A Matter of Appearances: Does Financial Expertise Help Audit Committees to Look Beyond the Superficial When Selecting and Compensating Auditors?

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ABSTRACT: Although prior research has claimed that audit committees with more expertise secure better auditors and enjoy higher quality earnings, a deeper understanding of this premise compels consideration of how *less*-expert audit committees choose auditors if indeed they are less sensitive to auditor quality. Drawing on newly mandated PCAOB Form AP disclosures of audit partners' identities, we examine the premise that less-expert audit committees are more likely to be influenced by auditors' superficial characteristics, which we proxy by obtaining ratings of audit partners' physical appearances from independent raters. We find that audit committees with fewer financial experts tend to engage more attractive audit partners and pay attractive audit partners a differential fee premium. These findings support the view that financial expertise helps audit committees by mitigating the influence of superficial characteristics in auditor selection and compensation decisions.

Keywords: Audit committees, financial experts, PCAOB Form AP, appearances, attractiveness, attribute substitution, audit quality, auditor selection, audit fees

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1. Introduction

Notwithstanding evidence that companies with better audit committees tend to have higher financial reporting quality (e.g., Schmidt and Wilkins [2013], Cohen, Hoitash, Krishnamoorthy, and Wright [2014], Tanyi and Smith [2015]), our knowledge of the causal mechanisms that achieve these benefits is limited. In particular, the literature offers little insight on what is arguably the audit committee's most fundamental responsibility: selecting and compensating the external auditor. Some previous research has found that audit committees with more financial experts are more likely to engage auditors with industry specialization or Big-Four affiliation (e.g., Abbott and Parker [2000], Chen and Zhou [2007]). What is missing, however, is a sense of what *less*-expert audit committees take into account when choosing auditors, if indeed they are less sensitive to auditor quality.

We advance the premise that audit committees with less expertise find it more difficult to discern auditor quality. Absent the expertise to evaluate competing auditors solely on substantive grounds, the phenomenon of "attribute substitution" from psychology suggests that audit committees are likely to be influenced subconsciously by characteristics that are readily visible, even if superficial. To proxy for auditors' readily visible (and superficial) characteristics, we consider lead audit partners' physical appearances, obtaining attractiveness ratings (with names removed) from Amazon Mechanical Turk volunteers for our primary analyses and from the Anaface.com online tool as a supplemental analysis. Our key finding is that audit committees with less financial expertise are more likely to (1) engage physically attractive audit partners, and (2) pay attractive audit partners a fee premium. The inverse association between audit committee

expertise and audit partner attractiveness implies that expertise moderates the influence of auditors' superficial characteristics on auditor selection and fee decisions.

In addition to addressing the need for evidence on how expertise benefits audit committees (e.g., Williams [2005]), our study offers an important new dimension to the more general question of how physical appearances relate to economic outcomes. Several prior studies have found that attractiveness is positively correlated with various indicators of economic success, such as hiring, earnings, and negotiation outcomes (e.g., Snyder and Rothbart [1971]; Horai, Naccari, and Fatoullah [1974]; Hamermesh and Biddle [1994]; Biddle and Hamermesh [1998]; Rosenblat [2008]; Graham, Harvey, and Puri [2015]). Yet, we know little about the factors that condition *why* appearances seem to matter in economic outcomes. The benefit of our research design is that we incorporate a conditioning factor by testing how appearances matter *differentially* in audit committees of greater or lesser expertise. Unless one posits the unlikely argument that audit committee expertise is harmful at the margin, our study provides evidence of a superficial component to appearance-based decisions. That is, we find that auditor appearances matter *less* to audit committees of greater financial expertise.

Our study is enabled by Public Company Accounting Oversight Board (PCAOB) Rule 3211 (effective January 2017), which requires registered audit firms to submit Form AP for each publicly traded audit client, identifying the engagement partner associated with that client. We restrict the analysis to Big-Four public accounting firms because it is arguably more difficult for less-expert audit committees to differentiate quality within the Big-Four. We employ Amazon Mechanical Turk (hereafter MTurk) volunteers to conduct web-based, public-domain image searches for the identified partners, to the extent possible. This process yields photographs of 384 engagement partners responsible for the audits of 549 unique public companies during the

2017 calendar year. We then direct a separate request of different MTurk volunteers to provide attractiveness ratings of the photographs, with identifying information removed, on a seven-point Likert scale. We obtain nine attractiveness ratings for each partner to reduce noise. We classify partners with an average rating of five or greater (approximately the top quintile) as "attractive," insofar as an average rating that high requires a significant degree of consensus.

We measure audit committee expertise for the clients corresponding to our sample of audit partners by calculating the percentage of each committee identified as a financial expert in the BoardEx audit committee database. Consistent with the reasoning that audit committees tend to substitute auditors' appearances when more substantive indicators of auditor quality are difficult to identify, we find that audit committees with less financial expertise are significantly more likely to engage a partner that we classify as attractive. We corroborate our interpretation of this finding in supplemental analyses that show a reduced association between audit committee expertise and audit partner appearance when the partner's ability is easier to discern.

Having established a baseline effect for auditor selection, we next test how audit partner appearances relate to audit fees. We find that attractive partners earn a significant fee premium only within the subsample of audit committees below the median percentage of financial expertise. In contrast, we detect no significant association between audit fees and audit partner attractiveness within the subsample of high-expertise audit committees. In sum, our findings for both auditor selection and audit fees suggest that appearances become less influential when audit committees have greater financial expertise.

Our analyses include several control variables to address factors other than audit committee expertise that could be associated with lead partner attractiveness, such as client characteristics that could condition audit firms' decisions regarding which partners to pitch to

which prospective clients. Our results are robust to these controls as well as to other sensitivity tests, such as removing female partners, using a continuous rather than categorical measure of audit partner attractiveness, and using an algorithmically determined proxy for partner attractiveness from Anaface.com instead of subjective ratings. We also test various other alternative variable definitions and model specifications, again with similar findings.

While we do not claim any general association between auditor appearances and auditor ability, the implications of our findings depend in part on whether audit committees that select more attractive auditors are getting better or worse audits. Accordingly, we conduct a supplemental analysis of the association between auditor attractiveness and the absolute value of discretionary accruals, a rough but common proxy for earnings and audit quality (DeFond and Zhang [2014]). We find that auditor attractiveness is *negatively* associated with financial reporting quality (i.e., greater discretionary accruals) within the low-expertise audit committee subsample, whereas there is no detectable association within the high-expertise subsample. A plausible interpretation is that the tendency of less-expert audit committees to rely in part on auditor appearances as a substitute attribute for auditor quality leads to a selection bias that induces an inverse correlation between appearances and quality within this subsample.[1] The fact that we do not observe this correlation within the high-expertise subsample speaks against any general interpretation that attractive auditors are any better or worse than their less-attractive counterparts, on average. Still, it would appear that the observed preference among less-expert audit committees for more attractive auditors does not lead to better financial reporting.

Our study differs in objective from a separate stream of recent accounting research that considers what can be inferred about reporting tendencies from individual characteristics such as signature sizes (Ham, Lang, Seybert, and Wang [2017]) or facial dimensions (Jia, Van Lent, and

[1] We explain this reasoning in more depth in Section 5.3.

Zeng [2014]). In contrast, our interest in auditor attractiveness is not to infer what one can learn about auditors from their appearances, but rather is to examine what one can learn about *audit committees* from the role attractiveness plays in auditor selection and fee decisions. The fact that we observe less influence of attractiveness among audit committees with more financial expertise suggests that attractiveness is, at least in part, superficial. Our findings do not justify criticism of any audit committee for hiring an attractive auditor, nor do they imply that attractive audit partners lack substantive credentials. Nevertheless, the distributional inferences we draw offer important evidence supporting the value of expertise in corporate audit committees.

Section 2 offers additional background and develops the hypotheses we test. Section 3 describes our data and plan of analysis. Sections 4 and 5 present our primary and supplemental results, respectively. Section 6 concludes.

2. Background and Hypothesis Development

Quality financial statement audits ameliorate agency costs that arise from the diffused ownership of modern corporations (e.g., Jensen and Meckling [1976], Watts [1977], Watts and Zimmerman [1983]). However, the quality of an audit (or of an auditor) is notoriously difficult to assess. Audit committees, who are tasked with selecting and compensating external auditors, do not observe the audit process directly (Balachandran and Ramakrishnan [1987], Causholli and Knechel [2012]), nor are audit outcomes generally amenable to quality assessments (DeFond and Zhang [2014]). As Francis [2004, p. 352] observes, "It is difficult to assess audit quality *ex ante* because the only observable outcome of the audit is the audit report, … and the overwhelming majority of reports are standard clean opinions." Further, because audits provide reasonable assurance rather than absolute assurance, the subsequent discovery of a material misstatement does not necessarily imply a low-quality audit. Similarly, the *absence* of a material misstatement

does not necessarily imply high-quality auditing, as even a low-quality auditor will correctly issue an unqualified report if there are no material misstatements to detect.

If audit committees cannot directly observe the quality of an audit firm when selecting an auditor, they are likely to turn to the firm's most visible representative: the partner who proposes to lead the audit. A survey of 80 public company audit committee members by Almer, Philbrick, and Rupley [2014] confirms the importance of the individual partner in auditor selection decisions. Specifically, Almer et al. [2014] report an average score of 6.31 on a seven-point Likert scale for the importance of partner-specific attributes to the audit committee when selecting an auditor,[2] in contrast to the lesser importance of criteria such as the audit firm preferred by management (4.70) or the competitiveness of the proposed fee (4.60). Even absent a change in audit firms, such as when an incumbent audit firm must rotate the lead partner to comply with Section 203 of the Sarbanes-Oxley Act, it is our understanding that audit firms will present audit committees with a choice among multiple audit partners as potential replacements.[3]

To the extent that audit committees focus attention on the partner who proposes to lead the audit, an audit committee with limited expertise is likely to find it difficult to assess the quality of different prospective audit partners. When attempting to assess attributes that are difficult to observe, decision makers often subconsciously superimpose an alternative attribute that is more readily accessible (Kahneman and Frederick [2002]). Psychologists refer to this phenomenon as "attribute substitution," a form of heuristic processing that likely contributes to the preferences for attractive individuals that prior studies have documented in several settings

[2] The three partner-specific attributes and corresponding mean importance scores reported by Almer et al. [2014] are the partner's accessibility (6.48), the partner's ability to identify and address accounting issues on a timely basis (6.68) and the partner's effectiveness as a liaison with the audit firm's national technical office (5.78). Almer et al.'s [2014] survey instrument does not include superficial partner attributes such as our focus on appearances, but our theoretical premise is that audit committees are likely to substitute superficial considerations, even subconsciously, if they lack the ability to fully evaluate more substantive criteria.

[3] We confirmed this understanding in informal interviews with senior partners at each of the Big-Four audit firms.

(e.g., Snyder and Rothbart [1971], Horai, Naccari, and Fatoullah [1974], Hamermesh and Biddle [1994], Biddle and Hamermesh [1998], Rosenblat [2008], Graham, Harvey, and Puri [2015]). For example, when faced with the difficult task of evaluating job candidates, a prospective employer may subconsciously substitute the question of "Will this person fit and be successful?" with the easier question, "Does this person have an appealing appearance?" Indeed, preferences for attractive candidates in hiring decisions have been widely documented, even for relatively high-stakes positions in publicly traded companies (Graham, Harvey, and Puri [2017]). In accounting, Blankespoor, Hendricks, and Miller [2017] report the similar phenomenon that positive perceptions of management gleaned from brief "roadshow" video excerpts predict higher prices from initial public offerings, even after controlling for economic indicators of firm value.

Thus, we know from the literature that appearances matter. Our incremental contribution lies in *conditioning* this influence on the decision maker's expertise. Specifically, we posit that expertise lessens an evaluator's propensity to substitute superficial attributes in lieu of more substantive indicators. We are aware of only one study exploring this premise, albeit in a very different setting. Namely, Shechory-Bitton and Zvi [2016] find in an experiment that experienced police officers are less inclined than students to take the facial attractiveness of an accused offender into account when assessing blame. In an audit context, we are able to examine the moderating effect of expertise using archival data, predicting that audit committees with greater financial expertise will be more able to differentiate auditors on substantive indicators of quality, thereby lessening the need to substitute the superficial indicator of an audit partner's physical appearance.[4] If so, the substituted attribute of appearance will be more predominant

[4] Kahneman and Frederick [2002, p. 54] note that "attribute substitution … will control judgment when three conditions are satisfied: (1) the target attribute is relatively inaccessible; (2) a semantically and associatively related

among less-expert audit committees, leading such committees to engage more attractive auditors, on average, than would be the case for audit committees with more expertise.[5] This reasoning leads to our first hypothesis, as follows:

H1: *Audit committees with less financial expertise will engage audit partners that are more likely to be classified as attractive, on average, than partners engaged by audit committees with more financial expertise.*

Several studies have documented fee premiums associated with various proxies for audit quality (e.g., Simunic [1980], Francis [1984], Palmrose [1986], Craswell, Francis, and Taylor [1995], DeFond, Francis, and Wong [2000], Francis, Reichelt, and Wang [2005]). To the extent that appearances serve as a substitute attribute for audit quality, more attractive auditors should also be able to secure higher fees. In turn, if our reasoning holds that less-expert audit committees will be more prone to this form of attribute substitution, any fee premium for attractive partners should be more pronounced among less-expert audit committees than among more-expert audit committees that are better able to evaluate partners' substantive credentials. We test this implication as our second hypothesis:

H2: *There is a stronger (i.e., more positive) association between audit partner attractiveness and audit fees for partners hired by audit committees with less financial expertise than for partners hired by audit committees with more financial expertise.*

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candidate attribute is highly accessible; and (3) the substitution of the heuristic attribute in the judgment is not rejected by the critical operations of [the conscious mind]." In our study, criterion (1) is moderated by audit committee expertise, with auditor quality less accessible to less-expert auditors. Audit partner appearances are the heuristic attribute we propose for criterion (2). Criterion (3) places limits on this process, as even less-expert audit committees are likely to discount appearances when circumstances clearly favor one auditor over another. Thus, we do not hold that less-expert audit committees care *only* about audit partner appearances. Rather, we predict that appearances are likely to be influential at the margin in auditor selection and fee decisions among audit committees of lesser expertise.

[5] A maintained assumption underlying this reasoning is that partner appearances are easy for audit committees to observe and hence readily available as an attribute-substitution heuristic. Willis and Todorov [2006] find that individuals form lasting, subconscious opinions about a multitude of personal characteristics from as little as a 100-millisecond exposure to an image of a subject's face. In an audit context, face-to-face meetings between prospective audit partners and audit committees are integral to the audit tendering process, such that, irrespective of expertise, it is safe to assume that the vast majority of audit committees have access to the physical appearances of the partners they engage.

We supplement our hypothesis tests with several analyses and robustness tests to corroborate our theoretical reasoning and address alternative explanations. First, to corroborate our theoretical interpretation, we test whether audit partner experience and audit committee affiliations with large audit firms mitigate the extent to which less-expert audit committees engage in attribute substitution based on appearances. Second, we test the sensitivity of our findings to various factors, including audit partner gender, audit committee size, and an algorithmic proxy from Anaface.com for audit partner attractiveness. Third, we test the association between audit partner attractiveness and an accruals-based measure of earnings quality within the low-expertise and high-expertise audit committee subsamples.

3. Sample Selection and Summary Statistics

The recently enacted PCAOB Rule 3211 requires registered audit firms to submit Form AP to disclose the names of engagement partners that participate in the audits of public companies for audit reports issued on or after January 31, 2017.[6] As of July 14, 2017, the cutoff date for observations included in this study, Form AP filings were available for 2,640 lead engagement audit partners overseeing the audits of 5,255 unique companies.[7]

We restrict our analyses to companies audited by a Big-Four audit firm to capture a relatively homogeneous environment in which differentiating audit quality is likely to be particularly difficult for less-expert audit committees. To obtain a measure of audit committee expertise, we also require sampled companies to be included in the BoardEx database. These restrictions reduce our sample to 1,819 companies audited by 1,324 unique audit partners, for which we direct MTurk volunteers to search public online sources (e.g., networking sites, firm

[6] The January 2017 effective date applies only to the identification of engagement partners. An additional requirement to disclose other participating auditors became effective in June 2017.

[7] Data are from https://pcaobus.org/Pages/AuditorSearch.aspx. We include only non-investment company and non-benefit plan clients headquartered in the United States.

websites, etc.) for partner profiles and, where possible, to download the profile picture.[8] We are able to obtain photographs for approximately 30 percent of the identified partners from this process, yielding a final sample of 549 companies audited by 384 unique partners.[9] Table 1 summarizes our sample selection process. As detailed in our analyses, additional control variables are unavailable for some observations, further reducing our sample for some tests.

After obtaining the photographs, we solicit attractiveness ratings from different MTurk volunteers.[10] We collect nine ratings for each photograph. The reason for so many ratings is that attractiveness is highly subjective, such that panel averages provide more reliable data. Given that we focus on U.S. audit clients, we restrict MTurk raters to be from the United States or Canada so that we capture a North American sense of attractiveness (Frith, Shaw, and Cheng [2005]). As reproduced in Appendix B, we use a separate online attractiveness rating form for each photograph, asking the MTurk volunteer to respond to the following prompt: "*On a scale from 1 (strongly disagree) to 7 (strongly agree), please rate your agreement with the following statement: 'The person in the photograph below appears attractive.'*" The MTurk worker then enters the rating in a text box immediately below the photograph. Importantly, we remove

[8] To ensure completeness and accuracy, we assign each partner name to multiple MTurk volunteers, allowing us to compare and verify, as needed, the profile pictures obtained. We are reasonably confident in the accuracy of this process (i.e., identifying the correct profiles), but any imprecision would work against our hypothesized predictions. When necessary, the researchers also obtained some profile pictures from online searches. The intent of this phase of the study was simply to obtain data.

[9] The vast majority of photographs displayed on partners' public profiles appear to have been taken by a professional photographer with the partner alone, dressed professionally, posed against a neutral background, and looking directly into the camera. However, there are a handful of cases in which the picture posted on the partner's public profile was not professional (e.g., one photograph shows a partner holding a hot dog at a baseball game). We use all photographs in our primary analyses. In an untabulated robustness test, we remove the few photographs that, in our judgment, do not appear professional and find that our results are nearly identical.

[10] In our first wave of data collection, we set up separate MTurk rating request tasks to elicit perceptions of audit partner attractiveness, credibility, and trustworthiness. Results using attractiveness ratings from this first wave of data are similar to those in our reported analyses. However, we observe considerably greater variance in raters' perceptions about partners' credibility and trustworthiness. That is, while the MTurk ratings generally reveal a consensus about the attractiveness of audit partners, they very rarely suggest a consensus about whether the same partner appears trustworthy or credible. Based on this preliminary analysis, we decided to focus our full-sample collection and analyses to perceptions of attractiveness.

names, affiliations, and even the reference to an audit partner from the rating forms, ensuring that attractiveness ratings reflect the photographs alone. The median rating takes seven seconds, for which the MTurk volunteer earns $0.02. To encourage thoughtful responses, the rating form also informs workers (truthfully) that the worker submitting the rating closest to the mean for each photograph will earn a $0.10 bonus.

We make photographs available to MTurk volunteers until we receive nine ratings for each photograph, subject to the constraint that the program disallows any individual MTurk worker to rate any individual photograph more than once. Other than this constraint, MTurk volunteers can provide as many ratings as they wish to complete. Accordingly, the 384 photographs generate 3,456 attractiveness ratings, with nine ratings per partner. We delete 32 ratings (about one percent) because they are nonnumeric or fall outside the requested scale, such that the means for those photographs reflect fewer than nine raters.[11]

We refer to the mean attractiveness rating for each partner as the "*Attractive Raw Score*." Table 2 provides summary statistics for *Attractive Raw Score* as well as the other variables used in this study. *Attractive Raw Score* has a mean (median) value of 4.12 (4.11) and a standard deviation of approximately 1. Note that 4.0 is the midpoint of the rating scale. To capture only those photographs viewed to be attractive by a clear consensus of the rating panel, we define the indicator variable *Attractive Partner* as 1 if *Attractive Raw Score* is ≥ 5, and 0 otherwise. This categorization separates approximately the top quintile of the *Attractive Raw Score* averages from the remainder, strengthening our analyses by differentiating those partners who clearly stand out from the distribution. As reported in our supplemental analyses, we reach similar

[11] The lowest number of ratings for a photograph is six, resulting from an apparent technical issue for one photograph in which three raters entered the value "99," as the instructions directed in the event of no photograph available (see Appendix B). In an untabulated robustness test, our inferences are unchanged if we remove partners with fewer than nine attractiveness ratings.

conclusions using the raw values of *Attractive Raw Score* or an algorithmic measure of partner attractiveness from Anaface.com that is based on bilateral facial symmetry.

We measure the financial expertise of audit committees by calculating the percentage of audit committee members categorized as "financial experts" in the BoardEx database.[12] The mean (median) value of this variable, which we label "*Percent of AC with Financial Expertise,"* is 55 (50) percent. We also capture partner, audit committee, and client characteristics for use as controls in cross-sectional tests. Given the likely correlation between attractiveness and gender, we ascertain from examining the photographs whether a partner is female (*Female Partner*). Where possible, we use public databases maintained by state Boards of Public Accountancy to determine the number of years since the partner was first licensed as a Certified Public Accountant (CPA) to control for partner experience (*Partner Experience*). For audit committees, we extract information from BoardEx to control for the percentage of the committee that is female (*Percent of AC that Is Female*) and committee size (*No. of Directors on AC*).[13]

The distribution of audit partners (and their attractiveness) to different clients could in part be influenced by the audit firms themselves, based on characteristics of the auditor-client relationship. Accordingly, our primary analyses control for client size (*Log of Client Assets*) to address the possibility that audit firms might disproportionately push more attractive partners to more high-profile clients (or vice-versa). Similarly, we control for *Audit Firm Tenure* to address the possibility that audit firms might rely more on relatively attractive partners to maintain relationships with longstanding clients or to build relationships with new clients. Finally, to

[12] Specifically, we determine whether each audit committee member is a financial expert by screening the variable *committeerolename* in the BoardEx database for the phrase "financial expert."

[13] Controlling for audit committee size is important to address any imprecision from measuring financial expertise in percentage terms. For example, one financial expert on a three-person audit committee could lead to a different influence of expertise relative to two experts on a six-person committee, even though the percentage of financial experts would be the same in both cases.

address the possibility that audit firms might attempt to match more attractive partners with clients that are more important to the local office, our test of auditor selection also controls for *Client Importance*, a measure obtained by scaling audit fees from Audit Analytics by the total audit fees generated by the local office (Francis and Yu [2009]).[14]

We obtain the audit fee data needed to test H2 from Audit Analytics. For our primary test of H2, we scale audit fees by total client assets (*Scaled Audit Fees*), although we obtain similar results using logged audit fees (*Log of Audit Fees*).[15] For our supplemental analysis of the association between auditor appearances and financial reporting quality, we use a common proxy for the quality of audited earnings (*Abs. Value of Disc. Accruals*). Table 2 reports summary statistics for all variables, with full definitions in Appendix A.

Table 3 reports univariate correlations. Among the correlations that Table 3 flags as statistically significant at the $p < 0.05$ level, the *Attractive Partner* indicator is negatively correlated with *Percent of AC with Financial Expertise*, consistent with H1. Although univariate correlations do not address H2, which predicts a *differential* audit fee premium for attractive partners hired by less-expert audit committees, the *overall* correlation between *Attractive Partner* and *Scaled Audit Fees* is positive and significant. There is also a positive and significant overall correlation between *Attractive Partner* and *Abs. Value of Disc. Accruals*, although our supplemental analysis of financial reporting quality reported later indicates that this association is sensitive to audit committee expertise, as it applies only within the low-expertise subsample. We also note that partner gender (*Female Partner*) is significantly positively correlated and

[14] We include *Client Importance* as a control variable only in the auditor selection test (H1), not the audit fee premium test (H2), to avoid having a fee-based measure on both the left- and right-hand sides of the regression equation for H2. Our tests of audit fees also include additional controls, as we detail later.

[15] Given the limited sample necessitated by only one year of PCAOB Form AP filings available at the time of our study and the fact that we are able to obtain photographs for only 30 percent of the partners identified from such filings, we conduct all analyses with and without control variables to maximize our available sample. We acknowledge that it is more common to use a natural log transformation of audit fees, but scaling fees by assets likely achieves better control for client size, which is particularly important in our models without control variables.

partner experience (*Partner Experience*) is significantly negatively correlated with *Attractive Partner*, highlighting the need to control for these factors in our multivariate analyses. The latter correlation likely reflects the tendency of perceived attractiveness to decline with age.

4. Primary Findings

4.1 H1: AUDITOR SELECTION

H1 predicts that audit committees with less financial expertise will retain audit partners that are more likely to be classified as attractive, on average, than those retained by audit committees with more financial expertise. To test this prediction, we begin by fitting the following logistic regression model, as shown below without control variables:

$$Prob.(Attractive\ Partner = 1) = \alpha + \beta * Percent\ of\ AC\ with\ Financial\ Expertise + \varepsilon, \quad \textit{(Eq. 1)}$$

with the dependent and independent variables as described above and defined in Appendix A. We present the analysis first without control variables to retain the largest possible sample for which we have a photograph of the audit partner and information about the financial expertise of the audit committee. For ease of interpretation, we present odds ratios (β) instead of standard logit coefficients (i.e., log odds). Thus, a value of β less than one would be consistent with H1. The results are presented in Model 1 of Table 4. Consistent with H1, the odds ratio of 0.288 is significantly less than unity ($p < 0.01$), indicating that an audit committee comprised entirely of financial experts is approximately 29 percent as likely to hire an attractive audit partner as an audit committee with no financial experts.

Model 2 of Table 4 presents the full specification with control variables to address various partner, client, and audit committee characteristics other than the financial expertise of the audit committee that could plausibly be associated with audit partner attractiveness. Missing

values for control variables further reduce our sample size from 549 companies to 436. However, as documented in Table 4, the expanded *Eq. 1* with controls yields an odds ratio of 0.263 that continues to be significantly less than unity ($p < 0.05$) and is similar in magnitude to that obtained from Model 1 without controls. The robustness of our findings to the full model with controls provides some comfort that the inverse association we detect between audit committee expertise and audit partner attractiveness is not merely an artifact of the client characteristics that influence the set of prospective partners available for selection.

4.2 H2: AUDIT FEES

H2 predicts a differential audit fee premium for attractive audit partners engaged by less-expert audit committees. We test H2 with ordinary least squares regression of the following equation, again beginning without control variables to retain the largest sample possible:

$$Scaled\ Audit\ Fees = \gamma + \delta * Attractive\ Partner + \varepsilon, \qquad \textit{(Eq. 2)}$$

with the dependent and independent variables as previously described and defined in Appendix A. To test the sensitivity of the fee premium for an attractive partner to audit committee expertise, we split the sample based on the median value of 50 percent financial experts, separately fitting *Eq. 2* for low-expertise audit committees (*Percent of AC with Financial Expertise* ≤ 50 percent) and high-expertise audit committees (> 50 percent). A significantly larger δ in the low-expertise subsample would be consistent with H2.

Consistent with our approach for H1, we also estimate an expanded version of *Eq. 2* with several control variables. In addition to the H1 controls for *Log of Client Assets*, *No. of Directors on the AC*, *Female Partner*, *Partner Experience*, *Percent of AC that Is Female*, and *Audit Firm Tenure*, we include further controls that prior research has associated with audit fees. Specifically, distressed clients represent a litigation risk for auditors, so we include measures of

audited companies' debt (*Leverage*) and profitability (*Loss*). Clients experiencing rapid growth, issuing new debt or equity securities, or engaging in business acquisitions also impose additional risks on auditors, such that we control for clients' revenue growth (*Growth*), recent debt and equity financing (*New Financing*), and recent acquisitions (*Acquisition*). Clients with numerous geographic or operating segments can require more audit resources, so we control for the *Number of Geographic Segments* and *Number of Business Segments*. We control for client inventory levels (*Inventory*), as inventory necessitates costly physical observations. Because many clients have fiscal years ending on December 31, we control for whether clients have a December year-end date (*Calendar Year End*) to account for seasonal resource constraints. Finally, large audit offices and offices that specialize in a particular industry sometimes charge a premium, so we control for office size (*Audit Office Size*) and auditor industry expertise (*Expert Auditor*). Appendix A provides technical definitions of all variables, with summary statistics reported in Table 2.

Table 5 reports the results of our audit-fee tests for low-expertise and high-expertise audit committees in Panels A and B, respectively. For the low-expertise subsample, the specifications in Panel A without controls (left column) and with controls (right column) both identify a significantly positive regression coefficient for partners we classify as attractive ($p < 0.01$ and $p < 0.05$, respectively). By way of interpretation, the coefficient of 0.076 in the specification with controls indicates that attractive audit partners retained by less-expert audit committees receive an audit fee premium equal to approximately eight hundredths of one percent of client assets, or approximately one third of one standard deviation of *Scaled Audit Fees* in this subsample.

In contrast, as shown in Panel B of Table 5 for the high-expertise audit committee subsample, the coefficient for *Attractive Partner* is of the opposite sign and is not statistically

significant either with or without controls. Thus, there is no evidence that attractive partners receive any fee premium in the high-expertise subsample. To formally test H2, we statistically compare the value of δ (i.e., the *Attractive Partner* coefficient from *Eq.* 2) in Panels A and B. Results indicate that δ is significantly greater for low-expertise audit committees than for high-expertise audit committees, at the $p < 0.01$ level in the model without controls and at the $p < 0.05$ level in the model with controls.[16] Thus, our audit-fee tests support H2: attractive audit partners earn a *differential* fee premium when engaged by audit committees with less financial expertise that does not extend to audit committees with more financial expertise.

5. Supplemental Tests

5.1 MITIGATING FACTORS

5.1.1. Audit Partner Experience. We begin our supplemental analyses by considering factors that corroborate our theoretical rationale for H1. We first undertake a deeper consideration of audit partner experience. Given that experience is a function of age, which in turn is correlated with perceived attractiveness (see Table 3), all previously reported analyses include our measure of partner experience as a control variable. But in addition to being an indicator of age, a partner's experience is also likely to serve as a relatively visible signal of auditor *expertise* and past performance. Even less-expert audit committees should be able to discern a more-experienced partner from a less-experienced partner. Likewise, less-expert audit committees should be able to discern an experienced partner with a strong track record from one with a poor track record (e.g., multiple previous clients with restatements). Accordingly, our theoretical rationale that less-expert audit committees find it more difficult to differentiate an

[16] We obtain similar inferences from a pooled audit-fee model with a multiplicative term for the interaction between *Percent of AC with Financial Expertise* and *Attractive Partner*. Specifically, in the pooled model, the interaction term is significant at $p < 0.05$ without controls and at $p < 0.01$ with controls.

auditor's quality (and hence are more likely to substitute the superficial attribute of a partner's attractiveness) should be less applicable when an audit partner has extensive prior experience.

To test this reasoning and corroborate our theory, we split our sample of audit partners into three groups based on the value of *Partner Experience*: early-career partners (less than 15 years since earning the CPA license), mid-career partners (between 15 and 25 years), and late-career partners (more than 25 years since CPA licensure).[17] Table 6 presents the results from re-estimating the logistic regression for selecting an attractive partner (*Eq. 1*) separately for early-career, mid-career, and late-career partners in Panels A, B, and C, respectively. We report specifications without controls in the left column of each panel and with controls in the right column. In both specifications, the odds ratio for *Percent of AC with Financial Expertise* is statistically significant within the early-career and mid-career partner subsamples, but not within the late-career subsample. The lack of significance for late-career partners is unlikely to be a matter of lower power, as there are more observations in this category than in the early-career category. Rather, we interpret Table 6 as supporting our theoretical premise that audit committees are likely to favor appearances over substantive auditor credentials when substantive credentials are relatively difficult to ascertain. That is, the expertise and past performance of highly experienced partners is likely to be evident even to less-expert audit committees, mitigating the more superficial influence of appearances.

Because age and perceived attractiveness are negatively correlated (Table 3), an alternative interpretation of the lack of support for H1 within the late-career audit partner subsample is that attractiveness is less important within a subsample that is systematically less

[17] Given that it takes approximately ten years to become a partner at a Big-Four public accounting firm, our definition of early-career partners likely captures partners in charge of their first set of clients as a partner. We obtain similar results from alternative career-stage definitions, such as splitting the sample into equally sized terciles based on the values of *Partner Experience*.

attractive. While we cannot dismiss this interpretation entirely, we note from an untabulated analysis that the standard deviation of *Attractive Raw Score* is nearly identical within the early-career (0.88), mid-career (0.90), and late-career (0.90) subsamples, suggesting meaningful variation in attractiveness within each subsample even if the means differ. On balance, we view Table 6 as adding corroborative support to our theoretical premise.

5.1.2. Prior Affiliations of Audit Committee Members. Audit committee members sometimes have prior audit experience. Even one audit committee member who has previously worked as an auditor for a large public accounting firm is likely to be sufficiently proficient in auditing to mitigate any superficial influence of auditor appearances in auditor-selection deliberations. That is, other audit committee members are likely to defer to a former auditor's "inside knowledge," including personal knowledge of the audit partners the committee is considering.[18] Accordingly, we next test whether our H1 results differ among audit committees that include one or more members with prior Big-N affiliation.[19]

We use employment profiles from BoardEx to identify audit committee members previously affiliated with a Big-N public accounting firm. We then partition the sample into two groups: audit committees with at least one member who previously worked for a Big-N auditing firm and audit committees with no such prior affiliation. Note that this partitioning differs from our measurement of audit committee expertise, as a financial expert on an audit committee is not necessarily a former Big-N auditor. Moreover, our primary measurement of audit committee expertise is based on the *percentage* of designated financial experts on the committee, whereas

[18] Francis, Golshan, and Hallman (2017) find from Form AP data that even large U.S. cities have only around 35 audit partners in charge of publicly traded companies, indicating that the auditing profession at the public-company level is a small world. Accordingly, it is likely that audit committee members with prior affiliation with large public accounting firms have personal familiarity with at least some of the audit partners available for consideration.
[19] We refer here to "Big-N" rather than "Big-Four" because some audit committee members could have been affiliated with one of the predominant public accounting firms from an earlier period when there were more than four firms in the Big-N.

our partitioning for prior Big-N affiliation is a dichotomous indicator based on the presence of *at least one* former Big-N auditor on the committee.

Table 7 shows results for the likelihood of selecting an attractive auditor (*Eq. 1*), partitioned by prior audit committee affiliation with the Big-N. In Panel A for the partition with no Big-N connection, we obtain strong support for H1, as the *Percent of AC with Financial Expertise* odds ratio is significantly lower than unity with or without controls ($p < 0.01$). Conversely, in Panel B for the partition with at least one committee member previously affiliated with the Big-N, the *Percent of AC with Financial Expertise* odds ratio is not significant. The difference is unlikely to be a matter of statistical power, as the magnitudes of the odds ratios differ sharply (see Table 7), and the second partition has more observations than the first. We conclude that any influence of superficial appearances on auditor selection largely dissipates in audit committees that have any member(s) with prior Big-N affiliations. As with our evidence from the mitigating influence of audit partner experience, we interpret this finding as corroborating our theoretical premise that appearances are likely to matter most when audit committees are unable to undertake more substantive evaluations of prospective auditors.

5.2 ROBUSTNESS TESTS

Table 8 reports a series of sensitivity analyses to test the robustness of our findings. For parsimony and to retain as many observations as possible, we report results without control variables in Panels A through D, although we confirm similar results in untabulated analyses when control variables are included.

5.2.1. Gender. Women comprise approximately 16 percent of our audit partner sample. Given the observed correlation between female partners and perceived attractiveness (see Table 3), it is important to rule out the possibility that our results are driven by gender.

Accordingly, in Panel A of Table 8 we re-estimate *Eq. 1* and *Eq. 2* to test H1 and H2, respectively, after dropping all female partners from the sample. As in Table 5, we estimate *Eq. 2* separately for firms with low- and high-expertise audit committees. We reach the same conclusions with only male partners in the sample, as the odds ratio for audit committee expertise on the propensity to select an attractive partner remains significantly below unity ($p < 0.05$), while the audit-fee premium for an attractive partner remains significantly greater than zero within the low-expertise audit committee subsample ($p < 0.05$) and is not statistically significant within the high-expertise subsample. In combination with our inclusion of *Female Partner* as a control variable in our primary analyses of H1 and H2, we conclude that our primary results reflect more than just a gender effect.

5.2.2. Audit Committee Size. We next examine the sensitivity of our findings to audit committee size, given that the influence of each financial expert on the *Percent of AC with Financial Expertise* decreases with size. For example, if two audit committees have one financial expert each, the smaller committee will have a larger percentage, such that it is important to ensure that the results we attribute to expertise are not simply a reflection of audit committee size. Accordingly, Panel B of Table 8 reports tests of H1 and H2 using only audit committees with four (the median) or more members. We reach the same inferences, providing reasonable assurance that our H1 and H2 conclusions primarily reflect audit committee expertise, not size.[20]

5.2.3. Continuous Measure of Attractiveness. Our primary analysis uses an indicator variable, *Attractive Partner*, as our measure of attractiveness, identifying approximately the top quintile of partners with an *Attractive Raw Score* average of five or more on the seven-point rating scale. Although this approach captures those partners who are viewed to be relatively

[20] In an untabulated test, we also find that our results hold in the subsample with small audit committees (i.e., < 4 members).

attractive among a strong consensus of the nine raters used for each photograph, a cutoff rating of five is somewhat arbitrary. Thus, in Panel C of Table 8, we test the robustness of our findings by using the continuous measure *Attractive Raw Score* instead of the dichotomous *Attractive Partner*. For the selection model, note that Panel C no longer reports an odds ratio from a logistic regression, but rather reports the coefficient from regressing *Attractive Raw Score* on the *Percent of AC with Financial Expertise* using ordinary least squares. Consistent with H1, the regression coefficient is negative, indicating that more-expert audit committees tend to engage less attractive partners, although at a borderline level of statistical significance ($t = 1.80$; $p < 0.10$). For audit fees, we continue to observe a significant positive association between *Scaled Audit Fees* and *Attractive Raw Score* within low-expertise audit committees ($t = 2.59$; $p < 0.05$), but not within high-expertise audit committees ($t = 0.10$; ns.). We conclude that our findings are largely robust to a continuous measure of audit partner attractiveness, albeit at a somewhat weaker significance level in the selection model.

5.2.3. Audit Committee Tenure. The audit committees in place in the first year of PCAOB Form AP data are not necessarily the same as the committees in place when the partners comprising our sample were originally selected. Any noise from this imprecision works against our reported findings. Nevertheless, to test the sensitivity of our findings to this limitation, we report a supplemental test in Panel D of Table 8 that limits the sample to audit committees with mean committee-member tenure of five years or more. Given the regulatory requirement that lead audit partners must rotate off the engagement at least once every five years, this subsample captures cases in which the composition of the audit committee has been relatively consistent over the current lead partner's tenure. As documented in Table 8, Panel D, our findings are nearly unchanged in this reduced sample.

5.2.4. Logged Audit Fees. We use *Scaled Audit Fees* as the dependent variable to test H2 because an audit-fee model without control variables would make little sense without a size scaler. However, we acknowledge that most analyses of audit fees in the prior literature use a log transformation. With this in mind, we retest H2 after substituting *Log of Audit Fees* instead of *Scaled Audit Fees*. We perform this test with (Panel E of Table 8) and without (untabulated) controls. As expected, when we do not control for client size, we find no significant association between partner appearance and logged audit fees. However, after adding client assets and other control variables to the model, Panel E of Table 8 reports results similar to those from our primary analysis.

5.2.5. Algorithmic Proxy for Partner Attractiveness. Our primary analyses are based on subjective attractiveness scores provided by human raters. We justify this approach on the grounds that audit committees are human evaluators, such that the same subjectivity that applies to our MTurk raters likely also applies to the audit committees we are examining. Nevertheless, as a robustness check, Table 9 replicates our primary selection and fee analyses using an algorithmic proxy for audit partner attractiveness that we label *Partner Symmetry*. We obtain *Partner Symmetry* by accessing the Anaface.com online facial analysis tool to provide a "facial beauty" score for the partner photographs in our sample.[21] As explained at Anaface.com, the Anaface score is based on the bilateral symmetry of 17 facial characteristics, including nose width, face width, and eye spacing. Consistent with our approach for the human ratings, we convert the raw Anaface scores to a categorical indicator by setting *Partner Symmetry* equal to 1 for partners with Anaface scores in the top quintile, and 0 otherwise. The exact Anaface algorithm is proprietary, and hence serves only as a rough proxy for attractiveness in comparison

[21] Not all partner photographs are suitable for Anaface. For example, Anaface requires the subject's ears to be visible, whereas partners' ears are covered by hair or hidden by the face angle in some of the photographs in our sample. We obtained Anaface.com scores in October 2017.

to the direct human assessments of attractiveness that we believe have greater construct validity. Nevertheless, to the extent that we corroborate our primary findings using a more algorithmic measure of attractiveness, we gain more assurance of our primary conclusions.

We first ascertain the association between the *Partner Symmetry* categorization from Anaface.com and the *Attractive Partner* categorization from our MTurk raters by fitting the following logistic model in Table 9:

$$Prob.(Partner\ Symmetry = 1) = \partial + \vartheta * Attractive\ Partner + \theta * Female\ Partner + \pi * Partner\ Experience + \varepsilon \quad (Eq.\ 3)$$

where all variables are described above and defined in Appendix A. As expected, after controlling for gender and experience, there is a strong positive association between *Partner Symmetry* and *Attractive Partner*. Specifically, the odds ratio of 1.910 indicates that partners in the top quintile of the MTurk attractiveness ratings are 91 percent more likely to receive a top-quintile Anaface score. However, unlike *Attractive Partner, Partner Symmetry* is not significantly associated with gender or experience. Next, we re-estimate *Eq. 1* and *Eq. 2* using *Partner Symmetry* in place of *Attractive Partner*. As in Table 5, we estimate *Eq. 2* separately for firms with low- and high-expertise audit committees. As reported in Table 9, we obtain similar inferences using this alternative measure of audit partner attractiveness, although our results from the partner selection model (*Eq. 1*) are somewhat weaker.[22]

5.3 ASSOCIATION BETWEEN AUDITOR ATTRACTIVENESS AND FINANCIAL REPORTING QUALITY

Our results to this point are silent as to whether any preference for attractive audit partners is associated with better or worse financial reporting. Even if attractiveness is

[22] The fact that the Anaface.com categorization yields similar results but is not significantly associated with gender or experience also provides further support that our primary results are not simply an artifact of gender or age.

uncorrelated with auditor quality in the overall population of auditors, an association between attractiveness and quality could still arise in subsamples of the population due to how attribute substitution skews auditor selection. Specific to our theory, if low-expertise audit committees tend to select auditors who are either very attractive or clearly high in ability (or both), an inverse association between attractiveness and auditor ability would arise within this subsample, as we illustrate in Appendix C. Conversely, if high-expertise committees tend to disregard attractiveness in favor of more direct assessments of ability, one would not expect a correlation between attractiveness and auditor ability within this subsample in the absence of an overall correlation in the auditor population as a whole.

We test this reasoning in a final analysis based on the rough but common approach of inferring audit and reporting quality from the properties of audited earnings (DeFond and Zhang [2014]). Specifically, we define *Abs. Value of Disc. Accruals* as the absolute value of discretionary accruals, measured as in Francis and Yu [2009]. We then test the association between *Abs. Value of Disc. Accruals* and audit partner attractiveness by fitting the following regression model within the low- and high-expertise audit committee subsamples:

$$Abs.Value\ of\ Disc.Accruals = \mu + \lambda * Attractive\ Partner + \varepsilon, \qquad (Eq.\ 4)$$

with variables as described above and defined in Appendix A. As with *Eq. 1* and *Eq. 2*, we first fit *Eq. 4* without controls to maximize our available sample, and then expand the equation to include several control variables. For specifications of *Eq. 4* with controls, in addition to the control variables in Table 5, we control for total accruals (*Total Accruals*), cash flows (*Cash Flows*) and the volatility of cash flows (*Cash Flow Volatility*). We also add a one-year lag of *Abs. Value of Disc. Accruals* (*Abs. Value of Disc. Accruals (t-1)).* Because *Abs. Value of Disc.*

Accruals is an inverse proxy for earnings quality, a positive (negative) value of λ would be consistent with the inference that attractive partners conduct lower (higher) quality audits.

Panel A of Table 10 presents the results of estimating *Eq. 4* within the low-expertise audit committee subsample, reporting specifications without controls in the left column and with controls in the right column. The attractiveness coefficient λ is positive and significant in both specifications ($p < 0.05$), suggesting that audit quality is *negatively* associated with audit partner attractiveness (i.e., larger discretionary accruals) for audit committees with relatively low financial expertise. As we illustrate in Appendix C, a negative association between auditor attractiveness and a proxy for audit quality within the subsample of low-expertise audit committees could arise from selection effects even if there is no association between attractiveness and quality for the population of auditors as a whole. Thus, our results do not support the conclusion that more attractive auditors conduct worse audits. At a minimum, however, the results from this analysis suggest that any preference at the margin for attractive audit partners within the low-expertise audit committee subsample does not appear to lead to *higher* quality financial reporting.

Panel B of Table 10 reports the results of estimating *Eq. 4* within the *high*-expertise audit committee subsample, again without controls in the left column and with controls in the right column. In these tests, the attractiveness coefficient λ falls dramatically (i.e., from 0.056 for the low-expertise subsample to 0.006 in the high-expertise subsample in the specification with controls), and no longer differs significantly from zero. Thus, for the subsample that our theory suggests would tend to base auditor selections more on quality assessments irrespective of appearances, we no longer discern an association between an accruals-based measure of reporting quality and audit partner attractiveness ratings. Consistent with the reasoning that audit

partner appearances are at least in part superficial, we conclude that a preference for attractive partners does not appear to benefit (and may be detrimental to) the financial reporting quality of companies with low-expertise audit committees, while auditor appearances appear to be inconsequential to companies with high-expertise audit committees.

6. Conclusion

We use newly mandated PCAOB Form AP audit partner disclosures to test whether audit committees with less financial expertise place more emphasis on superficial auditor characteristics than do audit committees with more financial expertise. To proxy for audit partners' superficial characteristics, we obtain subjective ratings of auditor partners' physical appearances from independent raters. We build on the concept of "attribute substitution" from psychology, which holds that people often subconsciously superimpose an alternative attribute that is easier to observe (auditor appearance) when the attribute of interest is relatively difficult to ascertain (audit quality). We predict that less-expert audit committees find it more difficult to differentiate the quality of competing auditors, such that these committees will be more likely to select more physically attractive audit partners as a substitute attribute. Our findings are consistent with this reasoning. Specifically, we find that audit committees with less financial expertise are more likely to engage audit partners rated as physically attractive by a group of independent raters. This association is mitigated in cases in which audit partner quality is more easily observable because the audit partner has a longer track record or a member of the audit committee has a personal connection with the audit industry. We also find that, relative to audit committees with more financial expertise, audit committees with less expertise pay a differential audit fee premium to physically attractive audit partners.

To address the possibility that audit partner appearances could be correlated with potentially substantive indicators of audit quality, we regress discretionary accruals against our indicator for attractive partners within partitioned subsamples for low- and high-expertise audit committees, finding that attractive partners are associated with significantly *greater* discretionary accruals only within the low-expertise subsample. The fact that we do not observe an overall association across subsamples between partner attractiveness and discretionary accruals suggests that the association within the low-expertise subsample is more likely to reflect a selection effect within low-expertise audit committees (see Appendix C for a detailed explanation) than any substantive audit quality factor that is systematically associated with attractiveness. Partner appearances could still plausibly be correlated with other *superficial* perceptions, of course. For example, attractive partners might appear to be more confident or self-assured. Thus, we interpret our findings as reflecting the general construct of auditor traits that are likely to be at least partially superficial, rather than the specific trait of attractiveness *per se*. Whether we are observing the influence of attractiveness or other traits that happen to be correlated with attractiveness, however, our supplemental accruals-based tests suggest that any such traits do not appear to help low-expertise audit committees attain more reliable audited financial statements.

We acknowledge the possibility that audit firms themselves could also play a role in auditor selection. To the extent that audit firms might push their most attractive partners to their largest and most important clients, our inclusion of control variables for client size and client importance should help to address this point. Still, the possibility remains that audit firms might choose to propose more attractive partners to audit committees with less expertise. While such actions could plausibly contribute to an inverse association between audit committee expertise and audit partner attractiveness, audit firm actions alone would be unlikely to explain the

willingness of low-expertise audit committees to pay an audit fee premium to attractive audit partners, especially when the low-expertise audit committee subsample is characterized by an inverse association between audit partner attractiveness and an accruals-based proxy for audit quality. Thus, our findings as a whole support the conclusion that the associations we detect result at least in part from preferences of audit committees that are incremental to any strategic actions taken by audit firms. We acknowledge that our tests cannot conclusively determine the extent to which audit firm actions might also contribute to the attractiveness-based selection effects we observe, but either way, our results indicate that the influence of audit partner attractiveness decreases as audit committee expertise increases.

Our findings should not be interpreted as suggesting that attractive audit partners are any better or worse than less-attractive partners, on average, or that audit committees should attempt to engage more-attractive or less-attractive auditors. Rather, we interpret our findings as suggesting that audit committees should engage the *best* auditors available, an assessment that is likely enhanced by expertise on the audit committee. To the extent that expertise enables audit committees to look beyond superficial auditor characteristics, expert committees can fulfill their stewardship role more effectively. Along this line, we encourage more research that goes beyond the question of *whether* appearances matter to the conditioning questions of *when* appearances matter. In our view, conditioning questions are more likely to lead to meaningful implications for practice. The implication we draw from the current study is not that audit committees should favor or disfavor attractive auditors, but rather is that audit committees should develop the expertise to evaluate auditors on more substantive grounds.

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Appendix A: Variable Definitions and Sources.

Variable	Definitions	Data Source
Partner Appearance Variables		
Attractive Partner	An indicator variable equal to 1 if value of Attractive Raw Score is greater than 5, 0 otherwise.	Partner photographs obtained from public domain and rated by Amazon MTurk workers
Attractive Raw Score	The mean response of up to 9 Amazon MTurk workers to the questionnaire presented in Appendix B.	Partner photographs obtained from public domain and rated by Amazon MTurk workers
Other Partner Variables		
Female Partner	An indicator variable equal to 1 if the audit partner is female, 0 otherwise	Partner photographs from public domain and gender determination by the authors
Partner Experience	The number of years between the fiscal year end for the observation and the date that the associated audit partner received his or her CPA license.	State Boards of Accountancy
Audit Committee Variables		
Percent of AC with Financial Expertise	The percentage of audit committee members that are qualified as financial experts according to BoardEx	BoardEx
No. of Directors on AC	The total number of members on the audit committee	BoardEx
Percent of AC that is Female	The percentage of audit committee members that are female	BoardEx
Dependent Variables		
Scaled Audit Fees	Total audit fees scaled by total assets	Compustat and Audit Analytics
Log of Audit Fees	The natural log of total audit fees	Audit Analytics
Abs. Value of Disc. Accruals	The absolute value of discretionary accruals, controlling for firm performance (Kothari et al. 2005).	Compustat
Other Variables		
Total Accruals	Total accruals scaled by lagged total assets.	Compustat
Abs. Value of Disc. Accruals (t-1)	The value of Abs. Value of Disc. Accruals in the year t-1.	Compustat
Log of Client Assets	The natural log of total client assets (in millions).	Compustat
Leverage	Total client liabilities scaled by lagged total assets.	Compustat
Loss	An indicator variable set equal to 1 if the client had negative net income for the current year; 0 otherwise.	Compustat
New Financing	An indicator variable set equal to 1 if the client issued to debt or equity in either the current year or the previous year; 0 otherwise.	Compustat
Audit Office Size	The natural log of all audit fees charged by the audit office for audits of fiscal years ending during the current	Audit Analytics

	calendar year.	
Expert Auditor	An indicator variable set equal to 1 if the audit office earns more fees in the client's industry than any other office in the same CBSA during the current year; 0 otherwise.	Audit Analytics
Number of Business Segments	The number of business segments in which the client operates.	Compustat
Number of Geographic Segments	The number of geographic segments in which the client operates.	Compustat
Acquisition	An indicator variable set equal to 1 if the client engaged in an acquisition during the current or previous fiscal years; 0 otherwise.	Compustat
Client Importance	Audit fees provided by the client scaled by total audit fees generated by the audit office (Francis and Yu 2009)	Audit Analytics
Growth	The percentage change in total client assets from the previous year to the current year	Compustat
Inventory	Total inventory scaled by lagged total assets.	Compustat
Audit Firm Tenure	The number of consecutive years for which the current auditor has been engaged to perform the client's financial statement audit.	Audit Analytics
Cash Flows	Average cash flows scaled by assets for the previous five years	Compustat
Cash Flow Volatility	The standard deviation of cash flows scaled by assets for the previous five years	Compustat
Calendar Year End	An indicator variable set equal to 1 if the client's fiscal year ends on December 31st; 0 otherwise.	Compustat

Appendix B: Audit Partner Appearance Rating Form

We will collect 9 responses to the prompt below. To encourage thoughtful responses, the response that falls closest to the average (mean) for the group will receive a $0.10 bonus. The bonus will be split in case of ties. If there is a technical issue and no image is shown, please enter the number "99" in the response field.

On a scale from 1 (strongly disagree) to 7 (strongly agree), please rate your agreement with the following statement:

"*The person in the photograph below appears Attractive.*"

Enter your rating here:

e.g. 6

Submit

Appendix C: How Selection Effects Induce a Relation Between Auditor Appearances and Auditor Ability

This purpose of this appendix is to illustrate how selection effects can induce a negative correlation between audit partner appearance and audit quality even if there is no underlying relationship between auditor appearance and auditor ability in the overall population. We begin by simulating a hypothetical sample of 360 synthetic partners (approximately the number of partners in our study), randomly assigning each observation an *Auditor Appearance* and *Auditor Ability* score on a uniformly distributed scale of one to seven. Figure C1 below reports the scatter plot of these partners. By construction, a regression of *Auditor Ability* on *Auditor Appearance* finds no significant relationship between the two (coeff. = 0.017; t = 0.31).

To represent a high-expertise audit committee selection process based on auditor ability irrespective of appearance, we next generate a subsample of hypothetical partners with *Auditor Ability* scores greater than or equal to four. Figure C2 reports the scatter plot of this subsample. A regression of *Auditor Ability* on *Auditor Appearance* in this subsample again finds no significant relationship between the two (coeff. = -0.028; t = -0.17), as is to be expected given that this subsample is unbiased by different appearance scores.

To represent the selection effects of low-expertise audit committees conflating *Auditor Appearance* and *Auditor Ability*, we then create a different subsample based on an equally weighted average of the two scores. We restrict this subsample to partners with an *average* score greater than or equal to four. In simple terms, this subsample induces a selection effect that favors both high appearance scores and high ability scores. Figure C3 reports the resulting scatter plot. A regression of *Auditor Ability* on *Auditor Appearance* in this subsample now finds a strong negative association between *Auditor Ability* and *Auditor Appearance* (coeff = -0.532; t = -7.85).

This association is purely a selection effect resulting from underrepresentation of the low-appearance, low-ability quadrant relative to the other three quadrants (see Figure C3).

We use strict selection criteria in this illustration (i.e., high-expertise audit committees selecting only partners with ability scores greater than four or low-expertise committees selecting only partners with average appearance and ability scores greater than four). In reality, such strict selection criteria are unlikely. However, all that is required to obtain similar (if less dramatic) results is that high-expertise audit committees have a *preference* for highly capable audit partners while low-expertise committees have a *preference* for highly attractive or highly capable audit partners. Because our study uses data observed *after* the potential effects of attribute substitution, the negative correlation we observe between auditor appearance and audit quality in the low-expertise subsample cannot be generalized to all audit partners. Further, if such a negative relationship existed in general, we would expect it to appear even in high-expertise audit committees. We find no such evidence in our study.

FIGURE C1

Scatter plot of 360 observations with randomly determined *Auditor Appearance* and *Auditor Ability*.
Regression line is based on *Auditor Ability* = α + β * *Auditor Appearance* + ε.

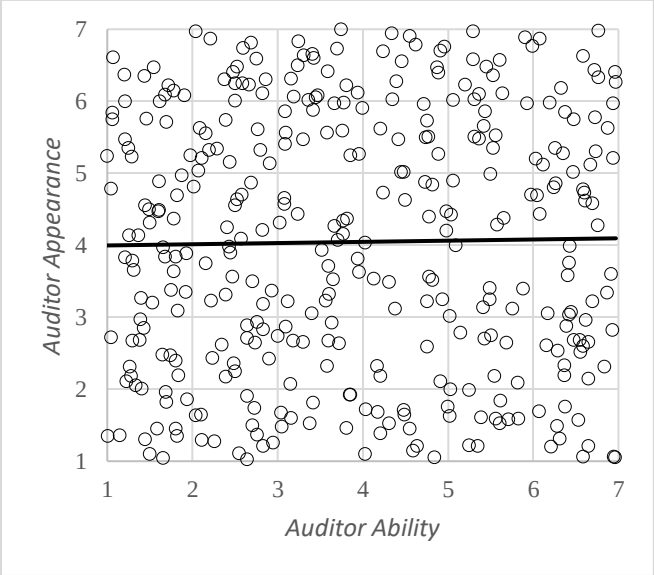

FIGURE C2

Scatter plot of selected observations with *Auditor Ability* > 4.
Regression line is based on *Auditor Ability* = α + β * *Auditor Appearance* + ε.

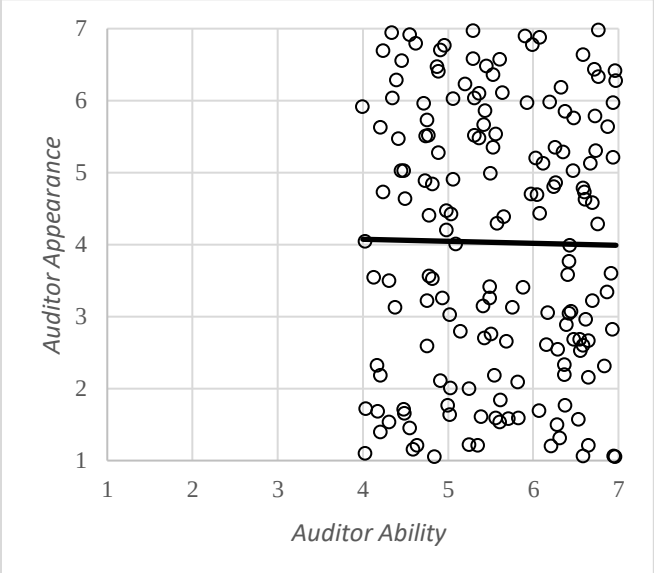

FIGURE C3

Scatter plot of selected observations with average *Auditor Appearance* and *Audit Ability* > 4. Regression line is based on *Auditor Ability* = α + β * *Auditor Appearance* + ε.

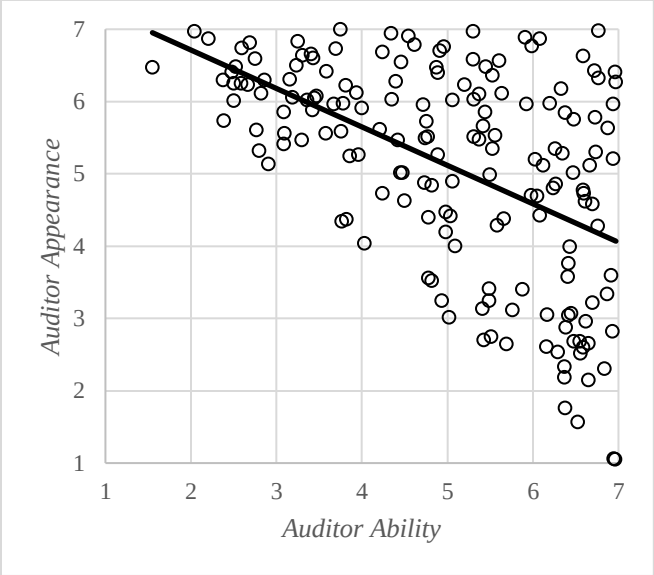

TABLE 1

Sample Determination

	No. of Firms	No. of Partners
Unique firm-year observations in Form AP data as of 7/14/2017*	5,255	2,640
Less observations with non-Big-Four auditor	(2,318)	(952)
Less observations without required committee and/or board-member data in BoardEx	(1,118)	(364)
Less observations for which no photo of the partner could be found	(1,270)	(940)
Available sample	549	384

* Does not include employee benefit plans, investment companies, or companies located outside the Unites States.

TABLE 2
Descriptive Statistics

Variables	Count	Mean	5th Pctl	25th Pctl	Median	75th Pctl	95th Pctl	Standard Deviation
Partner Appearance Variables								
Attractive Partner	549	0.197	0.000	0.000	0.000	0.000	1.000	0.398
Attractive Raw Score	549	4.119	2.556	3.500	4.111	4.875	5.667	0.908
Other Partner Variables								
Female Partner	549	0.159	0.000	0.000	0.000	0.000	1.000	0.366
Partner Experience	511	20.711	11.175	16.003	20.066	24.959	32.937	6.489
Audit Committee Variables								
Percent of AC with Financial Expertise	549	0.556	0.200	0.333	0.500	0.800	1.000	0.288
No. of Directors on AC	549	4.386	3.000	3.000	4.000	5.000	7.000	1.300
Percent of AC that is Female	549	0.177	0.000	0.000	0.200	0.286	0.500	0.172
Dependent Variables								
Scaled Audit Fees	466	0.160	0.007	0.028	0.074	0.182	0.596	0.228
Log of Audit Fees	468	14.566	13.152	13.896	14.442	15.176	16.284	0.969
Abs. Value of Disc. Accruals	376	0.060	0.003	0.016	0.039	0.070	0.163	0.092
Other Variables								
Log of Audit Fees	468	14.566	13.152	13.896	14.442	15.176	16.284	0.969
Abs. Value of Disc. Accruals	376	0.060	0.003	0.016	0.039	0.070	0.163	0.092
Total Accruals	376	-0.072	-0.212	-0.094	-0.060	-0.034	0.028	0.085
Abs. Value of Disc. Accruals (t-1)	360	0.096	0.005	0.025	0.057	0.114	0.314	0.154
Log of Client Assets	540	7.830	4.876	6.566	7.790	9.019	11.064	1.827
Leverage	534	0.619	0.156	0.444	0.616	0.806	0.989	0.261
Loss	540	0.248	0.000	0.000	0.000	0.000	1.000	0.432
New Financing	540	0.533	0.000	0.000	1.000	1.000	1.000	0.499
Audit Office Size	541	17.282	14.883	16.760	17.633	18.464	19.467	2.592
Expert Auditor	541	0.427	0.000	0.000	0.000	1.000	1.000	0.495
Calendar Year End	540	0.976	1.000	1.000	1.000	1.000	1.000	0.153
Number of Business Segments	496	2.335	1.000	1.000	1.000	4.000	6.000	1.739
Number of Geographic Segments	496	2.417	1.000	1.000	1.000	3.000	6.000	2.240
Acquisition	540	0.298	0.000	0.000	0.000	1.000	1.000	0.458
Client Importance	468	0.114	0.006	0.019	0.042	0.129	0.469	0.169
Growth	540	0.068	-0.215	-0.041	0.028	0.105	0.594	0.260
Inventory	463	0.076	0.000	0.000	0.018	0.113	0.298	0.125
Audit Firm Tenure	541	18.118	2.000	7.000	15.000	21.000	55.000	17.562
Cash Flows	386	0.047	-0.299	0.047	0.075	0.113	0.198	0.172
Cash Flow Volatility	346	0.115	0.009	0.022	0.045	0.085	0.417	0.328

TABLE 3

Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Attractive Partner								
(2) Attractive Raw Score	0.68*							
(3) Scaled Audit Fees	0.13*	0.09*						
(4) Abs. Value of Disc. Accruals	0.12*	0.12*	0.47*					
(5) Percent of AC with Financial Expertise	-0.13*	-0.08	-0.06	-0.11*				
(6) No. of Directors on AC	-0.08	-0.05	-0.25*	-0.17*	-0.05			
(7) Percent of AC that is Female	-0.08	-0.06	-0.13*	-0.13*	0.03	0.06		
(8) Female Partner	0.42*	0.38*	0.15*	0.19*	-0.06	-0.06	-0.07	
(9) Partner Experience	-0.21*	-0.25*	-0.10*	0.02	0.01	0.05	0.08	-0.14*

* Correlation coefficient statistically significant at $p < 0.05$.

TABLE 4

Logistic Regression for Auditor Selection

Dependent variable: *Attractive Partner*

Variables	Model 1 Without Controls		Model 2 With Controls	
	Odds Ratio	Test Statistic	Odds Ratio	Test Statistic
Percent of AC with Financial Expertise	0.288	3.11***	0.263	2.49**
Log of Client Assets			0.813	2.11**
No. of Directors on AC			1.016	0.12
Audit Firm Tenure			0.998	0.16
Client Importance			1.128	0.14
Female Partner			9.089	6.64***
Partner Experience			0.905	3.67***
Percent of AC that is Female			0.571	0.64
Observations	549		436	
Pseudo R-squared	0.019		0.228	
Fixed Effects	Industry		Industry	

** Odds ratio significantly different from unity at $p < 0.05$.
*** Odds ratio significantly different from unity at $p < 0.01$.

TABLE 5

Regression for Audit Fees

Dependent variable: ***Scaled Audit Fees***

Variables	Without Controls DV = Scaled Audit Fees Coefficient	Test Statistic	With Controls DV = Scaled Audit Fees Coefficient	Test Statistic
Panel A: Low-Expertise Audit Committees (≤ 50%)				
Attractive Partner	**0.128**	**4.12*** **	**0.076**	**2.48** **
Log of Client Assets			**-0.078**	**7.21*** **
Leverage			0.027	0.55
Loss			0.194	6.19***
New Financing			0.012	0.43
Audit Office Size			0.018	1.93*
Expert Auditor			-0.030	1.19
Calendar Year End			-0.105	0.54
Number of Business Segments			-0.003	0.38
Number of Geographic Segments			0.020	3.61***
Acquisition			-0.006	0.23
No. of Directors on AC			-0.002	0.21
Female Partner			-0.007	0.19
Partner Experience			0.002	1.00
Growth			0.015	0.35
Percent of AC that is Female			-0.034	0.53
Inventory			0.041	0.24
Audit Firm Tenure			0.000	0.57
Panel B: High-Expertise Audit Committees (> 50%)				
Attractive Partner	-0.029	0.57	-0.053	1.18
Log of Client Assets			-0.086	8.25***
Leverage			0.121	2.21**
Loss			0.064	2.03**
New Financing			-0.026	0.86
Audit Office Size			0.010	0.92
Expert Auditor			-0.019	0.71
Calendar Year End			-0.079	0.46
Number of Business Segments			-0.004	0.56
Number of Geographic Segments			0.008	1.24
Acquisition			-0.001	0.04
No. of Directors on AC			0.007	0.52
Female Partner			-0.006	0.13
Partner Experience			0.004	1.88*
Growth			-0.025	0.42
Percent of AC that is Female			-0.022	0.28
Inventory			-0.403	1.82*
Audit Firm Tenure			0.001	1.03
Observations (Panel A)	246		184	
Observations (Panel B)	220		178	
Adjusted R-squared (Panel A)	0.061		0.666	
Adjusted R-squared (Panel B)	0.000		0.490	
Fixed Effects	Industry		Industry	

* Regression coefficient statistically significant at $p < 0.10$.
** Regression coefficient statistically significant at $p < 0.05$.
*** Regression coefficient statistically significant at $p < 0.01$.

TABLE 6

Logistic Regression for Auditor Selection Partitioned by Partner Experience

Dependent variable: *Attractive Partner*

	Without Controls		With Controls	
Variables	Odds Ratio	Test Statistic	Odds Ratio	Test Statistic
Panel A: Early-Career Partners (< 15 years)				
Percent of AC with Financial Expertise	0.135	2.43**	0.142	1.91*
Log of Client Assets			0.959	0.23
No. of Directors on AC			0.804	0.90
Audit Firm Tenure			1.009	0.51
Client Importance			0.167	0.97
Female Partner			11.867	3.55***
Percent of AC that Is Female			0.135	1.14
Panel B: Mid-Career Partners (> 15 years & < 25 years)				
Percent of AC with Financial Expertise	0.301	2.14**	0.285	1.70*
Log of Client Assets			0.690	2.51**
No. of Directors on AC			1.275	1.37
Audit Firm Tenure			0.993	0.45
Client Importance			3.504	1.02
Female Partner			10.703	5.35***
Percent of AC that Is Female			2.101	0.63
Panel B: Late-Career Partners (> 25 years)				
Percent of AC with Financial Expertise	0.481	0.90	0.294	1.15
Log of Client Assets			0.673	2.07**
No. of Directors on AC			0.872	0.52
Audit Firm Tenure			1.009	0.65
Client Importance			0.068	1.08
Female Partner			3.649	1.92*
Percent of AC that Is Female			0.764	0.16
Observations (Panel A)	102		91	
Observations (Panel B)	286		235	
Observations (Panel C)	161		139	
Pseudo R-squared (Panel A)	0.052		0.231	
Pseudo R-squared (Panel B)	0.017		0.209	
Pseudo R-squared (Panel C)	0.006		0.182	
Fixed Effects	Industry		Industry	

* Odds ratio statistically significant at $p < 0.10$.
** Odds ratio statistically significant at $p < 0.05$.
*** Odds ratio statistically significant at $p < 0.01$.

TABLE 7

Logistic Regression for Auditor Selection Partitioned by Big-N Connection on Audit Committee

Dependent variable: *Attractive Partner*

Variables	Without Controls DV = Attractive Partner Odds Ratio	Test Statistic	With Controls DV = Attractive Partner Odds Ratio	Test Statistic
Panel A: ACs with no Big-N Connection				
Percent of AC with Financial Expertise	**0.065**	**3.72*** **	**0.027**	**3.14*** **
Log of Client Assets			0.801	1.24
No. of Directors on AC			0.732	1.17
Audit Firm Tenure			1.019	1.17
Client Importance			2.697	0.53
Female Partner			28.747	5.13***
Partner Experience			0.914	1.95*
Percent of AC that is Female			1.006	0.00
Panel B: ACs with Big-N Connection				
Percent of AC with Financial Expertise	**0.698**	**0.71**	**0.666**	**0.63**
Log of Client Assets			0.822	1.55
No. of Directors on AC			1.059	0.37
Audit Firm Tenure			0.989	0.82
Client Importance			0.927	0.08
Female Partner			5.635	4.02***
Partner Experience			0.890	3.24***
Percent of AC that is Female			0.604	0.48
Observations (Panel A)	222		176	
Observations (Panel B)	327		260	
Pseudo R-squared (Panel A)	0.076		0.401	
Pseudo R-squared (Panel B)	0.002		0.172	
Fixed Effects	Industry		Industry	

* Odds ratio statistically significant at $p < 0.10$.
** Odds ratio statistically significant at $p < 0.05$.
*** Odds ratio statistically significant at $p < 0.01$.

TABLE 8

Robustness Checks

Variables	Pooled Sample (H1) DV = Attractive Partner Proxy O.R./Coeff.	Test Statistic	Low-Expertise ACs (H2) DV = Audit Fees Proxy Coeff.	Test Statistic	High-Expertise ACs (H2) DV = Audit Fees Proxy Coeff.	Test Statistic
Panel A: Without Female Partners						
Percent of AC with Financial Expertise	0.252	2.55**				
Attractive Partner			0.087	2.56**	0.033	0.54
Panel B: Large ACs Only						
Percent of AC with Financial Expertise	0.146	2.28**				
Attractive Partner			0.149	3.40***	-0.033	0.41
Panel C: Raw Attractive Score						
Percent of AC with Financial Expertise	-0.242	1.80*				
Attractive Raw Score			0.036	2.59**	0.002	0.10
Panel D: Long Tenure Audit Committees						
Percent of AC with Financial Expertise	0.298	1.97**				
Attractive Partner			0.091	1.95*	-0.022	0.31
Panel E: Logged Audit Fees						
Attractive Partner			0.214	2.21**	-0.209	1.66
Observations (Panel A)	461		205		192	
Observations (Panel B)	157		154		131	
Observations (Panel C)	549		246		220	
Observations (Panel D)	200		97		76	
Observations (Panel E)			184		178	
Controls	Panel E Only		Panel E Only		Panel E Only	

* Statistically significant at $p < 0.10$.
** Statistically significant at $p < 0.05$.
*** Statistically significant at $p < 0.01$.

TABLE 9

Robustness Tests of Facial Symmetry Proxy from Anaface.com for Partner Attractiveness

	Pooled Sample DV = Partner Symmetry		Pooled Sample (H1) DV = Partner Symmetry		Low-Expertise ACs (H2) DV = Scaled Audit Fees		High-Expertise ACs (H2) DV = Scaled Audit Fees	
Variables	Odds Ratio	Test Statistic	Odds Ratio	Test Statistic	Coeff.	Test Statistic	Coeff.	Test Statistic
Partner Symmetry					0.077	2.61***	-0.024	0.52
Percent of AC with Financial Expertise			0.441	1.83*				
Attractive Partner	1.910	1.97**						
Female Partner	0.627	1.13						
Partner Experience	1.012	0.61						
Observations	389		389		172		154	

* Statistically significant at $p < 0.10$.
** Statistically significant at $p < 0.05$.
*** Statistically significant at $p < 0.01$.

TABLE 10

Regression of Discretionary Accruals on Partner Attractiveness

Dependent variable: ***Abs. Value of Disc. Accruals***

Variables	Without Controls DV = Abs. Value of Disc. Accruals Coeff.	Test Statistic	With Controls DV = Abs. Value of Disc. Accruals Coeff.	Test Statistic
Panel A: Low-Expertise Audit Committees (≦ 50%)				
Attractive Partner	**0.042**	**2.40****	**0.056**	**2.02****
Total Accruals			**0.339**	**2.83*****
Discretionary Accruals (t-1)			0.151	3.18***
Log of Client Assets			-0.010	1.00
Leverage			0.166	3.75***
Loss			0.018	0.67
New Financing			-0.042	1.56
Audit Office Size			0.007	0.78
Expert Auditor			-0.015	0.66
Calendar Year End			-0.075	0.38
Number of Business Segments			-0.004	0.64
Number of Geographic Segments			-0.003	0.54
Acquisition			-0.019	0.82
No. of Directors on AC			-0.007	0.83
Female Partner			-0.039	1.29
Partner Experience			0.004	2.15**
Growth			0.109	3.16***
Percent of AC that is Female			-0.089	1.59
Inventory			-0.101	0.66
Audit Firm Tenure			-0.001	1.35
Cash Flows			0.102	1.74*
Cash Flow Volatility			0.066	1.65
Panel B: High-Expertise Audit Committees (> 50%)				
Attractive Partner	-0.012	0.93	0.006	0.39
Total Accruals			-0.179	2.18**
Discretionary Accruals (t-1)			-0.046	0.69
Log of Client Assets			0.000	0.01
Leverage			0.018	0.86
Loss			-0.019	1.65
New Financing			0.001	0.06
Audit Office Size			0.002	0.81
Expert Auditor			0.023	2.47**
Calendar Year End			-0.055	1.20
Number of Business Segments			-0.002	0.91
Number of Geographic Segments			-0.000	0.04
Acquisition			0.006	0.60
No. of Directors on AC			-0.007	1.50
Female Partner			-0.012	0.80
Partner Experience			-0.000	0.14
Growth			0.000	0.02
Percent of AC that is Female			0.016	0.58
Inventory			0.087	1.23
Audit Firm Tenure			0.000	0.31
Cash Flows			-0.268	4.17***
Cash Flow Volatility			-0.119	1.66
Observations (Panel A)	202		157	
Observations (Panel B)	174		136	
Fixed Effects	Industry		Industry	

* Regression coefficient statistically significant at $p < 0.10$.
** Regression coefficient statistically significant at $p < 0.05$.
*** Regression coefficient statistically significant at $p < 0.01$.