
Abstract

We examine whether US-listed foreign companies can provide additional reassurance by “bonding” themselves to a US-based (rather than home country-based) Big N firm as their principal auditor. We find compelling evidence that US-based Big N auditors are associated with higher quality earnings (albeit for a higher fee) than home country-based Big N auditors. Notably, the higher earnings quality is observed despite two factors -- the greater geographic distance between the US-based (vis-à-vis home country-based) Big N auditor and the client, and the likelihood that much of the audit work is done outside the US -- which potentially could lower the earnings quality of the US-listed foreign client when the Big N principal auditor is US-based. Overall, our study offers insights into the “bonding” value of a US-based Big N auditor, i.e., suggests that the audit fee premium reflects not just price protection but also an improvement in the financial reporting environment for the US-listed foreign client.

Key Words: US-listed foreign companies, Big N auditor, PCAOB, geographic distance, audit fees, quality of audited earnings.

JEL Classification: L11, L15, M42