AUDIT FIRM CLIENT PORTFOLIOS AND CHANGES IN AUDIT LIABILITY REGIMES: EVIDENCE FROM THE US AUDIT MARKET.

Abstract

We examine changes in Big Six US audit client portfolios in the period 1975-1999. This period saw several changes in the audit litigation climate: (1) a substantial increase in audit-related litigation during the mid-to-late 1980s, leading the Big Six to predict dire consequences for the audits of smaller clients and lobby strenuously for liability regime reform, (2) major regulatory reforms in the first half of the 1990s, notably the ability to form limited liability partnerships or to incorporate and (3) the final passage, by the US Congress, of the PSLR Act (1995). We investigate how large audit firms alter the composition of their client portfolios in response to changes in the litigation-liability environments. In particular we investigate if the reforms had the intended effect of enhancing the ability of small and risky clients to secure Big Six audits.


Key Words: Audit clienteles, Audit Litigation Reform, Audit Client Quality, Financial Ratios.