

**Internet Appendix A126: Auditor-provided Tax Services
Illustrative Reverse Engineered Pitch Template Example**

Pitcher's Name	Eunice Khoo	FoR category	Auditor-provided tax services	Date Completed	4/8/16
(A) Title	Clive S. Lennox (2016) Did the PCAOB's Restrictions on Auditors' Tax Services Improve Audit Quality?. The Accounting Review: September 2016, Vol. 91, No. 5, pp. 1493-1512. [reverse engineered]				
(B) Basic Research Question	The PCAOB restrictions on auditor-provided tax services (APTS) in 2005: (a) came about in response to a view that audit firms were selling “abusive or illegal tax planning strategies”. (b) resulted in a significant drop in quantity, but did audit quality improve?				
(C) Key paper(s)	<ul style="list-style-type: none"> - Kinney, W., Z. Palmrose, and S. Scholz. 2004. Auditor independence, non-audit services, and restatements: Was the U.S. government right? <i>Journal of Accounting Research</i> 42 (3): 561-588. - Paterson, J., and A. Valencia. 2011. The effects of recurring and nonrecurring tax, audit-related, and other non-audit services on auditor independence. <i>Contemporary Accounting Research</i> 28 (5): 1510-1536. - Seetharaman, A., Sun, Y., and W. Wang. 2011. Tax-related financial statement restatements and auditor-provided tax services. <i>Journal of Accounting, Auditing and Finance</i> 26: 677-698. - De Simone, L., Ege, M., and B. Stomberg. 2015. Tax internal control quality: The role of auditor provided tax services. <i>The Accounting Review</i> 90 (4): 1469-1496. 				
(D) Motivation/Puzzle	The PCAOB introduced restrictions on auditors' tax services to address three concerns: (1) Audit firms were charging contingent fees for tax services; (2) Audit firms were selling aggressive tax schemes to their audit client; and (3) Audit firms were selling personal tax services to senior management of audit clients. The objective of the PCAOB restrictions was to improve auditor independence and financial reporting quality. Therefore, the motivation of this study is to investigate whether the introduction of the PCAOB restrictions achieved its intended objective of improving audit quality.				
THREE	Three core aspects of any empirical research project i.e. the “ IDioTs ” guide				
(E) Idea?	To examine whether audit quality is improved after the PCAOB introduced the restrictions on APTS, sample companies are first partitioned into a treatment group and control group. Treatment group consists of companies that significantly reduce their APTS fees (at least 75%) when the PCAOB restrictions came into effect. To mitigate the differences in company characteristics between the treatment and control groups, each treatment observation was matched to an observation in the control group that has the closest propensity score. The difference-in-differences design was used to test whether the difference in audit quality between the treatment and control groups changes when moving from the pre-event window (before PCAOB announced the restrictions) to the post-event window (after the restrictions became effective). This study adopts misstatements (accounting and tax-related) and going concern opinions as proxies for audit quality.				

(F) Data?	<p>Country: US Unit of Analysis: Firms Sample Period: 8 years (2002 - 2009) Data Type: Firm-specific Sample Size: 41,535 observations Data Sources: Audit Analytics, CRSP for stock returns data (supplemental analysis) Data Issue: - Drop all observations pertaining to companies that pay zero APTS fees at the end of the pre-event window because such companies cannot reduce their APTS fees during the transition window (between PCAOB announcement and the effective date of the restrictions).</p>
(G) Tools?	<p>Research Method: - Use tobit model to test whether the annual reductions in APTS fees are abnormally large during the transition window. - Assign sample company to the treatment group if its APTS fees fall by at least 75% during the transition window. - Use misstatements (accounting and tax-related) and going concern opinions as proxies for audit quality. - Use difference-in-difference design to test whether there are significant changes in audit quality for the treatment group relative to the control group after the restrictions on APTS are introduced. - Use propensity score matching to address the significant differences between companies that purchase large vs small amounts of APTS.</p>
TWO	Two key questions
(H) What's New?	This study suggests that there is no change in the audit quality of companies that significantly reduced their APTS purchases following the PCAOB restrictions. While prior studies examine all tax services provided by auditors, this study focus specifically on the tax services that the PCAOB chose to ban. Further, this study adopts a difference-in-differences design and propensity score matching to address the limitations of the cross-sectional approach used in prior studies.
(I) So What?	The finding of this study informs regulators on whether the PCAOB's restrictions on APTS achieved its intended objective of improving audit quality.
ONE	One bottom line
(J) Contribution?	This study examines the PCAOB's role as an overseer of public company auditing. Specifically, it examines the PCAOB's restrictions on auditors' tax services. Further, this study contributes to the literature by examining whether APTS pose a threat to audit quality.
(K) Three Key Findings	<ol style="list-style-type: none"> 1. Large and highly significant reductions in APTS fees when the PCAOB restrictions were introduced. 2. Companies that significantly reduced their APTS purchases when the PCAOB restrictions were introduced had significantly more accounting misstatements and more tax-related misstatements during the period prior to, as well as the period after, the restrictions. 3. There is no evidence that companies experience an improvement in audit quality subsequent to the restrictions.