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**Faculty of Business Administration**  
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*AIM*

*The Effect of Local Audit Market Competition on  
Audit Quality and Fees*

Prof. Jong-Hag CHOI  
Professor  
College of Business Administration  
Seoul National University

**Abstract**

Audit market competition has been a great concern for regulators since regulators worry that it may structurally affect audit quality and audit fees. However, a consensus has not yet been made on the direction of the effects. Using the number of auditors (audit offices) located in the local area as a proxy for audit market competition, we re-examine the controversy. Our empirical results reveal the following. First, we find that audit quality deteriorates as the number of auditors increases. Second, audit fees decrease with a greater number of auditors. We document that both effects are mainly driven by the number of non-Big 4 auditors rather than by the number of Big 4 auditors in the local audit market. Lastly, we document that the aforementioned effects do not exist in the market segment with extremely large clients who demand audits exclusively from Big 4 auditors. However, in the other market segment, both Big 4 and non-Big 4 auditors are affected by the number auditors, especially the number of non-Big 4 auditors in the MSA. Collectively, our results show that greater audit market competition brings about impaired audit quality and lower audit fees. These findings provide regulators and many other interested parties with valuable insights into the effect of audit market structure on auditor behavior.

**Date:** 26 October, 2018 (Friday)  
**Time:** 16:00~17:30  
**Venue:** Faculty of Business Administration, E22-G010

### **A Short Biography of Prof. Jong-Hag CHOI**

Jong-Hag Choi is a professor of accounting at Seoul National University. Being a renowned scholar in the auditing area, he published many research papers in top academic journals such as The Accounting Review, Contemporary Accounting Research, Review of Accounting Studies, Auditing: A Journal of Practice & Theory, Accounting Horizons, and Journal of Accounting and Public Policy. He has served as an editorial board member or an associate editor for The Accounting Review, Contemporary Accounting Research, Auditing: A Journal of Practice & Theory, and Asia-pacific Journal of Accounting and Economics. He served as the director of MBA program and executive education program at Seoul National University. He also served as a member of several committees in the Korean government and provided his professional view on the governmental policy related to the capital market. He published several bestsellers on accounting/finance/economics related cases in Korea. Before joining the Seoul National University, he taught at Hong Kong University of Science and Technology after receiving his Ph.D. from University of Illinois at Urbana-Champaign.

**ALL ARE WELCOME!**