

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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AUDITOR INDUSTRY SPECIALIZATION, AUDIT EXPERIENCE, TENURE AND AUDIT OPINION**LI-JEN HE****ASST. PROFESSOR****DEPARTMENT OF ACCOUNTING & INFORMATION SYSTEMS****ASIA UNIVERSITY****TAIWAN****YI-FENG WANG****ALUMNI****DEPARTMENT OF ACCOUNTING & INFORMATION SYSTEMS****ASIA UNIVERSITY****TAIWAN****ABSTRACT**

By examining listed companies in Taiwan that were audited by Big Four audit firms and demonstrated relatively poor financial conditions between 2000 and 2009, we assessed the influence that the industry specialization of audit firms or audit partners, audit experience, and audit tenure on the probability of issuing a going-concern opinion. In contrast with previous studies on audit quality and opinion that have emphasized auditor independence or expertise alone, this study jointly considered expertise and independence in evaluating their effects on the audit opinion issued. The empirical results indicated that industry specialization and industry auditing experience both exhibited a significant and positive correlation with the issuance of going-concern opinion to clients demonstrating poor financial conditions. In addition, long auditor tenure resulted in the enhanced understanding of clients, which increased the probability of issuing a going-concern opinion to financially unstable clients because auditors wished to retain their independence.

KEYWORDS

Auditor, auditina, audit firms.

I. INTRODUCTION

According to DeAngelo (1981), audit quality refers to the joint probability that an auditor discovers and reports misstatements in a client's financial report. The probability of discovery is dependent on auditor expertise, whereas the probability of reporting is determined by auditor independence. Therefore, audit quality is contingent upon auditor independence and expertise. The audit reports generated by an auditor can be regarded as products yielded by auditing executed using independence and expertise. In other words, whether the audit opinion of auditors can truthfully convey the audited company's financial conditions is influenced by auditor independence and expertise.

Considering the influence that auditor expertise has on audit opinion, the following two prerequisites are required of auditors to reach appropriate conclusions regarding financial statements: understand the type and amount of data that must be collected, and possess the professional expertise required to explain audit evidence. In addition, specialized knowledge and experience related to the auditing industry are crucial for professional judgment. Regarding the influence of auditor independence on audit opinion, to maintain an employment relationship with a specific client, auditors may allow compromises concerning their audit opinions and generate client-preferred auditing reports. The Sarbanes-Oxley Act (SOX), enacted by the U.S. government in 2002, mandates a limit of 5 consecutive years for certified public accountants (CPAs) to provide assurance services for the same company. The SOX also requires 5 years between each mandatory rotation of audit firms. These provisions under the SOX are based on the presumption that long-term cooperative relationships between auditors and clients can result in collusion, thereby affecting audit quality.

Previous studies regarding audit quality and opinion have mainly focused on either auditor independence or expertise. Therefore, this study jointly considered auditor independence and expertise to assess the effects of these factors on audit opinion, thereby mitigating deficiencies in relevant research.

The remainder of this paper is organized as follows. We present the institutional background, review relevant literature, and discuss our main hypotheses in the next section. The research design, sample selection process, and sources of data are described in the third section. The empirical results are revealed in the fourth section, and we discuss our findings in the final section.

II. BACKGROUND, LITERATURE AND HYPOTHESES**INSTITUTIONAL BACKGROUND**

In the United States, audit reports are signed only with the names of audit firms, and audit firms take the responsibility for their audit results; In Taiwan, both the audit firms and the audit partners have to sign on the audit reports, but the responsibility for the audit results is taken primarily by auditors. Taiwanese Certified Public Accountant Act Article 15 was revised in 2007 and regulated that CPA firms are classified into four types: 1. Single-person CPA firm. 2. Co-location CPA firm. 3. Joint CPA firm. 4. Incorporated CPA firm. Most accounting firms in Taiwan were registered as Joint CPA firm, however, they are co-location CPA firm essentially, which means most audit firms run together by co-located practitioners who accept business separately and assume liabilities separately but not run as a partnership. Therefore, industry specialization and expertise are not always kept at the audit firm as in the U.S., but are in the possession of audit partners.

Although specialist audit firms may signal high quality, the "actual" audit quality is possessed by audit partners, especially in Taiwan, where industry expertise is mainly attributable to specialist audit partners, rather than to specialist audit firms. It is possible that managers attempt to gain better market reactions nominally while actually avoiding higher-quality audits by using the distinct functions between audit firms and audit partners. The regulations in Taiwan that require audit partners' names to be disclosed in the audit reports provide us the opportunity to examine the effects of specialist audit partners. By using this unique setting, we are able to discuss distinct influence for audit specialists at both the audit firm level and the audit partner level.

LITERATURE AND HYPOTHESES DEVELOPMENT**Auditor Industry Specialization**

Previous research regarding auditor industry specialization have typically examined the effects that industry specialization has on audit quality using discretionary accruals, financial restatement, abnormal bad debt expenses, and the issued audit opinion as proxy variables for determining audit quality (Balsam, Krishnan, and Yang, 2003; Chin & Chi, 2009; Dunn & Mayhew, 2004; Krishnan, 2003; Lim & Tan, 2008; Payne, 2008; Romanus et al., 2008).

Krishnan (2003) and Balsam et al. (2003) have confirmed that compared with firms audited by nonindustry specialists, firms audited by industry specialists exhibited lower discretionary accruals.

Regarding the effects on audit opinion, Bruynseels, Knechel, and Willekens (2011) indicated that compared with nonspecialist auditors, specialist auditors typically issue going-concern opinions for soon-to-be bankrupt firms when management implements strategies to inflate firm earnings. Thus, specialist auditors are likely to issue going-concern opinions to firms experiencing financial difficulties. Thus, auditor industry specialization influences the audit opinion issued.

In the United States, audit reports reveal only the firm name and do not identify the audit partner. By contrast, audit reports published in Taiwan require audit partner name disclosure. Taiwan's publicly traded and listed companies employ two auditors to audit and attest to the financial statements of the firm which is a dual attestation system in which two auditors share the responsibility of financial assurance. Consequently, most domestic studies regarding industry specialization have investigated individual auditors. Audit quality should be influenced by only individual CPAs. Therefore, this study proposes the following hypothesis:

H1: The industry specialization of audit firms and auditors is positively correlated with the going-concern opinion issued by auditors to clients under relatively poor financial conditions.

Auditor Experience

Previous empirical studies have typically used the market share of auditors or audit firms to calculate annual industry specialization. However, audit experience is an essential constituent of auditor industry specialization. Auditors with a certain level of industry specialization are capable of collecting evidence. This auditing experience enables auditors to develop appropriate strategies to solve audit problems under work pressure.

According to Article 20 of Taiwan's Certified Public Accountant Act, colocated CPA firms refer to an operating model in which auditors join their offices but engage in auditing separately and, thus, bear individual responsibilities. In Taiwan, most audit firms are colocated firms; therefore, industry expertise and the experience of individual auditors are crucial. Auditor expertise determines whether an auditor can identify vital weaknesses in the internal control of an enterprise. Experienced auditors can ameliorate the deficiencies of audit evidence compared with inexperienced auditors (Agoglia, Beaudoin, & Tsakumis, 2007). In addition, the audit quality of experienced auditors is generally superior to that of inexperienced auditors (Bonner & Lewis, 1990).

Carcello, Hermanson, and McGrath (1992) and Aldhizer, Miller, and Moraglio (1995) have indicated that the primary factors affecting audit quality are the experience and professional industry knowledge of the audit team and the associated firm regarding a specific client. Gramling and Stone (1998) and Solomon, Shields, and Whittington (1999) affirmed that industry concentration, specialization, experience, and knowledge enhance audit quality and influence the adequacy of client financial statements.

Based on the findings of previous studies, we assert that the level of auditor experience is related to audit quality and may influence the reports issued for clients experiencing financial difficulties. Therefore, the following hypothesis is proposed:

H2: Auditor experience is positively correlated with the issuance of a going-concern opinion to clients under relatively poor financial conditions.

Audit Tenure

Regarding the negative correlation between auditor tenure and audit quality, scholars have asserted that long auditor tenure damages auditor independence, thereby reducing audit quality. Davis, Soo, and Trompeter (2002) determined that increased auditor tenure results in the substantial corporate earnings management of audited clients, which reduces audit quality. Chi and Huang (2005) also reported that although familiarity with clients facilitated the enhancement of earnings quality, tenures longer than 5 years caused negative effects because of excessive familiarity, thereby reducing audit quality. Carey and Simnett (2006) sampled firms in Australia to examine the relationship between audit quality and long auditor tenure. Their results indicated that auditors with longer tenures were less likely to issue going-concern opinions compared with those with shorter tenures.

However, numerous scholars have contended that auditor tenure increases the understanding of a specific client, thereby improving audit quality. Studies that have employed abnormal accruals to evaluate financial statement quality provide insufficient evidence supporting the presumption that prolonged tenures reduce the quality of financial reporting (Johnson, Khurana, & Reynolds, 2002; Myers, Myers, & Omer, 2003). In a study examining the relationship between auditor tenure and fraudulent financial reporting, Carcello and Nagy (2004) determined that fraudulent financial reporting was likely to occur in the first 3 years of an auditor's employment with a client. They also failed to obtain any evidence that long auditor tenure increases the likelihood of fraudulent financial reporting. Geiger and Raghunandan (2002) tested the correlation between the length of auditor tenure and the probability of issuing a going-concern opinion to companies on the verge of bankruptcy. Their results indicated that the likelihood of audit failure was high during the early period of an auditor-client relationship, and decreased after the auditor served for more than 5 years. This finding suggests that long auditor tenure does not cause failure in audit reporting.

We contend that although long auditor tenure may affect auditor independence, auditor professional judgment is enhanced because of the increased understanding of a client's financial conditions. Therefore, we hypothesize that auditor tenure influences audit opinion, and this effect can be positive or negative:

H3: Long auditor tenure increases the likelihood of an auditor issuing a going-concern opinion to clients under relatively poor financial conditions.

III. SAMPLE AND RESEARCH DESIGN

DATA SOURCE AND SAMPLE COLLECTION

Data used for this study were obtained from the *Taiwan Economic Journal* database by sampling listed companies that were issued a going-concern opinion between 2000 and 2009. Because financially sound companies are typically free of going concerns, we referenced Liu and Wang (2008) and defined "relatively poor financial conditions" as negative net income values after accounting for tax and operating cash flow. In addition, previous studies have indicated that compared with non-Big N firms, Big N firms are more likely to issue going-concern opinions to companies experiencing financial crises. Therefore, we limited the study sample to listed companies audited by Big Four firms. Because of its unique industry characteristics, the finance and insurance industry exhibits a financial structure that differs from that of general industries. Consequently, this industry was excluded from the study sample.

VARIABLES AND DEFINITIONS

Dependent variables

To explore the influence that auditor industry specialization, experience, and tenure have on the opinion issued by an auditor, audit report and opinion were used as a proxy variables for measuring audit quality. In addition, the severity of auditor concern reflected by the going-concern opinion was divided into two types:

Going-concern opinion (GC_1)

Companies that were issued a going-concern opinion for the annual, semiannual, and quarterly reports were denoted by 3, 2, and 1, respectively; otherwise, 0.

Going-concern opinion (GC_2)

Companies under relatively poor financial conditions were sampled, and each experimental variable was tested to assess the effect on the probability of an auditor issuing a going-concern opinion. Companies that were issued a going-concern opinion in a specific year were denoted by 1; otherwise, 0.

Independent variables

Auditor (auditing firm) industry specialization (SPE)

Following prior studies (e.g., Balsam et al., 2003; Carcello & Nagy, 2004; Cenker & Nagy, 2008; Chin & Chi, 2009; Krishnan, 2003), we use auditors' market shares to measure auditor specialization. Because the most often used basis of measuring market share¹ is the total sales of clients in a specific industry. We then rank all auditors in each industry by their market share and define the top 10% as industry specialist audit partners to construct and indicator variable (PSPE) that will equal one if specific individual audit partner is an industry specialist and zero otherwise. Similar we will rank all auditors in each industry by their market share and define the top 20% as industry specialist audit firms to construct and indicator variable (FSPE) that will equal one if the audit firm is an industry specialist and zero otherwise.

Because prior studies have indicated that, when knowledge provides important explanations for variations in auditors' industry expertise, it is difficult for partners to share knowledge with other partners within an audit firm or practice office (Chin & Chi, 2009), we will only use industry specialization at the partner level to

¹ Both client amount and size have been considered to be a determinant of auditor specialization; however, it is unclear whether the forte of specializing in an industry is accrued from auditing for either a large number of clients or a few large clients (e.g., Chin & Chi 2009; Gramling & Stone, 2001; Krishnan, 2003). Therefore, this study will use number of clients as an alternative proxy for industry auditor specialists.

test the experience of auditors on audit quality. In Taiwan, two partners must audit the financial statements of public companies and both must sign their names to the audit reports. This requirement for dual signatures raises a measurement issue concerning the identification of individual specialists. Grounded on the assumption of knowledge spillover, whichever partner is the specialist can share his or her knowledge with the entire audit team. Consequently, as long as one of a company's auditors is a specialist, the company is classified as a specialist group.

Auditor experience (EXP)

The number of years an auditor had engaged in auditing was used to measure auditor experience, which was categorized into general auditing experience (EXP_G) and industry auditing experience (EXP_I).

General auditing experience (EXP_G) was obtained by multiplying the number of years in which they conducted auditing (between 1983 and 2009) by the number of clients, yielding two values that represented the amount of individual general experience acquired by primary and secondary auditors. The larger value of the two was then used to measure general auditor experience. Industry auditing experience (EXP_I) was obtained by multiplying the number of years spent in the auditing industry by the number of clients, yielding two values that represented the amount of individual industry experience acquired by the primary and secondary auditors. The larger value of the two was then used to measure industry auditor experience. We predicted that EXP_G and EXP_I were positively correlated with the probability of companies being issued a going-concern opinion.

Auditor tenure (TENURE)

Auditor tenure refers to the number of years an auditor continually provides services to a client. Under Taiwan's dual attestation scheme, although two CPAs (i.e., lead and concurring auditors) simultaneously attest to audit reports, these reports do not reveal the identities of the two CPAs. Thus, the larger number of consecutive years in which attestation was conducted between the lead and concurring auditors was used to calculate auditor tenure.

EMPIRICAL MODEL

This study primarily aimed to examine the influence that auditor industry specialization, experience, and tenure have on the issuance of going-concern opinion by auditors in Taiwan. Logistic regression models were constructed to test each of the proposed hypotheses.

To assess the relationship between auditor (auditing firm) industry specialization and the issuance of going-concern opinion to clients under relatively poor financial conditions, we constructed the following model:

$$GC_1_{it} = \beta_0 + \beta_1 SPE_FIRM_{it} + \beta_2 SPE_CPA_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \varepsilon_{it} \quad (1)$$

$$GC_2_{it} = \beta_0 + \beta_1 SPE_FIRM_{it} + \beta_2 SPE_CPA_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \beta_8 PRE_GC_{it-1} + \varepsilon_{it} \quad (2)$$

To examine the correlation between auditor experience and the issuance of going-concern opinion to clients under relatively poor financial conditions, we constructed the following models:

$$GC_1_{it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \varepsilon_{it} \quad (3)$$

$$GC_2_{it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \beta_8 PRE_GC_{it-1} + \varepsilon_{it} \quad (4)$$

To investigate the influence of auditor tenure on the issuance of going-concern opinion to clients under relatively poor financial conditions, we constructed the following models:

$$GC_1_{it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \varepsilon_{it} \quad (5)$$

$$GC_2_{it} = \beta_0 + \beta_1 TENURE_{it} + \beta_2 SIZE_{it} + \beta_3 DR_{it} + \beta_4 CR_{it} + \beta_5 LOSS_{it} + \beta_6 CASH_{it} + \beta_7 PRE_GC_{it-1} + \varepsilon_{it} \quad (6)$$

The variable measurements are summarized in Table 1.

TABLE 1: SUMMARY OF VARIABLE MEASUREMENTS

Variable abbreviation	Variable name	Measurement method
GC_1	Going-concern opinion	Companies issued a going-concern opinion for the annual, semiannual, and quarterly reports were denoted by 3, 2, and 1, respectively; otherwise, 0.
GC_2	Going-concern opinion	Companies issued a going-concern opinion in a specific year were denoted by 1; otherwise, 0.
SPE_FIRM	Industry specialization of auditing firm	Measured using market share, which was calculated using client sales, with 10% being the cutoff point. Audit firms with market shares exceeding 10% were denoted by 1; otherwise, 0.
SPE_CPA	Industry specialization of auditor	Measured using market share, which was calculated using client sales, with 10% being the cutoff point. Auditors with market shares exceeding 10% were denoted by 1; otherwise, 0.
EXP_G	General auditing experience	Number of years performing auditing (since 1983) × number of clients
EXP_I	Industry auditing experience	Number of years in the auditing industry × number of clients
TENURE	Auditor tenure	Number of years an auditor provided continued services to a client
SIZE	Company size	Natural logarithm derived from the amount of total assets
DR	Debt ratio	Total liabilities divided by total assets
CR	Current ratio	Current assets divided by current liabilities
LOSS	Operating loss in 2 consecutive years	A negative operating income value for the current and previous years = 1; otherwise = 0.
CASH	Proportion of operating cash flow in total liabilities	Cash flow obtained from operating activities divided by total liabilities
PRE_GC	Going-concern opinion issued in the previous reporting period	Going-concern opinion issued in the previous year = 1; otherwise = 0.

IV. EMPIRICAL RESULTS

DESCRIPTIVE STATISTICS

The descriptive statistics for the study sample (Table 2) indicate the following results: Overall, 53 (4%) companies were issued a going-concern opinion, and 1,058 (74%) audit firms comprised industry specialists (SPE_FIRM), whereas 69 (5%) auditors were industry specialists (SPE_CPA). Regarding the control variables, 439 (31%) companies bore operating losses for 2 consecutive years (LOSS), and 41 (3%) companies were issued a going-concern opinion in the previous reporting period (PRE_GC).

TABLE 2: DISTRIBUTION STATISTICS

Variable	N	Min.	Max.	Ave.	Std. Div.
GC_1	1438	0.000	3.000	0.120	0.579
GC_2	1438	0.000	1.000	0.040	0.187
SPE_FIRM	1438	0.000	1.000	0.740	0.441
SPE_CPA	1438	0.000	1.000	0.050	0.214
EXP_G	1438	6.000	742.000	199.510	119.984
EXP_I	1438	1.000	399.000	25.120	31.804
TENURE	1438	1.000	21.000	4.370	3.446
SIZE	1438	11.510	20.127	14.837	1.297
DR(%)	1438	0.200	98.720	45.756	17.842
CR(%)	1438	11.360	293.320	189.298	91.031
LOSS	1438	0.000	1.000	0.310	0.460
CASH	1438	-26.819	26.505	-2.905	32.816
PRE_GC	1438	0.000	1.000	0.030	0.166

ANALYSIS OF CORRELATION COEFFICIENTS

Between-sample correlation analysis (Table 3) revealed that auditor industry specialization (SPE_CPA) exhibited a significant and positive correlation with general auditing experience (EXP_G) and industry auditing experience (EXP_I), indicating that the industry specialization of auditors is significantly related to experience. Auditor tenure (TENURE) presented a significant and positive correlation with industry specialization (SPE_CPA) and general auditing experience (EXP_G), which suggests that experienced specialist auditors have long tenures. Company size demonstrated a significant and positive correlation with industry specialization and auditor experience and tenure, indicating that large-scale companies typically employ experienced specialist auditors. Company size was positively correlated with debt ratio (DR) and the proportion of operating cash flow in total liabilities (CASH), which implies that large-scale companies demonstrate a high debt ratio and operating cash flow.

TABLE 3: SPEARMAN CORRELATIONS

變數	SPE_FIRM	SPE_CPA	EXP_G	EXP_I	TENURE	SIZE	DR	CR	LOSS	CASH	PRE_GC
SPE_FIRM	1.000	0.135** (0.000)	0.041 (0.060)	0.052 (0.075)	-0.036 (0.085)	0.119** (0.000)	0.084** (0.001)	-0.059* (0.012)	0.024 (0.182)	0.007 (0.397)	0.046* (0.041)
SPE_CPA		1.000	0.130** (0.000)	0.220** (0.000)	0.084** (0.001)	0.147** (0.000)	0.002 (0.468)	-0.012 (0.330)	0.021 (0.216)	-0.007 (0.396)	0.020 (0.222)
EXP_G			1.000	0.421** (0.000)	0.082** (0.001)	0.075** (0.002)	0.012 (0.331)	-0.016 (0.273)	0.002 (0.469)	0.038 (0.074)	0.050* (0.030)
EXP_I				1.000	0.040 (0.067)	0.057** (0.015)	-0.042 (0.054)	-0.008 (0.374)	0.024 (0.184)	0.056* (0.018)	0.058* (0.013)
TENURE					1.000	0.155** (0.000)	-0.005 (0.426)	-0.051* (0.027)	-0.005 (0.426)	0.056* (0.017)	-0.047* (0.037)
SIZE						1.000	0.240** (0.000)	-0.215** (0.000)	-0.096** (0.000)	0.147** (0.000)	-0.023 (0.190)
DR							1.000	-0.480** (0.000)	0.029 (0.134)	0.006 (0.414)	0.258** (0.000)
CR								1.000	-0.018 (0.253)	-0.086** (0.001)	-0.075** (0.002)
LOSS									1.000	-0.061** (0.011)	0.168** (0.000)
CASH										1.000	-0.016 (0.275)
PRE_GC											1.000

Notes

a. ***, **, * denotes significance at <0.01, <0.05, <0.10 level.

b. Variable definitions are presented in Table 1.

LOGISTIC REGRESSION ANALYSIS

Ordered logistic regression

Table 4 presents the results of ordered logistic regression analysis. In Model 1, in which audited companies exhibited relatively poor financial conditions, SPE_FIRM and SPE_CPA were both positively correlated with the probability of issuing a going-concern opinion. This suggests that specialist auditors accurately discover and assess that financially unstable companies might fail to continue operation, and thus typically issue a going-concern opinion to such companies. The coefficient of SPE_CPA reached the 10% level of significance, indicating that compared with the industry specialization of audit firms, the industry specialization of individual auditors substantially influences the issuance of going-concern opinion to financially unstable companies.

In Model 3, general auditing experience (EXP_G) and industry auditing experience (EXP_I) were positively correlated with the probability of companies being issued a going-concern opinion. This indicates that the level of auditor experience is related to audit quality and may influence the audit reports issued to clients experiencing financial difficulties. Therefore, audit quality is affected by auditor experience, which supports H2. In addition, EXP_I reached the 1% level of significance. In Model 5, auditor tenure (TENURE) exhibited a negative correlation with the probability of a going-concern opinion being issued, which failed to support H3. This outcome might be attributed to the low importance of the auditor review reports disclosed in quarterly reports; consequently, long auditor tenure did not reflect increased probabilities of issuing going-concern opinion.

Regarding control variables, the empirical results were consistent with the expected results. The company size (SIZE) and operating loss in 2 consecutive years (LOSS) achieved 1% level of significance. In other words, the larger the company size (SIZE), the more resource the company possessed to survive financial crises. The operating loss in 2 consecutive years (LOSS) was positively correlated with the received audit opinion, representing that when the operating profit of a company in the previous and current years was negative, the company might receive going-concern opinion. The proportion of operating cash flow in total liabilities (CASH) exhibited a coefficient consistent with expectation, but not reaching the level of significance.

TABLE 4: ORDINAL LOGISTIC REGRESSION RESULTS

Model :	$GC_{1it} = \beta_0 + \beta_1 SPE_FIRM_{it} + \beta_2 SPE_CPA_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \epsilon_{it}$					(1)
	$GC_{1it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \epsilon_{it}$					(3)
	$GC_{1it} = \beta_0 + \beta_1 TENURE_{it} + \beta_2 SIZE_{it} + \beta_3 DR_{it} + \beta_4 CR_{it} + \beta_5 LOSS_{it} + \beta_6 CASH_{it} + \epsilon_{it}$					(5)
	Predict Sign	Industry Specialization		Audit Experience		Audit Tenure
SPE_FIRM	+	0.541				
		(0.186))			
SPE_CPA	+	1.151				
		(0.047))*			
EXP_G	+			0.001		
				(0.695))	
EXP_I	+			0.014		
				(0.002))*	
TENURE	+					-0.011
						(0.800)
SIZE	-	-0.375		-0.375		-0.403
		(0.001)	)*	(0.001)	)*	(0.001)
DR	+	0.099		0.099		0.098
		(0.000)	)*	(0.000)	)*	(0.000)
CR	-	-0.003		-0.003		-0.003
		(0.279)	)	(0.279)	)	(0.384)
LOSS	+	1.315		1.315		1.318
		(0.000)	)*	(0.000)	)*	(0.000)
CASH	-	-0.004		-0.004		-0.002
		(0.564)	)	(0.564)	)	(0.704)
N		1438		1438		1438
R ²		0.012		0.008		0.010
F value		10.342		8.169		8.355
Sig.		0.000		0.000		0.000

Notes:

a. ***, **, * denotes significance at <0.01, <0.05, <0.10 level.

b. Variable definitions are presented in Table 1.

Binary logistic regression

Table 5 presents the binary logistic regression results, which differed between Models 1 and 2. In Model 2, when the audited companies demonstrated relatively poor financial conditions, SPE_FIRM and SPE_CPA were positively correlated with the probability of companies being issued a going-concern opinion, and the correlation of SPE_CPA reached the 10% level of significance. Although this result supports H1a and H1b, SPE_FIRM did not exhibit a significant correlation with the probability of a going-concern opinion being issued. This suggests that compared to specialist audit firms, the discoveries and judgment made by specialist auditors are more accurate regarding the probable inability of a client to continue operation, rendering the issuance of a going-concern opinion more likely. In Model 4, the correlation between industry auditing experience (EXP_I) and the probability of companies being issued a going-concern opinion achieved the 10% level of significance, thereby supporting H2. In Model 6, TENURE and the probability of a going-concern opinion being issued exhibited a positive correlation, which differed from the ordered logistic regression results and supported H3, although statistical significance was not achieved. This outcome suggests that long tenure (i.e., continued auditor-client relationship) enhances auditor understanding of a specific client; consequently, to maintain their independence, tenured auditors are likely to issue a going-concern opinion to financially unstable clients.

Regarding the control variables, with the exception of CASH, all the variables yielded a coefficient that indicated a trend consistent with our predictions. In addition, the coefficients of DR and PRE_GC reached the 1% level of significance, supporting the hypothesis that companies demonstrating a high debt ratio and were issued a going-concern opinion in the previous year were highly likely to be issued another going-concern opinion. Results regarding the other control variables were generally similar to those produced using binary logistic regression.

TABLE 5: BINARY LOGISTIC REGRESSION RESULTS

Model :	$GC_2_{it} = \beta_0 + \beta_1 SPE_FIRM_{it} + \beta_2 SPE_CPA_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \beta_8 PRE_GC_{it-1} + \epsilon_{it}$						(2)
	$GC_2_{it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \beta_8 PRE_GC_{it-1} + \epsilon_{it}$						(4)
	$GC_2_{it} = \beta_0 + \beta_1 TENURE_{it} + \beta_2 SIZE_{it} + \beta_3 DR_{it} + \beta_4 CR_{it} + \beta_5 LOSS_{it} + \beta_6 CASH_{it} + \beta_7 PRE_GC_{it-1} + \epsilon_{it}$						(6)
	Predict Sign	Industry Specialization		Audit Experience		Audit Tenure	
SPE_FIRM	+	0.167					
		(0.769))				
SPE_CPA	+	1.512					
		(0.066))*				
EXP_G	+			0.000			
				(0.787))		
EXP_I	+			0.010			
				(0.078))*		
TENURE	+					0.045	
						(0.384))
SIZE	-	-0.263		-0.256		-0.219	
		(0.104)	)	(0.110)	)	(0.175))
DR	+	0.093		0.091		0.091	
		(0.000)	)*	(0.000)	)*	(0.000))*
CR	-	-0.003		-0.003		-0.002	
		(0.542)	)	(0.525)	)	(0.634))
LOSS	+	0.426		0.451		0.499	
		(0.526)	)	(0.326)	)	(0.270))
CASH	-	0.019		0.014		0.017	
		(0.075)	)*	(0.104)	)	(0.123))
PRE_GC	+	4.563		4.506		4.572	
		(0.000)	)*	(0.000)	)*	(0.000))*
N		1438		1438		1438	

Notes:

a. ***, **, * denotes significance at <0.01, <0.05, <0.10 level.

b. Variable definitions are presented in Table 1.

SENSITIVITY ANALYSIS

Considering the characteristics of Taiwan's dual attestation mechanism for auditors, we further divided the sample based on the industry specialization variable into companies audited by audit firms with or without industry specialization and companies audited by auditors with or without industry specialization. The divided samples then underwent ordered logistic regression to assess the influence of auditor experience and tenure on audit opinion. This approach was used to obtain robust evidence for the relationships that individual auditor experience and tenure have with the probability of issuing a going-concern opinion. The regression results are shown in Tables 6 and 7.

According to Article 3 of Taiwan's Statement on Auditing Standards No. 16, a high debt ratio may reflect the relatively poor financial conditions of a company. Consequently, a going-concern presumption is difficult to establish based on the financial statements compiled by the client, thereby increasing the probability that an auditor issues a going-concern opinion. Therefore, we restricted the study sample to companies exhibiting a debt ratio higher than 50%. Subsequently, ordered logistic regression was conducted to evaluate the effects of industry specialization (of audit firms and auditors), auditor experience, and auditor tenure on audit opinion. The results are presented in Table 8.

In Table 6, the SPE_FIRM samples were divided into companies audited by audit firms (with or without industry specialization) and companies audited by auditors (with or without industry specialization). The results indicated that auditor experience and tenure did not significantly affect the issuance of going-concern opinion. However, the industry auditing experience of specialist audit firms significantly influenced the issuance of going-concern opinion, reaching the 5% level of significance. This outcome suggests that compared to specialist auditors, specialist firms possessed greater auditing experience and, thus, exhibited increased probabilities of issuing a going-concern opinion to financially unstable clients. Auditor tenure with respect to specialist audit firms was positively correlated with the issuance of going-concern opinion, indicating that long tenure at specialist audit firms leads to the increased understanding of clients' financial conditions, thereby raising the likelihood of issuing a going-concern opinion to clients experiencing financial difficulties. By contrast, auditor tenure in relation to nonspecialist audit firms was negatively correlated with the issuance of going-concern opinion, which suggests that long auditor tenure at nonspecialist firms does not increase the probability that financially unstable companies are issued a going-concern opinion.

TABLE 6: INFLUENCE OF AUDIT EXPERIENCE AND AUDIT TENURE FOR INDUSTRY AND NON-INDUSTRY SPECIALIZATION AUDIT FIRMS

Model :	$GC_1_{it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \epsilon_{it}$						(3)
	$GC_1_{it} = \beta_0 + \beta_1 TENURE_{it} + \beta_2 SIZE_{it} + \beta_3 DR_{it} + \beta_4 CR_{it} + \beta_5 LOSS_{it} + \beta_6 CASH_{it} + \epsilon_{it}$						(5)
	Predict Sign	SPE FIRM		NON-SPE FIRM			
		Audit Experience	Audit Tenure	Audit Experience	Audit Tenure		
EXP_G	+	-0.002 (0.228)		0.000 (0.785)			
EXP_I	+	0.014 (0.002)**		0.007 (0.221)			
TENURE	+		0.022 (0.642)		-0.041 (0.385)		
SIZE	-	-0.343 (0.004)**	-0.366 (0.003)**	-0.969 (0.072)*	-0.875 (0.051)*		
DR	+	0.101 (0.000)**	0.100 (0.000)**	0.044 (0.175)	0.063 (0.046)**		
CR	-	-0.001 (0.670)	-0.001 (0.801)	-0.035 (0.028)**	-0.030 (0.030)**		
LOSS	+	1.509 (0.000)**	1.504 (0.000)**	-0.403 (0.665)	-0.338 (0.713)		
CASH	-	-0.004 (0.577)	-0.002 (0.737)	-0.006 (0.718)	-0.006 (0.746)		
N		1058	1058	380	380		

Notes:

a. ***, **, * denotes significance at <0.01, <0.05, <0.10 level.

b. Variable definitions are presented in Table 1.

In Table 7, the SPE_CPA samples were divided into companies audited by specialist auditors and companies audited by nonspecialist auditors. The results regarding the influence of auditor experience and tenure on the issuance of going-concern opinion are nearly identical to those shown in Table 6: Substantial industry auditing experience and the long tenure of specialist auditors were related to the high possibility of issuing a going-concern opinion to financially unstable clients.

TABLE 7: INFLUENCE OF AUDIT EXPERIENCE AND AUDIT TENURE FOR INDUSTRY AND NON-INDUSTRY SPECIALIZATION AUDIT PARTNERS

Model :	$GC_1_{it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \epsilon_{it}$						(3)
	$GC_1_{it} = \beta_0 + \beta_1 TENURE_{it} + \beta_2 SIZE_{it} + \beta_3 DR_{it} + \beta_4 CR_{it} + \beta_5 LOSS_{it} + \beta_6 CASH_{it} + \epsilon_{it}$						(5)
	Predict Sign	SPE PARTNER		NON-SPE PARTNER			
		Audit Experience	Audit Tenure	Audit Experience	Audit Tenure		
EXP_G	+	0.031 (0.322)		0.000 (0.785)			
EXP_I	+	0.222 (0.075)*		0.007 (0.221)			
TENURE	+		0.070 (0.650)		-0.041 (0.385)		
SIZE	-	2.651 (0.335)	-0.837 (0.122)	-0.354 (0.003)***	-0.323 (0.006)***		
DR	+	0.384 (0.435)	0.130 (0.053)*	0.101 (0.000)***	0.101 (0.000)***		
CR	-	0.013 (0.809)	0.009 (0.283)	-0.005 (0.179)	-0.005 (0.143)		
LOSS	+	16.847 (0.129)	20.821 (0.120)	1.033 (0.002)***	0.988 (0.004)**		
CASH	-	0.028 (0.333)	-0.004 (0.638)	0.006 (0.486)	0.008 (0.379)		
N		1369	1369	69	69		

Notes:

a. ***, **, * denotes significance at <0.01, <0.05, <0.10 level.

b. Variable definitions are presented in Table 1.

Table 8 shows the results of restricting the sample to companies with a debt ratio exceeding 50%. The regression results indicated that industry specialization (of audit firms and auditors) was positively correlated with the issuance of going-concern opinion. Regarding auditor experience, industry auditing experience exhibited a significant and positive correlation with the issuance of going-concern opinion, which conforms to the other regression results. Contrary to the predicted trends, general auditing experience was not positively correlated with the issuance of going-concern opinion, indicating that the industry auditing experience of auditors is more crucial than general auditing experience.

TABLE 8: ORDINAL LOGISTIC REGRESSION RESULTS FOR RESTRICTED SAMPLE^a

Model :	$GC_1_{it} = \beta_0 + \beta_1 SPE_FIRM_{it} + \beta_2 SPE_CPA_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \epsilon_{it}$					(1)
	$GC_1_{it} = \beta_0 + \beta_1 EXP_G_{it} + \beta_2 EXP_I_{it} + \beta_3 SIZE_{it} + \beta_4 DR_{it} + \beta_5 CR_{it} + \beta_6 LOSS_{it} + \beta_7 CASH_{it} + \epsilon_{it}$					(3)
	$GC_1_{it} = \beta_0 + \beta_1 TENURE_{it} + \beta_2 SIZE_{it} + \beta_3 DR_{it} + \beta_4 CR_{it} + \beta_5 LOSS_{it} + \beta_6 CASH_{it} + \epsilon_{it}$					(5)
	Predict Sign	Industry Specialization	Audit Experience	Audit	Tenure	
SPE_FIRM	+	1.062 (0.037) **				
SPE_CPA	+	0.697 (0.385)				
EXP_G	+		-0.002 (0.272)			
EXP_I	+		0.010 (0.090) *			
TENURE	+			-0.040 (0.386)		
SIZE	-	-0.371 (0.004) ***	-0.359 (0.006) ***	-0.314 (0.013) **		
DR	+	0.177 (0.000) ***	0.117 (0.000) ***	0.116 (0.000) ***		
CR	-	-0.019 (0.000) ***	-0.016 (0.001) ***	-0.017 (0.001) ***		
LOSS	+	0.446 (0.240)	0.531 (0.158)	0.493 (0.194)		
CASH	-	0.027 (0.008) ***	0.026 (0.010) ***	0.030 (0.004) ***		
N		60	3	60	3	

Notes:

- This table presents the results of restricting the sample to companies with a debt ratio exceeding 50% to be the companies of financial difficulties.
- ***, **, * denotes significance at <0.01, <0.05, <0.10 level.
- Variable definitions are presented in Table 1.

V. CONCLUSION

This study examined listed companies in Taiwan that were audited by Big Four firms and demonstrated relatively poor financial conditions between 2000 and 2009. Net income after tax and operating cash flow was used as the indicator for identifying companies that exhibited relatively poor financial conditions (i.e., negative values for a specific year). We assessed the influence that the industry specialization of audit firms or auditors, auditor experience, and auditor tenure had on the probability of issuing a going-concern opinion. In contrast with previous studies on audit quality and opinion that have emphasized auditor independence or expertise alone, this study jointly considered expertise and independence in evaluating their effects on the audit opinion issued. Regarding auditor expertise, this study investigated the influence of industry specialization (of audit firms and individual auditors) and auditor experience (general and industry-specific) on audit opinion. For analyzing auditor independence, we explored the effects that auditor tenure exerted on audit opinion by determining whether long tenure increased the probability of issuing a going-concern opinion to financially unstable clients because of the auditors' wish to maintain their independence.

The empirical results indicated that industry specialization (SPE_FIRM and SPE_CPA) and industry auditing experience both exhibited a significant and positive correlation with the issuance of going-concern opinion to clients demonstrating poor financial conditions. In addition, long auditor tenure resulted in the enhanced understanding of clients, which increased the probability of issuing a going-concern opinion to financially unstable clients because auditors wished to retain their independence.

Whether auditors can issue appropriate audit opinions before enterprises experience a financial crisis depends on their professional knowledge, skills, attitude, and judgment. Based on market shares alone, specialist audit firms did not exert a significant influence compared to individual auditor experience and specialization. Therefore, in addition to the industry specialization of firms, industry specialization and the experience of individual auditors are vital factors that should be considered when examining the issuance of audit opinions. To prevent market investors from bearing unnecessary losses, auditors must be able to issue adequate audit opinions regarding annual and semiannual reports and review opinions regarding quarterly reports before clients experience a financial crisis, reminding users of financial statements to avoid corporate financial problems. Audit firms or auditors that demonstrate industry specialization possess substantial experience in industry auditing, which reduces the probability of issuing inadequate audit opinions and raises the value of issued audit opinions. Therefore, when evaluating the financial conditions of financially unstable companies, general investors can consider whether the companies are audited by specialist audit firms or auditors.

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