Hypothesis Development

The argument about the effect of auditor busyness effect can be borrowed from *PCAOB concept of audit quality p 37 Staff Leverage/Partner Workload*

By DeAngelo 1981, the auditor size matters because of reputation concern. Similarly, individual auditor/engagement partners are also concerned about the loss of their clients due to audit failure. So a large client base may lead to higher auditor quality for an engagement audit partner. On the other hand, the time and attention an audit partner has is limited. Too many clients to be audited may stress out an audit partner. But meanwhile an audit partner can increase the staff under his/her supervision if too many clients. Or Perhaps, in a large audit firm, the audit work may be automated and divided into different parts, such as valuation, laws, compliance. Partners and managers in large audit firms become specialized and focus on just one part. So the provision of audit service in a large audit firm is like a large manufacturing firm and use the division of labor to increase efficiency. Another consequence of division of labor/standardization is that the increase in clients doesn’t affect the busyness effect.

*Empirical research has also documented that time-budget and time-deadline pressures*

*adversely impact the quality of audits (see DeZoort and Lord [1997] for review). Time-budget*

*pressures have been found to result in tradeoffs of audit effectiveness for audit efficiency (McDaniel 1990) and to increase the likelihood of engaging in ‘‘reduced audit quality acts’’ such as under reporting of time (e.g., Lightner et al. 1982; Kelley and Margheim 1990; Ponemon 1992) and prematurely signing off on audit workpapers (e.g., Alderman and Deitrick 1982; Kelley and Margheim 1990; Reckers et al. 1997). (From Knechel&Krishnan et al AAJPT 2013 audit quality insights from the academic literature)*

Research Design

1. Measurement of audit quality
   1. GC accuracy
   2. Abnormal Accrual:
   3. AAERs:
   4. Restatements:
2. Audit fees
3. Measurement of busyness
   1. the number of audit engagements,
   2. the size of client portfolio
   3. the composition of fiscal-year ends of the clients/ the fiscal year changes of the clients,busy season effect
   4. The number of weekdays within the filing period varies across years. So such time series exogenous change. 比如4月份结束，那么每年1月到4月工作天数一周5天不一样，特别是由于2月的影响。
   5. the merger and acquisition of clients. the number of staff and partners
   6. The ratio of number of persons designated for all the issuers to the number of issuers/size of client portfolio/complexity. This information can be obtained from the form 2 annual report by audit firms to PCAOB(e.g. Deloite Hong Kong 2015 Form2 p 9).
   7. the busyness effect on staff level: the partner/staff ratio, the ratio of sum of partner and staff to number of engagements, and so on
   8. Another possible exogenous shock to busyness of an audit team is the change in filing status from non-accelerated filers to accelerated files. The due date of filings changes so that the audit report date should be also affected. If the the relation between filing date and audit report date exits, then this change can be exploited. But if a firm changes into an accelerated filer, then the firm has to audit its internal control and adds to additional workload for an auditor. For the policy about accelerating filing see Delloite TechnicalLine\_CC0372\_MovinMoveOnUpToAcceleratedFilerStatus\_22August2013. In addition, the ending date of fiscal year of a firm determines a firm’s filing date. But not one to one because maybe there are some holidays and sundays which may also affect the auditor busyness effect. This can also be exploited.
   9. Busyness effect at office level

Data and Sample

1. Data collection

It is necessary to collects the form 2 filed by audit firms to PCAOB.