}{\text{Assets}_{t-1}} + \beta_3 \frac{\text{PPE}_t}{\text{Assets}_{t-1}} + \beta_4 \text{ROA} + e_t \quad (3)$$

In this model, TA is total accruals, ΔSales is change in sales revenue, ΔAR is the change in accounts receivables, Assets_{t-1} is the beginning of year total assets, ROA is return on assets, PPE is property and equipment, and the subscript *t* denote year. The abnormal accruals represent the difference between total accruals and the estimated (fitted) normal accruals. Total accruals are calculated by working capital method adjusted for cash flows from extraordinary items scaled by beginning of year total assets as follows:

$$\text{TA} = \Delta \text{CA} - \Delta \text{Cash} - \Delta \text{Cl} + \Delta \text{STDEBT} - \text{Dep}(\text{Amo}) \quad (4)$$

Where ΔCA is the change in current assets, ΔCash is the change in cash and cash equivalents, ΔCL is the change in current liabilities, ΔSTDEBT is the change in short-term debt, and $\text{Dep}(\text{Amo})$ is the depreciation and amortization expense.

Control variables

To eliminate alternative explanations that might arise whilst investigating the relationship between the variables, we control other cross-sectional factors that have been shown previously to contaminate the relationship because of their systematic effect on accruals. Controlling those variables would mitigate their systematic effects and lend the findings greater reliability.

Since the dependent variable is calculated each year *t* for a pair of firms *i* and *j*, the control variables must also control for yearly characteristics of the firm-pair *i* and *j*. Following prior research that has used pairs of firms, we control for both the levels and differences in firm pair characteristics (De Franco et al., 2011, Francis and Yu, 2009). We control for levels by entering the minimum value in each year *t* for the paired control variables for firm *i* and *j*. The differences are measured by the absolute values of yearly differences in the control variable values for firm *i* and firm *j*.

Control variables are total accruals, size, leverage, market-to-book, cash flow from operations, standard deviation of sales, standard deviation of cash flows, and sales growth. These variables are as defined above.

TA_Diff: Equals the absolute value of the difference between total accruals of firm *i* and total accruals of firm *j* in firm-pair in year *t*.

Abn_Acc_Min: Minimum value of abnormal accruals in firm-pair firm *i* and firm *j*.

Size_Diff: Absolute value of difference in size in firm-pair firm *i* and firm *j*. Size equals natural logarithm of total assets.

Size_Min: Minimum value of size in firm-pair firm *i* and firm *j*.

LEV_Diff: Absolute value of the difference in leverage in firm-pair firm *i* and firm *j*, where leverage is a debt to assets ratio of a company.

LEV_Min: Minimum value of leverage in firm-pair firm *i* and firm *j*.

MB_Diff: Absolute value of difference in market to book ratio in firm-pair firm *i* and firm *j*. Market to book ratio is calculated as market value of equity divided by book value of equity.

MB_Min: Minimum value of market to book ratio in firm-pair firm *i* and firm *j*.

CFO_Diff: Absolute value of difference in cash flows from operations (scaled by total assets in year *t*-1) in firm-pair firm *i* and firm *j*.

CFO_Min: Minimum value of scaled cash flows from operations in firm-pair firm *i* and firm *j*.

STD_Sales_Diff: Absolute value of the difference in standard deviation of yearly sales in firm-pair firm *i* and firm *j*. Standard deviation of sales is calculated over the year *t* to year *t*-4.

STD_Sales_Min: Minimum value of standard deviation of yearly sales in firm-pair firm *i* and firm *j*.

STD_CFO_Diff: Absolute value of the difference in standard deviation of yearly operating cash flows in firm-pair firm *i* and firm *j*, where standard deviation of cash flows from operations is calculated over the year *t* to year *t*-4.

STD_CFO_Min: Minimum value of the standard deviation of yearly cash flows from operations in firm-pair firm *i* and firm *j*.

STD_Sales_Grth_Diff: Absolute value of the difference in standard deviation of yearly sales growth in firm-pair firm *i* and firm *j*, where standard deviation of sales growth is calculated over the year *t* to year *t*-4. Sales growth equals sales in current year *t* minus sales in year *t*-1 divided by sales in year *t*-1.

STD_Sales_Grth_Min: Minimum value of the standard deviation of yearly sales growth in firm-pair firm *i* and firm *j*.

To test the second hypothesis, a sub-category within the main sample is used. Here we want to examine the situation in which the audit firm of firm-pairs has changed. At first we imagine that the given firm-pairs have different auditors and then one of them changes its auditor to have a same auditor with the other. As a result of this change, we expect that accruals structure shows greater similarities. To test this expectation, regression model in equation (1) is re-estimated for firm-pairs which had different auditors in the past but a same one in present time.

$$\text{Diff_Abn_Accruals}_{ijt} = \beta_0 + \beta_1 S_Switch_{it} + \beta_2 \text{Controls} + E_{ijt} \quad (5)$$

Here, S_Switch_{it} is an index variable which has a value of 1 in the year of change and years after change, till the change persistence and a value of 0 in the years before change (having different auditors). So, this index variable compares the differences in discretionary accruals of firm-pairs before and after the change occurred. With the assumption of reduction in differences of discretionary accruals due to a same audit style, we predict a negative coefficient for this variable. Dependent variable and the control variables are similar to what was stated in equation (1).

In the third hypothesis, we consider a situation in which the firm-pairs have a same auditor and then one of them changes its auditor. So, after this change, the firm-pairs have different auditors. As a result of this change, we expect that accruals structure shows greater differences. To test this expectation, regression model in equation (5) is re-estimated for firm-pairs' sub samples

which had a similar auditor in the past but different auditors in present time. Otherwise, we use the index variable of D_Switch_{it} . This variable has the value of 1 in the year of change and years after change, till the change persistence and a value of 0 in the years before change (having same auditors). The model is as below:

$$Diff_Abn_Accruals_{ijt} = \beta_0 + \beta_1 D_Switch_{it} + \beta_2 Controls + E_{ijt} \quad (6)$$

So, this index variable compares the differences in discretionary accruals of firm-pairs before and after the change occurred. With the assumption of enhancement in differences of discretionary accruals due to different audit styles, we predict a positive coefficient for this variable. Dependent variable and the control variables are similar to what was stated in equation (1).

Results and Discussion

Summarized descriptive statistics of the variables used in this study are presented in Table 1. Main classification of statistical sample consists of 1958 observations. In the following, sub-categories will be used. Mean of dependent variable or the absolute value of difference in discretionary accruals between firm-pairs is 14.8 percent of total assets.

Table 1 Descriptive Statistics

Variables	N	Mean	Median	STD	Min	Max
Abn_Accr_Diff	1958	0.148	0.100	0.358	0.000	8.936
TA_Diff	1958	0.154	0.101	0.369	0.000	9.022
Size_Diff	1958	1.032	0.893	0.804	0.000	5.140
LEV_Diff	1958	0.185	0.151	0.152	0.000	0.822
MB_Diff	1958	2.372	1.227	4.226	0.001	40.231
CFO_Diff	1958	0.186	0.131	0.379	0.000	8.987
STD_Sales_Diff	1958	0.114	0.084	0.108	0.000	0.731
STD_CFO_Diff	1958	0.079	0.054	0.166	0.000	3.933
STD_Sales_Grth_Diff	1958	0.169	0.096	0.201	0.000	0.890
Abn_Accr_Min	1958	-0.064	-0.044	0.350	-8.487	0.464
Size_Min	1958	12.433	12.487	0.812	10.528	14.797
LEV_Min	1958	0.525	0.548	0.167	0.057	0.976
MB_Min	1958	2.093	1.638	2.166	-1.766	33.298
CFO_Min	1958	0.109	0.098	0.128	-0.482	1.061
STD_Sales_Min	1958	0.139	0.132	0.069	0.008	0.609
STD_CFO_Min	1958	0.093	0.079	0.064	0.015	0.431
STD_Sales_Grth_Min	1958	0.142	0.128	0.077	0.018	0.888

Table 2, shows the correlation between the dependent variable, i.e., the absolute value of difference in firm-pairs discretionary accruals and test variables. Correlation of these two test variables, including same auditor (Same_audit) and switching to the same auditor (S_Switch), is negative. This shows that there is an inverse relationship between these variables and the dependent variable. Test variable coefficient for switching to a different auditor (D_Switch), is positive which shows the direct relationship between switching to a different auditor and the difference of firm-pairs accruals. In other words, the switching to a different auditor increases the gap between firm-pairs' accruals. But the coefficient of test variables is not statistically significant.

Table 2. Correlation Coefficients Between Abn_Accr_Diff and Test Variables

Test Variables	N	Correlation	Sig. (2-tailed)
Same_audit	1958	-.013	.562
S_Switch	181	-.011	.887
D_Switch	128	.019	.835

Hypotheses Testing

A multiple linear regression model is used for the variables used in each equation to measure the level of discretionary accruals and test each of the hypotheses. Analysis of variance (ANOVA) is used for measuring the significance of model used to test the research hypotheses and adjusted R^2 is used for measuring explanatory power of these models.

The term audit style is used to characterize the unique set of internal working rules of each audit firm for the implementation of auditing standards, and the enforcement of GAAP within their clienteles. In the first research hypothesis, the same auditor test variable (Same_audit) is used to control the effect of audit style. This variable has the value of 1, when the given firm-pairs use a same audit firm, and value of 0, when the given firm-pairs use two different audit firms.

Table 3. OLS Results for Discretionary Accruals Comparability Tests

Variables	Coefficients	T-Statistic	P-value		
Intercept	.223	6.867	.000	***	
Same_audit	-.014	-2.354	.019	**	
TA_Diff	.553	43.506	.000	***	
Size_Diff	-.006	-2.878	.004	***	
LEV_Diff	-.049	-3.397	.001	***	
MB_Diff	.000	.757	.449		
CFO_Diff	.028	2.196	.028	**	
STD_Sales_Diff	.013	.937	.349		
STD_CFO_Diff	.086	4.347	.000	***	
STD_Sales_Grth_Diff	-.002	-.267	.789		
Abn_Accr_Min	-.372	-20.993	.000	***	
Size_Min	-.011	-5.164	.000	***	
LEV_Min	-.073	-4.756	.000	***	
MB_Min	.005	5.864	.000	***	
CFO_Min	-.265	-13.862	.000	***	
STD_Sales_Min	-.042	-1.672	.095	*	
STD_CFO_Min	.186	6.767	.000	***	
STD_Sales_Grth_Min	-.008	-.356	.722		
Model	N	R^2	Adjusted R^2	F	Sig.
	1958	.967	.967	3391	0.000
Diff_Abn_Accruals _{ijt} = β_0 + β_1 Same_audit _{it} + β_2 Controls + E_{ijt}					

***, **, and * denote significance at the 1%, 5% and 10% levels (two-tail), respectively.

Comparability of financial statements as a dependent variable is measured by using the difference between firm-pairs' discretionary accruals. So, in this way, established differences among the observations as a result of the test variable change become clear. First research hypothesis test results are shown in Table 3. As reported in this table, the results show that the predicted coefficient of the test variable (Same_audit) is negative, in accordance to our expectations. This coefficient is statistically significant at the level of $p < 0.05$. The adjusted R^2 for this model is 96.7% and its significant level is 0.000 which shows that this model is able to explain 96.7% of the changes in the dependent variable, the absolute value of difference in firm-pairs' discretionary accruals. These results can be used as evidence in support of the first hypothesis of this study.

As a result, the clients of a certain audit firm have a more similar accruals structure with each other compared to other audit firm clients. In other words, the firm-pairs, which use a same audit firm and audit style, have a more similar accruals structure with each other compared to other firm-pairs using different audit firm and random audit style.

The second research hypothesis presents our expectation about the change of firm-pairs' auditor toward having a same auditor. Here, we suppose a situation in which the firm-pairs had two different auditors and one of the firms changes auditor to have the same auditor as the other firm, then after the switch we should observe a more similar accruals structure resulting in smaller differences because the two firms are now subject to the style effects of the same auditor.

Table 4. OLS Results for Discretionary Accruals Comparability Tests. Pair of firms switch to same auditor

Variables	Coefficients	T-Statistic	P-value		
Intercept	.124	1.201	.231		
S_Switch	-.020	-2.065	.041	**	
TA_Diff	.437	11.844	.000	***	
Size_Diff	-.002	-.330	.742		
LEV_Diff	-.146	-3.886	.000	***	
MB_Diff	-.001	-.808	.420		
CFO_Diff	.040	1.108	.270		
STD_Sales_Diff	.018	.353	.725		
STD_CFO_Diff	.118	2.050	.042	**	
STD_Sales_Grth_Diff	.000	-.005	.996		
Abn_Accr_Min	-.445	-8.558	.000	***	
Size_Min	.001	.160	.873		
LEV_Min	-.151	-3.168	.002	***	
MB_Min	.005	2.891	.004	***	
CFO_Min	-.320	-6.305	.000	***	
STD_Sales_Min	.025	.338	.736		
STD_CFO_Min	.347	4.300	.000	***	
STD_Sales_Grth_Min	-.040	-.623	.534		
Model	N	R^2	Adjusted R^2	F	Sig.
	181	.849	.833	54	0.000
Diff_Abn_Accruals _{ijt} = $\beta_0 + \beta_1 S_Switch_{it} + \beta_2 Controls + E_{ijt}$					

***, **, and * denote significance at the 1%, 5% and 10% levels (two-tail), respectively.

Here, we use switching to the same auditor test variable (S_Switch). This variable has the value of 1 in the year of change and years after change, till the change persistence and a value of 0 in the years before change (having different auditors). Dependent variable is the same as what we have in the previous hypothesis. So, by this method, the differences between the observations resulting from the changes in test variables become clear. Second research hypothesis test results are shown in Table 4.

As reported in this table, the results show that the predicted coefficient of the test variable (S_Switch) is negative, in accordance to our expectations. This coefficient is statistically significant at the level of $p < 0.05$. Adjusted coefficient of determination for this model is 83.3% and its significant level is 0.000 which shows that this model is able to explain 83.3% of the changes in the dependent variable, the absolute value of difference in firm-pairs' discretionary accruals.

These results can be used as evidence in support of the second hypothesis of this study. As a result, the differences between discretionary accruals of the firm-pairs which had different auditors and have a same auditor now, are reduced due to the use of a same auditing style. The results provide substantial evidences for years around auditor changes. This evidences show that the audit style affects the client discretionary accruals and switching to the same auditor brings about more similar discretionary accruals.

Table 5. OLS Results for Discretionary Accruals Comparability Tests. Pair of firms switch to different auditor

Variables	Coefficients	T-Statistic	P-value		
Intercept	.350	3.231	.002	***	
D_Switch	-.011	-.965	.336		
TA_Diff	.437	9.922	.000	***	
Size_Diff	-.003	-.386	.700		
LEV_Diff	-.183	-3.637	.000	***	
MB_Diff	.001	.767	.445		
CFO_Diff	-.110	-1.950	.054	*	
STD_Sales_Diff	.027	.542	.589		
STD_CFO_Diff	.187	1.937	.055	*	
STD_Sales_Grth_Diff	-.007	-.162	.872		
Abn_Accr_Min	-.631	-7.928	.000	***	
Size_Min	-.013	-1.846	.068	*	
LEV_Min	-.254	-4.567	.000	***	
MB_Min	.019	5.415	.000	***	
CFO_Min	-.509	-6.734	.000	***	
STD_Sales_Min	.047	.558	.578		
STD_CFO_Min	.429	3.175	.002	***	
STD_Sales_Grth_Min	-.093	-.731	.466		
Model	N	R ²	Adjusted R ²	F	Sig.
	128	.850	.827	37	0.000
Diff_Abn_Accruals _{ijt} = $\beta_0 + \beta_1 D_Switch_{it} + \beta_2 Controls + E_{ijt}$					

***, **, and * denote significance at the 1%, 5% and 10% levels (two-tail), respectively.

The third research hypothesis presents our expectation about the change of firm-pairs' auditor toward having different auditors. Here, we suppose a situation in which the firm-pairs had a same auditor and one of them changes auditors so that the firm pair now has two different auditors. Here, we use switching to different auditors test variable (D_Switch). This variable has the value of 1 in the year of change and years after change, till the change persistence and a value of 0 in the years before change (having a same auditor). Dependent variable is the same as what we have in the previous hypotheses. So, by this method, the differences between the observations resulting from the changes in test variables become clear. Third research hypothesis test results are shown in Table 5.

As reported in this table, the results show that the predicted coefficient of the test variable (D_Switch) does not have any significant difference with zero. So, there is no evidence for decreasing the comparability to the period after the change by switching to different auditors.

Although these asymmetry findings are contrary to our expectations and do not support the third research hypothesis, but validate that auditor selection is not random and it considers different expectations such as those concerning auditing results. This is the only explanation we can offer for these asymmetry findings.

Conclusion and Recommendations

After controlling the economic shocks and firm specific factors, we expect the firm-pairs, with a same industry at the same year, to have similar accruals and earnings structure. Our tests show that the probability of these similarities is more when two companies have a same auditor. This is an evidence to prove the effect of audit firm style on resemblance of earnings and accruals for certain auditor's clients. Although the existence a set of uniform accounting standards is necessary to increase financial statements comparability, but our study provides the evidence indicating that it is not enough and, besides that, the auditors also have an important role in preparing the comparable financial statements. Style within the audit firms grows due to its unique internal working rules for interpretation and implementation of accounting and auditing standards.

Our results provide support for Kothari et al. (2010) who conjecture that when standards are principles-based, economic agents such as auditors will develop their own in-house rules which give rise to comparability in the production of financial statements. We find support for the idea that auditors develop in-house rules to facilitate comparability within their clientele.

The findings of the study show the firm-pairs, with a same industry at the same year, which have a same auditor, have more similarities in term of accruals structure compared to firm-pairs which have different auditors. This shows that the style of audit firms makes some similarities in clients' accruals structure and increases the comparability of financial statements. This evidence is in support of the first hypothesis and previous studies such as Francis et al (2013). They show that having auditor from one of the Big 4 firms or other audit firms, affects financial statements comparability.

The study results show that financial statements comparability of firm-pairs, which had two different auditors and then, by changing one of these auditors, they have a same auditor now, increases. These findings confirm the impact of audit style on the financial statements comparability and support the second hypothesis. For the years surrounding the change of auditor, these results provide substantial evidence which shows the effect of audit style on the clients' financial statements comparability and the effect of switching to the same auditor on enhancement of financial statements comparability.

The results also indicate that switching to different auditors has no effect on financial statements comparability. Although these asymmetry findings are contrary to our expectations and do not support the third research hypothesis, but validate that auditor selection is not random and it

considers different expectations such as those concerning auditing results. The results of the second and third hypotheses experimental test are similar to the results of previous researches, including Francis et al (2013).

In this study, the effect of audit style on accruals structure and its consequences such as financial statements comparability was examined. It is suggested that, for future research, pay more attention to other aspects of auditor style.

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