

Differential Effects of Knowledge Spillovers From the Joint Provision of Audit and Tax Services

Adrian Valencia

ABSTRACT: Prior literature finds that audit quality is positively affected by knowledge spillover from tax-related Non-Audit Services (NAS) performed by the audit firm (Kinney et al. (2004); Robinson (2008); Gleason and Mills (2011) and Krishnan and Visvanathan (2011)). We extend these studies by investigating whether auditor size affects the relation between tax-related NAS and audit quality. Specifically, we examine whether the relation between tax-related NAS and restatements, found in Kinney et al. (2004), differs when the auditor is a member of the Big 4, 2nd tier, or small auditor groups. We suggest three distinct reasons this may occur: (1) larger auditors have greater levels of auditing knowledge, (2) larger auditors have greater segregation between NAS professionals and audit professionals, and (3) larger auditors have more offices, making communication of relevant information across offices less likely, than smaller auditors. We find that the relation is greatest for smaller auditors. We interpret the results as evidence that smaller auditors are better equipped to develop and use knowledge spillover from tax NAS.