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> ACCOUNTING

**RESEARCH
SEMINAR**



EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

‘AUDIT FIRMS’ NETWORK STRUCTURE AND FINANCIAL STATEMENT COMPARABILITY’

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ABSTRACT

Audit offices function as semi-autonomous units within their audit firm network, and individual partners have much autonomy during their engagements. Therefore, maintaining consistency across engagements is challenging to achieve for audit firms. We hypothesize that heterogeneity between audit offices and partners from the same audit firm increases with the complexity of an audit firm’s network structure.

The network structure of an audit firm increases in complexity with the number of local offices, the number of individual audit partners, and their spatial distribution (i.e., the geographic dispersion of its offices and partners).

To test this hypothesis, we examine the effects of audit firms, offices, and partners on financial statement comparability for 18,839 firm-year observations from fifteen European countries from 2011 to 2021. Consistent with prior research, we find that auditor "style" increases the comparability of clients' reported earnings. However, our data do not support our hypothesis that the effect of auditor style on financial statement comparability decreases with audit firm network complexity.