EFFECT OF AUDITOR'S JUDGMENT AND SPECIALIZATION ON THEIR DIFFERENTIAL OPINION BETWEEN SEMIANNUAL AND ANNUAL FINANCIAL REPORTS

Hsiang-Tsai Chiang, Feng Chia University
Shu-Lin Lin, Hsiuping University of Science and Technology

ABSTRACT

This study examines the factors that lead to issuing negative opinions on semiannual reports while issuing positive opinions in annual reports from the perspective of auditor-client relationships in listed companies in Taiwan. The empirical results show that the importance of the client is significant positively related to differential opinions while auditor tenure and industry specialists are significant negatively related to differential opinions. The results suggest that auditors have become more conservative and pay more attention to protecting their reputations post-Enron. The conclusion indicates that enhancing auditors' specialization and independence reduces the opportunity to issue differential opinions in order to evade legal responsibility.

JEL: M41, M42, G12, G32

KEYWORDS: Industry specialist auditor, Auditor tenure, Audit opinion, Value of firms, Risk

INTRODUCTION

Financial statements summarize company performance and operation results for investors. For the purpose of monitoring and assessing companies' future development, the authority in charge of securities in Taiwan specifies that listed and over-the-counter companies must release their financial information quarterly and that the semi-annual reports and the annual report must be audited by certified public accountants. These requirements are stricter than those of most other countries, where semiannual reports do not have to be audited. The Generally Accepted Auditing Standards (GAAS) No. 33 of Taiwan classified the auditor's opinion into five categories: unqualified opinion, modified unqualified opinion (add an explanatory words in the report), qualified opinion, disclaimer of opinion, and adverse opinion. Among the five categories of audit opinions, unqualified and modified unqualified opinions are classified as "positive opinions" that indicate that the company is well operated. Qualified, disclaimer, and reverse opinions are generally classified as "negative opinions" that indicate that the company has some problems in its operation. This study uses the 1999 to 2008semiannual and annual audit reports of companies listed on the Taiwan Stock Exchange Corporation (TWSE) and the Gre Tai Securities Market (OTC) as a research database. In Table 1 Panel A, we find that 20.73 percent of semiannual reports were issued unqualified opinions by auditors, and 62.24 percent were issued qualified opinions.

For annual reports, auditors issued 36.13 percent unqualified opinions, 63.06 percent modified unqualified opinions, and only 0.81 percent qualified opinions. This result shows a shift in audit opinions between semiannual and annual financial reports, as unqualified audit opinions increased from 20.73 percent on semiannual reports to 36.13 percent on annual reports, and qualified opinions dramatically decreased from 62.24 percent on semiannual reports to 0.81 percent on annual reports. It appears that auditors often changed their "negative" opinions in semiannual reports to "positive" opinions in annual reports. The study will explore the factors that led to these changes of opinion. Evidence from the U.S. suggests that, after Enron, auditors' behavior became more conservative in regard to bankrupt companies

(Geiger, Raghunandan and Rama, 2005; Fargher and Jiang, 2008). Francis and Yu (2009) found that larger audit offices provide higher-quality audits and those clients of larger audit offices evidence less aggressive earnings management. Prior studies have also reported that an auditor's having an industry specialization results in higher-quality audits (Balsam, Krishnan and Yang, 2003; Velury, 2003; Carcello and Nagy, 2004; Reichelt and Wang, 2010).

We explore the reasons for auditors' changes of opinion by asking whether the change is caused by the economic dependence of auditor from their clients. We also examine whether the auditor's industry specialty can reduce the incidence of changed opinions between semiannual and annual reports. According to the Generally Accepted Accounting Principles (GAAP) of Taiwan No. 23, "Expression and Disclosure of Interim Financial Reporting", the semiannual report figures contain many estimates, apportions, and deferrals, so there is considerable uncertainty in semiannual reports. In addition, the company has only two months to prepare a semiannual report, which is significantly shorter than the four months for annual report preparation. According to Business Regulations No. 49 of Taiwan Stock Exchange Act, the acceptable reports are those with unqualified opinions or modified unqualified opinions; the auditor can issue qualified opinions in semiannual reports that the gain or loss of investments is according to unaudited financial statements and only needs to add an explanation words in the audit report to remind readers to pay heed to the statement. Both unqualified opinions and modified unqualified opinions are accepted by the TWSE and OTC as clean opinions, unlike the other types of opinions (i.e., qualified opinions), so auditors are likely to issue qualified opinions in semiannual reports to diminish their responsibility. The annual report allows more audit procedures that reduce the audit risks, so auditors are more likely to issue unqualified or modified unqualified opinions for annual reports.

Prior studies have analyzed reporting frequency effects around the years that quarterly reporting became mandatory in the US. Givoly, Ronen and Schiff (1978) compared a group of reports subjected to audit review against a control group that had not gone through review procedures in order to determine whether the level of auditor involvement affects the quality of semiannual reports and found no differences between the two groups. Holthausen and Verrecchia (1988) showed that the degree of stock price fluctuation is positively correlated with the accuracy of financial information. Gigler and Hemmer (1998) indicated that excessively frequent reports reduced the degree to which other voluntary information is disclosed because of the report cost, so investors' information acquisition was affected. Butler, Kraft and Weiss (2007) indicated that the US's requiring specified quarterly report information in 1971 failed to have the intended effect of increased annual surplus. Mensah and Wemer (2008) suggested that more frequent interim reports force firms to make estimates, so more frequent interim reports may be subject to more error than less frequent ones are.

Cuijpers and Peek (2010) studied European countries and verified the findings of Butler et al. (2007) that the mandated change from semiannual to quarterly reporting did not increase the extent to which prices anticipate annual earnings. Kubota, Suda and Takehara (2010) indicated that Japanese analysts usually use semiannual report information to revise the predicted surplus in the annual report. Since the semiannual report is free from the effect of quarterly reports and the stockholders' annual meeting, this paper infers that auditors are more likely to issue negative opinions in semiannual reports to protect themselves and to issue positive opinions in annual reports in order to keep important clients.Windsor and Ashkanasy (1995) pointed out that auditors could not resist management pressure when their moral reasoning was low. From an economic perspective, the greater an auditor's financial dependence upon its clients, the more likely the auditor will be to compromise with the client in terms of accounting treatment and disclosure of information, and the more difficult it will be to maintain a fair and objective attitude and to provide a reliable opinion. In particular, in the culture of accounting firms in Taiwan, the client is engaged by audit partnerships who have expertise in the industry and who have solid public relationships.

Lai (2000) pointed out that the type of organization in Taiwan accounting firms is similar to a taxi license leasing system; the internal audit departments in the firm do things in their own way, and the purpose of partners is to reduce expenses or simply to use the same brand as the foreign accountants' alliance. For personal economic purposes, the audit partner may lower his or her audit quality, regardless of the damage caused to the overall reputation of the firm. DeAngelo (1981b) stated that the importance of the client is reflected in the future quasi-rents of the client in proportion to the quasi-rents of all other clients such that, the higher the proportion, the more important the client. From the legal perspective, the risk of litigation and legal costs in the event of audit failure can be avoided by checks and balances (Bonner,

Palmrose and Young, 1998; Reynolds and Francis, 2000; DeFond, Raghunadan and Subramanyan, 2002), which will strengthen the independence of the auditors. Compared to that of the US, Taiwan's legal environment still has room for improvement, although the "Securities Investor and Futures Trader Protection Act" was adopted in 2002, and group litigation cases are accepted to protect investors. However, according to the Financial Supervisory Commission of Taiwan there have been only 28 cases to date of auditors listed as co-defendants because of audit failure. Because investors' legal actions are targeted at individual auditors—that is, the individual auditor takes legal responsibility when an audit failure occurs—internal supervision in audit firms is rare. Therefore, the question concerning whether an auditor's audit opinion is based on an independent opinion or is actually affected by other factors, such as economic considerations, has raised the issue of auditors' moral hazard (Narayanan, 1995).

Although audit quality cannot be directly observed and measured, auditors are responsible for improving the audit process and enhancing the quality of reports. Auditors' awareness of professional ethics plays an important role in the quality of the audit. According to prior research, reputation is the most important element in audit firms. Auditors may lose their professional ethics because of factors related to their work, salary, position, and personal benefits gained from their clients. The Enron case in 2001 resulted in the collapse of Arthur Andersen, one of the top five accounting firms in the US. Some listed Taiwanese companies have also been involved with accounting scandals similar to Enron, resulting in the need to enhance the public company and capital market control system. Taiwanese officials, companies, and academics have been devoted to preventing the problems in capital markets and future possible troubles: following the US's Sarbanes-Oxley Act, the Securities and Futures Commission of Taiwan revised the management regulations to gain stricter control of listed companies.

In the existing literature, fraud is often discussed in terms of the impact of earnings management, auditor tenure, and provision of audit services and non-audit services on auditor independence and audit fees. However, issues related to professional ethics are rarely addressed, and studies on how the relationship between individual auditors and clients can lead to different audit opinions in annual and semiannual reports and mislead investors are also rare. Some studies based in Taiwan took the Enron case as the cut-off point in order to discuss the influence of the Enron case on auditor behavior. For example, Fu, Chang and Chen (2005) showed that discretionary accrual in financial statements decreased markedly with the change in the audit environment after Enron and that auditors issued non-standard unqualified opinions more frequently after Enron. Yang and Guan (2006) compared the periods pre- and post-Enron and found that client importance is significantly negatively associated with abnormal accruals, supporting the view that the Enron case influenced auditor behavior and the adoption of conservative decisions. Guan, Chien and Hsu (2008) studied accounting frauds and financial report conservatism and showed that financial reporting has become more conservative after the Enron/Procomp frauds.

This paper contributes to the literature on auditor-client relationship and industry experts, addresses the issue of negative opinions in semiannual reports and positive opinions in annual reports, and explores the potential of auditors' awareness of professional ethics. Consistent with our hypotheses, we find that the importance of the client is significantly positively related to changes of opinion between semiannual and annual reports and that auditor tenure and industry specialization are significantly negatively related to

those changes of opinion. The results suggest that, before Enron, auditors' decisions were more easily compromised, while after Enron, auditors take a more conservative approach to decision making with regard to important clients and pay more attention to protecting their own reputations.

The remainder of this paper is organized as follows. The next section discusses the background of auditor-client relationships and related research and develops the hypotheses. Sections 3 and 4 present the method and the results of the experiments, respectively. Section 5 offers conclusions and implications.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The auditing profession is highly specialized, and the audit market's maturity and saturation increases auditors' economic dependency on their clients, which may prejudice their independence as well. The semiannual reports contain many estimates because they tend to be more urgently filed than the annual reports. Auditors tens to present negative opinions in semiannual reports and positive opinions in annual reports to maintain their formal independence while maintaining their important customers, which is one of the primary issues in this paper. Table 1 Panel A, which compiles the opinions of semiannual reports and annual reports issued between 1999 and 2008, shows that there are nearly 99 percent fewer qualified opinions in annual reports than in semiannual reports.

After the Enron failure, the Sarbanes-Oxley Act, which reinforced the independence of auditors and their issuance duty, was published. Table 1 Panel B shows that the qualified opinions in annual reports were greatly reduced between 1999 and 2008, and the ratio of annual reports with unqualified opinions after Enron (25.85%) was significantly lower than the proportion before Enron (51.55%). Geiger and Raghunandan (2002) found that, when the laws change, auditors change how they issue opinions about companies having financial difficulties. Fargher and Jiang (2008) demonstrated that, after the Enron incident, auditors revised their attitudes toward client beneficial in response to increasing litigation risk and the need to reconstruct the firm's reputation. Our exploration concerns whether a change in the audit environment affects audit opinions in annual and semiannual reports.

Audit Reports

As a form of monitoring, auditing is an auditor-client negotiation process which mitigates incentive problems between managers and outsiders. Windsor and Ashkanasy (1995) studied clients' bargaining power and auditors' moral reasoning development and pointed out that, the lower auditors' moral ideals are, the less ability they have to resist pressure from clients. Matsumura, Subramanyam and Tucker (1997) explored the strategic behavior of auditors and going-concern decisions, and Tucker and Matsumura (1998) investigated the issue of going-concern judgments. Their studies found that auditors behaved strategically which indicates that, with relatively weaker negotiation ability, auditors have increased difficulty maintaining their independence, thereby affecting the quality of the audit opinion.

According to Taiwan GAAS No. 33, when there were scope limitations and departures from the GAAP, and the auditor considers the situation to be significant, he or she must issue a qualified opinion. GAAS No. 15 "Adopts the Other Auditors' Opinion" if the chief auditor is satisfied with the results or reports of the other auditors; the chief auditor may not mention the other auditors' work in the audit report. Furthermore, if the other auditors issue audit reports that contain any but unqualified opinions, and the influence of the overall financial statement is not significant as evaluated by the chief auditor, the chief auditor will still be able to issue a clean opinion. From Table 1 Panel C, we find the majority qualified opinions are reason for gain or loss of investments are according to unaudited financial statements (n=3,577; 55.54%) not for going-concern (n=7) in semiannual reports, which almost all opinions (99.98%) are changed to modified unqualified opinion in annual reports for long-term investment to adopt the other auditors' opinions (n=2,705; 42.01%). Meanwhile, there are 1,652 observations (61.07%) which the ratio

of long-term investment to total assets is over 20 percent and the chief auditor adopts other auditor's opinion, the auditor is willing to bear the risk of the other auditor and not mention their work in the audit report, issuing clean opinion in the annual reports.

Before presenting their opinions, the auditors will have fully discussed them with their clients. If the client consents to the auditor's proposed changes, the auditor can still issue a clean opinion. This communication gives auditors and clients space in which to negotiate the audit opinions. Evidence in Nelson, Elliott and Tarpley (2002) suggests that auditors and management virtually always resolve earnings-management issues before opinions are issued. Chung and Kallapur (2003) used the importance of individual clients to auditors as a proxy for relative importance to discuss the effect of clients and non-audit services on earnings quality. They found that the strength of clients' negotiating power affects the pricing decisions of auditors and the audit quality. This present study infers that auditors issue qualified opinions in semiannual reports to avoid audit risks because of limited audit scope, and that auditors issue modified unqualified opinions in annual reports by adopting the other auditors' opinions to separate responsibility and to please the client. Therefore, when there is less awareness of professional ethics, auditors are vulnerable to the influence of economic incentives from their main clients, thereby affecting their audit opinions.

The Auditor-Client Relationship

The purpose of the audit is to reduce information asymmetry; the role of the external auditor is to show whether the financial statements are prepared in accordance with the GAAP and to ensure that reporting errors are limited. Compared to other sectors, the auditor profession is a more highly specialized service industry. Grant and Schlesinger (1995) suggested that the focus should be on increasing the use of products, increasing the number of customers to be served, encouraging customers to use more products or services, and establishing and maintaining long-term relationships with customers. The first two strategies concern product differentiation and the importance of clients.

Unlike in the US, audit reports in Taiwan contain the names of both the audit firm and two auditor partners from the same firm. Certified public accountants are personally responsible in Taiwan in the event of audit failure, so the relevance of audit quality and the auditor firm is relatively low compared to the impact of the individual auditor's proficiency level in the industry. This proficiency is based on the auditor's accumulation of expertise from working with several companies in the same industry (Fan, Chen and Wu, 2007). The more auditing experience an auditor has, the better the auditor will understand his or her clients' conditions, which can also improve his or her ability to solve problems. Therefore, we use auditors' work experience and qualifications as the proxy for industry specialization.

The Importance of Client

Audit fees are the main source of income for auditor firms. According to economic theory, the more important their clients become, the more incentive auditors have to compromise their independence. DeAngelo (1981b) pointed out that the importance of clients is reflected in the future quasi-rents from these clients in proportion to the quasi-rents of all other clients. Auditors are more likely to sacrifice independence for important clients. Reynolds and Francis (2000) explored the influence of large clients on auditor reporting decisions and argued that, depending on economic factors, auditors may acquiesce to clients' desires for a favorable financial report to maintain a good relationship. Thus, the auditor's decision is a choice between maintaining economic dependence and maintaining its reputation. Chung and Kallapur (2003) studied the relationship between the importance of customers, non-audit services, and abnormal accruals and revealed that auditors' independence is compromised by the importance of clients as the amount of corporate governance and the number of industry specialists increases.

Cenker and Nagy (2008) examined the relationship between auditors' resignations and industry specialization and found that auditors are less likely to give up customers who pay high audit fees than they are to give up other customers. In Taiwan, Lee and Chen (2004) used auditor groups to calculate the importance of clients and explored whether the importance of a client influenced auditors to allow room for earnings management. They found that, the greater the importance of the client, the greater the room for earnings management, but when the auditors' clients expand beyond a single client and a client's relative importance decreases, so does the flexibility to manipulate earnings. Yang and Guan (2006) investigated whether the importance of clients and non-audit services affected audit quality and found that auditors paid more attention to maintaining their reputations and tended to adopt a more conservative role after the Enron case.In general, then, before the Enron incident auditors tended to compromise with their clients because of economic factors, but after the Enron incident, increasing litigation risk and the need to maintain brand reputation and independence made auditors' decisions significantly more conservative. We accept that auditors will consider economic factors in their estimation of the importance of clients and will maintain their formal independence by issuing negative opinions in semiannual reports and by issuing positive opinions in annual reports. The hypothesis is established as follows:

H1: *When the relative importance of a client is higher, there is a positive relationship between negative opinions in semiannual reports and positive opinions in annual reports.*

Auditor Tenure

In marketing research, Grant and Schlesinger (1995) pointed out that one way to improve corporate profits is to extend the duration of customer relationships. Bolton (1998) used a dynamic model to explore continuous service provision and the customer relationships and found that customer satisfaction is a key factor in customer retention. There have been several instances of fraud in financial statements in recent years, which have led investors to question the quality of auditor reports. In particular, the seventeen-year relationship between Enron and the Arthur Andersen accounting firm in the US caused investors to lose confidence in the independence of auditors following the Enron debacle. To strengthen auditor independence, the Sarbanes-Oxley Act of 2002 (Section 203) mandates a five-year rotation for the lead and reviewing partners. In the same vein, in April 2003, Taiwan reviewed the "Financial Reports of Companies' Operating Procedure" and stipulated that, "if the lead or concurring partner has performed audit services to the company after it is publicly traded for the most recent five consecutive years," the company's financial reports require substantive review and examination. Actually, audit firm rotation is not mandatory in Taiwan, but rotation of audit partners has been commonplace since 2003.This provision is intended to ensure that auditors of publicly traded companies are rotated.

It has been argued that rotation of auditors increases the competitiveness of the audit market, lowers audit fees (Ettredge and Greenberg, 1990; Turpen, 1990), increases the formal independence of auditors, and enhances audit quality (Chi and Huang, 2005; Carey and Simnett, 2006). Davis, Soo and Trompeter (2000) found that auditor tenure and discretionary accruals are positively correlated but that they were negatively correlated with financial forecast errors, which implied that, the longer the tenure, the more likely auditors are to allow clients to undertake earnings management, and the easier it is for clients to achieve their desired financial forecasts. Chi and Huang (2005) found that discretionary accruals are large regardless of the length of auditor tenure and that they have a negative impact on earnings. Carey and Simnett (2006) studied Australian companies and found that the longer the auditor's tenure, the more unlikely it is to issue a negative report to clients that are having financial difficulties. These studies support the idea that, if the auditors' tenure is too long, the audit quality will be affected.

Those who oppose the idea of auditor rotation say that rotation increases the cost of the initial audit and prevents the auditors from accumulating necessary knowledge about their clients. However, Geiger and Raghunandan (2002) contended that it is easily caused by a lack of professional ability and that increases

the likelihood of audit failure. Prior studies have shown that, the longer an auditor has served a company, the higher the audit quality (Myers, Myers and Omer, 2003; Ghosh and Moon, 2005). Carcello and Nagy (2004) examined the correlation between auditor tenure and fraudulent financial statements and found that financial statement fraud usually occurs when the auditor has a shorter tenure (within three years), while there is no significant difference between auditor tenure and fraudulent statements in the longer term. In other words, the study shows that the longer the term, the lower the probability of fraudulence in financial statements. Stanly and DeZoort (2007) studied auditor tenure in relation to financial restatements found a negative relationship between length of auditor tenure and financial restatement. Lee and Lin (2005) explored the correlation between auditor tenure and abnormal accruals, Jiang and Yang (2005) investigated the relationship between the audit firm's industry specialization and earnings quality, and Liu and Wang (2008) studied auditor tenure and audit quality, and all found that audit firms did not allow earnings management in order to maintain long-term relationships with clients. Instead, they pointed out that the longer the auditors' tenure, the greater the likelihood that they inhibit the client's motivation to undertake earnings management.

Taiwan GAAP No. 23 states that "the preparation of interim financial statements should consider the costs, benefits, and information readily available, may, in accordance with certain provisions of the accounting methods or expedient to use more of the estimated ...". Interim reports not only provide clients more space in the semiannual report for earnings manipulation but also give auditors greater discretion in decision making. Chi, Huang, Liao and Xie (2009) researched listed companies in Taiwan to explore the relationship between the implementation of mandatory audit partner rotation and audit quality and found that mandatory partner rotation or firm rotation does not necessarily improve audit quality. Because of the two competing views, we inferred that auditors are motivated to report different opinions in annual reports and semiannual reports in order to maintain long-term appointments. Therefore, we state the following hypotheses:

H2: *The longer the audit tenure, the less likely that there is a significant relationship between auditor's issuing semiannual reports with negative opinions and their issuing positive opinions in annual reports.*

Industry Specialization

Auditors' industry experience, knowledge, and specialization affect their decision-making and audit quality. Dopuch and Simnic (1980) believed that auditing is a multi-property service that enhances customer satisfaction and expectations of higher returns. DeAngelo (1981a) defined audit quality as the joint probability of auditors' detecting and reporting financial misstatement, with the former referring to the auditor's professional competence and the latter to the auditor's independence. Because of the increasing complexity of business transactions, companies' ever-changing financial practices, and complex accounting procedures (e.g. Financial Instruments), sometimes even the most professional accountants and accounting academics find it difficult to understand the economic substance of financial statements, let alone to detect errors. Therefore, industry demand for professional auditors is becoming more pressing than ever.

A high level of experience with either clients or the industry will help reduce audit failure and occurrences of fraud. Through specialization, industrial upgrading, and professional development, auditors have greater ability to collect evidence and make adequate professional judgments. Johnson, Jamal and Berryman (1991) suggested that, when auditors have a wealth of industry knowledge, they can improve their ability to detect fraud and can also invest more resources in staff recruitment, training, and auditing techniques to improve audit quality. Becker, DeFond, Jiambalvo and Subramanyam (1998) considered that high-quality staves are more capable of finding material misstatement and, once such misstatement are detected, they are more likely to issue qualified opinions.

Krishnan (2003) found that, if a company has been audited by industry experts, its earnings quality is higher, and such experts obtain higher fees (Craswell, Francis and Taylor, 1995; DeFond, Francis and Wong, 2000). Balsam et al. (2003) explored the difference in the relationship of discretionary accruals and the earnings response coefficient with audits by industry specialists and non-specialist and showed that specialists are more likely to mitigate earnings management than non-specialists are. Velury (2003), who tested the association between auditor industry specialization and earnings management using companies with high leverage and discretionary accruals, confirmed that the level of earnings management is lower when it is audited by a specialist.

Carcello and Nagy (2004) discussed client size, specialization, and financial statement fraud and found that larger clients have a higher capability to enable auditors to compromise, but empirical results showed that less fraud occurred in financial statements audited by specialists.

Francis and Yu (2009) suggested that larger audit firms provide higher quality because of greater in-house experience in administering. Reichelt and Wang (2010) investigated whether audit quality is higher for Big 4 industry specialists and found evidence that audit quality is higher when the auditor is both a national and a city-specific industry expert. Clearly, the audit quality of industry specialists is higher.In a recent study in Taiwan, Chen, Liu and Lin (2003) investigated the relationship among industry specialists, client satisfaction, and audit fees and showed that client satisfaction with industry specialists is significantly higher than that with non-specialists. Consistent with audit product heterogeneity, industry specialization can successfully help auditors to respond to the increasing competition in audit market. Fan et al. (2007) used audit groups to explore the impacts of a client's importance and the auditor's industry specialization on earnings quality and showed once again that industry specialization is effective in reducing the importance of clients in terms of negative impact on earnings quality. Following prior studies, we examine the issue of different opinions by industry specialists in annual reports and semiannual reports and establish hypothesis three:

H3: *When a company is audited by industry specialists, an inverse relationship exists such that auditors issue semiannual reports with negative opinions and annual reports with positive opinions*

DATA AND METHODOLOGY

Data

This study's sample consists of annual and semiannual reports from 1999 to 2008 from the Taiwan Economic Journal (*TEJ*) database for companies listed on the TWSE and OTC.

The paper focuses on listed and OTC companies in Taiwan because these companies are required by the GAAP of Taiwan to report their financial statements, and their auditors issue opinions according to the GAAS of Taiwan. Any multinational listed companies will adjust their financial statements according to the GAAP and the legal rules of the invested countries, so we do not consider national differences in accounting principles and legal norms. This study compares companies one by one in order to determine whether they were audited by specialists. The initial sample is comprised of 10,750 observations. When samples without complete financial data, those that lacked semiannual report opinions, and those with incomplete of ten-year data were excluded, 6,440 observations remained for analysis.

Table 1 provides the types of auditor reports issued from 1999 to 2008. Panel A shows that there 20.73 percent were unqualified opinions and 62.24 percent were qualified opinions in the semiannual reports; in the annual reports, 36.13 percent of opinions were unqualified opinions and 0.81 percent were qualified opinions. Compared to semiannual reports, annual reports have 98.7 percent fewer qualified opinions, in fact, qualified opinions barely exist at all in annual reports, much less disclaimers and adverse opinions.

Table 1: Types of Auditor Opinion in Reports

Panel A:	***1999~2008***				
Opinion	**Semiannual**		**Annual**		**Difference**
	Number	**Percent**	**Number**	**Percent**	**Percent**
Unqualified (clean)	1,335	20.73	2,327	36.13	74.31
Modify Unqualified	1,089	16.91	4,061	63.06	272.10
Qualified	4,008	62.24	52	0.81	-98.70
Others	8	0.12	0	0.00	-100.00
Total	6,440	100.00	6,440	100.00	

Panel B	***Pre Enron (1999~2002)***				***Post Enron (2003~2008)***			
Opinion	**Semiannual**		**Annual**		**Semiannual**		**Annual**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Unqualified	869	33.73	1,328	51.55	466	12.06	999	25.85
Modify Unqualified	277	10.75	1,225	47.55	812	21.01	2,836	73.40
Qualified	1,429	55.47	23	0.89	2,579	66.74	29	0.75
Others	1	0.04	0	0.00	7	0.18	0	0.00
Total	2,576	100.00	2,576	100.00	3,864	100.00	3,864	100.00

Panel C: Explanatory words in opinion								
	Semiannual				**Annual**			
Opinions	**Unqualified**	**Modify**	**Qualified**	**Others**	**Unqualified**	**Modify**	**Qualified**	**Others**
Gain or loss of investments according to unaudited financial statements	1,321	10	3,577	7	2,318	3	10	0
Change accounting principle or application of new GAAP	2	421	18	0	2	968	4	0
Long-term investment adopts other auditor's opinion (**notes**)	1	509	280	1	1	2,705	10	0
Initial long-term investment unaudited	1	19	30	0	1	42	0	0
Emphasis of an important event	1	21	9	0	1	84	0	0
Last year's financial statement is audited by other auditor	0	36	43	0	2	106	2	0
Going-concern has queries or breach	0	45	7	0	0	83	2	0
Others	9	28	44	0	2	70	24	0
Total	1,335	1,089	4,008	8	2,327	4,061	52	0

Notes (in annual):1.the ratio of long-term investment to total assets is over 15% and the chief auditor adopts other auditor's opinion: n=1,964; rate=72.94% 2.the ratio of long-term investment to total assets is over 20% and the chief auditor adopts other auditor's opinion: n=1,652; rate=61.07% Panel A shows the types and the number of auditor opinions of semiannual and annual reports from 1999 to 2008. Panel B shows the types and the number of auditor opinions of pre- and post- Enron. Panel C shows the types and the number of opinions add an explanatory words in reports.

Panel B of Table 1 shows the opinions pre- and post-Enron. Before Enron, 33.73 percent of opinions in semiannual reports were unqualified opinions and 55.47 percent were qualified opinions; 51.55 percent of opinions in annual reports were unqualified opinions and 47.55 percent were modified unqualified opinions. After Enron, 12.06 percent of opinions in semiannual reports were unqualified opinions, while 66.74 percent were qualified opinions; in annual reports, 25.85 percent of opinions were unqualified

opinions, and 73.40 percent were modified unqualified opinions. These results show that, before Enron, auditing policy was more relaxed and there were relatively more clean opinions issued on semiannual reports. However, after Enron, clean opinions in semiannual reports declined by 49.85 percent, although auditors still issued positive opinions in the annual reports. Even so, auditors issued more modified unqualified opinions during the transition process of decision making on semiannual reports with negative and annual with positive reports. The changes in the audit environment made auditors more careful.

Model

We use the following logistic regression equation (1) to test the importance of clients, auditor tenure, and industry specialization regarding the relevance of divergence of opinion on audit reports.

$$DifOpin = \beta_0 + \beta_1(\mathrm{Im}\ por) + \beta_2(Tenure) + \beta_3(Spec) + \beta_4(Size) + \beta_5(Loss) + \beta_6(Lev) + \beta_7(Ca) + \varepsilon_i \quad (1)$$

Regression equation (2), the interaction of independent variables is added to verify whether the auditor's issuing opinion is influenced by auditor-client relationships, such that the influence on issuing different opinions on annual reports and semiannual reports is strengthened.

$$\begin{aligned} DifOpin = {} & \beta_0 + \beta_1(\mathrm{Im}\ por) + \beta_2(Tenure) + \beta_3(Spec) + \beta_4(Size) + \beta_5(Loss) + \beta_6(Lev) + \beta_7(Ca) \\ & + \beta_8(\mathrm{Im}\ por \cdot Tenure) + \beta_9(\mathrm{Im}\ por \cdot Spec) + \beta_{10}(Tenure \cdot Spec) + \beta_{11}(\mathrm{Im}\ por \cdot Tenure \cdot Spec) + \varepsilon_i \end{aligned} \quad (2)$$

The dependent variable in this study is the auditor opinion discrepancy in semiannual and annual reports, while the independent variables are the importance of the client, auditor tenure, industry specialization, and control variables (corporate size, previous year loss, debt ratio, and current ratio).

Dependent Variable-Different Opinions in annual and semiannual reports (DifOpin): This study uses a dummy variable to measure opinion discrepancy; therefore, when auditors issue semiannual reports with negative opinions and positive opinions in annual reports, the variable is set to 1, and 0 otherwise.

Independent Variables

The importance of clients (Impor): Revenue from auditor fees based on specific clients in the proportion of revenue from auditor fees of all clients of auditors can be used to evaluate the effect of the financial incentives (Chung and Kolhapur, 2003). However, domestic, publicly traded companies must disclose auditor fees only under certain conditions, so the importance of clients and that importance's relationship to auditor fees is difficult to assess. Consistence with prior literature (Craswell et al., 1995; Francis, 1984), this study adopts the sales revenue of a particular client as a percentage of the total sales revenue from all clients to calculate the importance of the client. The importance ratio of clients is divided into two groups, where those with revenue higher than the median are set to 1, and 0 otherwise.

Auditor tenure (Tenure): An auditor's years with the company is used as auditor tenure. We calculate the average tenure of each industry and set tenure to 1 when the auditor's tenure is greater than the industry average tenure, and 0 otherwise.

Industry specialist (Spec): This measures industry specialization based on the auditor's industry auditing experience. Because Taiwan adopts a dual-signature system, tenure is calculated separately for each auditor and deputy. Auditors with more seniority are assumed to have more industry knowledge and experience. The first three auditors with industry seniority qualify as the industry specialists. A company audited by an industry specialist is set to 1, and 0 otherwise.

Other Control Variables

Corporate size (Size): according to Becker et al. (1998) corporate size can be used as an alternative measure for many missing variables in order to reduce measurement error. Therefore, we take a natural logarithm of total assets to measure corporate size.

Previous year loss (Loss): is used to avoid loss or gain of deferred income tax or net profit arising from bias. This study is based on a continuous operation sector income so when the company had a pre-tax income loss in the prior year, this variable is set to 1, and 0 otherwise.

Debt ratio (Lev): DeFond and Jiambalvo (1994) and Dechow and Sweeney (1995) found that higher rates of corporate debt increase the likelihood of debt covenants and earnings management. Companies with high rates of corporate debt usually operate under a debt contract that limits debtors more strictly. Debt ratio (total debt divided by total assets) is added as a control variable.

Current Ratio (Ca): when the relative liquidity of a company's assets increases, the likelihood of a financial crisis decreases. Higher flow rates mean a better financial situation and increased ability to cope with short-term need for funds. Current the liquidity of current assets divided by current liabilities.

RESULTS

Univariate Tests

Table 2 presents descriptive statistics. The importance ratio ranges from 0 to 1 with an average of 0.38, implying that some auditors do not focus on listed and OTC companies. Auditor tenure ranges from 1 to 9 years, a comparatively short range that may be due to the rotation system, and companies' willingness to follow accounting laws and regulations to switch auditors regularly. Therefore, the average tenure is only 2.53 years. The average value for industry specialization is 0.24, so industry specialization is not particularly prevalent. The average rate of opinion discrepancy, where auditors issue negative opinions in semiannual reports and positive opinions in annual reports, is 0.62. The comparison in Table 1 Panel A shows that clean opinions in semiannual reports increased 74.31 percent and qualified opinions in annual reports declined by 98.70 percent. The average value of corporate size is 6.77, with a range from 5.10 to 9.15. The average debt ratio is 0.43 percent, which is 2.28 times the average current ratio. This indicates that the overall sample describes the financial situation as steady; however, a minority of companies still control financial leverage and with greater liquidity risk.

Panel A of Table 3 shows that almost all independent variables are significantly correlated, the correlation of auditor tenure and opinion difference is -0.69, the average tenure of auditors in descriptive statistics is 2.53 years, and the previous year's financial statements were audited by other auditors rarely. (Table 1 Panel C shows the audited by other auditors for only 79 observations in semiannual reports and 110 observations in annual reports.) Taiwan did not require auditor rotation until April 2003, so the main cause for different opinions on semiannual reports and annual reports is not auditor tenure. The VIF values in Panel B of Table 4 are below 1.25, which does not suggest a co-linearity problem. Since the purpose of this study is to determine the reason for auditors' providing better opinions in annual report than in semiannual reports, we decided not to exclude any variables.

Multivariate Tests

Table 4 presents the results of a regression analysis of clients, auditor tenure, and industry specialization on the likelihood of issuing negative opinions on semiannual reports and positive opinions on annual reports. The results of equation (1) are shown in model (1). The client importance (*Impor*) is significantly

Table 2: Descriptive Statistics

Variable	Mean	S.D.	Median	Min	Max
DifOpin	0.62	0.49	1.00	0.00	1.00
Impor(%)	0.38	0.36	0.24	0.00	1.00
Tenure	2.53	1.67	2.00	1.00	9.00
Spec	0.24	0.43	0.00	0.00	1.00
Size	6.77	0.61	6.70	5.10	9.15
Loss	0.24	0.42	0.00	0.00	1.00
Lev(%)	0.43	0.19	0.41	0.01	1.89
Ca(%)	2.28	4.18	1.54	0.02	160.30

This table shows the descriptive statistics of variables. Variable definitions: DifOpin = 1 if the auditor issuing negative opinions in semiannual reports and issuing positive opinions in annual reports, and 0 otherwise; Impor = a ratio of sales revenue to the auditor's total sales revenue of all clients. Tenure = auditor tenure in years Spec = 1 if the company is audited by industry specialists, and 0 otherwise; Size = natural log of total assets (in thousands of dollars); Loss = 1 if there was a loss in the previous year's pre-tax income, and 0 otherwise; Lev = total liabilities divided by total assets at the end of the year; and Ca = the end of year current assets divided by current liabilities.

Table 3: Correlation Matrix

***Panel A*: Pearson Correlation**

	DifOpin	*Impor(%)*	*Tenure*	*Spec*	*Size*	*Loss*	*Lev*(%)	*Ca*(%)
DifOpin	1.00							
Impor(%)	0.03 **	1.00						
Tenure	-0.69 **	0.01	1.00					
Spec	-0.03 **	-0.06 **	0.28 **	1.00				
Size	0.03 *	0.32 **	0.01	0.08 **	1.00			
Loss	0.04 **	-0.05 **	-0.05 **	-0.05 **	-0.12 **	1.00		
Lev(%)	-0.08 **	0.13 **	-0.01	-0.07 **	0.22 **	0.23 **	1.00	
Ca(%)	-0.07 **	-0.03 *	0.01	0.02	0.00	-0.04 **	-0.18 **	1.00

***Panel B*：VIF Value**

	Dependent Variable：DifOpin				
Independent	β	S.C	t- value	p- value	VIF
Impor(%)	0.03	0.03	2.45	0.02	1.13
Tenure	-0.06	-0.06	-4.71	0.00	1.09
Spec	-0.03	-0.02	-1.72	0.09	1.11
Size	0.05	0.05	4.18	0.00	1.21
Loss	0.08	0.07	5.71	0.00	1.09
Lev(%)	-0.33	-0.13	-9.73	0.00	1.18
Ca(%)	-0.01	-0.09	-7.43	0.00	1.03

*Panel A shows the Pearson Correlation of variables. Panel B shows the Variance Inflation Factors of variables. ** and * indicate significance at the 1 and 5 percent levels respectively. Variable definitions: Impor = 1 if the importance ratio is greater than the median, 0 otherwise; Tenure = 1 if auditor tenure is greater than industry average tenure, 0 otherwise Other variables are defined in Table 2.*

positively related (0.13, p<0.05) to the likelihood of different opinions (*DifOpin*), which supports H1, indicating that auditors may compromise with clients on whom they are economically dependent. The auditor tenure (*Tenure*) is significantly negatively related (-0.26, p<0.01) with different opinions, which supports H2. Industry specialization (*Spec*) has a significantly negative (-0.11, p<0.10) correlation, with supports H3's view that industry specialists can make proper professional judgments and have fewer different opinions on semiannual reports and annual reports for important clients.

Next, we use equation (2) to examine the relationships among the variables in order to validate whether there is an incremental effect on the auditors who report different opinions on semiannual and annual reports. After controlling for other factors that may affect the audit opinions, the regression results from models (2) to (13) show that client importance maintains its significant positive effect, while auditor tenure and industry specialization are significantly negative. The interaction of client importance and auditor tenure (*Impor*×*Tenure*) is significantly negatively related to different opinions. The coefficient values are, respectively, -0.23, -0.27, -0.36, -0.21. -0.30, -0.24, -0.31 (p< 0.05), indicating that a long-term cooperative relationship helps auditors to be more familiar with clients and improves the independence of auditors. The interactions of client importance and industry specialist (*Impor*×*Spec*) are insignificant, and it cannot validate that expert auditors issue different opinions for important clients.

As to the interaction of auditor tenure and industry specialist (*Tenure*×*Spec*), the signs of the coefficient in model (10) and (13) are positive, while that of other models are significantly positive (p<0.05), suggesting that industry experts may compromise on annual reports in order to maintain a long-term relationship with the clients. The interaction of client importance, auditor tenure, and industry specialization (*Impor*×*Tenure*×*Spec*) is not significant, so it cannot validate whether industry specialists issue different opinions on semiannual and annual reports as a result of economic dependency and the desire to maintain long-term relationship with the clients. Corporate size (*Size*), the prior year's loss (*Loss*), and opinion divergence showed significantly positive correlation (p<0.01) in all of the models. Usually, investors don't notice when smaller companies experienced financial losses the previous year, so auditors are more likely to issue different opinions on annual reports and semiannual reports for smaller companies. Debt ratio (*Lev*) and current ratio (*Ca*) showed a significantly negative correlation (p<0.01), fueling speculation that auditors may help clients consider their debt contracts. In situations where the corporation is in a poor financial situation, different audit opinions on semiannual and annual reports could arouse the full attention of creditors and result in more stringent debt limitations, so auditors are less likely to issue differing opinions. The situations of the businesses with better current ratios are better, and auditors can make a decision that reflects the true results.

Because of Enron and the dissolution of Arthur Andersen, which forced the establishment of the US Public Company Accounting Oversight Board (PCAOB), the Taiwan Securities Exchange was amended through securities laws that affected the reports of financial statements of listed and OTC companies. This study aims to determine the influence of subsequent remedial measures taken by regulators concerning audit decision making after Enron. Thus, the sample is divided into two subsets, "before Enron" and "after Enron." The regression analysis and the results are compiled in Table 5.

Table 5 Panel A shows pre-Enron results. In model (1), client importance is no longer significant, but the sign remains positive; auditor tenure is significantly negative; and the coefficient of industry specialization is negative but not significant. This result indicates that, before the Enron case, auditor tenure did not affect the attitude of auditors, and industry specialization reduced the likelihood that different opinions would be issued. Regarding the interaction of independent variables on the incremental effect on different opinions, client importance and auditor tenure (Impor×Tenure) shows a significantly negative correlation (p<0.05). Client importance and industry specialization (Impor×Spec) in models (3), (5), (7), and (11) show a significantly positive correlation (p<0.10), and the coefficient symbol for models (4), (6), and (13) are positive. As to auditor tenure and industry specialization (Tenure×Spec), the coefficient symbol of model (10) is positive, and those of all other models are significantly positive (p<0.05), suggesting that before Enron, auditors used their professional judgment to choose a relaxed policy in order to keep an important client and to reveal formal independence to exterior third parties. The impact of other control variables on opinion divergence is consistent with the results shown in Table 4.

Table 5 Panel B shows the results post-Enron. The results in model (1) are similar to those in Table 4. Client importance is significantly positive (0.13, p<0.10), while auditor tenure and industry specialization are significantly negative (-0.18, p<0.05; -0.16, p<0.10). This result indicates that the change in audit environment affected auditors' practice, and the economic factors caused the opinions of auditors to be compromised. By establishing a long-term relationship with clients and becoming familiar with the client's operation and industry knowledge, expert auditors have the ability to collect evidence and develop professional capabilities that can effectively reduce the adverse impact of the different opinions.

Table 4: Logistic Regression Analysis

Panel A	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**
Variables	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**
Impor(%)	0.131 **	0.228 ***	0.205 **	0.236 ***	0.113 *	0.111 *	0.111 *
	(0.02)	(0.00)	(0.01)	(0.00)	(0.07)	(0.08)	(0.08)
Tenure	-0.258 ***	-0.146 *	-0.129 *	-0.130 *	-0.260 ***	-0.343 ***	-0.343 ***
	(0.00)	(0.06)	(0.09)	(0.09)	(0.00)	(0.00)	(0.00)
Spec	-0.108 *	-0.105 *	-0.177 **	-0.177 **	-0.143 *	-0.323 ***	-0.330 **
	(0.09)	(0.09)	(0.04)	(0.04)	(0.09)	(0.00)	(0.01)
ImporxTenure		-0.228 **	-0.268 **	-0.361 ***			
		(0.03)	(0.02)	(0.00)			
ImporxSpec			0.164	-0.134	0.077	0.049	0.069
			(0.20)	(0.45)	(0.53)	(0.69)	(0.72)
TenurexSpec						0.336 **	0.348 **
						(0.01)	(0.03)
ImporxTenurexSpec				0.465 **			-0.029
				(0.02)			(0.89)
Size	0.204 ***	0.201 ***	0.198 ***	0.202 ***	0.203 ***	0.207 ***	0.207 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Loss	0.366 ***	0.366 ***	0.365 ***	0.364 ***	0.365 ***	0.365 ***	0.365 ***
	(0.00)	(.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Lev(%)	-1.53 ***	-1.52 ***	-1.52 ***	-1.51 ***	-1.52 ***	-1.51 ***	-1.51 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Ca(%)	-.0078 ***	-0.078 ***	-0.078 ***	-0.077 ***	-0.078 ***	-0.077 ***	-0.077 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Constant	-0.090	-0.116	-0.087	-0.115	-0.074	-0.079	-0.077
	(0.77)	(0.41)	(0.78)	(0.71)	(0.81)	(0.80)	(0.80)
N=6,440							
Cox & Snell R	0.030	0.030	0.031	0.032	0.030	0.031	0.031
Nagelkerke R	0.041	0.041	0.042	0.043	0.041	0.042	0.042

Panel B	**Model 8**	**Model 9**	**Model 10**	**Model 11**	**Model 12**	**Model 13**
variables	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**	**Coefficient (*p*-value)**
Impor(%)	0.123 **	0.212 ***	0.212 ***	0.195 **	0.100 *	0.217 **
	(0.03)	(0.00)	(0.00)	(0.01)	(0.09)	(0.01)
Tenure	-0.343 ***	-0.236 **	-0.188 **	-0.220 **	-0.279 ***	-0.185 **
	(0.00)	(0.01)	(0.04)	(0.01)	(0.00)	(0.04)
Spec	-0.304 ***	-0.290 ***	-0.290 ***	-0.337 ***	-0.160 **	-0.276 **
	(0.00)	(0.00)	(0.00)	(0.00)	(0.03)	(0.02)
ImporxTenure		-0.208 **	-0.300 **	-0.239 **		-0.305 **
		(0.05)	(0.02)	(0.03)		(0.02)
ImporxSpec				0.126		-0.035
				(0.32)		(0.86)
TenurexSpec	0.341 **	0.323 **	0.204	0.308 **		0.190
	(0.01)	(0.01)	(0.18)	(0.02)		(0.26)
ImporxTenurexSpec			0.240		0.181	0.275
			(0.15)		(0.15)	(0.29)
Size	0.208 ***	0.204 ***	0.202 ***	0.202 ***	0.205 ***	0.203 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Loss	0.366 ***	0.366 ***	0.364 ***	0.365 ***	0.364 ***	0.364 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Lev(%)	-1.51 ***	-1.51 ***	-1.50 ***	-1.50 ***	-1.52 ***	-1.50 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Ca(%)	-0.077 ***	-0.077 ***	-0.077 ***	-0.077 ***	-0.078 ***	-0.077 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Constant	-0.089	-0.112	-0.101	-0.090	-0.073	-0.106
	(0.77)	(0.72)	(0.74)	(0.77)	(0.81)	(0.73)
N=6,440						
Cox & Snell R	0.031	0.031	0.032	0.032	0.030	0.032
Nagelkerke R	0.042	0.043	0.043	0.043	0.041	0.043

*This table shows the regression estimates of the equation: $DifOpin=\beta_0+\beta_1(Impor)+\beta_2(Tenure)+\beta_3(Spec)+\beta_4(Size)+\beta_5(Loss)+\beta_6(Lev)+\beta_7(Ca)+\beta_8(ImporxTenure)+\beta_9(ImporxSpec)+\beta_{10}(TenurexSpec)+\beta_{11}(ImporxTenurexSpec)+\varepsilon_i$. The first figure in each cell is the regression coefficient. The second figure in each cell is the p-value. ***, ** and * indicate at the 1, 5 and 10 percent levels respectively (two-tailed). Variable definitions:ImporxTenure= the interaction of importance client and auditor tenure;ImporxSpec= the interaction of importance client and industry specialist; TenurexSpec= the interaction of auditor client and industry specialist; ImporxTenurexSpec= the interaction of importance client, auditor client, and industry specialist Other variables are defined in Table 2.*

In Table 5 Panel B, the interactions of independent variables are no longer significant. The effect of the company size variable on opinion difference does not reach a significant level, but the results of other

control variables are similar to the results in Table 4. Referring to the results in Table 1, the majority opinions in the annual reports improve, but most are modified unqualified opinions, indicating that, after the Enron case, in the financial reports of important clients audited by industry specialists, auditors paid increased attention to maintaining their reputations and conservative decision-making. The implementation of a rotation system gave auditors a more stringent attitude.

Sensitivity Analysis

In order to confirm the reliability of the results, this paper conducts the sensitivity tests based on the following procedures.

We remove the samples with importance ratio lower than 1, from which we obtain 952 observations, and we re-execute the regression. The results are that tenure (*Tenure*) and opinion divergence are significantly negative (-0.40, $p<0.01$), and industry specialization (*Spec*) is significantly positive (0.52, $p<0.05$). The inter-relationship between auditor tenure and industry specialization shows that tenure (*Tenure*) remains significantly negative (-0.50, $p<0.01$). The interaction of auditor tenure and industry specialization (*Tenure*×*Spec*) is significantly positive (0.85, $p<0.10$). The other control variables concerning the impact on opinion divergence are similar to those in Table 4.

There are 291 observations with an importance proportion of 1 before Enron, and the results with those observations are identical with those reported above: Auditor tenure and opinion divergence still have significantly negative correlations (-0.76, $p<0.01$), industry specialization still has a significantly positive correlation (1.04, $p<0.01$), and the interaction of auditor tenure and industry specialization is significantly positive (1.42, $p<0.10$). There are 661 observations with an importance proportion of 1 after Enron, and the independent variable and all interaction variables are no longer significant. This result verifies again that the overall audit environment has changed to improve the awareness of the professional judgment of auditors such that they pay more attention to their reputations and tend to be more conservative.

There are 2,480 observations from the electronics industry, accounting for 38.51 percent of the total samples. The regression results may be influenced by industrial characteristics. We include the industry dummy variable for control so when the company is in the electronics industry, the variable is 1, and 0 otherwise. The empirical results show that the industry variable has a significantly positive relationship with opinion divergence. (The coefficient of industry is 0.36, $p<0.01$; that before the Enron case is 0.21, $p<0.05$; and that after the Enron case is 0.56, $p<0.01$.) This result indicates that, relative to other industries, companies in the electronics industry are more likely to have different auditing opinions in their semiannual and annual reports. Other variables have the same results as shown in Table 4.

In order to prevent the influence of extreme values on the empirical results, this paper refers to DeFond and Park (1999) method for controlling the extreme values. We delete the observations that are 1 percent lower and 1 percent higher than the control variables, eliminating 217 observations. The results of the regression analysis are not affected and remain consist with those shown in Table 4 and Table 5.

CONCLUDING COMMENTS

This study emphasizes the importance of clients in whether annual reports and semiannual reports show different views by their auditors. Auditors may issue negative opinions in semiannual reports but positive opinions in annual reports to please clients, indicating that auditors are affected by economic dependence on important clients. Prior literature showed that expert auditors can inhibit management from manipulating earnings management, this study finds that auditor specialists and opinion divergence were significantly negatively correlated, which means that industry experts can effectively reduce the impact of important clients.

Table 5: Logistic Regression Analysis- pre/post Enron

Panel A	**Pre Enron (1999~2002)**						
Variables	**Model 1 Coefficient (*p*-value)**	**Model 2 Coefficient (*p*-value)**	**Model 3 Coefficient (*p*-value)**	**Model 4 Coefficient (*p*-value)**	**Model 5 Coefficient (*p*-value)**	**Model 6 Coefficient (*p*-value)**	**Model 7 Coefficient (*p*-value)**
Impor(%)	0.013	0.198 *	0.128	0.168	-0.072	-0.064	-0.063
	(0.88)	(0.10)	(0.31)	(0.19)	(0.47)	(0.52)	(0.53)
Tenure	-0.209 **	-0.062	-0.029	-0.029	-0.213 **	-0.331 ***	-0.331 ***
	(0.01)	(0.56)	(0.79)	(0.79)	(0.01)	(0.00)	(0.00)
Spec	-0.027	-0.023	-0.191	-0.191 *	-0.149	-0.404 **	-0.480 **
	(0.77)	(0.80)	(0.10)	(0.10)	(0.20)	(0.01)	(0.01)
ImporxTenure		-0.356 **	-0.454 **	-0.538 ***			
		(0.03)	(0.01)	(0.00)			
ImporxSpec			0.438 **	0.135	0.313 *	0.258	0.534 *
			(0.02)	(0.65)	(0.09)	(0.16)	(0.09)
TenurexSpec						0.451 **	0.574 **
						(0.02)	(0.01)
ImporxTenurexSpec				0.425			-0.385
				(0.19)			(0.27)
Size	0.423 ***	0.419 ***	0.411 ***	0.412 ***	0.418 ***	0.417 ***	0.415 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Loss	0.501 ***	0.502 ***	0.500 ***	0.502 ***	0.499 ***	0.504 ***	0.503 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Lev(%)	-1.66 ***	-1.66 ***	-1.65 ***	-1.64 ***	-1.65 ***	-1.64 ***	-1.64 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Ca(%)	-0.053 **	-0.052 **	-0.052 **	-0.052 **	-0.053 **	-0.051 **	-0.050 **
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Constant	-1.82 ***	-1.86 ***	-1.78 ***	-1.79 ***	-1.75 ***	-1.71 ***	-1.69 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
N=2,576							
Cox & Snell R	0.033	0.035	0.037	0.038	0.035	0.037	0.037
Nagelkerke R	0.045	0.047	0.050	0.051	0.046	0.049	0.050

Panel B	**Pre Enron (1999~2002)**					
Variables	**Model 8 Coefficient (*p*-value)**	**Model 9 Coefficient (*p*-value)**	**Model 10 Coefficient (*p*-value)**	**Model 11 Coefficient (*p*-value)**	**Model 12 Coefficient (*p*-value)**	**Model 13 Coefficient (*p*-value)**
Impor(%)	0.006	0.177	0.178	0.119	-0.044	0.122
	(0.94)	(0.15)	(0.15)	(0.35)	(0.64)	(0.36)
Tenure	-0.336 ***	-0.194	-0.124	-0.150	-0.235 **	-0.146
	(0.00)	(0.11)	(0.33)	(0.22)	(0.01)	(0.26)
Spec	-0.323 **	-0.304 **	-0.303 **	-0.414 **	-0.105	-0.407 **
	(0.03)	(0.04)	(0.04)	(0.01)	(0.32)	(0.02)
ImporxTenure		-0.329 **	-0.478 **	-0.413 **		-0.421 **
		(0.05)	(0.01)	(0.02)		(0.03)
ImporxSpec				0.374 **		0.350
				(0.05)		(0.28)
TenurexSpec	0.483 **	0.458 **	0.285	0.402 **		0.389 *
	(0.01)	(0.02)	(0.19)	(0.04)		(0.10)
ImporxTenurexSpec			0.386		0.281	0.036
			(0.11)		(0.14)	(0.93)
Size	0.421 ***	0.418 ***	0.414 ***	0.411 ***	0.421 ***	0.411 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Loss	0.506 ***	0.506 ***	0.505 ***	0.504 ***	0.501 ***	0.504 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Lev(%)	-1.65 ***	-1.65 ***	-1.64 ***	-1.64 ***	-1.65 ***	-1.64 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Ca(%)	-0.051 **	-0.050 **	-0.050 **	-0.050 **	-0.053 **	-0.050 **
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Constant	-1.76 ***	-1.80 ***	-1.78 ***	-1.74 ***	-1.77 ***	-1.74 ***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
N=2,576						
Cox & Snell R	0.036	0.037	0.038	0.039	0.034	0.039
Nagelkerke R	0.048	0.050	0.051	0.052	0.046	0.052

(***The table is continued on next page.***)

Table 5: (continued)

Panel C	**Post Enron (2003~2008)**						
Variables	**Model 1 Coefficient (*p*-value)**	**Model 2 Coefficient (*p*-value)**	**Model 3 Coefficient (*p*-value)**	**Model 4 Coefficient (*p*-value)**	**Model 5 Coefficient (*p*-value)**	**Model 6 Coefficient (*p*-value)**	**Model 7 Coefficient (*p*-value)**
Impor(%)	0.127 * (0.09)	0.168 * (0.07)	0.173 * (0.06)	0.192 * (0.04)	0.145 * (0.08)	0.143 * (0.08)	0.143 * (0.09)
Tenure	-0.184 ** (0.02)	-0.123 (0.26)	-0.128 (0.25)	-0.129 (0.25)	-0.182 ** (0.02)	-0.212 ** (0.02)	-0.212 ** (0.02)
Spec	-0.155 * (0.08)	-0.154 * (0.08)	-0.132 (0.29)	-0.132 (0.29)	-0.116 (0.34)	-0.177 (0.24)	-0.109 (0.52)
ImporxTenure		-0.111 (0.45)	-0.100 (0.51)	-0.172 (0.28)			
ImporxSpec			-0.044 (0.80)	-0.242 (0.28)	-0.078 (0.64)	-0.086 (0.61)	-0.240 (0.34)
TenurexSpec						0.120 (0.49)	0.002 (0.99)
ImporxTenurexSpec				0.339 (0.17)			0.249 (0.41)
Size	0.018 (0.77)	0.016 (0.79)	0.017 (0.79)	0.021 (0.73)	0.019 (0.76)	0.021 (0.73)	0.023 (0.71)
Loss	0.217 ** (0.01)	0.216 ** (0.01)	0.217 ** (0.01)	0.215 ** (0.01)	0.218 ** (0.01)	0.218 ** (0.01)	0.217 ** (0.01)
Lev(%)	-1.43 *** (0.00)	-1.43 *** (0.00)	-1.43 *** (0.00)	-1.42 *** (0.00)	-1.43 *** (0.00)	-1.43 *** (0.00)	-1.43 *** (0.00)
Ca(%)	-0.097 *** (0.00)	-0.097 *** (0.00)	-0.097 *** (0.00)	-0.096 *** (0.00)	-0.097 *** (0.00)	-0.096 *** (0.00)	-0.096 *** (0.00)
Constant	1.365 *** (0.00)	1.355 *** (0.00)	1.347 *** (0.00)	1.316 *** (0.00)	1.350 *** (0.00)	1.339 *** (0.00)	1.329 *** (0.00)
N=3,864							
Cox & Snell R	0.029	0.029	0.029	0.030	0.029	0.029	0.029
Nagelkerke R	0.040	0.040	0.040	0.041	0.040	0.040	0.041

Panel D	**Post Enron (2003~2008)**					
Variables	**Model 8 Coefficient (*p*-value)**	**Model 9 Coefficient (*p*-value)**	**Model 10 Coefficient (*p*-value)**	**Model 11 Coefficient (*p*-value)**	**Model 12 Coefficient (*p*-value)**	**Model 13 Coefficient (*p*-value)**
Impor(%)	0.124 * (0.09)	0.163 * (0.07)	0.163 * (0.07)	0.170 * (0.07)	0.115 (0.14)	0.202 * (0.04)
Tenure	-0.212 ** (0.02)	-0.152 (0.20)	-0.118 (0.37)	-0.160 (0.19)	-0.194 ** (0.01)	-0.096 (0.47)
Spec	-0.216 * (0.09)	-0.210 * (0.10)	-0.210 * (0.10)	-0.186 (0.22)	-0.179 * (0.08)	-0.076 (0.66)
ImporxTenure		-0.105 (0.47)	-0.166 (0.34)	-0.091 (0.55)		-0.205 (0.24)
ImporxSpec				-0.055 (0.75)		-0.298 (0.24)
TenurexSpec	0.113 (0.52)	0.105 (0.55)	0.020 (0.93)	0.111 (0.53)		-0.114 (0.64)
ImporxTenurexSpec			0.156 (0.51)		0.081 (0.64)	0.453 (0.20)
Size	0.020 (0.74)	0.018 (0.77)	0.017 (0.78)	0.019 (0.76)	0.019 (0.76)	0.020 (0.75)
Loss	0.217 ** (0.01)	0.216 ** (0.01)	0.214 ** (0.02)	0.217 ** (0.01)	0.216 ** (0.01)	0.215 ** (0.02)
Lev(%)	-1.42 *** (0.00)	-1.42 *** (0.00)	-1.42 *** (0.00)	-1.42 *** (0.00)	-1.42 *** (0.00)	-1.42 *** (0.00)
Ca(%)	-0.096 *** (0.00)	-0.096 *** (0.00)	-0.096 *** (0.00)	-0.096 *** (0.00)	-0.096 *** (0.00)	-0.096 *** (0.00)
Constant	1.356 *** (0.00)	1.347 *** (0.00)	1.354 *** (0.00)	1.337 *** (0.00)	1.368 *** (0.00)	1.316 *** (0.00)
N=3,864						
Cox & Snell R	0.029	0.029	0.029	0.029	0.029	0.030
Nagelkerke R	0.040	0.041	0.041	0.041	0.040	0.041

*This table shows the regression estimates of the equation: $DifOpin=\beta_0+\beta_1(Impor)+\beta_2(Tenure)+\beta_3(Spec)+\beta_4(Size)+\beta_5(Loss)+\beta_6(Lev)+\beta_7(Ca)+\beta_8(ImporxTenure)+\beta_9(ImporxSpec)+\beta_{10}(TenurexSpec)+\beta_{11}(ImporxTenurexSpec)+\varepsilon_i$. Panel A and Panel B show the results of pre Enron. Panel C and Panel D show the results of post Enron. The first figure in each cell is the regression coefficient. The second figure in each cell is the p-value. ***, ** and * indicate at the 1, 5 and 10 percent levels respectively (two-tailed). All variables are defined in Table 2*

Whether auditors issue different opinions on annual and semiannual reports is not influenced by their tenure with a company. Further, the empirical results of exploring the professional judgment of auditors show that the interaction of important clients and auditor tenure (*Impor*×*Tenure*) and opinion divergence has a significantly negative correlation, and the interaction of auditor tenure and industry specialization (*Tenure*×*Spec*) has a significantly positive relationship. Apparently, auditors have their own industry specialization, but they change their opinions in face-to-face meetings in order to maintain long-term relationships with clients, suggesting moral flaws. In comparing the pre- and post-Enron periods, we find that, before Enron, auditors' decisions were more easily influenced by companies, and more compromises were made; after Enron, however, the changes in the auditing environment affected the auditors' decision-making, and they paid more attention to maintaining their reputations and became more conservative in their audits.

This study discusses how potential moral flaws arise among auditors in the provision of services to important clients. However, the study has several limitations. First, because of the lack of information about auditor fees, some errors may exist in the estimation of the importance of clients. Furthermore, auditor tenure is measured by the seniority of auditors in a particular industry; as this study focuses on listed and OTC companies, it includes samples only of Certified Public Auditors data in estimating relative audit seniority, and this approach may have affected findings on the situation of issuing negative opinions on semiannual reports and positive opinions on annual reports. The environment for accounting practice today is very different from that of the past because of the domestic Act that attaches greater liability and legal responsibility to auditors, the implementation of the auditor rotation system, regulators' punishment of negligent auditors, and the promotion of the collective litigation system. Under these circumstances, the risk in audit practice is increasing. Whether auditors' decision-making will be different will be addressed in further study.

REFERENCES

Balsam, S., J, Krishnan, and J. S. Yang (2003) "Auditor Industry Specialization and Earnings Quality," *Auditing: A Journal of Practice & Theory*, vol. 22(2), September, p. 71-97.

Becker, C. L., M. L. DeFond, M. L. Jiambalvo, J. and K. R. Subramanyam (1998) "The Effect of Audit Quality on Earning Management, *Contemporary Accounting Research*, vol. 15(1), Spring, p. 1-24.

Bolton, R. N. (1998) "A Dynamic Model of Duration of the Customer's Relationship with a Continuous Service Provider: The Role of Satisfaction," *Marketing Science*, vol. 17(1), p.45-65.

Bonner, S. E., Z. Palmrose, and S. Young (1998) "Fraud Type and Auditor Litigation: An Analysis of SEC Accounting and Auditing Enforcement Releases," *The Accounting Review*, vol. 73(4), October, p. 503-532.

Butler, M., A. Kraft and I. S. Weiss (2007) "The Effect of Reporting Frequency on the Timeliness of Earnings: The Cases of Voluntary and Mandatory Interim Reports," *Journal of Accounting and Economics*, vol. 43(2-3), July, p. 181-217.

Carey, P., and R. Simnett (2006) "Audit Partner Tenure and Audit Quality," *The Accounting Review*, vol. 81(3), May, p. 653-676.

Carcello, J. V., and A. L. Nagy (2004) "Client Size, Auditor Specialization and Fraudulent Financial Reporting, " *Managerial Auditing Journal*, vol. 19(5), p. 651-668.

Cenker, W. J., and A. L. Nagy (2008) "Auditor Resignations and Auditor Industry Specialization," *Accounting Horizons*, vol. 22(3), September, p. 279-295.

Chen, K. Y., J. L. Liu, and K. L. Lin (2003) "Industry Specialist, Client Satisfaction and Audit Fees," *The International Journal of Accounting Studies*, vol. 37, July, p. 31-52.

Chi, W., and H. Huang (2005) "Discretionary Accruals, Audit-Firm Tenure and Audit-Partner Tenure: Empirical Evidence from Taiwan," *Journal of Contemporary Accounting and Economics*, vol. 1(1), June, p. 65-92.

Chi, W., H. Huang, Y. Liao, and H. Xie (2009) "Mandatory Audit Partner Rotation, Audit Quality, and Market Perception: Evidence in Taiwan," *Contemporary Accounting Research*, vol. 26(2), Summer, p. 359-391.

Chung, H., and S. Kallapur (2003) "Client Importance, Non-Audit Services, and Abnormal Accrual," *The Accounting Review*, vol. 78(4), October, p. 931-955.

Cuijpers, R., and E. Peek (2010) "Reporting Frequency, Information Precision and Private Information Acquisition," *Journal of Business Finance & Accounting*, vol. 37(1-2), January/March, p. 27-59.

Craswell, A. T., J. R. Francis, and S. L. Taylor (1995) "Auditor Brand Name Reputations and Industry Specializations, " *Journal of Accounting and Economics*, vol. 20(3), December, p. 297-322.

Davis, L. R., B. Soo and G. Trumpeter (2000) "Auditor Tenure, Auditor Independence and Earnings Management," *Working Pape*r (Michigan Tec University)

DeAngelo, L. E. (1981a) "Auditor Independence "Low-Balling" and Disclosure Regulation," *Journal of Accounting and Economics*, vol. 3(2), August, p. 113-127.

DeAngelo, L. E. (1981b) "Audit Size and Audit Quality," *Journal of Accounting and Economics*, vol. 3(3), December, p. 183-199.

Dechow, P. M., and R. G. Sloan (1995) "Detecting Earnings Management," *The Accounting Review*, vol. 70(2), April, p.193-225.

DeFond, M. L., and C. W. Park (1999) "The Effect of Competition on CEO Turnover," *Journal of Accounting and Economics*, vol. 27(1), February, p. 35-56.

DeFond, M. L., and J. Jiambalvo (1994) "Debt Covenant Violation and Manipulation of Accruals," *Journal of Accounting and Economics*, vol. 17(1-2), January, p. 145-176.

DeFond, M. L., J. R. Francis, and T. J. Wong (2000) "Auditor Industry Specialization and Market Segmentation: Evidence from Hong Kong," *Auditing: A Journal of practice & Theory*, vol. 19(1), Spring, p. 49-66.

DeFond, M. L., K. Raghunandan, and K. R. Subramanyam (2002) "Do Non-Audit Services Fees Impair Auditor Independence? Evidence from Going-Concern Audit Opinions," *Journal of Accounting Research*, vol. 40(4), September, p. 1247-1274.

Dopuch, N., and D. A. Simunic (1980) "The Nature of Competition in the Auditing Profession: A Descriptive and Normative View. *In Regulation and the Accounting Profession,*" *Edited by J.W. Buckly and J.F. Weston* (Lifetime Learning, 1980, p. 77-94).

Ettredge, M., and R. Greenberg (1990) "Determinants of Fee Cutting on Initial Audit Engagements," *Journal of Accounting Research*, vol. 28(1), Spring, p. 198-210.

Fan, H. S., C. L. Chen, and C. Y. Wu (2007) "The Impacts of Client Importance and Auditor Industrial Specialization on Earnings Quality: Evidence from Audit Groups," *Business Review*, vol. 12(1), June, p. 75-107.

Fargher, F. L., and L. Jiang (2008) "Changes in the Audit Environment and Auditors' Propensity to Issue Going-Concern Opinions," *Auditing: A Journal of Practice & Theory*, vol. 27(2), November, p. 55-77.

Francis, J. R. (1984) "The Effect of Audit Firm Size on Audit Prices: A Study of the Australian Market," *Journal of Accounting and Economi*cs, vol. 6(2), August, p. 133-151.

Francis, J. R., and M. D. Yu (2009) "Big 4 Office Size and Audit Quality," *The Accounting Review*, vol. 84(5), September, p. 1521-1552.

Fu, C. J., F. H. Chang, and C. L. Chen (2005) "The Impact of Audit Failure on Auditor Conservatism: Is there a Contagious Effect of the Enron Case?" *The International Journal of Accounting Studies*, vol. 40, January, p. 31-67.

Geiger, M. A., and K. Raghunandan (2002) "Auditor Tenure and Audit Reporting Failures," *Auditing: A Journal of Practice & Theory*, vol. 21(1), March, p. 67-78.

Geiger, M. A., K. Raghunandan, and D. Rama (2005) "Recent Changes in Association between Bankruptcies and Prior Audit Opinions," *Auditing: A Journal of Practice & Theory*, vol. 24(1), May, P. 21-35.

Ghosh, A., and D. Moon (2005) "Auditor Tenure and Perceptions of Audit Quality," *The Accounting Review*, vol. 80(2), April, p. 585-612.

Gigler, F., and T. Hemmer (1998) "On the Frequency, Quality, and Informational Role of Mandatory Financial Reports," *Journal of Accounting Research*, vol. 36(3), Supplement, p.117-147.

Givoly, D., J. Ronen, and A. Schiff (1978) "Does Audit Involvement Affect the Quality of Interim Report Numbers? " *Journal of Accounting, Auditing and Finance*, vol. 1(4), Summer, p.361-372.

Grant, A. W., and L. A. Schlesinger (1995) "Realize Your Customers' Full Profit Potential," *Harvard Business Review*, vol. 73(5), September/October, p.59-72.

Guan, Y. D., S. Y. Chien, and Y. P. Hsu (2008) "Accounting Frauds and Financial Reporting Conservatism: Observations from Enron/Procomp," J*ournal of Contemporary Accounting*, vol. 9(1), May, p. 69-104.

Holthausen, R. W., and R. E. Verrecchia (1988) "The Effect of Sequential Information Releases on the Variance of Price Changes in An Intertemporal Multi-Asset Market," *Journal of Accounting Research*, vol. 26(1), Spring, p. 82-106.

Jiang, J. X., and Y. W. Yang (2005) "The Effects of Auditor Firms' Industry Specialization and Auditor Tenure on Earnings Quality," *Journal of Contemporary Accounting*, vol. 6(1), May, p. 23-60.

Johnson, P. E., K. Jamal, and R. G. Berryman (1991) "Effects of Framing on Auditor Decisions," *Organization Behavior and Human Decision Processes*, vol. 50(1), October, p.75-105.

Krishnan, G. V. (2003) "Does Big 6 Auditor Industry Expertise Constrain Earnings Management?" *Accounting Horizon*s, vol. 17, Supplement, p. 1-16.

Kubota, K., K. Suda, and H. Takehara (2010) "Dissemination of Accruals Information, Role of Semi-Annual Reporting, and Analysts' Earnings Forecasts: Evidence from Japan," *Journal of International Financial Management & Accounting*, vol. 21(2), Summer, p. 120-160.

Lai, S. (2000) "The Changes in the Business Scope, Legal Responsibilities of a Certified Public Accountant (CPA) and the Evolution of Audit Firm's Organization," *Working paper* (Taiwan University).

Lee, J. Z., and H. F. Lin (2005) "The Relations between Auditor Tenure and Abnormal Accruals," *Management Review*, vol. 24(4), October, p. 103-126.

Lee, J. Z., and J. F. Chen (2004) "The Effect of Audit Client's Importance on Magnitude of Earnings Management: From the Perspective of Audit Groups within the Big Five," *The International Journal of Accounting Studies*, vol. 38, January, p. 59-80.

Liu, C., and T. Wang (2008) "Auditor Tenure and Audit Quality," *Management Review*, vol. 27(4), October, p. 1-28.

Matsumura, E. M., K. R. Subramanyam, and R. R. Tucker (1997) "Strategic Auditor Behavior and Going-Concern Decisions," *Journal of Business Finance & Accounting*, vol. 24(6), July, p.727-758.

Mensah, Y. M., and R. H. Wemer (2008) "The Capital Market Implications of the Frequency of Interim Financial Reporting: An International Analysis Preview," *Review of Quantitative Finance and Accounting*, vol. 31(1), July, p.71-104.

Myers, J. N., L. A. Myers, and T. C. Omer (2003) "Exploring the Term of Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation?" *The Accounting Review*, vol. 78(3), July, p. 779-799.

Narayanan, V. G. (1995) "Moral Hazard in Repeated Partnerships," *Contemporary Accounting Research*, vol. 11(2), Spring, p. 895-917.

Nelson, M. W., J. A. Elliott, and R. L. Tarpley (2002) "Evidence from Auditors about Managers' and Auditors' Earnings Management Decisions," *The Accounting Review*, vol. 77(4), Supplement, p. 175-202.

Reichelt, K. J., and D. Wang (2010) "National and Office-Specific Measures of Auditor Industry Expertise and Effects on Audit Quality," *Journal of Accounting Research*, vol. 48(3), June, p. 647-686.

Reynolds, J. K., and J. R. Francis (2000) "Does Size Matter? The Influence of Large Clients on Office-Level Auditor Reporting Decision," *Journal of Accounting and Economics*, vol. 30(3), December, p. 375-400.

Stanley, J. D., and F. T. DeZoort (2007) "Audit Firm Tenure and Financial Restatements: An Analysis of Industry Specialization and Fee Effects," *Journal of Accounting and Public Policy*, vol. 26(2), March-April, p. 131-159.

Tucker, R. R., and E. M. Matsumura (1998) "Going-Concern Judgments: An Economic Perspective," *Behavioral Research in Accounting*, vol. 10, p. 179-218.

Turpen, R. A. (1990) "Differential Pricing on Auditors Initial Engagements: Further Evidence," *Auditing: A Journal of Practice and Theory*, vol. 9(2), Spring, p. 60-76.

Velury, U. (2003) "The Association between Auditor Industry Specialization and Earnings Management," *Research in Accounting Regulation*, vol. 16, p.171-184.

Windsor, C. A., and N. M. Ashkanasy (1995) "The Effect of Client Management Bargaining Power, Moral Reasoning Development, and Belief in a Just World on Auditor Independence," *Accounting, Organizations and Society*, vol. 20(7-8), October-November, p. 701-720.

Yang, Y. J., and Y. D. Guan (2006) "Do Client Importance and Non-Audit Services Affect Audit Quality? Post-Enron Observation," *The International Journal of Accounting Studies*, vol. 43, July, p. 27-61.

ACKNOWLEDGEMENTS

We thank the conference participants at the 2010 American Accounting Association Midwestern Region 50th Annual Meeting in Chicago, USA; the 2010 International Conference on Business and Information in Kitakyushu, Japan; the 2011 American Accounting Association Annual Meeting in Denver, USA; two anonymous reviewers; and especially the editor Mercedes Jalbert, and associate editor for their valuable comments and suggestions.

BIOGRAPHY

Hsiang-Tsai Chiang is an associate professor of the Department of Accounting and the Chief Accounting Officer of Feng Chia University, Taiwan. He has served as an independent director in the Taiwan Stock Exchange Corporation (TWSE) and the Hong Kong Exchanges and Clearing Limited (HKEx) listed companies. His research appears in journals such as *Corporate Governance: An International Review*, *International Journal of Business and Finance Research*, and *The Journal of American Academy of Business*. He can be reached at Feng Chia University, No.100, Wenhwa Rd., Xitun Dist., Taichung City 40724, Taiwan, R.O.C., htchiang@mail.fcu.edu.tw

Shu-Lin Lin is a Ph.D. student in Business Program of Feng Chia University and Lecturer of the Department of International Business Management of Hsiuping University of Science and Technology, Taiwan. Her research interests include corporate governance, auditing and international accounting. She can be reached at Hsiuping University, No.11, Gongye Rd., Dali Dist, Taichung City 41280, Taiwan, R.O.C., se.liner@msa.hinet.net