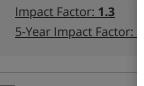
Journal of Accounting, Auditing & Finance



Contents

Abstract

This study investigation consolidated group Taiwan companies, number of vertical I

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tiered subsidiary. Our results show a positive association between audit fees and the number of investment layers. In addition, we find that the positive association between audit fees and the number of layers becomes stronger for firms which have more investees located in tax haven countries. Our results also show that the positive association between audit fees and the number of investment layers is more pronounced as companies' engagement in related-party transactions increases. Overall, the results support the argument that auditors attach higher audit risks to firms with more investment layers and therefore charge higher audit fees.



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Appendices

Appendix. Variable Definitions.

Variable

Definition

Variable	Definition
LNFEE	The natural logarithm of audit fees.
LAYER	The natural logarithm of the number of investment layers of the vertical investment structure.
SIZE	The natural logarithm of the total assets in year <i>t</i> .
MB	The ratio of the market value of equity to the book value of equity.
LEV	Long term debt for year t scaled by total assets in $t-1$.
QUICK	Quick ratio, measured as quick assets (the sum of cash and cash equivalent, marketable securities, accounts receivable) divided by current liabilities.
ROA	The ratio of pretax income from continuing operations for year $\it t$ to beginning of the year total assets.
LOSS	1 if pretax income from continuing operations in year t is smaller than zero and 0 otherwise.
RECINV	The sum of receivables and inventories scaled by total assets.
SUB	The natural logarithm of the number of investees.
SEGMT	The natural logarithm of the number of business segments.
STD_ROA	The standard deviation of the ratio of pretax income to total assets over 5 years.
ΔSALES	The annual percentage change in net sales.
CURRENT	Current ratio measured as current assets divided by current liabilities.
DA	The performance-adjusted abnormal accruals derived from the modified Jones model (<i>DA</i>)
BIG4	1 if a firm is engaged with the Big 4 international audit firms and 0 otherwise.
EXPT_PARTNER	1 if one of the audit partners is the largest supplier in the industry at the partner level and 0 otherwise, where we measure the market share using the number of clients audited by the partner within the industry.

Variable	Definition
EXPERIENCE	The number of years the auditor is performing his function as an audit partner.
TENURE	The length of tenure for the audit partner who has the longest tenure, where each partner's tenure is the number of cumulative years the company has retained the audit partner.
GOING	1 if the client firm received a going concern opinion and 0 otherwise.
INITIAL	1 for initial audit firm engagement and 0 otherwise.
IMPORTANCE	Client importance measured at the firm level, where client importance is measured as the natural logarithm of client sales divided by the sum of the natural logarithm of client sales from all public clients of the audit firm.
DUAL	1 if a person is both CEO and chairman and 0 if CEO and chairman are different persons.
INSIDEB	The proportion of board director shareholding.
INSIDEM	The proportion of management shareholding.
INST	The proportion of external institutional shareholding.
INDE	The percentage of outside (that is, nonmanagement) directors on the board.
FF	1 if the firm is controlled by a family and 0 otherwise.
BOARDSIZE	The natural logarithm of the number of directors sitting on the board.
MEETING	The natural logarithm of the number of board meetings per year.
TAXH	The number of investees in tax havens divided by the total number of investees, based on the list of tax havens in Dyreng and Lindsey (2009).
DLAYER	1 if the number of layers equals 3 or is greater than 3 and 0 otherwise.
RELATED	Related-party sales over total sales plus related-party purchases over total purchase.
ABNORMAL_RELATED	The abnormal level of the related-party purchases and sales after removing the normal level of related-party purchases and sales via OLS regressions, similar to <u>Jian and Wong</u> (2010).
Note. OLS = ordinary least squares.	

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