

Client Importance, Auditor-Client Relationship, and Abnormal Accruals: An Audit-Partner Based Investigation

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ABSTRACT: This study adopts an audit-partner based approach to examine whether and how client importance and audit tenure affect audit quality. The major findings and contributions are as follows. First, we find no evidence that there is a negative effect of audit tenure on audit quality either at the audit-partner or audit-firm levels. On the contrary, a longer auditor-client relationship enhances rather than decreases audit quality. Second, we find no evidence that client importance hurts audit quality at the audit-firm level. Third, if we trace client importance and audit tenure at the audit-partner level, we find that although a higher level of client importance dampens audit quality, their interaction effect enhances audit quality. Particularly, audit quality is lowest on a new and important client but increases when the “short-term” important client turns into a “long-term” important one because this important client becomes a “core” asset to the auditor. Finally, our results based on the audit-partner tenure effect and its interaction effect with client importance traced at the audit-partner level suggest that the audit-partner rotation requirement in the Sarbanes-Oxley Act of 2002 might not be an effective and efficient rule for promoting auditor independence and increasing audit quality.

Keywords: *Audit-Partner Tenure; Audit-Firm Tenure; Auditor Independence; Client Importance.*

Data Availability: *The data employed in this study are available from the source identified in the text.*

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