

Knowledge Transfer Within International Accounting Associations and Networks: Evidence from PCAOB Inspections

Abstract:

We examine the benefit to the non-inspected member audit firms in non-Big 4 international accounting associations and networks (AANs) when one member is inspected by the PCAOB. We find that both audit quality and market shares of non-inspected members increase after the first member in the AAN undergoes the initial PCAOB inspection. The results are stronger for non-inspected members with similar client industry profiles as, or geographically closer to the inspected members. Subsequently inspected members also receive fewer inspection deficiencies than the first inspected members. Cross-sectional analyses suggest that the results are more pronounced when the non-inspected members have stronger incentives to improve audit quality, when the first inspected members are more influential in the AANs, or when they experience more audit quality improvement following inspections. Overall, our findings highlight the effect of PCAOB inspections on the non-inspected auditors and the benefits of AANs to members possibly through knowledge transfers.