

Religion and the Demand for Audit Services: Evidence from China*

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Abstract

Informal institutional arrangements have been a hot topic in recent years. This paper investigates how religion, as an informal institution, affects the auditor choices of Chinese listed firms. Using the number of major Buddhist monasteries and Taoist temples recognised by the State Bureau of Religious Affairs within a certain distance of a listed firm as a proxy for the degree of religion's influence, we find that the stronger the influence of religion, the more likely the firm is to choose a high-quality accounting firm and the less likely it is to switch auditors. The stronger the influence of religion, the more likely firms are to employ an experienced signing partner and the higher the audit fees the firm is prepared to pay for this high-quality audit service. As a result of this higher demand for high-quality audit services, the firms subject to higher religious influence report higher-quality accounting information. Our findings contribute to the auditor choice literature from the perspective of religion, and offer empirical evidence to help understand the religious influence on firms' behaviour in emerging markets.

Keywords: Religion, Auditor Choice, Audit Engagement Stability, Experience of Signing Partner, Audit Quality

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宗教传统与审计需求：中国的经验证据

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摘要

非正式制度安排在新兴市场中的作用日益受到关注。本文考察非正式制度安排之宗教传统对上市公司审计需求进而对审计质量的影响。采用上市公司一定距离内国家宗教事务局认定的主要寺观数量来测度受宗教传统影响程度后发现，上市公司所在地宗教传统越浓厚，其越可能聘用高质量会计师事务所进行年报审计，并且上市公司和会计师事务所之间的契约关系更加稳定。进一步地，处于宗教传统影响浓厚地区的上市公司为高质量的审计服务（聘请更有经验的签字会计师）支付了较高的审计费用。在经济后果方面，高质量的审计投入为这些上市公司带来了较高的盈余质量。本文从宗教层面拓展了审计师选择方面的文献，为理解宗教在新兴市场公司行为的作用提供新的实证证据。

关键词：宗教传统、审计师选择、契约稳定性、签字审计师经验、审计质量

I. Introduction

The influence of formal institutional arrangements, such as laws and government regulation, on firms' behaviour has prompted heightened interest in capital markets within academic, public, and policymaking circles (La Porta *et al.*, 1998; Beck *et al.*, 2003). In recent years, increasing numbers of researchers have begun to highlight the influence of informal institutional arrangements on economic growth (Williamson, 2000; Allen *et al.*, 2005; Chen *et al.*, 2013; Du, 2013). "Informal institutional arrangement" refers to norms or unconsciously accepted standards or to a way of behaving or acting rooted in the culture. It covers but is not restricted to ethics, values, religions, and customs. The literature presents many explorations in this area. For example, Larcker *et al.* (2013) find that social networks help to relieve financial constraints and promote investment efficiency, thus improving firm value. The diversification of gender increases the informativeness of stock prices (Gul *et al.*, 2011) as well as the performance of corporate social responsibility (Paul *et al.*, 2017). As an important part of human culture, religion has also attracted the attention of researchers. Hilary and Hui (2009) and Jiang *et al.* (2015) report that firms located in countries with higher levels of religiosity display lower degrees of risk exposure and have lower investment and growth rates. Dyreng *et al.* (2012) mainly focus on the effect of religion on accounting information quality. Du (2013, 2014) finds that Chinese firms located in areas with a higher level of religiosity have lower owner-manager agency costs, and their large shareholders show less tunnelling behaviour.

Geographic proximity is usually used to measure the influence of religion (Malloy, 2005; Butler, 2008; Choi *et al.*, 2012). Chen *et al.* (2013) and Du (2013) use the number of Buddhist and Taoist temples within a certain distance from a firm as a proxy for the influence of religion. In this study, taking the same proxy as Chen *et al.* (2013) and Du (2013) and using data regarding Chinese firms from 2008 to 2015, we focus on the impact of religion (Buddhism and Taoism) on listed firms' demand for high-quality audit services. Specifically, we analyse how religion affects a firm's choice of auditor, auditor switching, choice of signing partner, and the attitude to paying audit services. Buddhism and Taoism have common doctrinal characteristics focusing on self-discipline, altruism, and risk aversion. Self-discipline instructs people to be truthful, honest, and to control one's lusts and overcome one's weaknesses. Altruism is a traditional virtue in many cultures and a core aspect of various religious traditions. It is defined as the performance of an action at one's own cost to benefit another third-party individual, either directly or indirectly. Risk aversion is a human attitude towards uncertainty governing behaviour—an attempt to reduce that uncertainty.

In view of the above characteristics of religion, we expect firms in a more highly religion-influenced area to present higher demand for high-quality audit services. Higher audit quality may be shown in several aspects. First, the audit quality of big audit firms is proved to be higher than that of small ones (DeAngelo, 1981; Francis and Krishnan, 1999), so we expect

firms in a more highly religion-influenced area to tend to hire Big10 accounting firms. Second, if a firm has special needs for high-quality audit services, it will be less likely to switch auditors. Switching auditors is usually considered a signal of opinion shopping (DeFond *et al.*, 2000; Lennox, 2000; Carcello and Neal, 2003; Newton *et al.*, 2015). Third, Gul *et al.* (2013) find that individual partners present significant differences in audit quality. Experienced signing partners can provide more valuable audit services and give more constructive suggestions to clients' managers. So, a firm in a more highly religion-influenced area will tend to require more sophisticated partners to take charge of its annual auditing project. Fourth, all these demands, including big auditors and experienced partners, imply that firms are prepared to pay higher audit fees. Lastly, higher audit efforts offer accounting information of higher quality.

Consistent with our conjunctures, the empirical results show that more highly religion-influenced firms do have a greater demand for higher-quality audit services: they exhibit a greater tendency to choose big accounting firms and more experienced signing partners. Meanwhile, they are less likely to switch accounting firms. Further, these more highly religion-influenced firms are willing to pay higher fees for high-quality audit services. Consequently, their earnings quality is significantly higher than that of less religion-influenced firms.

This paper contributes to the literature in several ways. First, the current literature focuses on the impact of religion on agency costs, corporate social responsibility, investment decisions, earnings quality, and stock price crash risk (Callen *et al.*, 2011; Dyreng *et al.*, 2012; McGuire *et al.*, 2012; Chen *et al.*, 2013; Du, 2014; Callen and Fang, 2015). Few studies have investigated the impact of religion on firms' demand for audit services and attitude to audit fees. This study attempts to fill this gap. Second, although the current literature finds that religion has a positive effect on earnings quality (McGuire *et al.*, 2012; Chen *et al.*, 2013), it is still difficult to determine the exact reasons for this impact, as it may be the result of a firm's own self-discipline and ability to produce high-quality information. It may also be the result of high-quality external audit services. In this paper we attempt to find another path through which religion impacts earnings quality. Third, unlike formal institutional arrangements, such as laws and regulations, religion is an informal institution and is an important part of culture. We argue that religion influences corporate governance and affects a firm's demand for audit services. This gives us an opportunity to distinguish between high audit fees for high-quality services and high audit fees for opinion shopping or lowballing (O'Keefe, Simunic, and Stein, 1994; O'Keefe, King, and Gaver, 1994; Copley *et al.*, 1994). These findings help us to better understand the construction of audit fees. Fourth, the most influential religions in China are Buddhism and Taoism, which are very different from Christianity in terms of concepts of divinity, virtue, and vice; religious discipline; and humanity's ultimate purpose. Therefore, our research offers evidence of religious economics in an Asian market located in a non-

Christian region. Lastly, prior research in the context of developed markets has mainly employed the state (country) as a benchmark to measure the religion effect. However, Wines and Napier (1992) argue that these research designs and measures of religion have caused divergent findings in the extant literature. In particular, they note that country- and region-level measures of religion should be improved because they may result in serious cross-sectional self-correlation problems. Religion, defined at the corporate level in this paper, not only measures the influence of religion on listed firms, but also helps to alleviate the endogeneity problem.

The paper proceeds as follows. Section II analyses the mechanism through which religion affects firms' audit demand and then develops hypotheses. Section III reports the research design and Section IV presents the empirical results. Finally, we conclude in Section V.

II. Literature Review and Hypothesis Development

Religion affects firms' decisions by influencing the behaviour of their decision-makers. By preaching its doctrine, a religion may imperceptibly influence its believers'² attitudes to self-discipline, altruism, and risk avoidance. First, like most religions, both Buddhism and Taoism stress the suppression of selfish desire (Conroy and Emerson, 2004). Both the concepts of karmic repetition in Buddhism and plainness and simplicity in Taoism advocate the spirit of less selfishness and desire. Buddhism emphasises four Noble Truths (*dukkha*, *samudaya*, *nirodha*, and *marga*) which teach self-discipline. Both Buddhism and Taoism also encourage their believers to be altruistic. Buddhists should have the right view, right intention, right speech, right action, right livelihood, right effort, right mindfulness, and right concentration (called "The Noble Eightfold Path") and do all the good it is in their power to do and do nothing bad. Similarly, Taoism teaches people to love the whole world as if it were one's own body. Therefore, in a location highly influenced by these religions, there would logically be less cheating behaviour and greater trust among people. Religion also affects a person's attitude towards risk. Believers usually have a stronger risk aversion (Miller and Hoffmann, 1995; Osoba, 2004; Ferguson *et al.*, 1991). Pan and Zhong (2016) find that Chinese Buddhist families present higher saving rates and lower debt levels.

In reality, it is difficult to observe whether an individual has religious beliefs. After all, religious beliefs are not exactly equal to religious practices or behaviour. Those who have religious beliefs do not necessarily perform religious behaviour, and practising some religious behaviours does not necessarily indicate religious beliefs. However, according to social norm theory, local ethical framework and morality exerts a subtle influence on the behaviour of individuals who live in the same area. In a location with higher religious influence, religious doctrine is an important part of local ethics (Sunstein, 1996; Lam and Shi, 2008; Du, 2013).

² In this paper, "believers" generally refers to individuals influenced by religious culture.

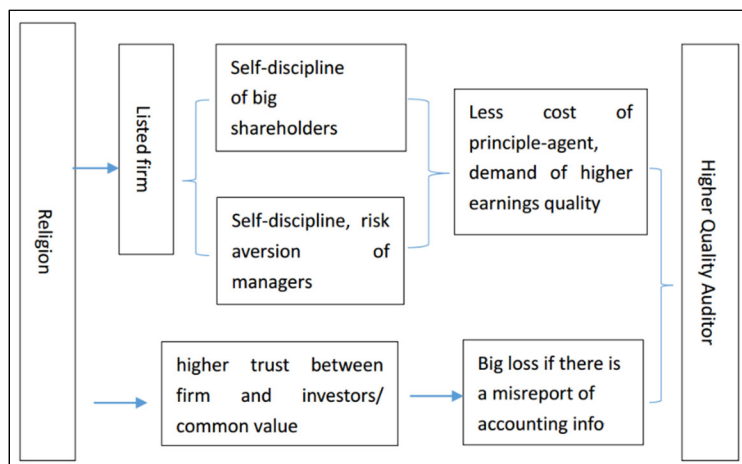
Ethics affects not only a person's daily behaviour and way of getting along with others but also his or her economic behaviour. This effect also influences an organisation's decisions. In this paper we are interested in whether the influence of religion is reflected in a firm's choice of auditor and signing partner,³ switching of auditors, and the payment for audit services.

2.1 Religion, Choice of Auditor, and Stability of Audit Contract

2.1.1 Religion and choice of auditor

Religion can affect the client's choice of auditor by three latent channels, as shown in Figure 1.

Figure 1 Impact of Religion on Choice of Auditor



The first channel is that religiosity can help constrain self-interested behaviour. On the one hand, religion teaches self-discipline and altruism, which can alleviate the agency problem between owners and managers by reducing the violation of accounting standards and the ratio of restatement (McGuire *et al.*, 2012; Chen *et al.*, 2013; Du, 2013; Kim and Daniel, 2016). McGuire *et al.* (2012) find that firms headquartered in areas with strong religious social norms generally present fewer financial reporting irregularities. From archival data on a panel sample of 32 countries Kim and Daniel (2016) find that a higher proportion of Protestantism is associated with stronger corporate governance after controlling for cultural, economic, legal, and institutional factors. Du (2013) uses a sample of 10,363 firm-year observations from the Chinese stock market and finds evidence that religion (i.e. Buddhism and Taoism) is significantly negatively associated with agency costs between owners and managers. Chen *et al.* (2013) also use Chinese data to study the impact of religion on corporate governance and

³ In this study, we investigate how religion influences a firm's choice of an accounting firm or auditor. We further study what kind of partners the firm requires from the auditor chosen. It should be noted that in this paper, following the standard audit literature, "auditor" refers to an accounting or CPA firm. The term "partner" refers to an individual accountant who signs the client's annual audit report.

find that firms under greater religious influence have a lower probability of violating laws or regulations and report higher-quality accounting information. On the other hand, Chinese listed firms have higher ownership concentration and there is always a risk of agency problems between large and small shareholders. Du (2014) finds that religion can alleviate this agency problem. Religion inherently embodies ethics and virtues, offering the foundation and motivation for a listed firm located in more highly religion-influenced area to hire an auditor of higher quality.

The second channel by which religion can affect a client's choice of auditor is related to the risk aversion of religious believers. Research has shown a positive correlation between risk aversion and individual religiosity. Miller and Hoffmann (1995) use data collected at the University of Michigan's Survey Research Center for a sample of American high school seniors and find a negative correlation between religiosity and self-reported attitudes towards risk and danger. Osoba (2004) uses individual-level panel regressions to show that risk-averse individuals attend church more often than risk-seeking individuals. Similarly, Diaz (2000) indicates that Las Vegas residents who attend religious services gamble less frequently and for lower amounts than those who attend services less regularly. Dehejia *et al.* (2007) suggest that religious participants have less volatile income streams using individual data. Hilary and Hui (2009) find that this relationship also influences organisational behaviour. Firms located in countries with higher levels of religiosity display lower degrees of risk, as measured by variance in equity return or return on assets. Given the negative correlation between religiosity and risk-taking, we can expect top managers in more highly religion-influenced firms to prefer to report higher-quality accounting information and reduce the risk of misreporting since this may damage the reputation of firms and managers, and lead to lawsuits or investigations by securities regulators. So, they tend to hire accounting firms with higher audit quality and a better reputation (Francis and Yu, 2009).

The third channel is higher social trust that is usually found in more highly religion-influenced areas. Religion can influence trust directly, especially within religious communities, promoting it via rituals (Iannaccone, 1998; Ruffle and Sosis, 2007). Tan and Vogel (2008) also argue that religion influences trust indirectly via psychological effects. Using an experimental study, they find that more religious trustees are trusted more, and that such behaviour is more pronounced in more religious trusters. More religious trustees are found to be more trustworthy. In firms located in a more highly religion-influenced area, there should be greater trust between shareholders and managers or between large and small shareholders. According to stewardship theory (Davis *et al.*, 1997), in contexts of greater trust, a manager tends to act as a steward instead of an agent. In areas with higher religious influence, managers have motivations to hire an auditor with a better reputation to report high-quality accounting information. When information is misreported, the reputation of listed firms is badly damaged, and they will lose the trust of their business partners, suppliers, and clients.

Under the pressure of trust loss, the religion-influenced manager will tend to reproach him/herself for the firm's loss of reputation.

To summarise these three paths of the impact of religion on choice of auditor, we propose the following hypothesis:

H1: *Ceteris paribus*, the higher the degree of religious influence on firms, the greater the probability that a firm chooses an auditor of higher quality.

Although we predict that religion has a positive influence on the choice of a high-quality auditor, there are also countervailing expectations based on self-discipline and trust. Since self-constraint can reduce self-interested behaviour, reducing financial fraud behaviour, firms under greater religious influence should present higher financial reporting quality. As a result, keeping the demand for financial reporting quality constant, firms that are deeply influenced by religion should have less need to hire an auditor of higher quality. Similarly, higher social trust could also reduce the demand for auditors of higher quality, as people trust that financial reports are prepared with ethical integrity and honesty. Hence, the exact impact of religion on the demand for audit services is an empirical issue.

2.1.2 Religion and the stability of audit contracts

Since contracts between an auditor and its clients are not disclosed publicly and the auditing process of certified public accountants (CPAs) cannot be observed, researchers can only infer the interplay between an auditor and its clients by investigating auditor switching, which reflects to some extent the characteristics of audit demand and supply. Clients' characteristics will affect the stability of audit contracts, such as disputes between auditors and clients (Chen *et al.*, 2000), clients' financial distress (Schwartz and Menon, 1985), clients' different demands (Fan and Wong, 2005; Chen *et al.*, 2016). The stability of audit contracts, namely auditor switch, is usually regarded as a way of opinion shopping. For example, Lennox (2000) shows that firms in the UK would have received less favourable opinions if they had made switching decisions opposite to those actually observed. Using a US sample, Carcello and Neal (2003) also find that opinion shopping is more likely to be successful for firms whose affiliated directors dominate clients' audit committees. Newton *et al.* (2015) examine internal control audits in the USA and show that US firms successfully engage in internal control opinion shopping. Using data from China, DeFond *et al.* (2000) document that after receiving MAOs from large auditors, firms tend to switch to small auditors who have a higher propensity to issue clean opinions. Moreover, Chan *et al.* (2006) find that firms in China are more likely to switch from non-local to local auditors after receiving MAOs, and that they are more likely to obtain clean opinions after such switches. However, the religious environment will exert influence on the stability of audit contracts. Switching auditors to shop for opinions contradicts religious doctrines which stress self-discipline, introspection, and risk avoidance. For example, if a firm switches auditors, it must report to the Chinese Institute of

Certified Public Accountants (CICPA) and the relevant stock exchange (Shanghai or Shenzhen Stock Exchange) and disclose the reason why the auditor was changed. The CICPA can initiate an investigation if it suspects the motivations of an auditor switch. In practice, an auditor switch without reasonable motives is usually regarded as a negative signal and will provoke a negative market reaction. Given the three characteristics of religion mentioned above, we expect managers under higher religious influence to be less likely to take the risk of stock price decline or being investigated.

H2: *Ceteris paribus*, the higher the degree of religious influence on firms, the less likely they are to switch auditors.

2.2 Religion, Demand for Experienced Partners, and Audit Fees

Audit quality is largely determined by audit input, such as the number of CPAs and labour hours. The literature usually focuses on factors affecting audit input from the perspective of audit risk management. That is, the auditor estimates the audit risk according to the client's characteristics, such as business strategy (Bentley *et al.*, 2013), size, business complexity, financial risk (Davis *et al.*, 1993; O'Keefe, Simunic, and Stein, 1994; Bell *et al.*, 2008), political visibility (Redmayne *et al.*, 2010), and spillover of non-audit services (Palmrose, 1989).

The literature usually takes firms in developed capital markets as research samples. The basic rationale is that as CPAs have deep pockets, they face high risk of punishment and suffer heavy economic losses due to audit failure (Kaplan and Williams, 2013). Chinese CPAs face much lower risk of audit failure than counterparts in developed countries since it is almost impossible for investors to sue them or accounting firms successfully. The only possible punishment comes from the China Securities Regulatory Commission and the probability of both punishment and being fined are very low (Tan and Zhang, 2015). Taking fines as an example, the litigation costs of the Big6 accounting firms in 1991 were as high as US\$47.7 billion, accounting for 9% of their total revenue in the US domestic market. On the other hand, Reanda in China was fined RMB1.1 million (less than US\$0.2 million) in 2009, which was the largest fine case between 2001 and 2012. Wu (2009) also finds that accounting firms do not assign more experienced signing partners to high-risk clients. Thus, it is not adequate to study audit input from the supplier side only; audit input should be decided jointly as a combination of audit demand and supply. The different demands of different clients will affect audit input. Specifically, the audit risk of the more highly religion-influenced client is comparatively lower, all things being equal. So, the level of audit input should be decided mainly by the demand from clients.

Besides the audit report, auditors usually report the defects and risks of a firm's internal control or management to board directors or top managers. If necessary, they can even submit a formal management letter, as suggested in the *Auditing Standards for the Chinese Certified*

Public Accountants No. 1152. The suggestions given in a management letter are important in helping the client to improve its internal control procedure and reduce the risk of trade and accounting fraud. In most situations, compared with the benefits of these suggestions, the cost of audit fees is negligible. Firms located in a more highly religion-influenced area are more cautious, more risk-averse, and pay more attention to reputation. Traditionally, audit fees are fixed before the audit service begins. Given the audit risk, accounting firms have an incentive to reduce audit input in order to reduce the audit cost under the premise of ensuring a reasonable audit opinion. The lower the audit fees paid by listed firms, the more intensely accounting firms will compress the audit input regarding personnel and audit time (Johnstone, 2000; Wu, 2009). Under such circumstances, listed firms are willing to pay higher audit fees for services of higher quality only when they expect that the auditor can help them to identify the defects and risks hidden in their internal control procedure and management. High-quality audit services can come from more experienced CPAs or longer labour hours invested, but the latter is not disclosed publicly in China. Of course, firms must pay more for more experienced CPAs and the investment of longer labour hours.

The above discussion leads to the third testable hypothesis:

H3: *Ceteris paribus*, the degree of religious influence on firms is positively correlated with the audit services from experienced signing partners and audit fees.

As discussed in Hypothesis 1, there are some counterarguments regarding the relationship between religion and demand for higher-quality audit services. Obviously, these counterarguments also exist in Hypothesis 3. That is, whether religion has a positive or negative impact on audit fees and whether demand for experienced signing partners is also an empirical issue.

III. Research Design

3.1 The Measure of Religious Influence

There are four methods with which to measure the influence of religion in empirical research: (1) the number of religious believers divided by the total population in a country (Hilary and Hui, 2009; Dyreng *et al.*, 2012); (2) the ratio of residents' participation in religious practices (e.g. praying in church) in a county (McGuire *et al.*, 2012); (3) the number of religious sites in a county (Dyreng *et al.*, 2012); and (4) the number of religious sites within a certain distance of a firm (Chen *et al.*, 2013; Du, 2013). In order to meet the standard of objectivity, reliability, and availability as well as alleviating the endogenous problem, we follow the literature (Chen *et al.*, 2013; Du, 2013) and define the number of religious monasteries (temples) within a certain distance from a firm as the proxy for religious influence in China. We manually collect all the longitude and latitude data about 161 key national Buddhist monasteries and Taoist temples (140 Buddhist monasteries and 21 Taoist temples)

listed in the *Report of Identification of Key Temples of Buddhism and Taoism in the Han Region*, which was released by the Religious Affairs Bureau of the State Council on 9 April 1983. We then define religious influence at the corporate level as follows. First, we collect the registered address of each firm's headquarters and each religious monastery (temple) manually and fix their latitude and longitude using Google Earth maps. Second, we calculate the distance between each firm and the nearest religious temple in three steps:

1. We confirm the longitude and latitude of the firm's headquarters and the religious temple, respectively, namely λ_R and Φ_R (λ_F and Φ_F); the angle between the two through the centre of the earth and the earth's surface is θ . Then

$$\cos \theta = \sin \Phi_R \times \sin \Phi_F + \cos \Phi_R \times \cos \Phi_F \times \cos(\lambda_R - \lambda_F)$$

2. The radius formula is calculated as follows:

$$Radius = \frac{40075.04}{360} \times \frac{180}{\pi}$$

3. The distance between the firm's headquarters and the religious temple:

$$Distance = rad \times \left(\frac{\pi}{2} - \arctan\left(\frac{\cos \theta}{\sqrt{1 - \cos^2 \theta}}\right) \right)$$

We firstly use 200 km⁴ as the distance benchmark to define the religious influence variable, *RELIGION*, which is the natural logarithm of the number of Buddhist monasteries and Taoist temples within a radius of 200 km around a listed firm's registered address. For the consideration of robustness, we also toughen and relax the distance benchmark and use 150 km, 250 km, and 300 km to define *RELIGION150*, *RELIGION250*, and *RELIGION300*, respectively.

A proxy for firm-level religious influence has an advantage over country-level and region-level religion proxies (Wines and Napier, 1992; Du, 2013). If a monastery (temple) is located at the junction of two or more provinces, its influence goes beyond provincial boundaries. A province-level proxy fails to capture this, but a firm-level proxy can break through the limitation of administrative division because it is measured as the distance between a firm and a monastery (temple).

Table 1 reports the distribution of key monasteries (temples) in various provinces and municipalities in the Han area. It shows that the number of key temples in Anhui, Fujian, Shanxi (山西), Shaanxi (陕西), Zhejiang, and Jiangsu is highest, followed by Beijing, Hebei,

⁴ We calculate the average provincial distance on the basis of the mainland China area (thus the three special administrative regions, Hong Kong, Macau, and Taiwan, are excluded):

$$\sqrt{\frac{961.03 \times 10^4}{3.14 \times 31}} \approx 271.71$$

where 961.03×10^4 denotes the area of mainland China (unit: km²), 3.14 denotes the circumference ratio, and 31 denotes the number of provinces, municipalities, and autonomous regions in mainland China. Based on this average provincial distance, 200 km is usually taken as the standard distance in studies about religious influence on firms' decisions.

and Guangdong, and then Shanghai, Tianjin, Qinghai, Gansu, and Hainan at the bottom. Combined with the marketisation ranking of each province,⁵ it is not difficult to conclude that the provincial religious influence variable and the level of provincial marketisation have low multicollinearity.

Table 1 Provincial Key Temples and Marketisation of the Han Ethnicity Area

Province	Anhui	Beijing	Fujian	Guangdong	Guizhou	Hebei	Henan	Zhejiang	Chongqing
Key Temples	14	8	14	7	2	2	3	14	3
Marketisation Rank	12	5	7	4	27	18	11	1	10
Province	Jiangsu	Jiangxi	Liaoning	Shandong	Shanxi	Shaanxi	Shanghai	Sichuan	Tianjin
Key Temples	14	5	4	4	14	13	5	12	1
Marketisation Index	2	15	9	8	22	26	3	16	6
Province	Hunan	Jilin	Hainan	Heilongjiang	Qinghai	Gansu	Hubei	Yunnan	
Key Temples	6	3	0	1	0	0	7	5	
Marketisation Index	17	19	20	23	30	29	15	24	

Note: Table 1 reports the distribution of key temples in various provinces and municipalities in the Han area of China. It shows that the highest concentration of key temples is in Anhui, Fujian, Shaanxi, Shanxi, Zhejiang, and Jiangsu. The number of key temples in Shanghai and Guangdong rank these provinces in the middle and in Tianjin, Qinghai, Gansu, and Hainan rank these provinces at the bottom with the fewest key temples. The provincial religious influence and the level of marketisation have no multicollinearity.

3.2. The Measure of the Signing Partner's Experience

Audit inputs are judged by their quantity and quality (Defond and Zhang, 2014). Since the quantity of audits (total number of hours invested) is kept private by accounting firms, we use the signing auditor's experience as a proxy for the quality of audit input (which means more efficient auditing per unit time). In China, an auditor's report requires the signatures of at least (and normally) two auditors,⁶ which gives us an opportunity to observe the quality of the audit input. Following Wu's (2009) design, we take the year of accounting firm reorganisation, namely 1998, as the base year to calculate each auditor's experience with two methods. The first is based on the number of years of practice. Each year from their initial signing year increases the count of their experience. Specifically, for a given listed firm i , the average practice experience $AVLENTH_i$ is measured as follows:

$$AVLENTH_i = [(T - T_j) + (T - T_k)] / 2,$$

where T is the current fiscal year, T_j (T_k) is the earliest fiscal year in which auditor j (k) signs

⁵ "Marketisation" is the Marketisation Index provided in Fan *et al.* (2010), which measures whole institutional development and the level of investor protection at the province level. See the specific definition of marketisation in Appendix A.

⁶ See *The Rule on the Signatures of Certified Public Accountants on an Auditor's Report* issued by the Ministry of Finance on 2 July 2001 (ref no. Caikui [2001] NO.1035).

an annual report with his or her name.

The second approach to measuring experience is based on the cumulative number of annual reports signed by a partner. This count adds 1 for each annual report signed by a partner. Specifically, for a given listed firm i , the average practice experience $AVTIMES$ is measured as follows:

$$AVTIMES_i = (N_j + N_k)/2,$$

where N_j (N_k) represents the cumulative number of in-charge annual reports of listed firms taken by partner j (k) prior to the current fiscal year. Moreover, the above two methodologies also apply to a few cases where three signing partners are assigned to a listed firm.

In addition, we rank the $AVTIMES$ and $AVLENTH$ of an audit firm and get $RANK1$ and $RANK2$, respectively, which we take as two more proxies for audit input.

Finally, both partners' experience and longer audit hours mean greater input and firms will pay higher audit fees for it. So, audit fees are another variable we use to measure audit input.

3.3 Model Design and Variable Definitions

To test the impact of religion on choice of auditor (Hypothesis 1), we construct M1:

$$\begin{aligned} M1: \text{BIG10} = & \beta_0 + \beta_1 \text{RELIGION} + \beta_2 \text{SUBFIRM} + \beta_3 \text{SIZE} + \beta_4 \text{ROA} + \beta_5 \text{DA} \\ & + \beta_6 \text{CR} + \beta_7 \text{INVREC} + \beta_8 \text{MTB} + \beta_9 \text{DISTANCE} + \beta_{10} \text{MKT} + \beta_{11} \text{HHI} \\ & + \beta_{12} \text{SOE} + \xi \end{aligned}$$

In M1, the dependent variable $BIG10$ is a dummy variable, coded 1 if ranked among the top 10 according to the annual CICPA ranking list, and 0 otherwise. $RELIGION$ is the main test variable, which is the number of key monasteries and temples within a radius of 200 km centred at the firm's headquarters. The coefficient of $RELIGION$ β_1 indicates the impact of religion on listed firms' choices of high-quality accounting firms. According to Hypothesis 1, we expect β_1 to be positive.

To test the impact of religious influence on the stability of audit contracts (Hypothesis 2), we construct M2:

$$\begin{aligned} M2: \text{ACHANGE} = & \beta_0 + \beta_1 \text{RELIGION} + \beta_2 \text{SUBFIRM} + \beta_3 \text{SIZE} + \beta_4 \text{ROA} + \beta_5 \text{DA} \\ & + \beta_6 \text{CR} + \beta_7 \text{INVREC} + \beta_8 \text{MTB} + \beta_9 \text{DISTANCE} + \beta_{10} \text{Opinion} \\ & + \beta_{11} \text{LOSS} + \beta_{12} \text{MKT} + \beta_{13} \text{HHI} + \beta_{14} \text{SOE} + \xi \end{aligned}$$

In M2, the dependent variable $ACHANGE$ is a dummy variable, coded 1 if a listed firm switches to another auditor, and 0 otherwise. $RELIGION$ is again the main test variable. On the basis of the prior analysis, we expect the coefficient β_1 , which represents the influence of religion on audit contract stability, to be negatively related to the dependent variable in M2.

To test the impact of religion on signing auditor selection and audit fees (Hypothesis 3),

we construct M3:

$$\begin{aligned}
 M3: \text{AVTIMES/AVLENTH/RANK1/RANK2/AUDITFEE} = & \beta_0 + \beta_1 \text{RELIGION} \\
 & + \beta_2 \text{BIG10} + \beta_3 \text{HHI} + \beta_4 \text{DA} + \beta_5 \text{SUBFIRM} + \beta_6 \text{INVREC} + \beta_7 \text{CR} \\
 & + \beta_8 \text{SIZE} + \beta_9 \text{LEV} + \beta_{10} \text{ROA} + \beta_{11} \text{MTB} + \beta_{12} \text{LOSS} + \beta_{13} \text{DISTANCE} \\
 & + \beta_{14} \text{MKT} + \beta_{15} \text{SOE} + \xi
 \end{aligned}$$

In M3, *RELIGION* is still the main test variable. On the basis of the prior analysis, we expect the coefficient β_1 in M3, which represents the influence of religion on firms' demand for higher-quality audit, to be positively related to the dependent variables.

Different sets of variables are then selected as the control variables in the above three models: (1) firm size, *SIZE* (= the natural logarithm of total assets); (2) the business complexity of the firm, *SUBFIRM* (= the square root of the number of consolidated subsidiaries) and *INVREC* (= the sum of inventories and accounts receivable divided by total assets); (3) financial leverage, *LEV* (= total liabilities divided by total assets); (4) the profitability variable, *ROA* (= net operating income deflated by total assets) and *LOSS* (a dummy variable, which equals 1 if a firm's net income in year $t-1$ is negative, and 0 otherwise); (5) market-to-book ratio, *MTB* (= the market price per share divided by net assets per share); (6) the current ratio, *CR* (current assets divided by current liabilities); (7) ownership of a firm, *SOE* (a dummy variable, which equals 1 when the ultimate controlling shareholder of the listed firm is a (central or local) government agency or government-controlled firm, and 0 otherwise); (8) audit opinion, *OPINION* (a dummy variable, coded 1 if the client is issued a modified audit report in year $t-1$, and 0 otherwise);⁷ (9) discretionary accruals, *DA* (the absolute value of discretionary accruals based on the model of Ball and Shivakumar (2006)); (10) geographical distance, *DISTANCE* (the geographical distance (in km) between the auditor and the firm's headquarters); (11) marketisation, *MKT* (Fan *et al.*'s Marketisation index (Fan *et al.*, 2010), which is built on institutional development and level of investor protection at the province level); (12) industry competition, *HHI* (the Herfindahl-Hirschman Index for each industry based on a two-digit code issued by the China Securities Regulatory Commission). Finally, the industry and year fixed effects are also controlled. All variables are defined in Appendix A.

3.4 Sample and Data

China adopted a set of new accounting standards in 2007. Since control variables are based on data as of year $t-1$, all A-share firm-years between 2008 and 2015 are taken as our initial samples. Then the following samples are excluded: (1) firm-years of the banking, insurance, and other financial industries; (2) firm-years with data missing (no precise location,

⁷ Modified audit reports include disclaimers of opinion, adverse opinions, qualified opinions, and unqualified opinions with an emphasis-of-matter paragraph.

no audit fees, or no information about a partner's accounting firm);⁸ (3) listed firms registered in five ethnic minority areas (Ningxia, Guangxi, Inner Mongolia, Tibet, and Xinjiang), because only Buddhist and Taoist temples in the Han region are listed by the State Bureau of Religious Affairs; (4) Chinese central state-owned conglomerates, as they must hire the same auditor for all subsidiaries according to the regulations issued by the Chinese government. A listed central state-owned enterprise (SOE), which is usually a subsidiary of a conglomerate, has in fact no right to choose its own auditor.⁹ So we delete central SOEs. We finally obtain 12,801 firm-years as our sample. All of the continuous independent variables are winsorised at both the top and bottom 1%.

Our data come from several sources. The data regarding *RELIGION* are based on our manual collection and calculation. Following a well-known equation from the Geographic Information System, we fix the longitude and latitude of every Buddhist monastery (Taoist temple) and every firm's registered address using Google Earth, and then calculate the distance between listed firms and monasteries (temples). Finally, we determine the distance benchmark or the upper limit (i.e. 150/200/250/300 km) and calculate the number of monasteries and temples within a certain radius around a listed firm's registered address as the proxy for firm-level religious influence. The data for *MKT* are taken from the index constructed by Fan *et al.* (2010). The data for *BIG10* are sourced from the official website of the CICPA (www.cicpa.org.cn), which publishes accounting firms' annual rankings. We obtain information about the branch to which a signing partner belongs from the same website, which publishes CPAs' personal information. The partners' experience is calculated on the basis of this information and on data from the China Stock Market and Accounting Research (CSMAR) database. Other data, except for *RELIGION*, *DISTANCE*, *AVTIMES*, *AVLENTH*, *MKT*, and *BIG10*, come from the CSMAR database, which is frequently used in China-related studies.

IV. Empirical Test and Analysis

4.1 Descriptive Statistics and Pearson Correlation Analysis

Table 2 reports the descriptive statistics of our research. The variables basically obey normal distribution and show reasonable variances in our sample period. As tabulated in Table 2, about 56.2% of the sample firms choose BIG10 firms as annual reporting auditors and about 7.8% switched auditors. The natural logarithm of average audit fees is 13.57, suggesting that

⁸ In China, as an auditor's report requires the signatures of at least (and normally) two auditors, we can only identify the branch to which signing auditors belong. See http://cmispub.cicpa.org.cn/cicpa2_web/public/query0/2/00.shtml. However, some partners' information may not be covered in the CICPA database for unknown reasons.

⁹ On 29 September 2004, the State-owned Assets Supervision and Administration Commission (SASAC) issued the Interim Measures and required that subsidiaries of central state-owned conglomerates choose the same accounting firm.

on average listed firms pay RMB1.12 million for an annual audit. The average number of annual reports signed by a partner is 19.88 and the average number of signing years for all partners is 6.57. Only 3.5% of firm-years were issued MAOs, which is less than in developed markets. The mean of religious influence (*RELIGION*) on listed firms is 2.071, revealing that on average 10.03 key monasteries or temples are located within 200 km of a listed firm's headquarters. The mean of *MKT* is 0.699, meaning that 69.9% of the sample firms are located in high marketisation areas. The natural logarithm of the average distance between an accounting firm and a listed firm (*DISTANCE*) is 4.31, revealing that the real distance is about 358.4 km on average. The square root of the average number of consolidated subsidiaries of the sample firms (*SUBFIRM*) is 3.35, meaning that listed firms own about 10 consolidated reporting subsidiaries on average. The variable of *INVREC* has a mean of 0.33, that is, the proportion of accounts receivable and inventory accounts for 33% of total assets. The mean of *DA* is 0.061, suggesting that the absolute value of discretionary accruals accounts for 6.1% of total assets. The variable of *CR* has a mean value of 2.276, which means that the firms in our sample generally have good liquidity. *MTB* has a mean of 3.989 with a standard deviation of 3.940, suggesting that the deviation between market value and book value during our sample period is quite large. The mean (median) of *SIZE* is 21.96 (21.79), with a standard deviation of 1.276, meaning that there is a big variety in size among firms. The mean (median) of *LEV* is 56.1% (52.0%), suggesting that Chinese listed firms had relatively reasonable financial leverage during the sample period. The mean (median) of *ROA* is 0.037 (0.034) and 9.9% of samples posted operating loss. The mean value of *SOE* is 0.458, suggesting that the ultimate owner of 45.8% of firms is government. The mean (median) value of *HHI* is 0.071 (0.051), suggesting that China's industry concentration is relatively low.

Table 2 Descriptive Statistics

Variable	Mean	SD	P25	Median	P75	Min	Max
<i>BIG10</i>	0.562	0.496	0	1	1	0	1
<i>ACHANGE</i>	0.078	0.267	0	0	0	0	1
<i>AUDITFEE</i>	13.570	0.718	13.122	13.459	13.892	12.301	16.349
<i>AVTIMES</i>	19.880	14.70	9	16	27	1.5	69.5
<i>AVLENTH</i>	6.567	3.197	4.5	6.5	8.5	0	14.5
<i>OPINION</i>	0.035	0.184	0	0	0	0	1
<i>RELIGION</i>	2.071	0.883	1.386	2.197	2.996	0	3.332
<i>MKT</i>	0.699	0.459	0	1	1	0	1
<i>DISTANCE</i>	4.307	2.098	2.415	4.498	6.180	0.326	7.649
<i>SUBFIRM</i>	3.347	1.725	2.236	3	4.123	1	9.849
<i>INVREC</i>	0.330	0.246	0.155	0.283	0.439	0.004	1.363
<i>LOSS</i>	0.099	0.299	0	0	0	0	1
<i>DA</i>	0.061	0.063	0.018	0.042	0.081	0.001	0.342
<i>CR</i>	2.276	2.549	1.026	1.492	2.391	0.223	17.025
<i>MTB</i>	3.989	3.940	1.852	2.850	4.631	0.455	28.569
<i>SIZE</i>	21.960	1.276	21.050	21.790	22.670	19.260	25.830
<i>LEV</i>	0.561	0.356	0.327	0.520	0.721	0.052	2.537
<i>ROA</i>	0.037	0.056	0.012	0.034	0.064	-0.195	0.200
<i>SOE</i>	0.458	0.498	0	0	1	0	1
<i>HHI</i>	0.071	0.059	0.035	0.051	0.089	0.017	0.376

Table 3 Univariate Analysis: The Influence of Religion on Auditor/Partner Choice

Classification	A. <i>BIG10</i> (H1)			
	Mean	Median	<i>t</i> -Value	<i>z</i> -Value
H-RELIGION	0.57	1	-1.98**	-1.99**
L-RELIGION	0.55	1		
	B. <i>ACHANGE</i> (H2)			
	Mean	Median	<i>t</i> -Value	<i>z</i> -Value
H-RELIGION	0.065	0	5.27***	5.27***
L-RELIGION	0.091	0		
	C. <i>AVTIMES</i> (H3)			
	Mean	Median	<i>t</i> -Value	<i>z</i> -Value
H-RELIGION	20.29	16.50	-3.11***	-4.69***
L-RELIGION	19.48	15.50		
	D. <i>AVLENTH</i> (H3)			
	Mean	Median	<i>t</i> -Value	<i>z</i> -Value
H-RELIGION	6.63	6.50	-2.15**	-2.28**
L-RELIGION	6.50	6.50		
	E. <i>RANK1</i>			
	Mean	Median	<i>t</i> -Value	<i>z</i> -Value
H-RELIGION	11.78	8	-15.21***	-14.69***
L-RELIGION	8.77	6		
	F. <i>RANK2</i>			
	Mean	Median	<i>t</i> -Value	<i>z</i> -Value
H-RELIGION	6.73	5	-12.18***	-12.65***
L-RELIGION	5.68	4		
	G. <i>AUDITFEE</i> (H3)			
	Mean	Median	<i>t</i> -Value	<i>z</i> -Value
H-RELIGION	13.64	13.50	-11.08***	-10.72***
L-RELIGION	13.49	13.38		

Note: We compute the number of monasteries and temples within 200 km of a listed firm, which is defined as *RELIGION* in Appendix A. Then we divide the sample into H-RELIGION and L-RELIGION groups according to the median of *RELIGION*. ***, **, and * represent 1%, 5%, and 10% significance levels, respectively, for two-tailed tests.

Table 3 provides the results of univariate variance analysis. We divide the sample into higher and lower religious influence (H-RELIGION and L-RELIGION, respectively) groups according to the median of *RELIGION*. There are systematic differences between firms in the H-RELIGION group and those in the L-RELIGION in the following aspects:

1. The results in Panel A show that 57% of firms in the H-RELIGION group and 55% of firms in the L-RELIGION group chose BIG10 firms as their auditors, and the difference is significant at the 5% level. This result is consistent with the expectation of Hypothesis 1.

Table 4 Pearson Correlation Matrix for Main Variables

	<i>BIG10</i>	<i>ACHANGE</i>	<i>RELIGION</i>	<i>AVTIMES</i>	<i>AVLENTH</i>	<i>RANK1</i>	<i>RANK2</i>	<i>AUDITFEE</i>	<i>DA</i>	<i>OPINION</i>
<i>BIG10</i>	1									
<i>ACHANGE</i>	0.012 (0.174)	1								
<i>RELIGION</i>	0.0695*** (0.000)	-0.062*** (0.000)	1							
<i>AVTIMES</i>	-0.004 (0.658)	-0.108*** (0.000)	0.079*** (0.000)	1						
<i>AVLENTH</i>	0.014* (0.091)	-0.098*** (0.000)	0.038*** (0.000)	0.680*** (0.000)	1					
<i>RANK1</i>	0.252*** (0.000)	-0.105*** (0.000)	0.203*** (0.000)	0.564*** (0.000)	0.409*** (0.000)	1				
<i>RANK2</i>	0.200*** (0.000)	-0.104*** (0.000)	0.162*** (0.000)	0.488*** (0.000)	0.577*** (0.000)	0.824*** (0.000)	1			
<i>AUDITFEE</i>	0.239*** (0.000)	-0.038*** (0.000)	0.078*** (0.000)	0.032*** (0.001)	0.021*** (0.000)	0.044*** (0.000)	0.051*** (0.000)	1		
<i>DA</i>	-0.074*** (0.000)	0.065*** (0.000)	-0.025*** (0.004)	-0.025*** (0.005)	-0.038*** (0.000)	-0.044*** (0.000)	-0.046*** (0.000)	-0.088*** (0.000)	1	
<i>OPINION</i>	-0.031*** (0.000)	0.041*** (0.000)	-0.051*** (0.000)	-0.009 (0.273)	-0.001 (0.923)	-0.031*** (0.000)	-0.024*** (0.005)	-0.057*** (0.000)	0.144*** (0.000)	1

Note: ***, **, and * represent 1%, 5%, and 10% significance levels, respectively, for two-tailed tests.

2. The results in Panel B show that there is a significant difference in the auditor switch rate between the H-RELIGION and L-RELIGION groups. Only 6.5% of firms switched auditors in the H-RELIGION group while 9.1% of firms did so in the L-RELIGION group. Our second hypothesis is thus preliminarily supported. That is, audit contracts of firms under higher religious influence are much more stable.
3. The results of panels C to G offer preliminary evidence for Hypothesis 3. The results in panels C and D report the average number of signing years and signing firm-years for partners, and panels E and F report the rank of the signing partner's experience in the audit firm based on *AVTIMES* and *AVLENTH*. These results show that partners signing for firms in the H-RELIGION group are more experienced than those in the L-RELIGION group. Lastly, in Panel G we present the audit fee difference between the H-RELIGION and L-RELIGION groups. The audit fee for the H-RELIGION group is significantly higher. All these results confirm our conjecture in Hypothesis 3.

To summarise the results in Table 3, we find that the more deeply the firm is impacted by religion, the higher the quality of the accounting firm it chooses, and the greater the stability of their audit contracts. In addition, firms under higher religious influence are prepared to pay higher audit fees in order to obtain audit input of higher quality, produced by partners who are more experienced.

Pearson correlation analysis of the variables is presented in Table 4, and the following findings are noteworthy. *RELIGION* is significantly negatively correlated with *ACHANGE*, *DA*, and *OPINION* at the 1% level, meaning that religion can help reduce auditor switch, earnings management, and modified opinions. *RELIGION* is also significantly positively correlated with *BIG10*, *AVTIMES* (*RANK1*), *AVLENTH* (*RANK2*), and *AUDITFEE* at the 1% level, suggesting that religion has significant influence on firms' audit demand, such as the choice of high-quality accounting firms and asking for more audit inputs (*AVTIMES*, *RANK1*, *AVLENTH*, *RANK1*, and *AUDITFEE*). The results in tables 3 and 4 preliminarily support our three hypotheses.

4.2 Multiple Regression Results

4.2.1 Religion, auditor choice, and the stability of audit contracts

According to Hypotheses 1 and 2, we expect religion to be positively correlated with the probability of firms choosing BIG10 auditors and negatively correlated with auditor switch. Table 5 shows the regression results of M1 and M2. In all the regressions, we control for the industry and year fixed effects, as well as the firm-level clustering effect (Petersen, 2009). The results in Column (1) of Table 5 show that the coefficient of *RELIGION* is 0.143, significant at the 1% level, supporting our prediction that the stronger the religious influence on a listed firm, the more likely it is to choose an auditor of higher quality. Thus, Hypothesis 1 is verified.

Table 5 Religion, Choice of Auditor, and Stability of Audit Contract

Variables	(1) <i>BIG10</i>	(2) <i>ACHANGE</i>
<i>RELIGION</i>	0.143*** (0.002)	-0.227*** (0.000)
<i>DA</i>	-1.054*** (0.008)	1.202** (0.049)
<i>SIZE</i>	0.274*** (0.000)	-0.086 (0.144)
<i>LEV</i>	-0.142 (0.187)	0.463*** (0.001)
<i>SUBFIRM</i>	0.022 (0.429)	0.026 (0.418)
<i>INVREC</i>	-0.011 (0.954)	0.831*** (0.000)
<i>MTB</i>	-0.073 (0.185)	-0.157** (0.041)
<i>MKT</i>	0.242*** (0.006)	0.085 (0.365)
<i>HHI</i>	1.422 (0.143)	1.583 (0.483)
<i>LOSS</i>		0.096 (0.584)
<i>LAGOPINION</i>		0.656*** (0.000)
<i>ROA</i>	0.547 (0.331)	-1.379 (0.194)
<i>DISTANCE</i>	0.022 (0.251)	0.083*** (0.000)
<i>SOE</i>	-0.051 (0.565)	0.399*** (0.000)
Constant	-7.446*** (0.000)	-2.487** (0.048)
Year/Industry	fixed	fixed
Firm	clustered	clustered
Wald Chi ²	587.52***	349.40***
Pseudo- <i>R</i> ²	0.0680	0.0634
Observations	12,801	9,765

Note: ***, **, and * represent 1%, 5%, and 10% significance levels, respectively, for two-tailed tests.

Column (2) of Table 5 reports the regression result of *RELIGION* on *ACHANGE*, in which we exclude the IPO firm-years and the samples with missing data. The coefficient of *RELIGION* is -0.227, significant at the 1% level, which means that firms under higher religious influence are less likely to switch auditors. That is, their audit contracts are more stable. Thus, Hypothesis 2 is verified.

In terms of control variables, a firm with a higher degree of earnings management is less likely to hire an auditor of higher quality, and thus its audit contract stability is lower. The greater the distance from an auditor, the less stable the audit contract will be, consistent with

previous studies. Moreover, *SIZE*, *LEV*, *INVREC*, and *LAGOPINION* are significantly correlated with *ACHANGE*.

4.2.2 Religion, experienced partners, and audit fees

Hypothesis 3 predicts that the higher the influence of religion on a firm, the more likely it is the firm will ask for more experienced partners and pay higher audit fees for high-quality audit inputs. The results of model M3 are presented in Columns (1)–(5) of Table 6. The dependent variable in Column (1) is signing partners' average duration of practice (*AVTIMES*).

Table 6 Religion, Experienced Partner, and Audit Fees

Variables	(1)	(2)	(3)	(4)	(5)
	<i>AVTIMES</i>	<i>AVLENTH</i>	<i>RANK1</i>	<i>RANK2</i>	<i>AUDITFEE</i>
	OLS	OLS	Order Logit	Order Logit	OLS
<i>RELIGION</i>	1.395*** (0.000)	0.172*** (0.003)	0.341*** (0.000)	0.270*** (0.000)	0.043*** (0.000)
<i>HHI</i>	4.899 (0.457)	0.623 (0.637)	0.154 (0.845)	0.050 (0.951)	0.088 (0.592)
<i>DA</i>	-6.241** (0.013)	-1.036* (0.060)	-0.761** (0.017)	-0.848*** (0.008)	-0.010 (0.897)
<i>BIG10</i>	-0.147 (0.757)	-0.182* (0.062)	0.588*** (0.000)	0.466*** (0.000)	0.116*** (0.000)
<i>SUBFIRM</i>	0.037 (0.831)	0.062* (0.078)	-0.000 (0.990)	0.014 (0.483)	0.079*** (0.000)
<i>CR</i>	-0.140 (0.149)	-0.044** (0.015)	-0.005 (0.675)	-0.014 (0.191)	-0.013*** (0.000)
<i>SIZE</i>	-0.166 (0.620)	0.094 (0.184)	-0.106** (0.013)	-0.056 (0.153)	0.379*** (0.000)
<i>LEV</i>	-0.127 (0.833)	-0.200* (0.085)	-0.082 (0.261)	-0.127* (0.074)	-0.110*** (0.000)
<i>ROA</i>	3.305 (0.488)	1.528 (0.116)	1.539*** (0.008)	1.429*** (0.009)	-0.329** (0.029)
<i>MTB</i>	-0.107* (0.051)	-0.010 (0.424)	-0.009 (0.202)	-0.007 (0.321)	0.019*** (0.000)
<i>LOSS</i>	0.895 (0.222)	0.304** (0.042)	0.156* (0.065)	0.240*** (0.004)	0.080*** (0.000)
<i>DISTANCE</i>	-0.261** (0.026)	-0.114*** (0.000)	0.070*** (0.000)	0.046*** (0.003)	-0.002 (0.543)
<i>AUDITFEE</i>	-0.909* (0.067)	-0.384*** (0.000)	0.020 (0.775)	-0.014 (0.836)	
<i>SOE</i>	-1.389** (0.012)	-0.140 (0.211)	-0.116* (0.090)	-0.120* (0.064)	0.004 (0.823)
<i>MKT</i>	-0.113 (0.846)	-0.387*** (0.001)	0.435*** (0.000)	0.432*** (0.000)	0.139*** (0.000)
Constant	33.518*** (0.000)	8.718*** (0.000)			4.759*** (0.000)
Year/Industry	fixed	fixed	fixed	fixed	fixed
Firm	clustered	clustered	clustered	clustered	clustered
F/Wald Chi ²	5.22***	21.00***	472.26***	476.06***	146.62***
Observations	12,801	12,801	12,801	12,801	12,801
R ² /Pseudo-R ²	0.0304	0.0870	0.0170	0.0161	0.6693

Note: ***, **, and * represents 1%, 5%, and 10% significance levels, respectively, for a two-tailed tests.

The coefficient of *RELIGION* in Column (1) is 1.395, significant at the 1% level, which means that when religious influence is higher, the firm will ask for more experienced partners. In Column (2) the average number of annual reports signed by a partner is taken as his or her experience. The result is very similar to that in Column (1). Combining these results with the rank of the signing partner's experience in the audit firm in Columns (3) and (4), we can conclude that firms under higher religious influence tend to hire high-quality accounting firms and ask them to assign more experienced partners.

Lastly, we expect that firms will pay for the high-quality audit service. The results in Column (5) confirm this expectation: the coefficient of *RELIGION* is 0.043, significant at the 1% level. The results in Table 6 are consistent with Hypothesis 3.

Table 7 Religion and Earnings Quality

Variables	(1) <i>DA</i>	(2) <i>OPINION</i>
<i>RELIGION</i>	-0.002** (0.022)	-0.154** (0.036)
<i>BIG10</i>	-0.005*** (0.000)	0.123 (0.414)
<i>SIZE</i>	-0.001 (0.385)	-0.601*** (0.000)
<i>CR</i>	-0.002*** (0.000)	-0.187*** (0.005)
<i>ROA</i>	0.017 (0.371)	-8.898*** (0.000)
<i>LOSS</i>	0.026*** (0.000)	0.770*** (0.001)
<i>SUBFIRM</i>	-0.001*** (0.000)	-0.040 (0.488)
<i>DA</i>		1.614* (0.086)
<i>LAGOPINION</i>		4.148*** (0.000)
<i>DISTANCE</i>	0.000 (0.302)	-0.005 (0.899)
<i>AUDITFEE</i>	-0.002 (0.150)	0.596*** (0.000)
<i>AVLENTH</i>	-0.001*** (0.002)	0.010 (0.669)
<i>SOE</i>	-0.010*** (0.000)	-0.091 (0.556)
<i>MKT</i>	-0.001 (0.606)	-0.052 (0.732)
<i>HHI</i>	-0.076*** (0.003)	-1.477 (0.665)
Constant	0.132*** (0.000)	1.417 (0.462)
Year/Industry	fixed	fixed
Firm	clustered	clustered
Wald Chi ² / <i>F</i>	33.12***	1188.39***
Pseudo-/Adj- <i>R</i> ²	0.0616	0.4947
Observations	12,801	12,476

Note: ***, **, and * represent 1%, 5%, and 10% significance levels, respectively, for two-tailed tests.

4.2.3 Further studies: religious influence and earnings quality

So far, the empirical findings have shown that firms under higher religious influence tend to demand audit services of higher quality. It follows logically that the earnings quality of these firms should be higher. Given their earnings quality, they should get better audit opinions. To verify the integrity of this logic, we analyse the impact of religion on earnings quality and audit opinions in this section.

We use discretionary accruals (*DA*) as the proxy for earnings quality to examine the impact of religion on earnings quality. The result in Column (1) of Table 7 shows that firms under higher religious influence have a much lower level of earnings management. The result in Column (2) of Table 7 shows that the higher the religious influence is, the more likely firms are to obtain clear audit opinions. In addition, in Column (2), the coefficient of audit fees (*AUDITFEE*) is positively correlated with qualified audit opinions. To exclude the opinion shopping concern, in an unreported test, we define a dummy (*D_RELIGION*) according to the median of *RELIGION* and then insert *D_RELIGION* and *D_RELIGION***AUDITFEE* into the model. The coefficient of the interaction item is not significant.

4.2.4 Robustness checks

To test the reliability of the results, we conduct the following robustness tests. We replace *BIG10* with *BIG4* and *BIG8*. *BIG4* represents the international BIG4 while *BIG8* represents accounting firms which always rank among the top 8 according to the lists of CICPA.

We reset 150 km, 250 km, and 300 km as benchmarks to recalculate *RELIGION* (*RELIGION150*, *RELIGION250*, *RELIGION300*). Panels A to D of Table 8 show that the results of the robustness tests are consistent with the main results in sections 4.2.1 and 4.2.2, suggesting that the results are robust to various benchmarks of religious intensity.

We use the two-stage OLS-Tobit regression procedure, which is generally accepted and widely used in the literature (El Ghouli *et al.*, 2012; Hilary and Hui, 2009; Du, 2014), to alleviate potential endogeneity between Buddhism and audit demand. In the first stage, we control for *COLLEGE*, represented by the natural logarithm of the number of universities in the firm's province; *TAX*, represented by the natural logarithm of tax revenue at the provincial level; *POP*, represented by the natural logarithm of the province's population; *GDP*, represented by the natural logarithm of provincial GDP per capita; *GROWTH*, represented by the growth rate of provincial GDP per capita; *TRANSPORT*, represented by the natural logarithm of provincial railway mileage. In the second stage, we use the predicted *RELIGION* as the independent variable. Panel E reports the regression results of two-stage OLS-Tobit regression and *RELIGION* is still significantly positive at the 1% level. Thus, our conclusions are robust to this two-stage model.

One alternative explanation is that most high-quality accounting firms are located near temples. To exclude this alternative explanation, we control for the number of local BIG10

auditors in two ways. The first is to control for the local ratio of BIG10 auditors in model 1 (M1). The untabulated results show that the coefficient of *RELIGION* is significantly positive at the 1% level. The second method is to split the sample into two subsamples according to the median of the local ratio of BIG10 auditors and then regress M1 for the two subsamples. Similarly, unreported results show that the coefficients of *RELIGION* are significant at the 1% level in both regressions. To sum up, the findings for Hypothesis 1 are very robust even when the ratio of local BIG10 auditors is considered.

Table 8 Robustness Checks

PANEL A: Use BIG4/BIG8 to Replace BIG10

Variables	(1) <i>BIG4</i>	(2) <i>BIG8</i>
<i>RELIGION</i>	0.247* (0.067)	0.265*** (0.000)
Control	yes	yes
Year/Industry	fixed	fixed
Constant	-47.026*** (0.000)	-9.468*** (0.000)
Firm	clustered	clustered
<i>F</i> /Wald Chi ²	4847.96	541.02
Pseudo- <i>R</i> ²	0.3593	0.0669
Observations	12,220	12,801

PANEL B: Use 150 km as the Benchmark to Define Religion

Variables	(1) <i>BIG10</i>	(2) <i>ACHENGE</i>	(3) <i>TIMES2</i>	(4) <i>LENTH2</i>	(5) <i>AUDITFEE</i>
<i>RELIGION150</i>	0.105** (0.032)	-0.164*** (0.000)	1.037*** (0.000)	0.103* (0.092)	0.045*** (0.000)
Control Variables	yes	yes	yes	yes	yes
Year/Industry	fixed	fixed	fixed	fixed	fixed
Constant	-7.743*** (0.000)	-1.978** (0.032)	122.206*** (0.000)	16.059** (0.012)	-3.981*** (0.001)
Firm	clustered	clustered	clustered	clustered	clustered
Wald Chi ² / <i>F</i>	585.86***	429.66***	4.82***	20.14***	153.62***
Pseudo- <i>Adj-R</i> ²	0.0676	0.0605	0.0326	0.0901	0.6738
Observations	12,801	9,765	12,801	12,801	12,801

PANEL C: Use 250 km as the Benchmark to Define Religion

Variables	(1) <i>BIG10</i>	(2) <i>ACHENGE</i>	(3) <i>TIMES2</i>	(4) <i>LENTH2</i>	(5) <i>AUDITFEE</i>
<i>RELIGION250</i>	0.163*** (0.000)	-0.224*** (0.000)	1.393*** (0.000)	0.157*** (0.005)	0.048*** (0.000)
Control Variables	yes	yes	yes	yes	yes
Year/Industry	fixed	fixed	fixed	fixed	fixed
Constant	-7.999*** (0.000)	-1.644* (0.076)	119.864*** (0.000)	15.764** (0.013)	-4.020*** (0.001)
Firm	clustered	clustered	clustered	clustered	clustered
Wald Chi ² / <i>F</i>	600.15***	440.17***	5.43***	20.41***	154.11***
Pseudo- <i>Adj-R</i> ²	0.0696	0.0636	0.0360	0.0912	0.6746
Observations	12,801	9,765	12,801	12,801	12,801

PANEL D: Use 300 km as the Benchmark to Define Religion

Variables	(1) <i>BIG10</i>	(2) <i>ACHENGE</i>	(3) <i>TIMES2</i>	(4) <i>LENTH2</i>	(5) <i>AUDITFEE</i>
<i>RELIGION300</i>	0.167*** (0.000)	-0.188*** (0.000)	1.371*** (0.000)	0.111* (0.055)	0.052*** (0.000)
Control Variables	yes	yes	yes	yes	Yes
Year/Industry	fixed	fixed	fixed	fixed	fixed
Constant	-8.019*** (0.000)	-0.970 (0.360)	121.049*** (0.000)	16.009** (0.012)	-3.987*** (0.001)
Firm	clustered	clustered	clustered	clustered	clustered
Wald Chi ² /F	598.00***	434.85***	5.39***	20.31***	154.72***
Pseudo-/Adj-R ²	0.0696	0.0623	0.0354	0.0902	0.6749
Observations	12,801	9,765	12,801	12,801	12,801

Panel E: Two-Stage OLS-Tobit Regression

Variables	(1) <i>RELIGION</i>	(2) <i>AVTIMES</i>	(3) <i>AVLENTH</i>	(4) <i>RANK1</i>	(5) <i>RANK2</i>	(6) <i>AUDITFEE</i>
<i>COLLEGE</i>	4.385*** (0.000)					
<i>POPULATION</i>	-2.315*** (0.000)					
<i>GDP</i>	6.664*** (0.000)					
<i>GROWTH</i>	-1.148 (0.611)					
<i>LNTAX</i>	1.155*** (0.000)					
<i>TRANSPORT</i>	-3.417*** (0.000)					
<i>RELIGION*</i>		1.331*** (0.000)	0.158*** (0.003)	0.316*** (0.000)	0.248*** (0.000)	0.041*** (0.000)
Constant	30.172*** (0.000)	30.512*** (0.000)	7.914*** (0.000)			5.153*** (0.000)
Control variable	yes	yes	yes	yes	yes	yes
Industry/Year	no	yes	yes	yes	yes	yes
Wald Chi ² /F	3031.24***	5.34***	21.12***	471.53***	474.58***	146.33***
Pseudo-/Adj-R ²	0.312	0.0301	0.0866	0.0171	0.0164	0.6671
Obs	12,801	12,801	12,801	12,801	12,801	12,801

Note: ***, **, and * represent 1%, 5%, and 10% significance levels, respectively, for two-tailed tests.

V. Conclusion

The informal institutional arrangement of religion is an important component of culture and may affect behaviour through its doctrines of self-discipline, altruism, and the norm of risk aversion. These influences will affect corporate behaviour since corporate decisions are made by individual managers. Self-discipline and altruism reduce the earnings management motivation of big shareholders and managers, and higher risk aversion drives managers to avoid the risk of accounting or financial frauds. All things being equal, we expect firms in

areas under high religious influence to present greater demand for high-quality audit services.

Following the method of Du (2013) and Chen *et al.* (2013), we use the number of Buddhist and Taoist temples within 200 km (150 km, 250 km, and 300 km in the robustness tests) from the listed firm as the proxy for the influence of religion. The empirical results show that: (1) firms under higher religious influence tend to choose Big10 or Big4 accounting firms, which are usually regarded as high-quality auditors, and signing partners who have more experience and may give more suggestions on internal control and management (furthermore, such firms' audit contracts are more stable and they have a lower probability of switching auditors); (2) firms under higher religious influence are prepared to pay much higher audit fees for high-quality audit services; (3) high-quality audit services provide high-quality earnings information. The higher the religious influence, the lower the discretionary accruals. Such firms also tend to get clearer audit opinions.

The above discussions are coherent and offer an opportunity to better understand the influence of religion on a firm's audit demand. On the one hand, if high-quality accounting information is simply determined by the firm's own efforts, there is no need to buy high-quality audit services and pay higher audit fees. On the other hand, if high audit fees are paid for opinion shopping, then the accounting information must be of low rather than high quality. Our results (choosing auditors of higher quality and with more experienced partners helps to obtain accounting information of higher quality, leading to higher audit fees) offer an accurate explanation of how religion affects the demand for high-quality audit services. Although some evidence shows that high-quality audit services are in less demand in the Chinese audit market (Wong *et al.*, 2008), we find that demand for high-quality audit services is still widespread among firms located in areas under higher religious influence. These findings also help us to understand the impact of Buddhism and Taoism on emerging markets like China.

Statistics on believers are very limited in China, so we only use the number of temples within a certain distance from the firm as the proxy for the influence of religion. We expect further research to come up when relevant data become available. Owing to limited data, we only include the Buddhist and Taoist temples in our measures. If data on Islamic mosques and Christian churches were available, richer research could be conducted with sufficient considerations.

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Appendix A Variable Definitions

Variable	Definition
<i>BIG10/BIG4</i>	Coded 1 when the auditor is a Big10 (BIG4) accounting firm according to the CICPA's ranking, and 0 otherwise.
<i>ACHANGE</i>	A dummy variable, coded 1 if the listed firm switches auditors, and 0 otherwise.
<i>AUDITFEE</i>	Natural logarithm of audit fees paid by the listed firm.
<i>AVTIMES</i>	The average of signing firm-years of signing partners for firm <i>i</i> (Wu, 2009).
<i>AVLENTH</i>	The average of number of signing years of signing partners for firm <i>i</i> (Wu, 2009).
<i>RANK1</i>	The rank of the average signing partner's experience in the audit firm based on <i>AVTIMES</i> .
<i>RANK2</i>	The rank of the average signing partner's experience in the audit firm based on <i>AVLENTH</i> .
<i>OPINION/ LAGOPINION</i>	A dummy variable, coded 1 if the client is issued a modified opinion (including a disclaimer of opinion, an adverse opinion, a qualified opinion, and an unqualified opinion with an explanation), and 0 otherwise; <i>LAGOPINION</i> is <i>OPINION</i> lagged by one period.
<i>RELIGION</i>	Natural logarithm of the number of Buddhist monasteries and Taoist temples within a radius of 200 km around a listed firm's registered address.
<i>MKT</i>	A dummy variable, equals 1 if the firm's headquarters are located in one of the top 10 Marketisation Index provinces, and 0 otherwise.
<i>DISTANCE</i>	The geographical distance (in km) between the auditor office and the firm's headquarters.
<i>HHI</i>	Industry competition, measured by the Herfindahl-Hirschman Index.
<i>SUBFIRM</i>	The square root of the number of consolidated subsidiaries of the firm.
<i>INVREC</i>	The ratio of inventories and accounts receivable to total assets.
<i>LOSS</i>	A dummy variable, equals 1 if the firm's lagged net income is negative, and 0 otherwise.
<i>DA</i>	The absolute value of discretionary accruals based on the model in Ball and Shivakumar (2006).
<i>CR</i>	Current assets divided by current liabilities.
<i>MTB</i>	The market-to-book ratio.
<i>SIZE</i>	Firm size, measured by the natural logarithm of total assets.
<i>LEV</i>	The ratio of total liabilities to total assets.
<i>ROA</i>	Return on assets, measured as net operating income deflated by total assets.
<i>SOE</i>	A dummy variable, equals 1 when the ultimate controlling shareholder is a government department or government-controlled firm, and 0 otherwise.