Does Visibility of an Engagement Partner's Association with Recent Client Restatements Increase Fee Pressures from Non-Restating Clients?

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Does Visibility of an Engagement Partner's Association with Recent Client Restatements Increase Fee Pressures from Non-Restating Clients?

Abstract: We examine whether engagement partners who have recently been associated with client restatements experience increased audit fee pressures from their non-restating clients. Using data from the United States (U.S.) and Taiwan, we find evidence of lower audit fees among non-restating companies whose audit engagement partner was recently associated with another client's restatement. These findings are generally strongest when the partner-associated restatement is more prominent or severe, and in the U.S., when non-restating clients are in the same industry as the restating client. Although we find very limited evidence that fee pressures lead to lower quality audits for these partners' other clients in Taiwan, we find that when the partner-associated restatement is more prominent or severe, fee pressures negatively impact audit quality in the U.S. These findings provide further insight on the impact of engagement partner disclosure for audit quality.

Keywords: audit quality, engagement partners, audit partners, audit fee pressure

JEL classifications: M41, M42

I. INTRODUCTION

Although increased transparency about who conducts audits provides valuable information to investors and lenders (Aobdia, Lin, and Petacchi 2015; Chi, Myers, Omer, and Xie 2017; Gul, Lim, Wang, and Xu 2019) and can incentivize higher quality auditing in some circumstances (Carcello and Li 2013; Cunningham, Li, Stein, and Wright 2019), engagement partner transparency may have detrimental effects on audit quality in other circumstances. In this study, we examine whether engagement partners who have recently been associated with client financial statement restatements experience increased audit fee pressures from their non-restating clients, and if so, whether these audit fee pressures lead to lower quality audit outcomes.

Recent research characterizes restatements as the most common, publicly observable indicator of poor audit quality (Knechel, Krishnan, Pevzner, Shefchik, and Velury 2013; Christensen, Glover, Omer, and Shelley 2016). Engagement partner disclosure allows for a publicly observable signal of an engagement partner's recent involvement in a low quality audit, particularly when that restatement is more prominent or severe. As a result, engagement partners of restating clients face pressures to manage other client perceptions and avoid client defections.

Prior research suggests that audit fees vary based on client perceptions of engagement partner specialization and quality (Zerni 2012; Goodwin and Wu 2016). Given the credence nature of audits, clients are often unable to assess the quality of the audit services provided (Causholli and Knechel 2012). To the extent that an engagement partner's recent involvement in another client's restatement negatively influences client perceptions of the partner's quality, we posit that downward pressure on audit fees charged to other clients could occur. This pressure could arise from 1) non-restating clients being less willing to pay a premium for the partner's expertise or specialization, and/or 2) the engagement partner being willing to provide a fee concession in an effort to retain non-restating clients.

Although fee pressures can threaten audit quality by incentivizing auditors to forgo or curtail audit work in order to maintain engagement profitability (Houston 1999; Kroeker 2010; Goelzer 2011; Ettredge, Fuerherm, and Li 2014), pressures from regulators or assurance leaders in the audit firm might incentivize engagement partners recently involved in a client restatement to exert *greater* effort in subsequent audits in order to avoid further reputational damage or consequences. Consistent with this, prior research suggests that audit effort increases following auditor litigation and sanctions, even for clients not directly associated with the litigation or sanctions (Beck, Hogan, and Imdieke 2018; Lamoreaux, Mowchan, and Zhang 2018). If audit effort increases, we may not observe a decrease in audit fees and/or audit quality among companies whose engagement partner was recently involved in a restatement on another engagement. As such, it is an empirical question whether engagement partners who have recently been associated with client restatements experience increased audit fee pressures from their other non-restating clients, and if they do, whether audit quality suffers as a result.

We examine our research questions using data from both Taiwan and the United States (U.S.). Each setting has certain strengths and limitations. Specifically, although the Taiwan setting has a long history of engagement partner identification and provides visibility into restatements of both listed and non-listed clients, audit fees are sometimes presented in a range (rather than as a specific amount) and audit fee disclosure is very limited prior to 2009. In addition, Taiwan has a very low frequency of restatements. In contrast, the U.S. setting is not subject to these limitations, but has a shorter time-series of partner disclosure and only allows for visibility into restatements of public, but not private, audit clients.

To perform our analyses, we first identify engagement partners who have recently been associated with client restatements. We use only the previous year in the U.S., given the short

history of engagement partner disclosure, and we use the previous one, two, or three years in Taiwan, given the longer history of partner disclosure. After limiting our samples to clients not involved in a recent restatement, we use a generalized difference-in-differences (DiD) approach to examine the association between a partner's recent association with a client restatement and the audit fees paid by that partner's other, non-restating clients. In the U.S. setting, we find a 2 percent reduction, on average, in audit fees among non-restating clients of engagement partners involved in another client's restatement in the previous year. In the Taiwan setting, we also find evidence of a reduction in audit fees, which ranges from 1 to 1.4 percent, although these reduced fees do not manifest until the second and third year following the restatement event.

We next examine whether fee pressures vary based on the prominence or severity of the partner-associated restatement. We capture restatement prominence in the U.S. setting based on whether the restatement is disclosed as a non-reliance restatement in an 8-K Item 4.02 filing with the U.S. Securities and Exchange Commission. In the Taiwan setting, we capture restatement prominence based on whether or not the restating company is publicly listed. In both settings, we measure restatement severity based on the restatement's cumulative impact on income as well as the short-window market reaction to the restatement announcement. In both the U.S. and Taiwan, we find that restatement visibility and severity influence audit fee pressures at the engagement partners' non-restating clients. In the U.S., the average reduction in audit fees is 4.4 percent following a non-reliance restatement, 5.5 percent when the restatement decreased previously reported earnings, and 3.2 percent when the restatement was associated with a negative market reaction. In Taiwan, the average reduction in audit fees is 1.7 percent when the restatement related to a listed company or was associated with a negative market reaction, and 2.5 percent when the restatement decreased previously reported earnings. In additional analyses,

we also examine whether fee pressures at the partner's non-restating clients vary based on whether the engagement partner's restating client is in the same industry. Although we no evidence to suggest that this is the case in Taiwan, in the U.S., the reduced fees are more pronounced among the partner's same-industry non-restating clients.[1] Specifically, in the U.S., among same-industry non-restating clients of these partners, audit fees are 9.7 percent lower, on average, following the restatement.

Finally, we examine whether an engagement partner's recent association with a client restatement has a detrimental impact on audit quality at that partner's other, non-restating clients. Using misstatements to identify lower audit quality, in the U.S., we find that audit quality is lower when audit fees at the non-restating client decline and the partner-associated restatement is more prominent or severe (captured by a non-reliance restatement, a restatement that reduces previously reported earnings, or a restatement associated with a negative market reaction). In the Taiwan setting, we find only limited evidence that fee pressures from a partner's non-restating clients impact audit quality. Specifically, we only find lower audit quality among non-restating listed clients when those clients exhibit a decline in audit fees and the restatement occurs at a non-listed client.

Our study implicitly assumes that public disclosure of engagement partner identities, which provides visibility into the quality of the engagement partner's recent audits, is responsible for the documented fee pressures. The results from tests examining the visibility and severity of recent restatements support this assumption, but in an additional analysis, we attempt to more directly test this assumption. Although we cannot perform the additional test in the Taiwan

[1] A possible reason for why we do not find a difference in fee pressure for non-restating clients in the same versus different industries as the engagement partner's restating client in Taiwan is because restatements in Taiwan are generally more observable, regardless of industry, given the geographic proximity of companies in the country and their infrequent occurance.

setting because the requirement that partners sign the audit opinion has been in place for all years with available data (i.e., there are no pre-disclosure years), we can perform the test in the U.S. setting. Here we find evidence suggesting that fee pressures manifest at an engagement partner's other, non-restating clients following, but not prior to, the required partner disclosure.[2]

In further tests, we explore why fee pressures take longer to manifest in the Taiwan setting than in the U.S. setting. Prior research finds that partners in Taiwan are likely to lose restating client assignments (Chi, Lisic, Myers, Pevzner, and Seidel 2019).[3] As such, we examine whether lower post-restatement audit fees are attributable to new engagements, recurring client engagements, or both. The results suggest that fee reductions in Taiwan are primarily attributable to new client engagements and not to recurring engagements. In fact, for these new engagements, we find that audit fees are lower in the first and second year following the restatement event. In contrast, in the U.S., fee pressures are most pronounced among recurring client engagements.

Our conclusion that public disclosure of an engagement partner's involvement with a restatement results in fee pressure from that partner's non-restating clients has important implications for regulators, standard setters, academics, audit committees, and audit firms because it highlights a circumstance that can necessitate increased monitoring of the audit engagement. Although audit firm leaders and audit committees involved in fee negotiations

[2] Because we do not know which clients were audited by which engagement partner prior to the partner disclosure requirement, we assume that the engagement partner identified in the first year of a client's engagement also served as the engagement partner in the year prior to the disclosure. Although there is undoubtedly some measurement error in this test, it is the best we can do given data availability constraints.

[3] Chi et al. (2019) use the Taiwan setting to examine the reputational consequences that engagement partners suffer for having been involved in a client restatement. The sample period in their study, which begins in 1996 and ends in 2016, overlaps with ours. They find that partners involved in a restatement in the previous two years are more likely to lose clients and are less likely to be reassigned to other audit firm clients over the next five years. They also find that these engagement partners are more likely to stop serving as engagement partners in the next five years. This provides strong evidence that in Taiwan, engagement partners involved in client restatements suffer reputational consequences.

would be aware of potential fee pressures, our findings in the U.S. setting suggest that fee pressures from non-restating clients of an engagement partner recently involved in a more prominent or severe restatement can have implications for audit quality at other clients. Regulators around the world have shown interest in increasing transparency about the individuals who conduct audits.[4] Thus, research documenting the effects of engagement partner disclosure on audit quality should be of key interest. Although some research in international settings suggests that engagement partner disclosure leads to improvements in audit quality and provides valuable information to market participants and lenders (Carcello and Li 2013; Aobdia et al. 2015; Gul et al. 2019), research in the U.S. provides evidence of only limited audit quality improvements (Cunningham et al. 2019). Contributing to this literature, our study highlights a potential unintended consequence of engagement partner disclosure. Specifically, our findings in the U.S. setting suggest that when the reputation of an engagement partner becomes visible, partners with a history of past restatements can experience greater fee pressures from their non-restating clients, and this fee pressure can have a detrimental impact on audit quality.

The remainder of the paper is organized as follows. We discuss prior research and develop our hypotheses in Section II. We describe of our sample and research design in Section III. We present and discuss the empirical results in Section IV. In the final section, we summarize our findings and conclude.

[4] For example, in 2006, the European Union adopted the Eighth Company Law Directive requiring the engagement partner to sign the audit report, and in 2015, the International Auditing and Assurance Standards Board released International Standard on Auditing 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, requiring the disclosure of engagement partner identities for listed company financial statement audits. Moreover, in the U.S., the Public Company Accounting Oversight Board (PCAOB) adopted new rules, effective for audit reports issued on or after January 31, 2017, requiring that each issuer file a form disclosing the name of the engagement partner and others participating in the audit (PCAOB 2015).

II. BACKGROUND, PRIOR LITERATURE, AND DEVELOPMENT OF HYPOTHESES

Background on the U.S. Setting

The U.S. audit market for publicly traded companies is dominated by the largest international accounting firms, commonly referred to as the Big N firms, which collectively audit roughly 97 percent of market capitalization.[5] Public company audits are regulated by the PCAOB, which sets auditing standards for public company audits, conducts audit inspections, and is responsible for disciplinary matters. In 2016, the PCAOB adopted Rule 3211, requiring that engagement partners be identified in a Form AP disclosure within 35 days of the annual audit report filing for all audit reports issued on or after January 31, 2017.

Background on the Taiwan Setting

Similar to the U.S. setting, the Big N firms dominate the audit market in Taiwan (Lee 2010). Regulations in Taiwan require that financial reports of companies listed on Taiwanese stock exchanges (i.e., the Taiwan Stock Exchange and the GreTai Securities Market) be audited.[6] The Financial Supervisory Commission (FSC) enforces laws and has supervisory authority and quasi-judicial power. Its Financial Examination Bureau regulates audit firms and engagement partners. Specifically, it inspects audit firms each year and provides a report, similar to the PCAOB in the U.S., although the results of the inspections are not made publicly available in Taiwan. Regulation in Taiwan requires that audited financial reports be certified by two engagement partners – a lead partner who is responsible for planning and the execution of the audit, and a review partner who is responsible for a high-level review; this certification provides

[5] For discussion about concentration in the U.S. audit market, see *Audit Industry Concentration and Potential Implications*, available at https://pcaobus.org/News/Speech/Pages/Harris-Audit-Industry-Concentration-12-07-17.aspx.

[6] In 2015, the name of the GreTai Securities Market was changed to the "Taipei Exchange" but the audit requirement was unchanged.

visibility into the identity of the partners responsible for the audit. Other beneficial features of the Taiwanese market are the availability of financial statement data and the disclosure of signing engagement partners for private companies (Chi, Dhaliwal, Li, and Lin 2013).

Prior Literature and Development of Hypotheses

Regulators suggest that engagement partner disclosure can positively influence audit quality by enhancing accountability. Carcello and Li (2013) use the passage of the Companies Act, which required engagement partner signatures in the United Kingdom, to examine this proposition. They find a decrease in abnormal accruals and in the propensity to meet earnings thresholds, as well as an increase in qualified audit reports and earnings informativeness, in the year following the signature requirement. These findings suggest that the signature requirement led to improvements in audit quality. In contrast, Cunningham et al. (2019) use the adoption of PCAOB Rule 3211 in the U.S. to examine the same proposition. Evidence from their DiD research design reveals that the impact of the rule is limited to specific dimensions of audit quality, analyses using specific control groups, and/or specific company characteristics.

Prior studies also suggest that engagement partner identification provides valuable information to market participants. For example, using unsigned discretionary accruals to proxy for partner quality, Aobdia et al. (2015) find a positive association between engagement partner quality and client earnings response coefficients in Taiwan. This suggests that investors perceive earnings to be more informative when higher quality partners perform the audit. They also find that higher partner quality is associated with less underpricing at initial public offerings, and with better borrowing terms. Other studies also suggest that lenders and investors find engagement partner identification useful (Chi et al. 2017; Gul et al. 2019). Finally, Zerni (2012) finds systematic differences in audit fees based on partner expertise within an industry or with certain

client types (e.g., public companies), suggesting that audit clients are willing to pay a premium for perceived partner quality. Overall, the results from these studies suggest that partner identification facilitates perceptions about engagement partner quality, thereby influencing investing, lending, and pricing decisions.

Prior research also suggests that restating companies often suffer adverse consequences. For example, Palmrose, Richardson, and Scholz (2004) find that restatements are associated with negative stock price reactions. Similarly, Hribar and Jenkins (2004) document an increase in the estimated cost of capital following restatements. Feldmann, Read, and Abdolmohammadi (2009) find an increase in client-level audit fees following a restatement, presumably because of additional audit effort required to review, concur with, and finalize the restated amounts as well changes in the client's risk assessment which necessitate additional substantive procedures. Finally, in an experiment, Lambert, Luippold, and Stefaniak (2018) find that prospective investors are less willing to invest in a company audited by an engagement partner with a past history of restatements; this reduced willingness should negatively affect stock prices. These experimental results suggest that adverse capital market consequences can extend to an engagement partner's non-restating clients.

Prior research has not yet examined whether an engagement partner's involvement in a recent restatement impacts the audit fees of that partner's non-restating clients. Findings in Zerni (2012) and Goodwin and Wu (2016) suggest that audit fees vary based on client perceptions of partner specialization and quality. Given the credence nature of audits, clients are often unable to assess and evaluate the quality of the audit services provided (Causholli and Knechel 2012). However, engagement partner involvement in a client restatement provides a publicly observable signal of an engagement partner's recent involvement in a low quality audit, which could

influence client perceptions of that partner's quality. This observable signal of low audit quality could make that partner's clients hesitant to pay a premium for the partner's expertise or specialization. Moreover, Findings in Chi et al. (2019) reveal that an engagement partner's recent involvement in client restatements increases the likelihood that the partner loses client assignments, and because partners are at least partially compensated for revenue generation (Coram and Robinson 2017), individual engagement partners have strong incentives to take preemptive actions to avoid client losses (Chi et al. 2019) when their recent audit quality is questioned. Thus, engagement partners recently involved in a client restatement may be willing to provide fee concessions to avoid client defections. This leads to our first hypothesis, stated in the alternative form:

> *H1*: Audit fees are lower among an engagement partner's non-restating clients when the partner has a recent history of poor audit quality with other clients.

We further posit that the prominence or severity of a restatement will impact client perceptions of engagement partner quality, consistent with research suggesting that investors react more negatively to more severe or prominently disclosed restatements (Palmrose et al. 2004; Plumlee and Yohn 2015). For example, Plumlee and Yohn (2015) find that market reactions are more negative when non-reliance restatements are filed with a Form 8-K, and Palmrose et al. (2004) find that the market reacts more negatively to restatements that decrease reported income. Additionally, more prominent or more severe restatements are likely to garner greater attention from the financial press, increasing the likelihood of client awareness and potentially deepening the perception of poor audit quality. This leads to our second hypothesis, stated in the alternative form:

> *H2*: Audit fees are lower among an engagement partner's non-restating clients when the restatement made by the partner's other client is more prominent or severe.

Our third hypothesis relates to the impact on audit quality provided to non-restating clients by engagement partners recently involved in a restatement. Regulators suggest that fee pressures can threaten audit quality by incentivizing auditors to forgo or curtail audit work in order to maintain engagement profitability (Houston 1999; Kroeker 2010; Goelzer 2011), and some research supports this view. For example, Ettredge et al. (2014) find that during the financial crisis, fee pressure was positively associated with accounting misstatements.

Although fee pressure can incentivize auditors to cut corners to maintain engagement profitability, pressures from regulators or assurance leaders in the audit firm might incentivize engagement partners recently involved in a client restatement to exert greater effort in order to avoid further reputational damage or consequences. Consistent with improved performance following poor audit quality, prior research finds that litigation and regulatory sanctions lead auditors to improve subsequent performance (Lennox and Li 2014; Qi, Li, Robin, and Yang 2020). Moreover, prior research suggests that auditors learn from regulatory actions even when they are not directly involved. For example, Lamoreaux et al. (2018) find that audit quality improves for non-sanctioned audit firms in the same geographic location as PCAOB sanctioned audit firms, and that this spillover effect results in increased audit fees after the PCAOB disciplinary order is made public. In addition, Beck et al. (2018) find that although PCAOB censured audit firms lose clients, they increase audit fees for the clients that they retain.[7] These findings suggest that a heightened desire to repair or manage client perceptions can spill over into the audit engagements with the partner's non-restating clients regardless of fee pressure. Additionally, not all prior work suggests that fee pressures lead to lower audit quality. For

[7] It is unclear in our setting whether auditors would price any increased effort on non-restating client engagements. Given engagement partner incentives to maintain client satisfaction, engagement profitability may motivate auditors to at least maintain (i.e., not reduce) fees when planned audit effort increases.

example, Chen, Krishnan, and Yu (2018) do not find that decreases in audit quality were associated with reductions in audit fees during the global financial crisis. Therefore, it is an empirical question whether audit quality suffers for previously non-restating clients when one of an engagement partner's other clients has recently restated. This leads to our third hypothesis, stated in the null form:

> *H3*: Audit quality among an engagement partner's non-restating clients is not affected when the partner has a recent history of poor audit quality with other clients.

III. SAMPLE SELECTION AND RESEARCH DESIGN

Sample Selection

We use data from the U.S. and Taiwan to test our hypotheses because, as explained in the introduction, each of these settings has unique strengths. In the U.S. setting, we identify the engagement partners of publicly traded companies from PCAOB Form AP disclosures as of June 25, 2020. We identify company-years at the intersection of various Audit Analytics databases (i.e., Audit Opinions, Auditor Changes, Non-Reliance Restatements, and SOX 404 Internal Controls) and the Compustat Fundamental Annual database, and we merge these data with the Form AP data on issuer audits. Table 1, Panel A, provides the sample selection procedure. There are 16,024 company-year observations in non-regulated industries (i.e., excluding SIC 4900 – 4999 and 6000 – 6999) from fiscal years 2016 through 2019 at the intersection of Audit Analytics and Compustat datasets. We lose 2,755 observations because of missing data required to construct model variables, and 3,710 observations lacking engagement partner disclosure in the previous year. Because our examination focuses on the previously non-restating clients of engagement partners recently involved in a client restatement, we further exclude 1,074 observations with a restatement announcement in the previous year, resulting in a final sample of 8,485 company-year observations from 2017 through 2019.

< Insert Table 1 here >

In the Taiwan setting, we focus on the lead signing engagement partner in all of our analyses, consistent with Chin and Chi (2009).[8] We use the Taiwan Economic Journal (TEJ) database to collect all publicly disclosed financial statement data, including audit fees. In 2009, the Financial Supervisory Commission, which is the regulator for listed corporations and public accountants in Taiwan, amended regulations governing the information published in the annual reports of public companies to require the disclosure of fees paid to the auditor. Under Article 10 of *Regulations Governing Information to be Published in Annual Reports of Public Companies*, companies in Taiwan are required to disclose audit fees either by specifying the amount or by providing a range.[9] In Panel B, we note that 35.7 percent of companies providing audit fee disclosure do so with a range. The majority of these observations fall into ranges of 0 to 2 million Taiwanese dollars (TWD), 2 to 4 million TWD, or 4 to 6 million TWD. For companies using range disclosure, we set audit fees equal to the midpoint of the range.[10]

Because audit fee disclosure was quite limited before the amended regulations took effect, our sample period begins in 2009 and includes all observations with available data through 2017. Although financial statement data are publicly available for private clients in Taiwan, because audit fee disclosures are available only for listed companies, our sample is limited to listed

[8] Chin and Chi (2009, p. 731) state that the lead signing engagement partner "typically directs the total effort, interprets the audit evidence, and ultimately determines the appropriate audit report (Francis, Maydew, and Sparks 1999; Reynolds and Francis 2001). Finally, the lead partner generally exhibits more hands-on experience during the audit engagement than the concurring partner (Reynolds and Francis 2001)." Consistent with this argument, Chin and Chi (2009) find that the industry experience of the lead engagement partner has a stronger effect on audit quality than that of the concurring partner.

[9] Taiwanese companies are also required to disclose whether the following specific conditions apply: 1) the ratio of client non-audit to audit fees is at or above 25 percent, or the amount of non-audit fees is at or above 500,000 Taiwan dollars, 2) there is an auditor switch and the subsequent audit firm charges lower audit fees than the previous auditor, and 3) the amount of audit fees is at least 15 percent lower than in the previous year.

[10] For the companies disclosing a range of 10 million TWD or more, we set audit fees equal to the median value of the sample observations in this range, which is 18.6 million TWD. Note that only 0.6 percent of sample observations are in this range and our inferences hold if we exclude these observations from the sample. We also find that setting audit fees to the upper or lower end of this range does not affect the inferences.

companies. However, we incorporate information related to private clients in the construction of certain model variables such as the number of clients, prior restatements, etc., because this information could be considered when clients make decisions regarding auditor choice and remuneration.

Panel B also describes our sample selection procedure for the Taiwan setting. We begin with 14,406 company-year observations and remove 1,273 observations without available audit fee data. To test our hypotheses, we use three subsamples which remove observations where the company announced a restatement in the previous year (215 observations removed), over the previous two years (122 additional observations removed), or over the previous three years (62 additional observations removed). Because of the longer history of engagement partner disclosure, these subsamples allow us to test whether fee pressure manifests over a longer horizon. Our final samples include 12,918, 12,796, and 12,734 company-year observations, respectively.

Research Design

To draw inferences regarding whether fees are *lowered* as the result of a partner's recent association with a restatement, we use a generalized DiD research design. The most common DiD approach focuses on a single event and includes an indicator for the treatment group, an indicator for the post-event period(s), and the interaction of these two indicators. Our setting does not have a common event period so we follow Bertrand, Duflo, and Mullainathan (2004)'s proposed general model, which handles multiple time periods and multiple treatment groups by including firm and year fixed effects (in addition to control variables). To test our first hypothesis, we estimate the following ordinary least squares regressions for the U.S. and Taiwan

settings, respectively:

$$LnAFEE_{it} = \alpha_0 + \alpha_1 LAG\ PARTNER\ RESTATE + \alpha_2 COUNT\_RES\_AUDFIRM_{it} + \alpha_3 COUNT\_CLIENT\_PART_{it} + \alpha_4 CPA\ CHANGE_{it} + \alpha_5 CPA\ FIRM\ CHANGE_{it} + \alpha_6 AUDFIRM\_TENURE_{it} + \alpha_7 LASSET_{it} + \alpha_8 BIGN_{it} + \alpha_9 ROA_{it} + \alpha_{10} STD\_CFO_{it} + \alpha_{11} HERF_{it} + \alpha_{12} MTB_{it} + \alpha_{13} LEV_{it} + \alpha_{14} LOSS_{it} + \alpha_{15} \Delta ASSET_{it} + \alpha_{16} ABSDA_{it} + \alpha_{17} SPECIALIST\_PART_{it} + \alpha_{18} ARINV_{it} + \alpha_{19} GC_{it} + \alpha_{20} ICMW_{it} + \alpha_j FIRM\_FE + \alpha_k YEAR\_FE + \varepsilon_{it} \quad (1a)$$

$$LnAFEE_{it} \text{ (or } Rank\_LnAFEE_{it}) = \beta_0 + \beta_1 LAG\ PARTNER\ RESTATE \text{ (or } LAG\ PARTNER\ RESTATE\_01\_02 \text{ or } LAG\ PARTNER\ RESTATE\_01\_03) + \beta_2 COUNT\_RES\_AUDFIRM_{it} + \beta_3 COUNT\_CLIENT\_PART_{it} + \beta_4 CPA\ CHANGE_{it} + \beta_5 CPA\ FIRM\ CHANGE_{it} + \beta_6 PART\_GEN\_EXP_{it} + \beta_7 PART\_IND\_EXP_{it} + \beta_8 AUDFIRM\_TENURE_{it} + \beta_9 LASSET_{it} + \beta_{10} BIGN_{it} + \beta_{11} ROA_{it} + \beta_{12} STD\_CFO_{it} + \beta_{13} HERF_{it} + \beta_{14} MTB_{it} + \beta_{15} LEV_{it} + \beta_{16} LOSS_{it} + \beta_{17} \Delta ASSET_{it} + \beta_{18} ABSDA_{it} + \beta_{19} SPECIALIST\_PART_{it} + \beta_j FIRM\_FE + \beta_k YEAR\_FE + \varepsilon_{it} \quad (1b)$$

where:

LnAFEE = the natural log of audit fees;

Rank_LnAFEE = the sample decile rank of the log of audit fees;

LAG PARTNER RESTATE = an indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement in the previous year, and zero otherwise;

LAG PARTNER RESTATE_01_02= an indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement in the previous two years, and zero otherwise;

LAG PARTNER RESTATE_01_03= an indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement in the previous three years, and zero otherwise; and

all other variables as defined in the appendix.

The variable of interest is α_1 or β_1, the coefficient on *LAG PARTNER RESTATE* (or *LAG PARTNER RESTATE_01_02* or *LAG PARTNER RESTATE_01_03*).[11] A negative and significant

[11] The variable of interest captures restatement events (i.e., announcements) but we ensure that the engagement partner associated with a restatement event was the engagement partner during at least part of the misstatement period.

coefficient would suggest that engagement partners associated with prior restatements experience fee pressures from their non-restating clients, consistent with *H1*. Control variables follow prior research (see Hay, Knechel, and Wong (2006)) and reflect engagement partner, audit firm, and client characteristics. At the engagement partner level, we include the number of clients audited, whether there was a change in engagement partner, the partner's general and industry experience (for the Taiwan setting only), and the partner's market share within the client's industry. At the audit firm level, we include the number of restatement announcements associated with the audit firm, whether there was a change in audit firm, the length of the audit firm-client relationship, and whether the auditor is one of the Big 4. We also include several client-specific risk characteristics, including proxies for company size, performance, volatility, industry concentration, expected growth, leverage, and earnings quality. In the U.S. setting, we also include the proportion of assets in accounts receivable and inventory, material weaknesses in internal controls, and the issuance of a going-concern modification. Because, as explained previously, audit fees in Taiwan are sometimes disclosed in a range and we use the middle of this range, we also estimate equation (1b) using the decile rank of audit fees.

To test our second hypothesis, we re-estimate equations (1a) and (1b) after replacing *LAG PARTNER RESTATE* with three different sets of variables. The first set captures differences in restatement prominence. It includes *LAG PARTNER NR RESTATE* and *LAG PARTNER OTH RESTATE* in the U.S. setting, and *LAG PARTNER RESTATE LIST* and *LAG PARTNER RESTATE NOLIST* in the Taiwan setting. *LAG PARTNER NR RESTATE* is an indicator variable set equal to one if at least one of the engagement partner's clients announced a non-reliance restatement in the previous year, and *LAG PARTNER OTH RESTATE* equals one if *LAG PARTNER RESTATE* equals one but *LAG PARTNER NR RESTATE* equals zero. *LAG PARTNER*

RESTATE LIST is an indicator variable set equal to one if at least one of the engagement partner's listed clients announced a restatement in the previous year, and *LAG PARTNER RESTATE NOLIST* equals one if *LAG PARTNER RESTATE* equals one but *LAG PARTNER RESTATE LIST* equals zero.[12]

The second and third sets of variables capture differences in restatement severity. The second set includes *LAG PARTNER DEC_INCOME* and *LAG PARTNER INC_INCOME*. In both settings, *LAG PARTNER DEC_INCOME* is an indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement that decreased cumulative net income in the previous year. *LAG PARTNER INC_INCOME* equals one if *LAG PARTNER RESTATE* equals one but *LAG PARTNER DEC_INCOME* equals zero. Therefore, *LAG PARTNER INC_INCOME* captures restatements that either have no impact on cumulative net income or increase cumulative net income. The third set of variables includes *LAG PARTNER NEG_MRK* and *LAG PARTNER NONNEG_MRK*. In both settings, *LAG PARTNER NEG_MRK* is an indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement in the previous year that was associated with a negative market reaction (where the market reaction is measured as the 3, 5, or 7 day cumulative abnormal returns around the restatement announcement date). *LAG PARTNER NONNEG_MRK* equals one if *LAG PARTNER RESTATE* equals one but *LAG PARTNER NEG_MRK* equals zero. Therefore, *LAG PARTNER NONNEG_MRK* captures restatements that were not associated with a negative market reaction.

Our second hypothesis predicts a negative and significant coefficient on the variable of interest when the partner-associated restatement is more prominent or severe (i.e., when *LAG*

[12] These latter variables are similarly defined over the previous two- and three-year periods.

PARTNER NR RESTATE, *LAG PARTNER RESTATE LIST*, *LAG PARTNER DEC_INCOME*, or *LAG PARTNER NEG_MRK* = 1).

To test our third hypothesis, we use a generalized DiD research design to test whether the engagement partner's recent involvement in a client restatement impacts the audit quality of the partner's other, non-restating clients. We use misstatements (revealed through subsequent restatement announcements) to proxy for lower audit quality. Although the dependent variable is binary, we estimate the following regressions in the U.S. and Taiwan settings, respectively, as linear probability models. This avoids the incidental parameter problem that occurs when too many fixed effects are included in a nonlinear model (Neyman and Scott 1948).

$$\begin{aligned} MISSTATE_{it} = {} & \delta_0 + \delta_1 LAG\ PARTNER\ RESTATE + \delta_2 DEC\ FEES + \\ & \delta_3 LAG\ PARTNER\ RESTATE{*}DEC\ FEES + \delta_4 COUNT\_RES\_AUDFIRM_{it} + \\ & \delta_5 COUNT\_CLIENT\_PART_{it} + \delta_6 CPA\ CHANGE_{it} + \delta_7 CPA\ FIRM\ CHANGE_{it} + \\ & \delta_8 AUDFIRM\_TENURE_{it} + \delta_9 LASSET_{it} + \delta_{10} BIGN_{it} + \delta_{11} ROA_{it} + \delta_{12} STD\_CFO_{it} + \\ & \delta_{13} HERF_{it} + \delta_{14} MTB_{it} + \delta_{15} LEV_{it} + \delta_{16} LOSS_{it} + \delta_{17} \Delta ASSET_{it} + \delta_{18} ABSDA_{it} + \\ & \delta_{19} SPECIALIST\_PART_{it} + \delta_{20} ARINV_{it} + \delta_{21} GC_{it} + \delta_{22} ICMW_{it} + \delta_{23} FOREIGN_{it} + \\ & \delta_{24} ISSUE_{it} + \delta_j FIRM\_FE + \delta_k YEAR\_FE + \varepsilon_{it} \end{aligned} \quad (2a)$$

$$\begin{aligned} MISSTATE_{it} = {} & \mu_0 + \mu_1 LAG\ PARTNER\ RESTATE\ (\text{or } LAG\ PARTNER\ RESTATE\_01\_02 \\ & \text{or } LAG\ PARTNER\ RESTATE\_01\_03) + \mu_2 DEC\ FEES + \\ & \mu_3 LAG\ PARTNER\ RESTATE{*}DEC\ FEES\ (\text{or } LAG\ PARTNER\ RESTATE \\ & \_01\_02{*}DEC\ FEES \text{ or } LAG\ PARTNER\ RESTATE\_01\_03{*}DEC\ FEES) + \\ & \mu_4 COUNT\_RES\_AUDFIRM_{it} + \mu_5 COUNT\_CLIENT\_PART_{it} + \\ & \mu_6 CPA\ CHANGE_{it} + \mu_7 CPA\ FIRM\ CHANGE_{it} + \mu_8 PART\_GEN\_EXP_{it} + \\ & \mu_9 PART\_IND\_EXP_{it} + \mu_{10} AUDFIRM\_TENURE_{it} + \mu_{11} LASSET_{it} + \mu_{12} BIGN_{it} + \\ & \mu_{13} ROA_{it} + \mu_{14} STD\_CFO_{it} + \mu_{15} HERF_{it} + \mu_{16} MTB_{it} + \mu_{17} LEV_{it} + \mu_{18} LOSS_{it} + \\ & \mu_{19} \Delta ASSET_{it} + \mu_{20} ABSDA_{it} + \mu_{21} SPECIALIST\_PART_{it} + \mu_j FIRM\_FE + \\ & \mu_k YEAR\_FE + \varepsilon_{it} \end{aligned} \quad (2b)$$

where:

MISSTATE = an indicator variable set equal to one if the company's financial statements are misstated (as revealed through a subsequent restatement), and zero otherwise; and

all other variables as defined in the appendix.

To more directly test whether fee pressure from non-restating clients of partners involved in recent restatements impacts audit quality, we create an indicator variable set equal to one if the client's audit fees are lower in the current year relative to the prior year (*DEC FEES*) and interact this variable with our variables of interest (*LAG PARTNER RESTATE* or *LAG PARTNER RESTATE_01_02* or *LAG PARTNER RESTATE_01_03*). A positive and significant coefficient on the interaction term (δ_3 and μ_3) would suggest that audit quality of an engagement partner's previously non-restating clients is lower when there is fee pressure following the partner's recent involvement in a restatement at another client. In addition, because we expect fee pressures to be most pronounced when the partner-associated restatement is more prominent or severe (*H2*), we also estimate equations (2a) and (2b) after replacing *LAG PARTNER RESTATE* with the three different sets of variables capturing differences in the prominence and severity of the partner-associated restatement. The control variables follow equations (1a) and (1b), and we incorporate two additional controls that have been shown to influence misstatements in the U.S. setting – the presence of foreign sales (*FOREIGN*) and debt/equity issuances (*ISSUE*).

IV. DESCRIPTIVE STATISTICS AND EMPIRICAL RESULTS

Table 2 presents the frequency of restatements announced by year in the U.S. and Taiwan settings. For the U.S., although our sample period covers 2017 through 2019, we include restatements from 2016 through 2019 because our variable of interest captures engagement partner involvement in a restatement in the previous year. Likewise, for Taiwan, we include restatements announced from 2006 through 2017, although our sample period covers 2009 through 2017, because our variable of interest captures engagement partner involvement in a restatement during up to the previous three years. Restatements are much more frequent in the U.S. than in Taiwan, although the majority of U.S. restatements are less severe (i.e., they are

revisions or "little r" restatements) (Tan and Young (2015)). The restatement frequency in Taiwan is much higher for listed companies in the latter sample years. This increase in restatement frequency could relate to increased accounting errors and oversight following the transition to International Financial Reporting Standards (IFRS) because although adoption was permitted as early as 2012, mandatory adoption of IFRS occurred in a phased transition beginning in 2015.

< Insert Table 2 here >

Table 3, Panel A presents descriptive statistics for the U.S. setting. For company-year observations without a recent restatement, 10.4 percent have an engagement partner involved in a restatement at another client in the previous year. The average (unlogged) audit fee is approximately $911,000 and 2.8 percent of sample observations are misstated. Figure 1, Panel A, provides the trend in audit fees for previously non-restating clients of engagement partners involved in a recent restatement, where Year *t* is the year of the partner-associated restatement event. The figure reveals a downward trend in audit fees for these partners' previously non-restating clients following the partner-associated restatement.

< Insert Table 3 here >

< Insert Figure 1 here >

Table 3, Panel B presents descriptive statistics for the Taiwan setting. For company-year observations without a recent restatement, 7.4, 10.5, and 12.6 percent have an engagement partner involved in a restatement at another client in the previous one, two, and three years, respectively. The average (unlogged) audit fee is approximately $2.6 million TWD and 2.3 percent of sample observations are misstated. Figure 1, Panel B, provides the trend in audit fees for previously non-restating clients of engagement partners involved in a recent restatement.

Similar to the U.S. setting, the figure reveals a downward trend in audit fees for these partners' previously non-restating clients following the partner-associated restatement. However, because of the longer time series available in Taiwan, we can extend the trend for three additional years. Although audit fees decline following the partner-associated restatement event, we observe an upward trend in the fifth and sixth years following the partner-associated restatement. In Panel C, we provide the trend in audit fees over the sample period for both 1) non-restating clients of engagement partners involved in a recent restatement, and 2) client of engagement partners not involved in restatements (i.e., the control group in the DiD design). Both groups exhibit a similar trend in average audit fees over the sample period, providing some support for the parallel trend assumption underlying our design.

Table 4, Panel A presents Pearson correlations for our U.S. sample and Panel B presents correlations for our Taiwan sample. In Panel A, we find a negative correlation (-0.18) between *LAG PARTNER RESTATE* and *LnAFEE*, providing univariate support for our first hypothesis. However, we find an insignificant correlation between *LAG PARTNER RESTATE* and *MISSTATE*. In Panel B, we find insignificant correlations between *LAG PARTNER RESTATE*, *LAG PARTNER RESTATE_01_02*, and *LAG PARTNER RESTATE_01_03* and both *LnAFEE* and *MISSTATE*, with the exception of a negative correlation between *LAG PARTNER RESTATE_01_03* and *MISSTATE*. Although we find little univariate support for our hypotheses, we provide important multivariate analysis in the next section.

< Insert Table 4 here >

Tests of *H1*

Table 5, Panel A presents the results from our tests of *H1* in the U.S. setting. The model exhibits high explanatory power with the inclusion of firm and year fixed effects (Adjusted R^2 =

0.986). After controlling for known audit fee determinants, we find that an engagement partner's involvement in a client restatement in the previous year is negatively associated with audit fees paid by that partner's non-restating clients. In terms of economic significance, the coefficient estimate on *LAG PARTNER RESTATE* implies that having a partner involved in a restatement on another client in the previous year is associated with an average decrease in audit fees of 2 percent.[13] The signs and significance of other model variables are consistent with those in prior research. We find that audit fees are higher for larger companies, companies audited by a Big N auditor, those with more volatile cash flow or in a more concentrated industry, more highly leveraged companies, those reporting larger abnormal accruals, companies audited by an engagement partner with more industry specialization, and companies with a material weakness in internal controls. Audit fees are lower when company performance is better and when the growth in total assets is greater.

< Insert Table 5 here >

Panel B presents the results from our tests of *H1* in the Taiwan setting. The dependent variable in columns (1), (3), and (5) is the natural log of audit fees (*LnAFEE*) and the dependent variable in columns (2), (4), and (6) is the sample decile-ranked natural log of audit fees (*Rank_LnAFEE*). The models exhibit high explanatory power with the inclusion of firm and year fixed effects (Adjusted R^2s ranging from 0.846 to 0.871). Although we do not find evidence that an engagement partner's involvement in a client restatement in the previous year is negatively associated with audit fees paid by that partner's non-restating clients, using *LnAFEE* or *Rank_LnAFEE*, we do find evidence of lower audit fees when the partner was involved in a client restatement during the previous two years (columns (3) and (4)) or previous three years

[13] Calculated as exp(-0.020)-1 = -0.020.

(columns (5) and (6)). In terms of economic significance, the coefficient estimate on *LAG PARTNER RESTATE_01_02* (in column (3)) implies that having a partner involved in a restatement at another client in the previous two years is associated with an average decrease in audit fees of 1 percent, and the coefficient estimate on *LAG PARTNER RESTATE_01_03* (in column (5)) implies that having a partner involved in a restatement at another client in the previous three years is associated with an average decrease in audit fees of 1.4 percent.[14] Associations between audit fees and the control variables are generally consistent with those in prior research and with those in Panel A. We conclude that although fee pressures take longer to manifest in Taiwan than in the U.S., the results in Table 5 collectively support *H1* and suggest that an engagement partner's recent involvement in a client restatement increases fee pressures at non-restating clients.[15]

Tests of *H2*

Table 6 presents the results from our tests of *H2* in the U.S. setting. Panel A presents the number of company-year observations where the engagement partner was associated with a restatement of another client in the previous year based on the prominence (i.e., non-reliance restatement or not) or severity (i.e., cumulative decrease to net income or a negative market

[14] Given the relatively large number of restatements in Taiwan in 2015 and 2016, of which some likely relate to the adoption of IFRS, we examine the sensitivity of the results when we exclude the last three years (i.e., fiscal years 2015 through 2017). When using the decile-ranked audit fee measure (*Rank_LnAFEE*), we find consistent results. With the audit fee measure (*LnAFEE*), we find consistent results when we capture partner involvement in a restatement over the previous three years (*LAG PARTNER RESTATE_01_03*) but the results in the 2-year window (*LAG PARTNER RESTATE_01_02*) are not statistically significant at conventional levels (*p*-value = 0.28).

[15] We also use the Taiwan setting to examine whether the fee pressures ease over time given the longer time series available. Although the descriptive evidence in Figure 1, Panel B, suggests that audit fees eventually revert, we perform additional tests to corroborate this descriptive evidence. After removing all restating companies, including companies that restate in the three years preceding the beginning of the sample period, we create indicator variables capturing whether the engagement partner was involved in a restatement at a different client in the previous year, two years, three years, four years, five years, or six years prior, and re-estimate our audit fee model. Using this sample, the results indicate that audit fees are significantly lower in the second year following a partner-associated restatement, with marginal evidence of lower audit fees in the third and fourth years following the event. However, consistent with the Figure 1, Panel B, audit fees in the fifth and sixth years following the partner-associated restatement are not significantly lower.

reaction to the announcement) of the partner-associated restatement. Panel B presents the results from our multiple regression analyses. In the first column, we find that fee pressures are more pronounced among previously non-restating clients when the engagement partner was involved in a more prominently disclosed restatement. The second and third columns present the results based on restatement severity. We find that audit fees are lower among previously non-restating clients when their engagement partners were involved in a restatement that cumulatively decreased income and when the market reaction to the announcement was negative. These results provide additional support for *H2*. In terms of economic significance, the average reduction in audit fees is 4.4 percent following a non-reliance restatement announced in an 8-K filing, 5.5 percent when the restatement decreased previously reported earnings, and 3.2 percent when the restatement was associated with a negative market reaction.

< Insert Table 6 here >

Table 7 presents the results from our tests of *H2* in the Taiwan setting. Panel A presents the number of company-year observations where the engagement partner was associated with a restatement at another client in the previous one, two, or three years based on the prominence of the restating company (i.e., listed versus not) or on the severity of the partner-associated restatement (i.e., cumulative decrease to net income or a negative market reaction to the announcement). Panel B presents the results from our multiple regression analyses based on the restating company's prominence. We find that fee pressures are most pronounced among previously non-restating clients when the engagement partner is involved in a more prominent restatement (i.e., at a listed company). Similar to Table 5, Panel B, the results exist only when the partner was involved in a client restatement during the previous two (columns (3) and (4)) or previous three years (columns (5) and (6)). In terms of economic significance, the average

reduction in audit fees is 1.7 percent when the restatement occurring in the previous three years relates to a listed company.

< Insert Table 7 here >

Panel C presents the results from our multiple regression analyses based on the restatement severity, where severity is measured by whether the restatement results in a cumulative decrease in reported net income. We find that fee pressures are most pronounced among previously non-restating clients of an engagement partner involved in a restatement when the restatement cumulatively decreased reported earnings. Again, the results exist only when the partner was involved in a client restatement during the previous two (columns (3) and (4)) or previous three years (columns (5) and (6)). In terms of economic significance, the average reduction in audit fees is 2.5 percent when the restatement decreased previously reported earnings.

Finally, Panel D presents the results from our multiple regression analyses based on the severity of the restatement, where severity is captured by whether the market reaction to the restatement announcement is negative. We find that fee pressures exist only among previously non-restating clients of an engagement partner involved in a restatement when the market reacted negatively to the restatement announcement. Again, the results exist only when the partner was involved in a client restatement during the previous two (columns (3) and (4)) or previous three years (columns (5) and (6)). In terms of economic significance, the average reduction in audit fees is 1.7 percent when the restatement was associated with a negative market reaction.

Collectively, the results in Tables 6 and 7 support *H2*. They suggest that in both the U.S. and Taiwan, fee pressures are more pronounced among engagement partners' non-restating clients when partner-associated restatements are more prominent or severe.

Tests of *H3*

Table 8, Panel A presents the results from our tests of *H3* in the U.S. setting. Although we do not find that recent involvement in a client restatement negatively impacts audit quality at an engagement partner's other non-restating clients exhibiting fee pressure on average, we do find evidence of lower audit quality among non-restating clients exhibiting fee pressure when the partner-associated restatement was more prominent or severe (i.e., when it was a non-reliance restatement, when it decreased cumulative reported net income, or when the market reacted negatively to the restatement announcement). These results suggest that fee pressures at non-restating clients following the engagement partner's involvement in a more prominent or severe restatement can negatively impact audit quality.

< Insert Table 8 here >

Panels B through D present the results in the Taiwan setting. Here, we find only limited evidence that fee pressures from a partner's non-restating clients impact audit quality. Specifically, in Panels C and D, we find a higher likelihood of misstatement among an engagement partner's non-restating clients exhibiting fee pressure only in the two or three years following a restatement of a non-listed client of the engagement partner. In Panel B, we find limited evidence of higher audit quality among an engagement partner's non-restating clients exhibiting fee pressure in the year immediatedly following a restatement of a listed client of the engagement partner. The remainder of the tests provide no evidence to suggest that fee pressures experienced by engagement partners following involvement in a recent client restatement lead to lower quality audit outcomes in Taiwan.

Despite fairly limited evidence that fee pressures experienced by partners involved in a recent restatement detrimentally impact the audit quality of the partner's other clients in Taiwan,

the results in the U.S. suggest a potential unintended consequence of engagement partner disclosure. These results have important implications for U.S. regulators, audit firms, and audit committees.

Additional Analyses

The Effect of Public Disclosure

Our study implicitly assumes that public disclosure of engagement partner identities, which provides visibility into the quality of the partner's recent audits, is responsible for the fee pressures that we document. Although results of tests examining the prominence or severity of restatements support this assumption, we would ideally perform a more direct test. Unfortunately, for the Taiwan setting, there is no database containing audit fees prior to the requirement that partners sign the audit opinion, precluding a direct test. However, because of the recent requirement that engagement partners be identified in the U.S., we perform an additional analysis in this setting.

We use data from two years prior to and two years after the required partner disclosure, and we assume that the engagement partner who served clients in both years following the required disclosure also served these clients in the two years before the disclosure. Although we recognize that this assumption undoubtedly introduces noise into our test, this is the best we can do given the lack of prior public disclosure. We separately estimate the audit fee regression from equation (1a) for the pre-disclosure period and the post-disclosure period. We then test for a difference in the coefficient on *LAG PARTNER RESTATE* in the pre- versus post-disclosure periods.

Table 9 presents the results from this analysis. In the pre-disclosure period, we find an insignificant coefficient on *LAG PARTNER RESTATE*. However, we find a negative and

significant coefficient on *LAG PARTNER RESTATE* in the post-disclosure period. A Z-test reveals that the coefficients are significantly different (Z = 1.769, *p*-value 0.038).[16]

< Insert Table 9 here >

The Effect of Same Industry Restatements

We also explore whether fee pressures are more pronounced when the engagement partner's restating client is in the same industry as that partner's non-restating clients. To perform this analysis, we identify the restating client's industry as well as the industries in which the partner's non-restating clients operate. We then split *LAG PARTNER RESTATE* into two mutually exclusive variables – *LAG PARTNER RESTATE SAME IND* and *LAG PARTNER RESTATE DIFF IND*. Table 10, Panel A presents results from this analysis in the U.S. setting. Here we find that the reduction in fees exists only in the same-industry non-restating clients.[17] Panel B presents results in the Taiwan setting. Here we do not find a significant difference in fee pressure across same- verus different-industry non-restating clients.

< Insert Table 10 here >

New Client Assignments

The results in Tables 5 and 7 suggest that in the U.S., but not in Taiwan, fee reductions occur immediately following the partner-associated restatement event. In further tests, we

[16] The Z-statistic is calculated as the difference between the coefficients divided by the square root of the sum of the squared standard errors, following Clogg, Petkova, and Haritou (1995). As a robustness test, in an untabulated analysis, we combine the pre- and post-disclosure periods and include a variable for the post-disclosure period (*POST*) and an interaction between *LAG PARTNER RESTATE* and *POST*. We find that the coefficient on the interaction term is negative and significant, supporting our conclusion from the prior test.

[17] Although we find that fee pressures are most pronounced when the non-restating client is in the same industry as the restating client, in an untabulated analysis, we find that audit quality suffers only when audit fees decline among non-restating different-industry clients. Although this result may be unexpected, to the extent that the same industry measure (*LAG PARTNER RESTATE SAME IND*) captures a partner's industry specialization, it is plausible that this specialized knowledge allows the partner to maintain audit quality despite a decrease in fees. In addition, a same-industry restatement may result in auditors, management, and audit committees taking additional precautions to avoid making misstatements.

explore why fee pressures take longer to manifest in the Taiwan setting compared to the U.S. setting. Prior research finds that partners in Taiwan are more likely to lose client assignments following a restatement (Chi et al. 2019). Therefore, one possible explanation is that these partners only experience fee pressures (or offer fee concessions) on *new* client assignments, and this delays the effect. To explore this explanation, we interact *LAG PARTNER RESTATE* with *CPA CHANGE*, which indicates a change in the engagement partner from the previous year.

Table 11 presents the results from these tests. Panel A presents results from the U.S. setting. Here we continue to find a negative and significant coefficient on *LAG PARTNER RESTATE*, but the coefficient on the interaction between *LAG PARTNER RESTATE* and *CPA CHANGE* is insignificant, suggesting that fee pressures are driven primarily by recurring client engagements in the U.S. In Panel B, which presents the results from the Taiwan setting, we find that audit fees for new client assignments are lower in the first and second year following the partner-associated restatement. Thus, the likely explanation for the delayed reduction in audit fees in the Taiwan setting is that fee pressures following an audit partner's recent involvement in a restatement occur only for new client assignments in Taiwan.

< Insert Table 11 here >

Are there Consequences for Audit Fees when the Misstating Partner Is the Review Partners?

In the U.S., only the lead engagement partner is publicly disclosed, but in Taiwan, the second (or review) partner is disclosed. In untabulated analysis, we replicate our main analysis to examine whether review partners experience fee pressure from their non-restating clients when the review partner serves as the lead engagement partner on another client's audit and is associated with a restatement. We find very limited evidence of an effect. Specifically, we only find a negative impact on audit fees in the three-year window when using decile ranked audit

fees as the dependent variable. Given that lead engagement partners are most involved in the fee negotiation process, any fee pressures are primarily from non-restating clients where the partner associated with the misstatement serves as the lead engagement partner rather than the review partner.

Market Reactions Experienced by Non-restating Clients

In untabulated analyses, we examine short-window market reactions experienced by non-restating clients when their engagement partner is involved in a restatement event. We measure the market reaction using 3, 5, or 7 day cumulative abnormal returns around the partner-associated restatement announcement date. In the U.S. setting, we do not find that non-restating clients of these partners experience an on-average negative market reaction, but in the Taiwan setting, we find some evidence of a negative market reaction using the median 3 and 5 day cumulative abnormal returns. We then identify the non-restating clients that experienced a negative market reaction and examine whether audit fee pressures are more pronounced among these clients. We do not find evidence to suggest that fee pressures are more pronounced for these non-restating clients in either setting. This suggests that fee pressures are related to the signal about the engagement partner's audit quality rather than a negative market impact which occurs because the client is associated with that engagement partner.

The Role of Client Bargaining Power

In additional analyses, we explore whether fee pressure following involvement in a recent restatement varies with client bargaining power. Specifically, we test whether clients with greater bargaining power can exert more fee pressure and/or engagement partners are more willing to offer fee concessions to these clients. We capture client bargaining power following the methodology in Casterella, Francis, Lewis, and Walker (2004), where we create a variable,

POWER, defined as the natural log of company sales divided by the sum of industry sales for all of the auditor's clients in that industry. We interact this variable with *LAG PARTNER RESTATE*. In both settings, although we continue to find a negative and significant coefficient on *LAG PARTNER RESTATE* (or *LAG PARTNER RESTATE_01_02* and *LAG PARTNER RESTATE_01_03*), the coefficient on the interaction between *POWER* and *LAG PARTNER RESTATE* is insignificant. In an alternative test, we split the respective samples at the median of company size (using the natural log of total assets) and estimate the regressions using each separate subsample. The results from tests for a difference in the coefficients on *LAG PARTNER RESTATE* (or *LAG PARTNER RESTATE_01_02* and *LAG PARTNER RESTATE_01_03*) across the models reveal that the coefficients are not significantly different. Therefore, we find no evidence that fee pressures from non-restating clients vary with their bargaining power.

V. CONCLUSION

In this study, we investigate 1) whether engagement partners who have recently been associated with client restatements experience increased audit fee pressures from their other non-restating clients, 2) whether any audit fee pressure varies based on the prominence or severity of the restatement, and 3) whether audit quality of other non-restating clients suffers. This examination is important because regulators around the world are requiring increased transparency about which partners conduct audits and fee pressures can threaten audit quality (Houston 1999; Kroeker 2010; Goelzer 2011; Ettredge et al. 2014). Although increased transparency about who conducts audits provides valuable information to investors and lenders (Aobdia et al. 2015; Chi et al. 2017; Gul et al. 2019) and can lead to higher quality audits in some circumstances (Carcello and Li 2013; Cunningham et al. 2019), it may have detrimental effects on audit quality in other circumstances.

We examine our research questions using data from the U.S. and Taiwan. We find evidence in both settings that engagement partners who have recently been associated with client restatements experience audit fee pressures from their other, non-restating clients. Furthermore, we find that these fee pressures are generally more pronounced when restatements are more prominent or severe, and in the U.S., when non-restating clients are in the same industry as the restating client. These results are consistent with clients being less willing to pay a premium for an engagement partner's expertise when presented with a signal indicating that the partner provides lower audit quality or with the partner's willingness to reduce fees in an effort to retain clients. Finally, we examine whether an engagement partner's recent association with a restatement detrimentally impacts audit quality on that partner's other, previously non-restating clients. We find evidence in the U.S. setting that fee pressures experienced by partners involved in recent, prominently disclosed or severe restatements can have a detrimental impact on the quality on the partner's other audit client engagements. These results have important implications for regulators, audit firms, and audit committees because they highlight circumstances that may necessitate increased monitoring of the audit engagement. These results also contribute to the growing body of evidence on the effect of engagement partner disclosure on audit quality outcomes.

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APPENDIX
VARIABLE DEFINITIONS

ΔASSET	The percentage change in total assets during the year, to proxy for growth
ABSDA	The absolute value of performance-adjusted discretionary accruals, where discretionary accruals are estimated in the industry-year cross section following Kothari, Leone, and Wasley (2005)
ARINV	The sum of accounts receivable and inventory scaled by total assets
AUDFIRM_TENURE	The length of the audit firm-client relationship to date
BIGN	An indicator variable set equal to one if the auditor is from the Big 4, and zero otherwise
COUNT_CLIENTS_PART	The number of clients that the engagement partner serves in the current year (measured as the number of public clients in the U.S. setting)
COUNT_RES_AUDFIRM	The number of restatements that the client's audit firm was associated with in the current year
CPA CHANGE	An indicator variable set equal to one if the current year audit engagement partner differs from the prior year engagement partner, and zero otherwise
CPA FIRM CHANGE	An indicator variable set equal to one if the current year audit firm differs from the prior year audit firm, and zero otherwise
DEC FEES	An indicator variable set equal to one if the client's audit fees are lower in the current year relative to the prior year, and zero otherwise
FIRM_FE	Firm fixed effects
FOREIGN	An indicator variable set equal to one if the company reported foreign sales, and zero otherwise
GC	An indicator variable set equal to one if the audit opinion included a going-concern modification, and zero otherwise

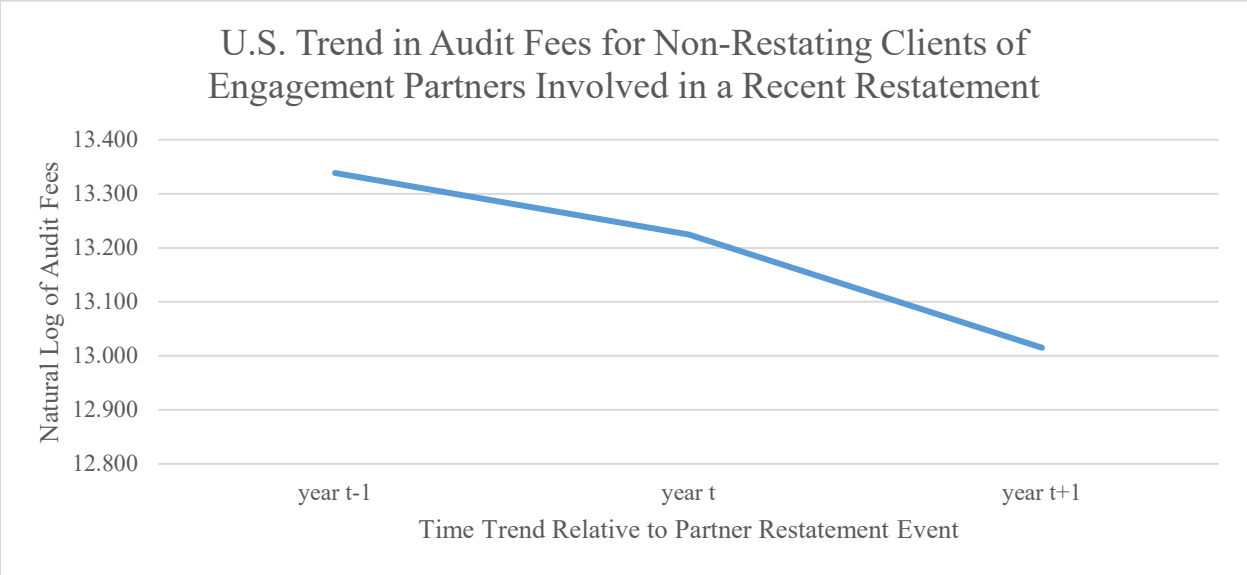
HERF	Industry concentration, measured using the Herfindahl index
ICMW	An indicator variable set equal to one if the audit report indicated a material weaknesses in internal controls, and zero otherwise
ISSUE	An indicator variable set equal to one if the company issued debt or equity securities in the current year, and zero otherwise
LAG PARTNER RESTATE	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement in the previous year, and zero otherwise
LAG PARTNER RESTATE_01_02	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement in the previous two years, and zero otherwise
LAG PARTNER RESTATE_01_03	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement in the previous three years, and zero otherwise
LAG PARTNER NR RESTATE	An indicator variable set equal to one if at least one of the engagement partner's clients announced a non-reliance restatement in the previous year (in the U.S. setting), and zero otherwise
LAG PARTNER OTH RESTATE	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement other than a non-reliance restatement in the previous year (in the U.S. setting), and zero otherwise
LAG PARTNER DEC_INCOME	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement that decreased cumulative net income in the previous year, and zero otherwise
LAG PARTNER INC_INCOME	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement that did not impact, or increased,

	cumulative net income in the previous year, and zero otherwise
LAG PARTNER NEG_MRK	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement that was associated with a negative market reaction (where the market reaction is measured as the 3, 5, or 7 day cumulative abnormal returns around the restatement announcement date) in the previous year, and zero otherwise
LAG PARTNER NONNEG_MRK	An indicator variable set equal to one if at least one of the engagement partner's clients announced a restatement that was not associated with a negative market reaction (where the market reaction is measured as the 3, 5, or 7 day cumulative abnormal returns around the restatement announcement date) in the previous year, and zero otherwise
LAG PARTNER RESTATE LIST	An indicator variable set equal to one if at least one of the engagement partner's listed clients announced a restatement in the previous year (in the Taiwan setting), and zero otherwise
LAG PARTNER RESTATE NOLIST	An indicator variable set equal to one if at least one of the engagement partner's non-listed clients announced a restatement in the previous year (in the Taiwan setting), and zero otherwise
LAG PARTNER RESTATE SAME IND	An indicator variable set equal to one if at least one of the engagement partner's same industry cliets announced a restatement in the previous year (where industry is based on 2 digit SIC code in the U.S. and 2 digit TEJ code industry in Taiwan), and zero otherwise
LAG PARTNER RESTATE DIFF IND	An indicator variable set equal to one if at least one of the engagement partner's different industry clients announced a restatement in the previous year (where industry is based on 2 digit SIC code in the U.S. and 2 digit TEJ code industry in Taiwan), and zero otherwise
LASSET	The natural log of total assets, to proxy for company size

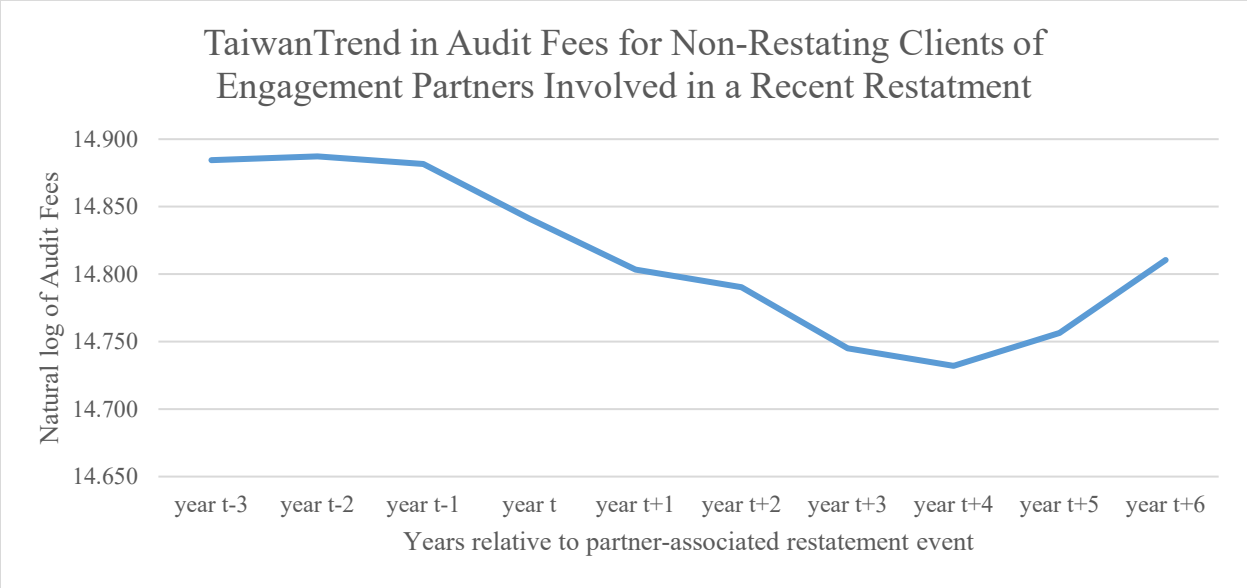
LEV	Leverage, measured as the ratio of total debt to total assets
LnAFEE	The natural log of audit fees
LOSS	An indicator variable set equal to one if the company reports a net loss in the year, and zero otherwise
MISSTATE	An indicator variable set equal to one if the company's financial statements are misstated (as revealed through a subsequent restatement), and zero otherwise
MTB	The market-to-book ratio, calculated as the market value of equity divided by the book value of equity, to proxy for expected growth
PART_GEN_EXP	The Taiwan engagement partner's general audit experience, measured as the number of years since the partner was first identified in the TEJ database
PART_IND_EXP	The Taiwan engagement partner's industry audit experience, measured as the number of years since the partner was first identified as auditing clients in the given 2 digit TEJ code industry
Rank_LnAFEE	The sample decile rank of the log of audit fees
ROA	Return on assets (i.e., net income divided by average total assets), to proxy for company profitability
SPECIALIST_PART	The engagement partner's market share (based on sales audited) within the 2 digit TEJ code industry
STD_CFO	The standard deviation of operating cash flows over the prior four years scaled by total assets
YEAR_FE	Year fixed effects

FIGURE 1
TREND IN AUDIT FEES FOR NON-RESTATING CLIENTS OF ENGAGEMENT PARTNERS INVOLVED IN A RECENT RESTATEMENT ON ANOTHER CLIENT'S ENGAGEMENT

Panel A: U.S. Setting



Panel B: Taiwan Setting



Panel C: Taiwan Trends in Audit Fees for Treatment and Control Groups

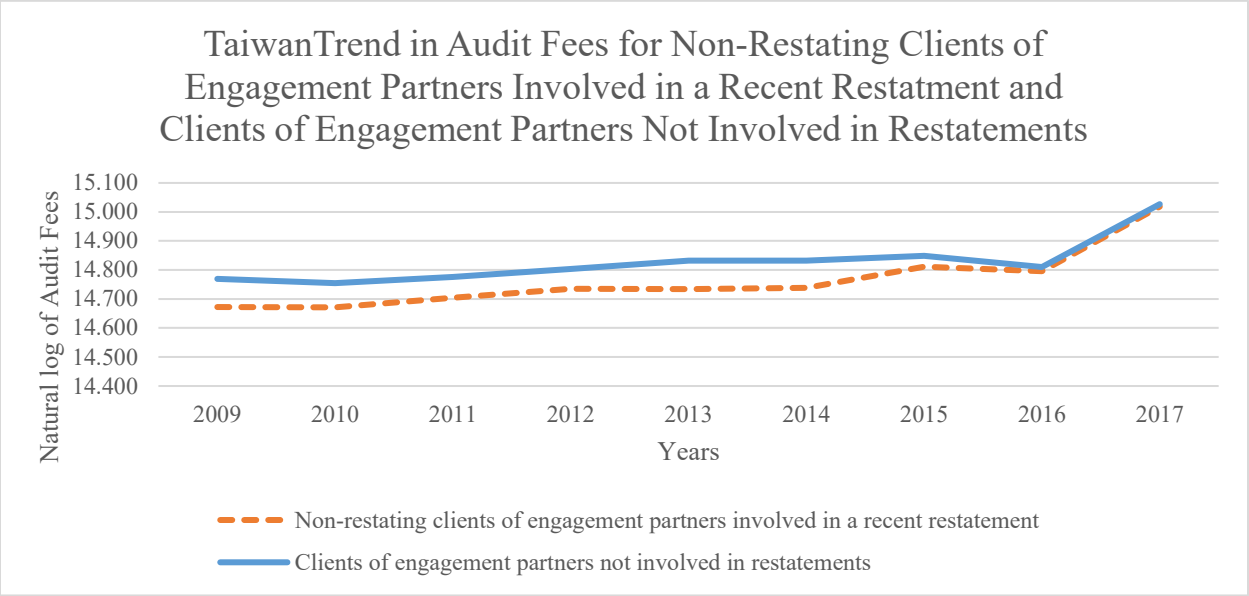


TABLE 1
SAMPLE SELECTION

Panel A: U.S. Setting

	N
Company-year observations with available data in Compustat for fiscal years 2016 through 2019, excluding regulated industries (SIC 4900 – 4999 and 6000 – 6999)	16,024
Less: company-year observations with missing data for model variables after merging Compustat, Audit Analytics, and PCAOB Form AP data	(2,755)
Less: company-year observations with no partner disclosure in year *t-1*	(3,710)
Less: company-year observations with a restatement announcement in year *t-1*	(1,074)
U.S. sample	**8,485**

Panel B: Taiwan Setting

	N
Company-year observations with available data in the TEJ database for fiscal years 2009 through 2017	14,406
Less: company-year observations with missing audit fee data	(1,273)
	13,133
Less: company-year observations with a restatement announcement in year *t-1*	(215)
	12,918
Less: company-year observations with a restatement announcement in year *t-2*	(122)
	12,796
Less: company-year observations with a restatement announcement in year *t-3*	(62)
	12,734

Of the 13,133 company-year observations with audit fee data

	N	**Mean**
Disclose audit fee range:		
Range 1 (between 0 and 1,999,999 TWD)	1,443	11.0%
Range 2 (between 2,000,000 and 3,999,999 TWD)	2,360	18.0%
Range 3 (between 4,000,000 and 5,999,999 TWD)	590	4.5%
Range 4 (between 6,000,000 and 7,999,999 TWD)	147	1.1%
Range 5 (between 8,000,000 and 9,999,999 TWD)	68	0.5%
Range 6 (10,000,000 or more TWD)	78	0.6%
Disclose range	**4,686**	**35.7%**

TABLE 2
RESTATEMENT FREQUENCY BY YEAR

U.S. Setting	**2016**	**2017**	**2018**	**2019**	**Total**
Non-reliance Restatements	80	78	89	56	**303**
Other Restatements	344	402	351	301	**1,398**
	424	**480**	**440**	**357**	**1,701**

Taiwan Setting	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Listed Companies	7	11	8	13	11	10	5	2	21	111	90	34	**323**
Non-listed Companies	6	6	7	9	7	7	2	6	3	10	8	3	**74**
	13	**17**	**15**	**22**	**18**	**17**	**7**	**8**	**24**	**121**	**98**	**37**	**397**

Note: This table captures restatements announced in the respective year. The source of the restatement data for the U.S. is Audit Analytics. The source of the restatement data for Taiwan is the TEJ.

TABLE 3
DESCRIPTIVE STATISTICS

Panel A: U.S. Setting

Variable	N	Mean	STD	P25	P50	P75
LnAFEE	8,485	13.722	1.565	12.743	13.909	14.782
MISSTATE	8,485	0.028	0.165	0.000	0.000	0.000
LAG PARTNER RESTATE	8,485	0.104	0.305	0.000	0.000	0.000
DEC FEES	8,485	0.333	0.471	0.000	0.000	1.000
COUNT_RES_AUDFIRM	8,485	40.073	30.324	10.000	43.000	55.000
COUNT_CLIENT_PART	8,485	3.362	4.877	1.000	2.000	3.000
CPA CHANGE	8,485	0.136	0.342	0.000	0.000	0.000
CPA FIRM CHANGE	8,485	0.053	0.223	0.000	0.000	0.000
AUDFIRM_TENURE	8,485	4.792	2.488	4.000	5.000	6.000
LASSET	8,485	6.017	2.927	4.359	6.423	7.983
BIGN	8,485	0.655	0.475	0.000	1.000	1.000
ROA	8,485	-0.197	0.521	-0.193	0.010	0.062
STD_CFO	8,485	0.221	0.880	0.020	0.038	0.095
HERF	8,485	0.081	0.094	0.030	0.040	0.090
MTB	8,485	3.441	12.824	0.991	2.141	4.407
LEV	8,485	0.545	1.915	0.042	0.237	0.430
LOSS	8,485	0.465	0.499	0.000	0.000	1.000
ΔASSET	8,485	0.184	0.670	-0.051	0.044	0.191
ABSDA	8,485	0.199	0.257	0.037	0.098	0.236
SPECIALIST_PART	8,485	0.019	0.066	0.001	0.003	0.014
ARINV	8,485	0.208	0.190	0.053	0.164	0.307
GC	8,485	0.131	0.337	0.000	0.000	0.000
ICMW	8,485	0.135	0.341	0.000	0.000	0.000
FOREIGN	8,485	0.485	0.499	0.000	0.000	1.000
ISSUE	8,485	0.865	0.341	1.000	1.000	1.000

Panel B: Taiwan Setting (based on sample removing restatement firms from year *t-3* to *t-1*

Variable	N	Mean	STD	P25	P50	P75
LnAFEE	12,734	14.779	0.367	14.381	14.914	15.082
MISSTATE	12,734	0.023	0.150	0.000	0.000	0.000
LAG PARTNER RESTATE	12,734	0.074	0.261	0.000	0.000	0.000
LAG PARTNER RESTATE_01_02	12,734	0.105	0.307	0.000	0.000	0.000
LAG PARTNER RESTATE_01_03	12,734	0.126	0.332	0.000	0.000	0.000
DEC FEES	12,734	0.253	0.435	0.000	0.000	1.000
COUNT_RES_AUDFIRM	12,734	6.332	8.300	0.000	0.000	15.000
COUNT_CLIENT_PART	12,734	9.109	4.691	6.000	9.000	12.000
CPA CHANGE	12,734	0.262	0.440	0.000	0.000	1.000
CPA FIRM CHANGE	12,734	0.031	0.174	0.000	0.000	0.000
PART_GEN_EXP	12,734	12.937	6.527	8.000	13.000	18.000
PART_IND_EXP	12,734	9.306	5.420	5.000	9.000	13.000
AUDFIRM_TENURE	12,734	13.166	7.653	7.000	12.000	19.000
LASSET	12,734	15.064	1.431	14.097	14.890	15.862
BIGN	12,734	0.863	0.343	1.000	1.000	1.000
ROA	12,734	0.022	0.154	0.001	0.037	0.079
STD_CFO	12,734	0.151	0.187	0.058	0.102	0.178
HERF	12,734	0.083	0.075	0.048	0.064	0.070
MTB	12,734	1.767	6.339	0.904	1.313	2.031
LEV	12,734	0.370	0.182	0.233	0.357	0.489
LOSS	12,734	0.246	0.431	0.000	0.000	0.000
ΔASSET	12,734	0.073	0.413	-0.045	0.029	0.118
ABSDA	12,734	0.065	0.070	0.019	0.044	0.085
SPECIALIST_PART	12,734	0.016	0.038	0.002	0.005	0.013
GC	12,734	0.009	0.095	0.000	0.000	0.000

All variables are defined in the Appendix.

TABLE 4
PEARSON CORRELATIONS

Panel A: U.S. Setting

Variable	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14)*	*(15)*	*(16)*	*(17)*
(1) LnAFEE																	
(2) MISSTATE	0.01																
(3) LAG PARTNER RESTATE	**-0.18**	0.01															
(4) DEC FEES	-0.02	-0.00	-0.01														
(5) COUNT_RES_AUDFIRM	**0.59**	**0.03**	**-0.09**	0.00													
(6) COUNT_CLIENT_PART	**-0.41**	-0.02	**0.35**	-0.02	**-0.26**												
(7) CPA CHANGE	0.00	-0.02	**0.04**	**0.03**	**-0.05**	0.01											
(8) CPA FIRM CHANGE	**-0.17**	0.00	**0.05**	**0.05**	**-0.15**	**0.14**	**0.31**										
(9) AUDFIRM_TENURE	**0.29**	**-0.03**	**-0.07**	-0.01	**0.22**	**-0.16**	-0.01	**-0.36**									
(10) LASSET	**0.91**	0.01	**-0.19**	-0.01	**0.56**	**-0.42**	-0.01	**-0.18**	**0.28**								
(11) BIGN	**0.67**	**-0.04**	**-0.17**	0.01	**0.76**	**-0.31**	**-0.03**	**-0.18**	**0.31**	**0.65**							
(12) ROA	**0.54**	**0.03**	**-0.17**	**-0.03**	**0.32**	**-0.35**	**-0.02**	**-0.14**	**0.18**	**0.68**	**0.37**						
(13) STD_CFO	**-0.37**	-0.01	**0.10**	0.02	**-0.22**	**0.25**	0.01	**0.09**	**-0.12**	**-0.52**	**-0.25**	**-0.53**					
(14) HERF	**0.04**	**0.02**	-0.02	**-0.03**	-0.01	**-0.02**	-0.01	-0.02	**0.05**	**0.10**	**0.05**	**0.13**	-0.01				
(15) MTB	**0.06**	0.01	0.00	**-0.02**	**0.03**	**-0.03**	0.00	**-0.03**	**0.04**	**0.07**	**0.05**	**0.07**	**-0.12**	**-0.04**			
(16) LEV	**-0.25**	0.00	**0.10**	-0.00	**-0.16**	**0.24**	0.00	**0.06**	**-0.08**	**-0.38**	**-0.18**	**-0.42**	**0.66**	-0.01	**-0.11**		
(17) LOSS	**-0.41**	0.00	**0.09**	**0.05**	**-0.22**	**0.19**	0.02	**0.10**	**-0.15**	**-0.49**	**-0.26**	**-0.56**	**0.20**	**-0.18**	-0.01	**0.13**	
(18) ΔASSET	**-0.11**	0.01	**0.08**	**-0.09**	**-0.08**	**0.15**	0.02	**0.07**	**-0.06**	**-0.07**	**-0.07**	0.00	**-0.06**	**-0.04**	**0.08**	**-0.03**	**0.02**
(19) ABSDA	**-0.45**	-0.01	**0.13**	-0.00	**-0.28**	**0.30**	0.00	**0.13**	**-0.15**	**-0.55**	**-0.33**	**-0.58**	**0.37**	**-0.21**	**-0.03**	**0.32**	**0.34**
(20) SPECIALIST_PART	**0.24**	0.02	**-0.05**	**-0.03**	**0.08**	**-0.08**	0.00	**-0.04**	**0.09**	**0.22**	**0.15**	**0.12**	**-0.06**	**0.37**	-0.01	**-0.03**	**-0.16**
(21) ARINV	**0.04**	**0.03**	0.00	**-0.05**	**-0.08**	**-0.02**	**-0.03**	0.00	**0.03**	0.01	**-0.08**	**0.19**	**-0.09**	**0.13**	-0.01	**-0.05**	**-0.19**
(22) GC	**-0.50**	**-0.03**	**0.16**	**0.02**	**-0.32**	**0.34**	0.01	**0.14**	**-0.17**	**-0.60**	**-0.38**	**-0.68**	**0.44**	**-0.07**	**-0.07**	**0.37**	**0.37**
(23) ICMW	**-0.35**	**0.05**	**0.17**	**-0.03**	**-0.27**	**0.32**	**0.05**	**0.17**	**-0.18**	**-0.42**	**-0.32**	**-0.35**	**0.30**	-0.01	**-0.04**	**0.26**	**0.23**
(24) FOREIGN	**0.47**	0.02	**-0.07**	0.00	**0.27**	**-0.19**	0.01	**-0.08**	**0.14**	**0.37**	**0.30**	**0.28**	**-0.17**	**-0.08**	**0.06**	**-0.13**	**-0.18**
(25) ISSUE	**0.25**	0.01	**-0.05**	-0.02	**0.17**	**-0.13**	0.00	**-0.04**	**0.07**	**0.23**	**0.20**	**0.04**	**-0.15**	**-0.04**	**0.05**	**-0.11**	-0.01

Panel B: Taiwan Setting

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) LnAFEE																	
(2) MISSTATE	**0.07**																
(3) LAG PARTNER RESTATE	0.01	0.00															
(4) LAG PARTNER RESTATE_01_02	0.00	-0.01	**0.81**														
(5) LAG PARTNER RESTATE_01_03	-0.01	**-0.02**	**0.71**	**0.88**													
(6) DEC FEES	**-0.03**	0.01	-0.00	-0.00	-0.01												
(7) COUNT_RES_AUDFIRM	**0.04**	**-0.09**	**-0.08**	**-0.06**	**-0.07**	-0.01											
(8) COUNT_CLIENT_PART	**0.06**	**-0.02**	**0.05**	**0.06**	**0.09**	-0.01	**0.09**										
(9) CPA CHANGE	-0.02	0.00	-0.01	0.00	0.00	**0.02**	-0.02	**-0.05**									
(10) CPA FIRM CHANGE	**-0.09**	0.00	0.00	0.00	0.01	**0.06**	**-0.02**	**-0.04**	**0.29**								
(11) PART_GEN_EXP	**-0.02**	0.01	**0.05**	**0.08**	**0.11**	-0.00	**-0.09**	**-0.03**	**-0.08**	-0.01							
(12) PART_IND_EXP	**0.03**	0.00	**0.05**	**0.07**	**0.10**	-0.01	0.01	**0.05**	**-0.12**	**-0.06**	**0.77**						
(13) AUDFIRM_TENURE	**0.29**	**0.05**	0.01	0.02	0.01	**-0.03**	**-0.08**	**-0.06**	-0.01	**-0.29**	**0.06**	**0.13**					
(14) LASSET	**0.64**	**0.07**	0.01	0.01	0.00	0.02	0.01	**-0.02**	**-0.02**	**-0.11**	**0.03**	**0.06**	**0.40**				
(15) BIGN	**0.24**	-0.02	**0.04**	**0.02**	0.01	-0.01	**0.29**	**0.48**	**-0.02**	**-0.10**	**-0.19**	**-0.06**	**0.03**	**0.11**			
(16) ROA	**0.10**	-0.01	-0.01	-0.01	-0.01	**-0.04**	**0.04**	**0.02**	**-0.02**	**-0.09**	**0.02**	**0.03**	**0.08**	**0.22**	**0.06**		
(17) STD_CFO	**-0.09**	0.01	0.01	0.01	0.01	0.02	**-0.02**	0.00	**-0.02**	**0.03**	0.00	**-0.06**	**-0.16**	**-0.14**	**-0.03**	**-0.03**	
(18) HERF	**0.04**	**0.02**	**0.05**	**0.07**	**0.06**	-0.01	**-0.06**	**-0.05**	0.01	-0.01	**0.02**	**-0.09**	**0.16**	**0.15**	**-0.03**	**0.04**	**-0.06**
(19) MTB	**-0.02**	**-0.05**	0.00	0.01	0.01	**-0.02**	0.00	0.02	0.01	**0.04**	0.00	0.01	**-0.03**	**-0.05**	**0.02**	**-0.05**	-0.01
(20) LEV	**0.14**	**0.04**	**0.02**	**0.03**	**0.02**	0.01	**-0.06**	**-0.05**	0.00	**0.02**	**0.02**	0.00	**0.06**	**0.22**	**-0.06**	**-0.16**	**0.10**
(21) LOSS	**-0.12**	0.00	0.00	0.01	0.01	**0.04**	-0.01	**-0.02**	0.01	**0.08**	**-0.05**	**-0.05**	**-0.12**	**-0.24**	**-0.05**	**-0.52**	**0.04**
(22) ΔASSET	**-0.02**	0.01	-0.01	0.00	-0.01	**-0.02**	**0.04**	0.01	0.02	**0.04**	-0.01	-0.02	**-0.07**	**0.02**	0.01	**0.17**	**0.08**
(23) ABSDA	**-0.13**	-0.01	**-0.02**	-0.01	-0.01	0.02	**0.06**	-0.02	**0.02**	**0.09**	**-0.03**	**-0.04**	**-0.16**	**-0.17**	**-0.06**	**-0.15**	**0.18**
(24) SPECIALIST_PART	**0.25**	**0.06**	**-0.02**	-0.01	-0.01	0.01	**0.02**	**0.03**	0.00	**-0.03**	0.00	0.00	**0.18**	**0.39**	**0.09**	**0.04**	**-0.05**
(25) GC	**-0.05**	**0.02**	-0.01	0.00	0.00	**0.02**	**-0.02**	**-0.05**	0.00	**0.07**	**0.02**	0.00	**-0.06**	**-0.10**	**-0.10**	**-0.20**	**0.03**

Panel A: U.S. Setting cont'd

Variable	*(18)*	*(19)*	*(20)*	*(21)*	*(22)*	*(23)*	*(24)*
(19) ABSDA	**0.23**						
(20) SPECIALIST_PART	**-0.02**	**-0.13**					
(21) ARINV	**-0.08**	**-0.13**	0.02				
(22) GC	**0.05**	**0.52**	**-0.09**	**-0.12**			
(23) ICMW	**0.11**	**0.29**	**-0.05**	0.00	**0.39**		
(24) FOREIGN	**-0.06**	**-0.23**	**0.08**	**0.12**	**-0.26**	**-0.18**	
(25) ISSUE	**0.09**	**-0.05**	**0.03**	**-0.06**	**-0.10**	**-0.11**	**0.13**

Panel B: Taiwan Setting cont'd

Variable	*(18)*	*(19)*	*(20)*	*(21)*	*(22)*	*(23)*	*(24)*
(19) MTB	-0.01						
(20) LEV	**0.02**	**-0.02**					
(21) LOSS	**-0.06**	0.01	**0.11**				
(22) ΔASSET	**-0.03**	**0.04**	0.01	**-0.13**			
(23) ABSDA	**-0.10**	**0.04**	**0.08**	**0.12**	**0.13**		
(24) SPECIALIST_PART	**0.14**	0.00	**0.06**	**-0.07**	0.01	**-0.05**	
(25) GC	-0.01	0.00	**0.22**	**0.14**	**-0.06**	**0.09**	**-0.02**

Note: All variables are defined in the Appendix. Bolded correlations are significant at the 0.05 percent level.

TABLE 5
TESTS OF *H1*

Panel A: U.S. Setting

Variable		DV = *LnAFEE*
LAG PARTNER RESTATE	-	-0.020**
		[-1.990]
COUNT_RES_AUDFIRM	?	0.000
		[1.570]
COUNT_CLIENT_PART	?	-0.000
		[-0.250]
CPA CHANGE	?	-0.000
		[-0.050]
CPA FIRM CHANGE	?	0.027
		[1.640]
AUDFIRM_TENURE	?	0.005
		[1.050]
LASSET	?	0.211***
		[19.180]
BIGN	?	0.333***
		[9.210]
ROA	?	-0.085***
		[-5.910]
STD_CFO	?	0.041***
		[4.700]
HERF	?	0.288*
		[1.960]
MTB	?	0.000
		[0.270]
LEV	?	0.021***
		[5.350]
LOSS	?	-0.010
		[-0.990]
ΔASSET	?	-0.013**
		[-2.390]
ABSDA	?	0.032*
		[1.830]
SPECIALIST_PART	?	0.170**
		[2.420]
ARINV	?	0.016
		[0.350]
GC	?	0.027
		[1.380]
ICMW	?	0.107***
		[7.580]
Firm Fixed Effects		Included
Year Fixed Effects		Included
N		8,485
Adjusted R^2		0.986

Panel A Notes: All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise.

TABLE 5 CONT'D
TESTS OF *H1*

Panel B: Taiwan Setting

Variable		(1) *LnAFEE*	(2) *Rank_LnAFEE*	(3) *LnAFEE*	(4) *Rank_LnAFEE*	(5) *LnAFEE*	(6) *Rank_LnAFEE*
LAG PARTNER RESTATE	-	0.004	0.014				
		[0.420]	[0.320]				
LAG PARTNER RESTATE_01_02	-			-0.010*	-0.079**		
				[-1.290]	[-1.960]		
LAG PARTNER RESTATE_01_03	-					-0.015**	-0.100***
						[-1.890]	[-2.640]
COUNT_RES_AUDFIRM	?	0.000	0.002	0.000	0.002	0.000	0.002
		[0.870]	[0.860]	[0.820]	[0.700]	[0.840]	[0.650]
COUNT_CLIENT_PART	?	0.000	0.002	-0.000	0.001	-0.000	0.001
		[0.120]	[0.540]	[-0.070]	[0.310]	[-0.020]	[0.310]
CPA CHANGE	?	-0.001	-0.010	-0.002	-0.014	-0.002	-0.014
		[-0.260]	[-0.390]	[-0.410]	[-0.540]	[-0.440]	[-0.540]
CPA FIRM CHANGE	?	-0.008	-0.004	-0.010	-0.020	-0.011	-0.020
		[-0.540]	[-0.050]	[-0.680]	[-0.270]	[-0.750]	[-0.270]
PART_GEN_EXP	?	0.000	0.002	0.000	0.002	0.000	0.002
		[0.180]	[0.530]	[0.120]	[0.480]	[0.020]	[0.520]
PART_IND_EXP	?	-0.001	-0.004	-0.000	-0.004	-0.000	-0.004
		[-0.590]	[-0.990]	[-0.410]	[-0.800]	[-0.320]	[-0.790]
AUDFIRM_TENURE	?	0.000	0.004	-0.000	0.002	-0.000	0.001
		[0.250]	[0.710]	[-0.120]	[0.320]	[-0.380]	[0.180]
LASSET	?	0.153***	0.753***	0.151***	0.750***	0.152***	0.753***
		[18.370]	[18.310]	[18.040]	[18.100]	[18.120]	[18.130]
BIGN	?	0.124***	0.477***	0.122***	0.464***	0.125***	0.482***
		[6.440]	[5.040]	[6.280]	[4.850]	[6.400]	[5.010]
ROA	?	-0.069***	-0.315***	-0.069***	-0.316***	-0.068***	-0.313***
		[-3.600]	[-3.310]	[-3.550]	[-3.310]	[-3.530]	[-3.270]
STD_CFO	?	-0.046**	-0.064	-0.046**	-0.059	-0.048**	-0.064
		[-2.440]	[-0.700]	[-2.450]	[-0.640]	[-2.560]	[-0.690]
HERF	?	-0.093*	-0.145	-0.083	-0.103	-0.080	-0.081
		[-1.710]	[-0.540]	[-1.520]	[-0.380]	[-1.460]	[-0.300]
MTB	?	0.001**	0.003	0.001**	0.003	0.001**	0.003
		[2.140]	[1.470]	[2.150]	[1.500]	[2.150]	[1.500]

LEV	?	-0.085***	-0.384***	-0.087***	-0.397***	-0.089***	-0.409***
		[-3.340]	[-3.050]	[-3.390]	[-3.120]	[-3.460]	[-3.200]
LOSS	?	0.008	0.046	0.009	0.049	0.009	0.049
		[1.170]	[1.290]	[1.300]	[1.360]	[1.240]	[1.360]
ΔASSET	?	-0.020***	-0.113***	-0.019***	-0.110***	-0.019***	-0.110***
		[-3.440]	[-4.040]	[-3.280]	[-3.930]	[-3.280]	[-3.910]
ABSDA	?	-0.002	-0.015	-0.005	-0.035	-0.003	-0.016
		[-0.050]	[-0.080]	[-0.150]	[-0.190]	[-0.080]	[-0.090]
SPECIALIST_PART	?	-0.165*	-0.821*	-0.150	-0.820*	-0.140	-0.794*
		[-1.790]	[-1.800]	[-1.590]	[-1.760]	[-1.470]	[-1.690]
Firm Fixed Effects		Included	Included	Included	Included	Included	Included
Year Fixed Effects		Included	Included	Included	Included	Included	Included
N		12,918	12,918	12,796	12,796	12,734	12,734
Adjusted R^2		0.871	0.846	0.870	0.846	0.870	0.846

Panel B Notes: All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise. The dependent variable in columns (1), (3), and (5) is the natural log of audit fees (*LnAFEE*). The dependent variable in columns (2), (4), and (6) is the sample decile-ranked natural log of audit fees (*Rank_LnAFEE*). Columns (1) and (2) examine the effect of partner-associated restatement events on other clients in year *t-1* and exclude companies with restatement announcements in year *t-1*. Columns (3) and (4) examine the effect of partner-associated restatement events on other clients in year *t-2* or *t-1* and exclude companies with restatement announcements in year *t-2* and *t-1*. Columns (5) and (6) examine the effect of partner-associated restatement events on other clients in year *t-3*, *t-2*, or *t-1* and exclude companies with restatement announcements in year *t-3*, *t-2*, and *t-1*.

TABLE 6
TESTS OF *H2*: U.S. SETTING

Panel A: U.S. Setting – Descriptives

Variable	N (% total)	N (% total)	N (% total)
LAG PARTNER NR RESTATE	246 (27.9%)		
LAG PARTNER OTH RESTATE	635 (72.1%)		
LAG PARTNER DEC_INCOME		109 (12.4%)	
LAG PARTNER INC_INCOME		772 (87.6%)	
LAG PARTNER NEG_MRK			209 (23.7%)
LAG PARTNER NONNEG_MRK			672 (76.3%)
LAG PARTNER RESTATE	**881 (100%)**	**881 (100%)**	**881 (100%)**

Panel B: U.S. Setting – Regression Results

Variable		DV = *LnAFEE*	DV = *LnAFEE*	DV = *LnAFEE*
LAG PARTNER NR RESTATE	-	-0.045***		
		[-2.480]		
LAG PARTNER OTH RESTATE	?	-0.013		
		[-1.140]		
LAG PARTNER DEC_INCOME	-		-0.057**	
			[-1.930]	
LAG PARTNER INC_INCOME	?		-0.016	
			[-1.480]	
LAG PARTNER NEG_MRK	-			-0.033*
				[-1.290]
LAG PARTNER NONNEG_MRK	?			-0.017
				[-1.560]
Controls		Included	Included	Included
Firm Fixed Effects		Included	Included	Included
Year Fixed Effects		Included	Included	Included
N		8,485	8,485	8,485
Adjusted R^2		0.986	0.986	0.986

Notes: Panel A presents the descriptives of our variable of interest based on the restatement prominence or severity in the U.S. setting. Panel B presents our regression results. All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise.

TABLE 7
TESTS OF *H2*: TAIWAN SETTING

Panel A: Taiwan Setting – Descriptives

Variable	N (% total)	N (% total)	N (% total)
LAG PARTNER RESTATE LIST	835 (85.6%)		
LAG PARTNER RESTATE NOLIST	140 (14.4%)		
LAG PARTNER DEC_INCOME		377 (38.7%)	
LAG PARTNER INC_INCOME		598 (61.3%)	
LAG PARTNER NEG_MRK			264 (27.1%)
LAG PARTNER NONNEG_MRK			711 (72.9%)
LAG PARTNER RESTATE	**975 (100%)**	**975 (100%)**	**975 (100%)**

Panel B: Taiwan Setting – Regression Results, Listed vs. Not Listed

Variable		(1) *LnAFEE*	(2) *Rank_ LnAFEE*	(3) *LnAFEE*	(4) *Rank_ LnAFEE*	(5) *LnAFEE*	(6) *Rank_ LnAFEE*
LAG PARTNER RESTATE LIST	-	0.000	0.007				
		[0.010]	[0.140]				
LAG PARTNER RESTATE NOLIST	?	0.024	0.056				
		[1.070]	[0.510]				
LAG PARTNER RESTATE LIST_01_02	-			-0.015**	-0.096**		
				[-1.650]	[-2.210]		
LAG PARTNER RESTATE NOLIST_01_02	?			0.009	0.008		
				[0.510]	[0.080]		
LAG PARTNER RESTATE LIST_01_03	-					-0.017**	-0.113***
						[-2.050]	[-2.760]
LAG PARTNER RESTATE NOLIST_01_03	?					-0.002	-0.036
						[-0.130]	[-0.420]
Controls		Included	Included	Included	Included	Included	Included
Firm Fixed Effects		Included	Included	Included	Included	Included	Included
Year Fixed Effects		Included	Included	Included	Included	Included	Included
N		12,918	12,918	12,796	12,796	12,734	12,734
Adjusted R^2		0.871	0.846	0.870	0.846	0.870	0.846

Panel C: Taiwan Setting – Regression Results, Cumulative Income Decrease vs. No Impact or Income Increase

Variable		(1) *LnAFEE*	(2) *Rank_ LnAFEE*	(3) *LnAFEE*	(4) *Rank_ LnAFEE*	(5) *LnAFEE*	(6) *Rank_ LnAFEE*
LAG PARTNER DEC_INCOME	-	0.005	0.005				
		[0.390]	[0.080]				
LAG PARTNER INC_INCOME	?	0.003	0.020				
		[0.250]	[0.360]				
LAG PARTNER DEC_INCOME_01_02	-			-0.015*	-0.118**		
				[-1.310]	[-2.050]		
LAG PARTNER INC_INCOME_01_02	?			-0.007	-0.050		
				[-0.670]	[-0.980]		
LAG PARTNER DEC_INCOME_01_03	-					-0.025**	-0.159***
						[-2.340]	[-3.000]
LAG PARTNER INC_INCOME_01_03	?					-0.006	-0.052
						[-0.600]	[-1.060]
Controls		Included	Included	Included	Included	Included	Included
Firm Fixed Effects		Included	Included	Included	Included	Included	Included
Year Fixed Effects		Included	Included	Included	Included	Included	Included
N		12,918	12,918	12,796	12,796	12,734	12,734
Adjusted R^2		0.871	0.846	0.870	0.846	0.870	0.846

Panel D: Taiwan Setting – Regression Results, Negative Market Reaction vs. No Reaction or Positive Reaction

Variable		(1) *LnAFEE*	(2) *Rank_ LnAFEE*	(3) *LnAFEE*	(4) *Rank_ LnAFEE*	(5) *LnAFEE*	(6) *Rank_ LnAFEE*
LAG PARTNER NEG_MRK	-	0.008	-0.016				
		[0.530]	[-0.210]				
LAG PARTNER NONNEG_MRK	?	0.002	0.027				
		[0.180]	[0.520]				
LAG PARTNER NEG_MRK_01_02	-			-0.013	-0.098**		
				[-1.190]	[-1.830]		
LAG PARTNER NONNEG_MRK_01_02	?			-0.008	-0.059		
				[-0.740]	[-1.100]		
LAG PARTNER NEG_MRK_01_03	-					-0.017**	-0.113***
						[-1.790]	[-2.380]
LAG PARTNER NONNEG_MRK_01_03	?					-0.011	-0.082
						[-0.970]	[-1.500]
Controls		Included	Included	Included	Included	Included	Included
Firm Fixed Effects		Included	Included	Included	Included	Included	Included
Year Fixed Effects		Included	Included	Included	Included	Included	Included
N		12,918	12,918	12,796	12,796	12,734	12,734
Adjusted R^2		0.871	0.846	0.870	0.846	0.870	0.846

Notes: Panel A presents the descriptives of our variable of interest based on the restatement prominence/severity in the Taiwan setting. Panel B presents our regression results when the restatement event occurred for a listed or non-listed company. Panel C presents our regression results when the restatement event resulted in a cumulative decrease to net income or not. Panel D presents our regression results when the restatement event was associated with a negative market reaction (negative short window cumulative abnormal returns) or not. All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise.

TABLE 8
TESTS OF H3: AUDIT QUALITY

Panel A: U.S. Setting

Variable	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***
LAG PARTNER	-0.009			
	[-0.990]			
LAG PARTNER NR RESTATE		-0.015		
		[-0.890]		
LAG PARTNER OTH RESTATE		-0.007		
		[-0.650]		
LAG PARTNER DEC_INCOME			0.024	
			[0.850]	
LAG PARTNER INC_INCOME			-0.013	
			[-1.380]	
LAG PARTNER NEG_MRK				-0.009
				[-0.360]
LAG PARTNER NONNEG_MRK				-0.010
				[-1.000]
DEC FEES	0.008*	0.008	0.008*	0.008*
	[1.660]	[1.640]	[1.660]	[1.670]
*LAG PARTNER*DEC FEES*	0.023			
	[1.560]			
*LAG PARTNER NR RESTATE*DEC FEES*		0.051*		
		[1.830]		
*LAG PARTNER OTH RESTATE*DEC FEES*		0.013		
		[0.760]		
*LAG PARTNER DEC_INCOME*DEC FEES*			0.097**	
			[1.990]	
*LAG PARTNER INC_INCOME*DEC FEES*			0.016	
			[1.060]	
*LAG PARTNER NEG_MRK*DEC FEES*				0.085**
				[2.150]
*LAG PARTNER NONNEG_MRK*DEC FEES*				0.013
				[0.810]
COUNT_RES_AUDFIRM	0.000*	0.000*	0.000*	0.000*
	[1.770]	[1.760]	[1.810]	[1.800]
COUNT_CLIENT_PART	0.001	0.001	0.001	0.001

	[0.950]	[0.940]	[1.060]	[0.970]
CPA CHANGE	-0.009	-0.009	-0.009	-0.009
	[-1.350]	[-1.370]	[-1.440]	[-1.390]
CPA FIRM CHANGE	-0.006	-0.006	-0.005	-0.006
	[-0.490]	[-0.460]	[-0.410]	[-0.450]
AUDFIRM_TENURE	0.001	0.001	0.001	0.001
	[0.200]	[0.230]	[0.170]	[0.220]
LASSET	-0.005	-0.006	-0.005	-0.005
	[-0.570]	[-0.460]	[-0.600]	[-0.570]
BIGN	-0.031	-0.031	-0.031	-0.032
	[-1.100]	[-1.110]	[-1.090]	[-1.130]
ROA	0.005	0.005	0.004	0.004
	[0.420]	[0.410]	[0.380]	[0.350]
STD_CFO	0.000	0.001	0.000	0.000
	[0.070]	[0.110]	[0.020]	[0.060]
HERF	-0.033	-0.030	-0.037	-0.034
	[-0.290]	[-0.260]	[-0.320]	[-0.300]
MTB	0.000	0.000	0.000	0.000
	[0.990]	[0.990]	[1.070]	[1.000]
LEV	0.003	0.003	0.003	0.003
	[0.960]	[0.980]	[0.980]	[0.980]
LOSS	-0.022***	-0.022***	-0.022***	-0.022***
	[-2.820]	[-2.780]	[-2.820]	[-2.820]
ΔASSET	0.008*	0.008*	0.008*	0.008*
	[1.860]	[1.910]	[1.880]	[1.850]
ABSDA	-0.003	-0.004	-0.003	-0.003
	[-0.250]	[-0.260]	[-0.250]	[-0.240]
SPECIALIST_PART	0.024	0.025	0.023	0.025
	[0.440]	[0.450]	[0.430]	[0.460]
ARINV	-0.019	-0.017	-0.019	-0.021
	[-0.520]	[-0.480]	[-0.520]	[-0.570]
GC	-0.011	-0.011	-0.009	-0.012
	[-0.700]	[-0.730]	[-0.600]	[-0.770]
ICMW	-0.040***	-0.040***	-0.040***	-0.040***
	[-3.590]	[-3.580]	[-3.610]	[-3.590]
FOREIGN	0.031	0.031	0.034	0.031
	[1.390]	[1.400]	[1.550]	[1.420]
ISSUE	0.002	0.002	0.001	0.001

	[0.230]	[0.190]	[0.140]	[0.140]
Firm Fixed Effects	Included	Included	Included	Included
Year Fixed Effects	Included	Included	Included	Included
N	8,485	8,485	8,485	8,485
Model	LPM	LPM	LPM	LPM
Adjusted R^2	0.234	0.234	0.235	0.234

Panel B: Taiwan Setting – Previous Year

Variable	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***
LAG PARTNER	0.004			
	[0.700]			
LAG PARTNER RESTATE LIST		0.000		
		[0.010]		
LAG PARTNER RESTATE NOLIST		0.026*		
		[1.680]		
LAG PARTNER DEC_INCOME			-0.000	
			[-0.030]	
LAG PARTNER INC_INCOME			0.008	
			[0.950]	
LAG PARTNER NEG_MRK				-0.006
				[-0.920]
LAG PARTNER NONNEG_MRK				0.008
				[1.080]
DEC FEES	-0.001	-0.001	-0.001	-0.001
	[-0.170]	[-0.160]	[-0.170]	[-0.440]
*LAG PARTNER*DEC FEES*	-0.014			
	[-1.160]			
*LAG PARTNER RESTATE LIST*DEC FEES*		-0.023*		
		[-1.740]		
*LAG PARTNER RESTATE NOLIST*DEC FEES*		0.045		
		[1.420]		
*LAG PARTNER DEC_INCOME*DEC FEES*			-0.002	
			[-0.080]	
*LAG PARTNER INC_INCOME*DEC FEES*			-0.022	
			[-1.450]	
*LAG PARTNER NEG_MRK*DEC FEES*				0.004
				[0.290]
*LAG PARTNER NONNEG_MRK*DEC FEES*				-0.005

				[-0.360]
COUNT_RES_AUDFIRM	-0.000***	-0.000***	-0.000***	-0.000**
	[-2.730]	[-2.840]	[-2.730]	[-2.730]
COUNT_CLIENT_PART	0.000	0.000	0.000	0.000
	[0.830]	[0.990]	[0.830]	[0.860]
CPA CHANGE	-0.000	-0.000	-0.000	-0.000
	[-0.090]	[-0.150]	[-0.100]	[-0.110]
CPA FIRM CHANGE	0.008	0.008	0.008	0.008
	[0.870]	[0.860]	[0.870]	[0.870]
PART_GEN_EXP	0.001	0.001	0.001	0.001
	[1.280]	[1.400]	[1.270]	[1.250]
PART_IND_EXP	-0.001	-0.001	-0.001	-0.001
	[-1.390]	[-1.540]	[-1.390]	[-1.390]
AUDFIRM_TENURE	0.000	0.000	0.000	0.000
	[0.500]	[0.470]	[0.510]	[0.510]
LASSET	0.007	0.007	0.007	0.007
	[1.420]	[1.400]	[1.420]	[1.400]
BIGN	-0.030**	-0.030**	-0.031**	-0.031**
	[-2.560]	[-2.510]	[-2.580]	[-2.580]
ROA	-0.006	-0.006	-0.006	-0.006
	[-0.500]	[-0.510]	[-0.500]	[-0.490]
STD_CFO	-0.012	-0.013	-0.012	-0.013
	[-1.090]	[-1.140]	[-1.080]	[-1.110]
HERF	0.030	0.031	0.031	0.029
	[0.900]	[0.910]	[0.910]	[0.870]
MTB	-0.001***	-0.001***	-0.001***	-0.001***
	[-4.680]	[-4.690]	[-4.680]	[-4.680]
LEV	-0.006	-0.006	-0.006	-0.005
	[-0.390]	[-0.360]	[-0.380]	[-0.330]
LOSS	0.004	0.004	0.004	0.004
	[0.920]	[0.920]	[0.930]	[0.890]
ΔASSET	0.006*	0.006*	0.006*	0.006*
	[1.710]	[1.760]	[1.710]	[1.710]
ABSDA	0.016	0.015	0.016	0.016
	[0.700]	[0.690]	[0.710]	[0.710]
SPECIALIST_PART	0.106*	0.107*	0.107*	0.103*
	[1.870]	[1.880]	[1.880]	[1.860]
Firm Fixed Effects	Included	Included	Included	Included

Year Fixed Effects	Included	Included	Included	Included
N	12,918	12,918	12,918	12,918
Model	LPM	LPM	LPM	LPM
Adjusted R^2	0.111	0.112	0.111	0.111

Panel C: Taiwan Setting – Two Previous Years

Variable	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***
LAG PARTNER	0.004			
	[0.650]			
LAG PARTNER RESTATE LIST_01_02		0.003		
		[0.480]		
LAG PARTNER RESTATE NOLIST_01_02		0.007		
		[0.520]		
LAG PARTNER DEC_INCOME_01_02			0.006	
			[0.690]	
LAG PARTNER INC_INCOME_01_02			0.002	
			[0.310]	
LAG PARTNER NEG_MRK_01_02				-0.009
				[-1.600]
LAG PARTNER NONNEG_MRK_01_02				0.009
				[1.180]
DEC FEES	-0.001	-0.001	-0.001	-0.002
	[-0.250]	[-0.240]	[-0.250]	[-0.500]
*LAG PARTNER_01_02*DEC FEES*	-0.003			
	[-0.260]			
*LAG PARTNER RESTATE LIST_01_02*DEC FEES*		-0.014		
		[-1.260]		
*LAG PARTNER RESTATE NOLIST_01_02*DEC FEES*		0.059**		
		[2.370]		
*LAG PARTNER DEC_INCOME_01_02*DEC FEES*			-0.002	
			[-0.110]	
*LAG PARTNER INC_INCOME_01_02*DEC FEES*			-0.003	
			[-0.260]	
*LAG PARTNER NEG_MRK_01_02*DEC FEES*				0.003
				[0.320]
*LAG PARTNER NONNEG_MRK_01_02*DEC FEES*				0.005
				[0.330]
Controls	Included	Included	Included	Included

Firm Fixed Effects	Included	Included	Included	Included
Year Fixed Effects	Included	Included	Included	Included
N	12,796	12,796	12,796	12,796
Model	LPM	LPM	LPM	LPM
Adjusted R^2	0.117	0.118	0.117	0.117

Panel D: Taiwan Setting – Three Previous Years

Variable	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***	**DV = *MISSTATE***
LAG PARTNER	-0.005			
	[-0.930]			
LAG PARTNER RESTATE LIST_01_03		-0.006		
		[-1.000]		
LAG PARTNER RESTATE NOLIST_01_03		-0.001		
		[-0.120]		
LAG PARTNER DEC_INCOME_01_03			-0.004	
			[-0.610]	
LAG PARTNER INC_INCOME_01_03			-0.005	
			[-0.780]	
LAG PARTNER NEG_MRK_01_03				-0.011**
				[-2.120]
LAG PARTNER NONNEG_MRK_01_03				-0.000
				[-0.020]
DEC FEES	-0.002	-0.002	-0.002	-0.004
	[-0.700]	[-0.700]	[-0.710]	[-1.110]
*LAG PARTNER_01_02*DEC FEES*	0.008			
	[0.850]			
*LAG PARTNER RESTATE LIST_01_03*DEC FEES*		-0.000		
		[-0.030]		
*LAG PARTNER RESTATE NOLIST_01_03*DEC FEES*		0.051**		
		[2.290]		
*LAG PARTNER DEC_INCOME_01_03*DEC FEES*			0.016	
			[1.170]	
*LAG PARTNER INC_INCOME_01_03*DEC FEES*			0.002	
			[0.140]	
*LAG PARTNER NEG_MRK_01_03*DEC FEES*				0.011
				[1.150]

*LAG PARTNER NONNEG_MRK_01_03*DEC FEES*				0.020
				[1.390]
Controls	Included	Included	Included	Included
Firm Fixed Effects	Included	Included	Included	Included
Year Fixed Effects	Included	Included	Included	Included
N	12,734	12,734	12,734	12,734
Model	LPM	LPM	LPM	LPM
Adjusted R^2	0.122	0.123	0.122	0.123

Notes: This table presents the results of the audit quality tests of H3. Panel A presents the results in the U.S. setting. Panels B through D present the results in the Taiwan setting based on recent partner restatement involvement in the previous year, the previous two years, and the previous three years, respectively. LPM stands for linear probability model. All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise.

TABLE 9
ADDITIONAL ANALYSIS: U.S. SETTING – THE EFFECT OF PUBLIC DISCLOSURE

Variable		Pre-Disclosure DV = *LnAFEE*	Post-Disclosure DV = *LnAFEE*
LAG PARTNER RESTATE	?/-	0.006	-0.027***
		[0.410]	[-2.220]
COUNT_RES_AUDFIRM	?	0.000	0.000
		[0.420]	[0.950]
COUNT_CLIENT_PART	?	-0.005	0.001
		[-1.570]	[0.570]
CPA FIRM CHANGE	?	-0.027	0.045**
		[-1.620]	[2.410]
AUDFIRM_TENURE	?	-0.004	0.007**
		[-1.410]	[2.450]
LASSET	?	0.157***	0.135***
		[14.150]	[11.410]
BIGN	?	0.500***	0.331***
		[10.320]	[6.670]
ROA	?	-0.000**	-0.000
		[-2.590]	[-1.550]
STD_CFO	?	-0.000	-0.000
		[-0.530]	[-1.050]
HERF	?	-0.017	0.308**
		[-0.090]	[2.060]
MTB	?	-0.003	-0.000
		[-1.630]	[-0.240]
LEV	?	0.012***	0.025***
		[2.660]	[6.280]
LOSS	?	0.018	0.011
		[1.340]	[0.830]
ΔASSET	?	-0.000***	-0.000***
		[-4.670]	[-2.980]
ABSDA	?	-0.015*	0.004
		[-1.820]	[0.480]
SPECIALIST_PART	?	0.269**	0.260***
		[1.970]	[2.970]
ARINV	?	0.013	0.001

		[0.200]	[0.020]
GC	?	0.043*	0.031
		[1.770]	[1.250]
ICMW	?	0.131***	0.104***
		[7.360]	[5.800]
Firm Fixed Effects		Included	Included
N		6,375	6,390
Adjusted R^2		0.985	0.987

Notes: This table presents the results of additional analyses examining whether fee pressures are driven by engagement partner disclosure. To perform the analysis, we incorporate two years prior to and two years after the required partner disclosure. We make the assumption that the partner serving clients in the two years following required disclosure is the same as the two years before the requirement. We then separately estimate the audit fee regression for the pre-disclosure period and the post-disclosure period and test the difference in the coefficient of interest (*LAG PARTNER RESTATE*) between the two models using a Z-statistic (calculated as the difference in the coefficients divided by the square root of the sum of the squared standard errors, following Clogg et al. 1995). All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise.

TABLE 10
ADDITIONAL ANALYSIS: RESTATEMENT EVENT OCCURS IN SAME INDUSTRY

Panel A: U.S. Setting

Variable	**DV = *LnAFEE***
LAG PARTNER RESTATE SAME IND	-0.102***
	[-3.640]
LAG PARTNER RESTATE DIFF IND	-0.010
	[-0.980]
Controls	Included
Firm Fixed Effects	Included
Year Fixed Effects	Included
N	8,485
Adjusted R^2	0.986
Test:	
LAG PARTNER RESTATE SAME IND =	F = 9.91
LAG PARTNER RESTATE DIFF IND	(*p*-value 0.002)

Panel B: Taiwan Setting

Variable		DV = *LnAFEE*	DV = *LnAFEE*	DV = *LnAFEE*
LAG PARTNER RESTATE SAME IND	-	0.004		
		[0.250]		
LAG PARTNER RESTATE DIFF IND	?	0.004		
		[0.360]		
LAG PARTNER RESTATE SAME IND_01_02	-		-0.007	
			[-0.480]	
LAG PARTNER RESTATE DIFF IND_01_02	?		-0.012	
			[-1.250]	
LAG PARTNER RESTATE SAME IND_01_03	-			-0.010
				[-0.660]
LAG PARTNER RESTATE DIFF IND_01_03	?			-0.016*
				[-1.870]
Controls		Included	Included	Included
Firm Fixed Effects		Included	Included	Included
Year Fixed Effects		Included	Included	Included
N		12,918	12,796	12,734
Adjusted R^2		0.871	0.870	0.871

This table presents the results of additional analyses examining whether fee pressures are more pronounced when the partner-associated restatement event occurs in the same industry as the partner's non-restating clients. All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise.

TABLE 11
ADDITIONAL ANALYSIS: ARE FEE PRESSURES PRONOUNCED IN NEW CLIENT ASSIGNMENTS

Panel A: U.S. Setting

Variable	DV = *LnAFEE*
LAG PARTNER RESTATE	-0.021*
	[-1.930]
CPA CHANGE	0.008
	[0.320]
*LAG PARTNER RESTATE * CPA CHANGE*	-0.000
	[-0.010]
Controls	Included
Firm Fixed Effects	Included
Year Fixed Effects	Included
N	8,485
Adjusted R^2	0.986

Panel B: Taiwan Setting

Variable		DV = *LnAFEE*	DV = *LnAFEE*	DV = *LnAFEE*
LAG PARTNER RESTATE	?	0.010		
		[0.940]		
LAG PARTNER RESTATE_01_02	?		-0.004	
			[-0.420]	
LAG PARTNER RESTATE_01_03	?			-0.009
				[-1.070]
*LAG PARTNER RESTATE * CPA CHANGE*	-	-0.026*		
		[-1.300]		
*LAG PARTNER RESTATE_01_02 * CPA CHANGE*	-		-0.023*	
			[-1.390]	
*LAG PARTNER RESTATE_01_03 * CPA CHANGE*	-			-0.017
				[-1.130]
CPA CHANGE	?	-0.001	0.000	-0.000
		[-0.180]	[0.040]	[-0.020]
Controls		Included	Included	Included
Firm Fixed Effects		Included	Included	Included
Year Fixed Effects		Included	Included	Included
N		12,918	12,796	12,734
Adjusted R^2		0.870	0.870	0.870

This table presents the results of additional analyses examining whether fee pressures are more pronounced among new client assignments following the partner-associated restatement event. All variables are defined in the Appendix. T-statistics are reported in brackets below coefficient estimates. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively, based on one-tailed *p*-values if a sign is predicted and two-tailed *p*-values otherwise.