

DO CONSULTING SERVICE AFFECT AUDIT QUALITY? EVIDENCE FROM THE WORKFORCE

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ABSTRACT

This paper investigates how consulting services affect audit quality, from the perspective of knowledge and expertise sharing between employees. Using a comprehensive office-level dataset of employment profiles and skillsets covering 86% of all employees at large U.S. public accounting firms, we document a positive effect of consulting employees on audit quality. This effect is strongest when consulting employees have skills complimentary to auditors, such as special industry, technical, and management skills, supporting the knowledge sharing hypothesis. In addition, we demonstrate that the effect increases with consulting employees' tenure with a firm, does not diminish over time, is present for both Big4 and non-Big4 firms, and is more pronounced for larger, more complex, and more important audit clients.

Keywords Consulting; Employee skills; Skill complementarity