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Clients in the Spotlight:
Media Coverage and Audit Pricing

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Clients in the Spotlight: Media Coverage and Audit Pricing

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Clients in the Spotlight: Media Coverage and Audit Pricing

Abstract

We examine the implications of media coverage on audit pricing. We propose two alternative explanations for the direction of the relation between a client’s media coverage and audit fees. Under the business risk view, media coverage can increase the auditor’s litigation risk and reputation risk ex ante, leading to higher audit fees. Under the corporate governance view, the media’s disciplining effect on firms can pressure clients to improve their financial reporting in the first place, resulting in lower inherent or control risk and lower audit fees. Our results support the business risk view. We find that media coverage is positively associated with audit fees, and this relation is stronger for clients that have higher litigation risk and that expose the auditor to greater reputational damage. We conduct a path analysis which suggests that auditors charge a media-related risk premium but also increase their audit effort to mitigate the potential risk. Our study contributes to the auditing literature by identifying media coverage as a distinct source of auditors’ business risk.
1. Introduction

Shiller (2002, 85) contends that the “news media are naturally attracted to financial markets” and that financial news has “great human interest potential to the extent that it deals with making or breaking fortunes.” Not surprisingly, interest in the role of the media among business researchers has been growing, particularly in terms of the informativeness of news stories (e.g., Chan 2003, Tetlock et al. 2008, Kothari et al. 2009, Dang et al. 2015), the monitoring or corporate governance functions of the media (e.g., Dyck et al. 2008, Joe et al. 2009, Liu and McConnell 2013, Dai et al. 2015), and the channel – information creation or rebroadcasting – through which the media affects investors (e.g., Bushee et al. 2010, Drake et al. 2014, Twedt 2016). On the other hand, evidence on how the media affects auditors’ decisions is limited to a few studies.

Frost (1991) finds that press coverage of loss contingencies increased the likelihood of auditors’ selecting more conservative financial reporting but did not decrease the stock returns of the sample companies. Mutchler et al. (1997) find that extreme negative coverage in the Wall Street Journal media coverage of a client’s debt default increases the auditors’ propensity to issue a modified audit opinion (MAO). Joe (2003) reexamines the issue using an experiment. She finds no evidence that auditors’ MAO decisions are made to reduce litigation risk. Instead, she finds support for a cognitive explanation where the negative media coverage increases the salience of the event for the auditor, causing them to overweight the redundant information reported in the press. These studies are similar as they all examine the media’s coverage of a specific account or event. However, audit clients can be exposed to on-going media coverage so coverage of a specific account or event may represent just a fraction of the client’s total media coverage and it remains unanswered from these studies whether or how the client’s overall media coverage affects auditors’ decisions. We attempt to fill this void by providing systematic
evidence on whether clients that are in the media spotlight more often are charged higher audit fees and by identifying factors that help explain such impact. We focus on audit fees because we are interested in how exposure in the business press affects the cost of producing the audit (e.g., Simunic 1980). Thus, our paper also fundamentally differs from studies like Mutchler et al. (1997) and Joe (2003) as we are interested in the implications of media coverage on audit pricing.

Our study is based on the notion that a client’s media coverage is a firm-specific characteristic that auditors consider when deciding on the intensity and scope of auditing services to provide. However, while we expect that a client’s media coverage will affect its audit fees, the direction of such a relation is unclear as there are competing views on how media coverage might affect client evaluation and fee setting. We propose two potential views on how media coverage may affect audit fees – we call these the business risk view and the corporate governance view.

The business risk view posits that media coverage of a client can increase the auditor’s business risk, which includes litigation risk and reputation risk (e.g., DeFond et al. 2016). Litigation risk reflects the auditor’s exposure to lawsuits and potential settlements. Reputation risk reflects a decline in the auditor’s ability to attract and retain clients. Mutchler et al. (1997, 308) propose litigation risk as possible explanation for their results, stating “an auditor may modify the opinion in the presence of public disclosure to mitigate prosecutor’s questions about the lack of modification in the face of an event the Wall Street Journal considers important.” Further, clients’ media coverage may enhance the potential negative public exposure of an auditor’s low-quality audits that further sully the auditor’s reputation. Swanquist and Whited (2015) find that audit offices that experience reputational damage suffer a loss in market share.
To the extent that auditor’s price their perceived business risk (Bell et al. 2001), the business risk view predicts a positive relation between a client’s media coverage and audit fees.

In contrast, the corporate governance view focuses on the media’s influence in the corporate governance process. Dyck and Zingales (2002a) claim that the media has a corporate governance role because it can increase the expected penalties arising from improper behavior. Dyck and Zingales (2002b) identify three ways that media can play a role in corporate governance. First, media coverage can drive politicians to enact corporate law reforms or enforce corporate laws to address concerns about corporate governance. Second, media coverage can affect the manager’s reputation in the eyes of shareholders which can directly impact the manager’s future pay. Third, media attention can also affect the manager’s reputation among the public, and this can constrain the manager’s behavior. Evidence supports the media having a corporate governance role. For example, Joe et al. (2009) find that negative exposure in Business Week of ineffective boards results in the worst boards taking corrective action. Liu and McConnell (2013) find that firms are more likely to abandon value-reducing acquisition attempts after negative press coverage, and Dai et al. (2015) find that media coverage of insider’s prior trading reduces their future trading profits. To the extent that the media can make violating social norms more expensive, clients with greater media coverage are likely to engage in less earnings management, and thus have higher earnings quality to start with. As a result, clients with greater media coverage may have higher quality or more conservative pre-audited financial statements, and that can affect the auditor’s risk assessment. DeFond et al. (2016) find that auditors charge lower audit fees for clients with more conservative accounting. Consequently, the corporate governance view predicts a negative relation between the client’s media coverage and audit fees.
To examine these competing hypotheses, we construct a measure of overall media coverage using data from Thomson Reuters News Analytics (TRNA), which contains press coverage data at the firm level. We find strong evidence that clients with greater media coverage pay higher audit fees, consistent with the business risk view. These results hold after controlling for numerous firm characteristics which have been shown to be related to audit fees including firm size, financial performance, financial risk factors, and auditor-related variables (e.g., Causholli et al. 2010; DeFond and Zhang 2014).

Using comparative statics, we show that clients with higher ex ante litigation risk – based on Kim and Skinner’s (2012) measure – have a stronger relation between media coverage and audit fees. Further, using institutional ownership as a proxy for potential lawsuit settlements (e.g., Cheng et al. 2010), we find that the relation between media coverage and audit fees is stronger when the client’s institutional ownership is higher. Next, we conduct three tests based on cross-sectional differences in reputation risk. Following Swanquist and Whited (2015), we show that our results are more pronounced when auditors operate in a highly competitive market that makes them more vulnerable to a potential loss of market share. Based on Hennes et al. (2014), we find a stronger positive relation between media coverage and audit fees when clients have lower switching costs, i.e., a non-Big 4 auditor or fewer business segments. All these findings are consistent with the view that higher media coverage increases the auditor’s ex ante assessment of business risk – specifically, litigation and reputation risk – leading to higher audit fees.

Because our cross-sectional tests are based on the assumption that the media’s propagation of negative information about an auditor’s poor quality audits can lead to more litigation and reputation damage ex post, we conduct several tests to examine the validity of this assumption. Following prior research (e.g., Hennes et al. 2008), we use restatements as an
indicator of poor audit quality. We find that the probability of a lawsuit following a restatement is significantly greater if the restating client receives high media coverage. Further, consistent with Swanquist and Whited (2015), we find that a prior restatement is associated with a significant decline in market share of the local office and that the effect of a prior restatement on market share loss is amplified if the restating client has greater exposure in the media.

While these analyses support our claim that media coverage affects audit fees through litigation and reputation risk, we acknowledge that they are also consistent with a variation of the corporate governance view. Specifically, media coverage may increase the quality of a client’s internal corporate governance – e.g., improving audit committee quality – and, as a result, the client purchases more audit services, leading to higher fees. However, this alternative corporate governance view is unlikely to explain our results for several reasons. First, our results continue to hold if we further control for the level of both general and audit-related corporate governance. Second, we fail to find media coverage is positively associated with various corporate governance measures in either level or change analyses.

We address concerns about endogeneity using various approaches. We include firm fixed effects to control for unobservable, time-invariant omitted variables at the firm level. We also conduct a two-stage instrumental variable analysis, using the geographic distance between the client’s headquarters and the nearest Dow Jones office as the instrument. Our last approach is to perform a change analysis where we regress the change in the audit fee in the current year on the change in media coverage in the prior year. All of these analyses confirm our main results.

In additional testing, we perform a path analysis to give us greater confidence that our results of audit fees are very likely due to audit work, which leads to high financial reporting quality of their clients (Simunic 1980). The results demonstrate a series of structural links that go...
from media coverage to audit pricing, and audit pricing to financial reporting quality. We find that higher media coverage leads to lower discretionary accruals, through the effects of audit fee. This chain of links is consistent with auditors using, at least, part of the higher audit fees charged to high media coverage clients to increase audit effort. In other words, auditors of high media coverage clients expend greater effort and improve the financial reporting quality in order to counteract the potential risk from litigation and market share loss that are associated with media coverage.

Lastly, we conduct three sets of robustness checks. We find that both original news, a proxy for the media’s information creation role, and stale news, a proxy for the media’s dissemination role, are positively related to audit fees, suggesting that the effect of media coverage on audit fees can be explained by both the media creating new information and disseminating the news more widely. Also, our results hold for both positive and negative news, and for news released in the first quarter when the audit fee is likely be determined.

We contribute to the exiting audit literature in several important ways. First, we extend the prior literature on the media and auditors which examines how news about a particular item or event affects specific judgements made by the auditor (e.g., Frost 1991, Mutchler et al. 1997, Joe 2003). Instead, we focus on the effect of a client’s overall media coverage on audit fees because we are interested in how auditors react to media exposure in general. Our results suggest auditors view overall media coverage as a business risk factor.¹ More broadly, our study adds to the recent studies on how non-financial information of the clients affects auditors’ view on the

¹ A concurrent working paper by Dhaliwal et al. (2014) uses a broader measure of media coverage; however, they only consider negative media coverage. Our measure of media coverage includes all news whether positive or negative. Also, Dhaliwal et al.’s (2014) study is based in China; we use US data. Finally, Dhaliwal et al. (2014) examine modified audit opinions in contrast to our focus on audit fees.

Second, we complement the more extensive literature on the media and its corporate governance role for firms (e.g., Dyck and Zingales 2002b, Dyck et al. 2008, Joe et al. 2009, Liu and McConnell 2013, Dai et al. 2015). These studies document that the media has a direct corporate governance effect on firms and their managers. While we do not find support for the corporate governance view which posits that greater media coverage reduces audit fees, our findings do suggest that the media also has an indirect governance effect that operates through auditors. Specifically, results of a path analysis are consistent with greater media coverage increasing the auditor’s incentives to improve audit quality.

Third, we contribute to literature on the business press (e.g., Tetlock 2007, Fang and Peress 2009, Kothari et al. 2009, Bushee et al. 2010, Drake et al. 2014, Dai et al. 2015) by examining the media’s information creation role and the rebroadcasting role in an auditing context. While Mutchler et al. (1997) and Joe (2003) assume news is redundant (i.e., no new information) and thus focus on the rebroadcasting effect, the TRNA database allows us to identify original (i.e., the first story) and stale news (i.e., repeated stories) so we can investigate both effects. We find a significant relation between both original and stale news which suggests that auditors view both new information and more widely disseminated information as factors that affect their business risk.

The remainder of the paper is organized as follows. Section 2 develops the hypothesis. Sections 3 describes the research design. Section 4 reports the results and presents several additional analysis. Section 5 concludes.
2. Literature Review and Hypothesis Development

2.1 Media’s role in the stock market

By reducing investors’ cost of collecting and evaluating information, the media has a major role in the stock market. Consistent with media coverage lowering information asymmetry and cost of capital, Fang and Peress (2009) find higher returns for firms with no media coverage compared to firms with media coverage and Bushee et al. (2010) find smaller bid-ask spreads and increased market depth for firms with greater media coverage. Similarly, Solomon et al. (2014) find that media coverage affects the flow of funds to mutual funds with firms with high recent returns gaining additional funds if they have been featured in the media. Other studies indicate that the tone and content of news items affect the informativeness of media reports (e.g., Tetlock et al. 2008, Kothari et al. 2009). Engelberg and Parsons (2011) finds that local media coverage predicts the timing of local trading, which supports a casual relation running from the media to the stock market.

Prior research suggests that the media can affect investors’ decisions through two distinct channels – information creation and rebroadcasting. Studies such as Miller (2006) find support for the media’s information creation role. On the other hand, Bushee et al. (2010), Dai et al. (2015), and Drake et al. (2015) find support for the media’s dissemination role. Tetlock (2011) finds evidence that investors react to stale or repeated news which further supports the media’s rebroadcasting role.

Finally, Mullainathan and Shelifer (2005) posit that the media has incentive to bias or slant the news in order to cater to the preferences of their readers, while Jensen (1979) contends the media has incentives to entertain readers resulting in sensationalism. Core et al. (2008) find evidence of sensationalism in the media’s coverage of CEO pay, and Ahern and Sosyura (2015)
provide evidence that investors are misled by media’s slant in reporting rumors related to possible mergers.

2.2 Auditors’ use of media information

Frost (1991) finds that press coverage of loss contingencies increased the likelihood of auditors’ selecting more conservative financial reporting but did not decrease the stock returns of the sample companies. Mutchler et al. (1997) find that extreme negative coverage in the Wall Street Journal’s coverage of a client’s debt default increases the auditors’ propensity to issue a modified audit opinion. On the other hand, they do not find evidence that the extreme negative coverage prior to the default is related to the probability of bankruptcy, leading Mutchler et al. (1997) to conclude that the published news is redundant information. As a result, they conclude that negative coverage in the Wall Street Journal makes the news more salient to the auditor when forming an opinion or increases litigation risk.

Joe (2003) reexamines the salience explanation using an experiment. In her task, she ensures that the negative media coverage (information about a loan default) is strictly redundant to avoid competing explanations related to new information. She finds no evidence that auditors’ MAO decisions are made to reduce litigation risk. Instead, she finds support for a cognitive explanation where the negative news coverage increased the salience of the event for the auditor, causing them to overweight the redundant information reported in the press. However, Joe’s (2003) experiment focuses on a private company with public debt outstanding. As she notes, litigation risk may be lower for private companies, and she concludes that further research is needed to assess the generalizability of her results to public companies.

More recently, Dhaliwal et al. (2014) provide a more focused test of the litigation explanation using a change in the regulatory setting in China. Specifically, they examine the
relation between modified audit opinions and negative press coverage before and after an October 2005 change in China’s Security Law that explicitly stipulated that “the auditor bears the joints and several liabilities with the issuer for shareholder losses resulting from relying on audited financial statements that prove to be false, misleading, or containing major omission” (Dhaliwal et al., 2014, 10). They find that negative press coverage increases the likelihood of a modified audit opinion after the legal regime change but not before, consistent with a litigation effect.

Thus, prior research focuses on the relationship between specific types of news or negative news coverage and auditors’ decisions related to loss contingencies or going-concern opinions. Our study is fundamentally different as we examine the relation between overall media coverage and audit fees. We focus on audit fees because it reflects the production of the audit more broadly. For example, audit fees reflect both audit effort and any additional risk premium charged to the client (e.g., DeFond et al. 2016).

2.3. Hypothesis

A priori it is not clear whether a client’s overall media coverage will be positively or negatively related to audit fees. We discuss two competing views that could explain the relation between media coverage and audit fees.

The business risk view suggests that media coverage can positively affect audit fees through the auditor’s business risk which includes litigation risk and reputation risk. In our setting, media coverage can increase litigation risk in two ways. First, Miller (2006) and Dyck et al. (2010) shows empirical evidence that financial media plays an important role in fraud detection. For example, Dyck et al. (2010) finds that the media, along with employees and non-financial-market regulators, play a significant role in fraud detection. The media uncovers 13% of the fraud cases (24% based on a value weighted measure) of 216 cases of alleged corporate
fraud in their sample. To the extent that the media has a ‘watchdog’ role, greater media coverage may increase media scrutiny which could increase the likelihood that fraudulent activity is uncovered by the media. Second, once a fraud is detected, greater media coverage could increase the likelihood that a lawsuit through wider dissemination of the news about the client’s fraud.\textsuperscript{2} Thus, greater media coverage could increase litigation risk – and lead to higher audit fees – by increasing the probability of fraud detection by the media or by increasing the consequences of detection through dissemination or sensationalism.

For audit firms, litigation costs are a major concern, particularly for audits involving public companies. For example, between 1996 and 2007, settlement costs related to public company audits was $3.4 billion (Center for Audit Quality 2008). Further, for the period 1999 to 2004, roughly 8-14\% of public company audit revenues were spent on litigation-related costs (Center for Audit Quality 2008). The non-trivial nature of these litigation costs suggests auditors have economic incentives to monitor a client’s media exposure.

Further, prior research indicates reputation has a significant effect on the value of an audit (e.g., Chaney and Philipich 2002). Swanquist and Whited (2015) provide evidence on the consequences of reputational impairment. They find that audit offices that have more frequent restatement announcements experience larger losses in local market share, consistent with market forces penalizing auditors’ reputation for their association with lower quality audits. The media plays a role in this process. For example, Cohen et al. (2015, 20) state that “the media influences the public’s perception of the manager and the reputation of the firm especially when negative events such as fraud occur”.

\textsuperscript{2} The media’s role in disseminating information has long been recognized going back to, at least, De Toqueville (1840).
The media’s role in increasing the auditor’s litigation and reputation risk is amplified by the media’s tendency to bias or sensationalize the news. In particular, Cohen et al. (2015) argue that the media has unreasonable expectations of auditors’ duties in relation to fraud detection, resulting in a “pervasive sensationalist media bias”. For example, in covering corporate fraud, the media often highlights the manager’s extravagant lifestyle, a factor that is not mentioned in auditing standards. Likewise, the media often elevate executives with admiration and praise prior to a scandal being detected, which makes their downfall – and the auditor’s ‘failure’ to foresee the fraud – even more spectacular. Consistent with Dyck and Zingales (2002b) who state that the media emphasizes business “heroes and villains”, Cohen et al. (2015, 19) argue that the “media’s self-interest is to emphasize the ‘evilness’ of these fraudulent managers in order to meet readers’ expectations and retain and expand readership”. Further, Cohen et al. (2015) argue that the media often ‘dumbs down’ its coverage of frauds. Together, the media’s portrayal of a fraud can leave the public wondering why the auditor did nothing. Finally, Benediktsson (2010) finds politically liberal newspapers are more likely to cover accounting scandals, leading to auditors and their actions being portrayed more critically and less favorably.

The corporate governance view relies on the media having a disciplining role for manager’s behavior. Dyck et al. (2008) finds that Russian firms’ news coverage in the Anglo-American press increases the probability that a corporate governance violation is reversed, while Joe et al. (2009) find that following the negative exposure in Business Week, the worst boards take corrective action such as replacing the CEO and board chair, increasing the proportion of outsiders on the board, and decreasing the use of staggered boards. Liu and McConnell (2013) document that firms are more likely to abandon value-reducing acquisition attempts after unfavorable media coverage, and Dai et al. (2015) find that insider trading profits
are inversely related to news coverage. Further, by increasing the likelihood that fraud is detected (as discussed above), the media increases the cost of misreporting and this may constrain managers’ reporting choices.

To the extent that the media has a disciplining role, firms that receive greater media coverage may have lower audit risk to start with. That is, the possibility of being exposed in the media spotlight could motivate firms to improve their accounting quality and combat fraud more diligently, thereby reducing inherent risk and control risk for the auditor. Further, as greater media coverage reduces information asymmetry (e.g., Bushee et al. 2010), the increased transparency of clients’ overall information environment may help the auditor obtain their audit evidence more easily, reducing detection risk. Finally, if managers take actions to avoid litigation as Dai et al.’s (2015) results suggest, greater media coverage could reduce the client’s business risk. As a result, the corporate governance view predicts a negative relation between media coverage and audit fees.

In light of these alternative views, whether media coverage leads to higher or lower audit fees is an empirical question. As such, we state our main hypothesis in null form as follows:

*Hypothesis: There is no association between clients’ media coverage and audit fees.*

3. Sample and Method

3.1. Sample and data

We obtain media coverage data from TRNA. TRNA analyzes news items at the time of their release. We use this information to determine the number of news items about a particular client in a one-year period. The database also rates each news item in terms of relevance. The relevance score can vary from 0 to 1 where 1 identifies the stories that are most relevant to a firm. We select news items with a relevance score equal to 1 to ensure that the client is the main
focus of the story.

The data for audit fees and audit opinions come from Audit Analytics. We retrieve merger and acquisition data from SDC while the remaining data is from Compustat. We then combine these data together. Our data requirements yield an initial sample of 20,871 firm-year observations for the period 2003 to 2011. We begin in 2003 because that is the first year when TRNA data are available. To control for the effect of outliers, all continuous variables are winsorized at 1% and 99% tails.

3.2. Research design

To test our hypothesis, we regress the natural log of audit fees (\(\text{AuditFee}_{i,t}\)) on a measure of the client’s media coverage over the fiscal year (\(\text{Media}_{i,t}\)). Specifically, we perform our analysis using the following model:

\[
\text{AuditFee}_{i,t} = \alpha + \beta_1 \text{Media}_{i,t} + \gamma X_{i,t} + \epsilon_{i,t}
\]

(1)

where \(\text{Media}\) is the natural log of the number of news items about client \(i\) and \(X\) is a vector of control variables. Our interest is in \(\beta_1\), which represents the impact of media coverage on audit fees. If the business risk view holds, we expect \(\beta_1\) to be significantly positive; if the corporate governance view holds, we expect \(\beta_1\) to be significantly negative.

Following prior literature (e.g., DeFond et al. 2016), the vector \(X\) includes the following variables. We first include firm size (\(MV\)) since audit fees mainly increase with firm size. Measures of short-term liquidity and long-term default risks are included (\(\text{Quick}, \text{InvRec}, \text{and Lev}\)) to control for the effects of liquidity and default risks on audit pricing. Accounting performance measures (\(\text{Loss}\) and \(\text{ROA}\)) are included to control for the performance and possible

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3 Hendershött et al. (2015) provide further background about the TRNA database.
distress status. We also include the book-to-market ratio (BM) to control for the effect of investment opportunities on audit pricing. Next, we control for the complexity of a firm’s operations (NumSeg, Spec, FOps, MA, and Finance). Auditor type (Big4), audit opinion (GC), and peak season effects (Busy) are also included in the baseline model. The Appendix provides definitions for all the variables.

Finally, we include industry fixed effects in the regression model to control for unobserved heterogeneity across industries and year fixed effects to account for transitory economy-wide factors that could affect audit pricing decisions. Standard errors are clustered at the firm level to account for the presence of serial correlation in the data.

The descriptive statistics for all variables used in our analyses are reported in Table 1. Table 1 shows that the mean of the natural log of audit fees is 13.536 which is equivalent to an audit fee of $756,154. The mean of the natural log of media coverage is 2.861 which is equivalent to an average of 17.48 news items per client per year. The descriptive stats for the other control variables are consistent with previous studies.

4. Empirical Findings

4.1. Audit fee and media coverage

Table 2 reports results from our baseline model on the effects of media coverage on auditors’ pricing decisions. The coefficient of Media is found to be significantly positive at 1%, indicating that greater media coverage is associated with higher audit fees. In terms of economic magnitude, a one-standard deviation increase in media coverage (Media) results in a 6% increase
in audit fees.\footnote{Because the dependent variable is a natural log-transformed variable, \textit{AuditFee}, the economic effect of 6\% is computed as $\exp(0.083 \times 0.717)-1$, where 0.083 is the coefficient on \textit{Media} in Table 2 and 0.717 is the standard deviation of \textit{Media} in Table 1.} Taken as a whole, the evidence from the baseline model indicates that auditors will charge higher fees for clients who receive greater media coverage of their clients. The positive effect of media coverage on audit fees is consistent with media coverage increasing the litigation or reputation risk of the auditor, and is contrary to the view that auditors benefit from the corporate governance or disciplining effect the media may have on clients.

\textit{Insert Table 2 about here}

The results for the control variables are generally consistent with our expectations. We obtain a positive and significant coefficient on $MV$, suggesting that firm size is one of the important determinants of audit fees. The coefficients on $Lev$ and $Loss$ are found to be positive, which implies that firms receive more audit fees when they are facing long-term default risks and when they are reporting losses. All the other control variables are generally consistent with prior studies (DeFond et al. 2016).

4.2. Cross-sectional analyses

As discussed above, a positive relation between media coverage and audit fees can arise because media coverage increases an auditor’s litigation risk or reputation risk. To examine these two non-mutually exclusive channels in more depth, we conduct several cross-sectional analyses.

4.2.1. Litigation risk

We first partition our sample based on the client’s ex-ante litigation risk. Following Kim and Skinner (2012), we use their estimation results of model (2) and construct a firm-year litigation measure. We then classify the observations whose litigation score are above (below) the sample median as high (low) litigation group. Table 3, panel A reports the results for
regression analysis. For brevity, we only report the results for our variable of interest, Media. Column (1) provides the results for the high litigation group. The coefficient for the Media variable is significantly positive (coefficient = 0.096, $p$-value < 0.01). Column (2) reports the results for the low litigation group. The coefficient for Media is also positive and significant (coefficient = 0.065, $p$-value < 0.01). However, we are interested in the difference between the two Media coefficients. Based on an $F$-test, the coefficient for Media in the high litigation group is significantly larger than the coefficient for Media in the low litigation group ($p$-value = 0.082). This result is consistent with the litigation risk view as the effect of media coverage on audit fees is greater for clients with high litigation risk.

*Insert Table 3 about here*

Cheng et al. (2010) find strong evidence that institutional investors play a vital role in the litigation actions against the firms and auditors. In particular, they find the success rate of a lawsuit and the final settlement amount is significantly larger when an institution is the lead plaintiff in the lawsuit. Consequently, if media coverage affects audit fees through the litigation channel, we expect that the impact of media coverage is greater for firms with high institutional ownership as institutional investors are more likely to monitor the news and to initiate legal action if warranted.

Table 3, panel B presents the results for the sample partitioned based on institutional holdings where institutional holdings are obtained from the CDA Spectrum database. We find that the coefficients for Media are significant and positive for both the high institutional ownership subsample and low institutional ownership subsample (coefficient = 0.098, 0.058, respectively; both $p$-values < 0.01). However, the magnitude of the coefficient for Media in high institutional ownership group is significantly larger than the coefficient for Media in low
institutional ownership group ($p$-value = 0.003), which is consistent with auditors being more concerned about media coverage when institutional ownership is high.\footnote{We note that the media-related litigation risk premium is affected by the probability of fraud detection by the media and the auditor’s expected loss arising from dissemination and sensationalism, but we do not examine these components separately because it is difficult to measure each component empirically. For example, regarding the media’s role in fraud detection, it is not feasible to measure the \textit{ex ante} probability of the media detecting a fraud because doing so would requiring knowing the likelihood of the media identifying a fraud in the absence of other parties that have a role in fraud detection (e.g., employees, regulators). Further, it would be difficult to empirically validate such an estimate using the \textit{ex post} media detection rate as it reflects both the media’s corporate governance role in improving financial reporting and its watchdog role in detecting potential fraud. Therefore, we focus on either the overall \textit{ex ante} litigation risk as estimated by Kim and Skinner (2012), or the overall consequence of litigation.}

4.2.2. Reputation risk

Swanquist and Whited (2015) finds clients’ accounting restatements impair the local office’s reputation, and therefore, its ability to attract and retain their clients. Such an effect is strongest when competition in the local audit market is high and diminishes when local competition is low. Following Swanquist and Whited’s (2015) findings, we posit that auditors react to a client’s media coverage more strongly when the local audit market is more competitive because the consequence if a fraud is detected is more severe. That is, the expected net loss in local market share due to reputation impairment is greater if competition is stiffer because client have more potential auditors to choose from.

Table 4, panel A contains the results for the subsamples partition on local audit market competition. Specifically, we classify our sample into high (low) competition group based on whether the number of audit offices in the Metropolitan Statistical Area (MSA) in which the client firm’s headquarters is located is above or below the sample median. Column (1) provides the results for the high competition group. The coefficient for the \textit{Media} variable is significantly positive (coefficient = 0.101, $p$-value < 0.01). Column (2) reports the results for the low competition group. The coefficient for \textit{Media} is also positive and significant (coefficient = 0.060,
More importantly, the $F$-test which compares the magnitude of the coefficients for $Media$ shows that the effect of media coverage in the high competition group is significantly larger than in the low competition group ($p$-value $= 0.001$). This result is consistent with the potential market share loss argument where auditors price reputation risk arising from greater media coverage ex ante and where the risk premium is greater in competitive markets because the consequences of reputational impairment are greater.

*Insert Table 4 about here*

We further investigate how the potential loss of market share in the event of clients’ restatement change auditors’ *ex ante* perception in pricing clients’ media coverage. Hennes et al. (2014) find that firms with higher audit switching costs and fewer replacement auditor choices are less likely to dismiss their auditors after a restatement. If auditors rationally price reputation risk *ex ante*, one may expect that auditors with clients who have high switching cost would be less sensitive to their clients’ media coverage in their pricing decision since the expected loss in market share due to reputation impairment is smaller in these cases. Empirically, we use two proxies of clients’ switching cost. Following Hennes et al. (2014), the first is a Big 4 auditor indicator variable, and the second is the number of business segments as having more business segments indicates greater switching costs since there are fewer replacement auditor choices.

Table 4, panel B presents the estimation results for non-Big 4 and Big 4 subsamples separately. The coefficients of $Media$ are significantly positive in both groups (coefficient $= 0.113, 0.072$, for non-Big N and Big N, respectively; both $p$-values $< 0.01$). Further, the magnitude of the coefficient in Big 4 subsample is significantly smaller than the coefficient in non-Big 4 group ($p$-value $= 0.011$). This is consistent with auditors charging clients with low
switching costs (clients of non-Big 4 auditors) a higher reputation risk premium compared to clients with high switching costs (clients of Big 4 auditors).\textsuperscript{6}

Table 4, panel C presents the estimation results when the number of business segments is used to proxy for switching costs. Similar to Hennes et al. (2014), we conduct this test for the sample of Big N clients. In particular, we classify Big N clients with a number of business segments higher (lower) than the sample median into the high (low) subsample. The coefficients of $\text{Media}$ are significantly positive in both subsamples (coefficient = 0.083, 0.051, for low and high complexity, respectively; both $p$-values < 0.01). Again, the magnitude of the $\text{Media}$ coefficient in the high switching cost subsample (i.e., high complexity) is significantly smaller than the one in the low switching cost subsample (i.e., low complexity) at the 5\% level. Our results are not affected if we test this for the full sample of clients as in Panel B. This evidence is consistent with the relation between media coverage and audit fees being conditioned on the level of switching costs.

Taken together, results in Table 4 support the reputation risk explanation since switching costs directly affect the potential market share loss arising from a damaged reputation.

4.3. Additional tests relating to accounting restatements

In the previous section, we argue litigation risk and potential market share loss are two important channels in explaining the positive relation between audit fee and media coverage. These tests assume that the media’s propagation of negative information about an auditor’s poor

\textsuperscript{6} Our tests focus on the risk of reputational damage and imply that non-Big 4 auditors or those in highly competitive local audit markets are more sensitive to reputational loss, reflected by the potential loss in market share following an audit failure (Hennes et al. 2014). While the Big 4 and auditors with commanding market positions may have better reputations and, hence, more to lose, their reputations and market shares are likely to be more stable as they have been developed over a long period of time. On the other hand, the market shares/reputations of the non-Big 4 or auditors in competitive local markets are likely to be more fragile and volatile. Further, the Big 4 may be less sensitive to changes in reputation because, as Cunningham (2006) suggests, the Big 4 in particular may believe they are ‘too big to fail’.

20
quality audits can lead to more litigation and reputation damage ex post. Consequently, we conduct several tests to examine the validity of this assumption. Following prior literature (e.g., Hennes et al. 2008), we use accounting restatements as an indicator of poor audit quality.

4.3.1. Media coverage and auditor litigation following clients’ misreporting

We first examine our assumption that greater media coverage of poor audit quality increases the likelihood that an auditor will be sued. To perform such a test, we collect data on lawsuits against auditors from the Securities Class Action Clearinghouse. We create an indicator variable, $Sued$, that is equal to 1 if the auditor was sued by shareholders within one year after a client’s restatement. We also develop an indicator variable for high media coverage, $HMedia$, based on whether the average media coverage of all clients in each city office of an auditor is above sample median or not in year $t$. We construct an accounting restatement indicator, $Restate$, which is 1 if a client restates in year $t$ and 0 otherwise. We regress the interaction term $HMedia \times Restate$ on whether the auditor is being sued or not within the next year ($Sued$), including the control variables with year and audit city office fixed effects. We report the estimation results for both the full sample and a subsample that includes only those auditor offices where a client was sued within one year after a restatement in Table 5. The coefficients of the interaction term $HMedia \times Restate$ are significantly positive at 1% or 5% level, indicating that clients’ media coverage increases litigation against the auditor. Further, the insignificant coefficient for $Restate$ indicates that restating firms are not more likely to be sued within one year of the restatement. Although $HMedia$ is a measure of general media coverage, not coverage of the restatement itself, this finding is broadly consistent with Files et al. (2009) who find that

---

7 We do not estimate a probit or logit model with high-dimensional fixed effects (e.g., auditor fixed effects) because it is subject to the incidental parameters problem (Wooldridge, 2002), although our results are qualitatively similar.
firms that give the lowest prominence (least visibility) to a restatement when announcing it in a press release do not face lawsuits.

Insert Table 5 about here

4.3.2. Media coverage and auditor market share loss following accounting restatements

Our second *ex post* test investigates the effects of reputational damage by examining the auditor’s loss in local market share following a client restatement. Specifically, we consider whether auditors suffer a significantly larger loss in their local market share if the restating client has greater media coverage. Swanquist and Whited (2015) examine whether city offices that have restating clients suffer a larger decrease in market share than city offices with no restating clients. We follow their approach except we allow the relation between a prior restatement and the change in the city office’s market share to vary depending on the level of media coverage.

We measure the auditor’s local market shares using the city office’s audit fees (or total audit and non-audit fees) scaled by the total audit fees (or total audit and non-audit fees) of all auditors in the same city.\(^8\) We calculate the change in market share of an auditor from year \(t\) to \(t+1\). We then regress the change in the auditor city office’s market share on the interaction term \(H_{\text{Media}} \times \text{Restate}\), the control variables, and year and audit city office fixed effects. If media coverage exaggerates auditors’ market share loss after clients’ restatement (i.e., change of market share after restatement), then one would expect the interaction term to be more negative, supporting our conjecture that market share loss is more pronounced in the city office’s with high media coverage.

Table 6 provides the regression results. Column (1) provides the results using the market share measure based on audit fees only. Column (2) provides the results using the market share

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\(^8\) Our results are robust for different measure of auditors’ market share using book value of clients’ assets.
measured based on audit and non-audit fees. The coefficients of the interaction $HMedia \times Restate$ are found to be significantly negative in both columns (coefficient = -0.174 and -0.176 respectively with $p$-values < 0.01). These results provide evidence that the ex post market share loss following a restatement is greater when media coverage is high.

4.4. Tests to address endogeneity

Readers may be concerned that our main tests suffer from endogeneity problems. In our setting, these concerns should relate mainly to the omitted variables. We perform several tests to address the omitted variable issue.

Our first approach is to include client firm fixed effects as they help control for unobservable, time-invariant omitted factors at the firm level. Table 7, panel A reports these results. The coefficient for our variable of interest, $Media$, remains significantly positive at the 1% level, consistent with our main findings in Table 2. We also perform robustness checks to include auditor fixed effects, both auditor and client fixed effects, or combined auditor-client fixed effects, in addition to industry and year fixed effects, in the model (1), and our results remain unchanged.

Our second approach is to conduct a two-stage IV analysis. Gurun and Butler (2012) and Dai et al. (2015) argue and find that firms’ media coverage is dependent on the distance between the firm and news outlets. In contrast, there is no reason to argue that firms’ audit fees depend on the distance between their location and news outlets. Following Gurun and Butler (2012) and Dai et al. (2015), we use two alternative IVs related to this distance. The first IV is a dummy variable that equals 1 if a client’s headquarters is located in the same state as one of Dow Jones’ offices, and 0 otherwise. The second IV is a dummy variable that equals 1 if the minimum distance
between the firms and Dow Jones’ offices is within 40% of minimum distance values for all firms, and 0 otherwise. In the first stage, we regress Media on one of the IVs and the control variables from eq. (1). In the second stage, we estimate eq. (1) using the predicted value of Media which we label $^\wedge$Media.

Table 7, panel B presents the results of our two-stage IV analysis. In the first stage, we find that both IVs are positively associated with media coverage. In the second stage, all the predicted media coverage variables, $^\wedge$Media, are positively and significantly associated with audit fees at 1% level. Thus, our findings are robust in a two-stage IV analysis.

In addition, we acknowledge that our finding of a positive relation between media coverage and audit fees is consistent with a variation of the corporate governance view based on Engel et al. (2010). They find that audit committee quality is positively correlated with audit fees, suggesting firms with good internal corporate governance systems may demand for higher quality audit service. Hence, it is possible that intensive media exposure improves clients’ corporate governance – e.g., audit committee quality – and, as a result, the client demands and purchases more audit services, leading to higher fees.

Thus, internal corporate governance could be an important omitted variable that affects the relationship between audit fees and media coverage. To address this alternative explanation, we conduct following two tests. First, we directly control for clients’ corporate governance in our regression. Empirically, we use two corporate governance measures, audit committee size (number of audit committee members scaled by total number of directors, a proxy for monitoring demand) and financial experts percentage in audit committee (number of directors with accounting or finance background scaled by total number of directors in audit committee, a proxy for monitoring quality). Untabulated results indicate that media coverage is still positively
correlated with audit fees after controlling for internal governance quality. Second, we find no
evidence that media coverage is positively associated with audit committee size or financial
expertise.

The other endogeneity issue is reverse causality. Theoretically, it is less likely to be a
concern as it is unlikely that incrementally higher audit fees lead to more media coverage,
especially since we calculate media coverage over an entire fiscal year rather than in a short
window at the time the audit fee is first disclosed to the public. However, to further mitigate this
concern, we regress the change of media coverage in the prior year on the change of audit fees in
the current year and expect the previous change of media coverage to be associated with the
current change of audit fees.

Table 7, panel C presents the results. The change of media coverage in $t-1$, $\Delta Media_{i,t-1}$, is
found to be positively and significantly associated with the change of audit fees in $t$ at 1% level.
Thus, our main findings do not appear to be driven by reverse causality. Taken together, we
argue that these above additional results give us greater confidence that our results are more
likely causal instead of correlational.

4.5. Additional tests

4.5.1. Media coverage and audit quality (path analysis)

We investigate whether the higher audit fees charged by auditors in response to greater
media coverage reflects a fee premium or reflects greater audit effort and a higher quality audit
output. An improvement in audit quality would further support the business risk view as auditors
have incentive to deliver a high quality audit in order to counteract the increase in being sued or
incurring reputational damage that is associated with media coverage of their clients.
To address this issue, we perform a path analysis to examine whether media coverage affects audit quality through increased audit fees. According to Baron and Kenny (1986), path analysis allows us to test whether a source variable (media coverage) affects an outcome variable (audit quality) through mediating variable (audit fee). Recent studies using a path analysis include Bhattacharya et al. (2012) and DeFond et al. (2016).

The outcome variable is the client’s audit quality \((AQ)\), which we measure using two different proxies. The first is the absolute value of discretionary accrual estimated from the modified Jones model, and the second is the signed value of discretionary accrual estimated from the modified Jones model. Following Bhattacharya et al. (2012) and DeFond et al. (2016), we estimate the following model:

\[
\text{AuditFee} = a_0 + a_1 \text{Media} + a_k \text{Controls}^k + \varepsilon \quad (1a)
\]
\[
AQ = b_0 + b_1 \text{AuditFee} + b_2 \text{Media} + b_k \text{Controls}^k + \varepsilon \quad (1b)
\]

The path coefficient \(a_1 \times b_1\) measures the indirect path from media coverage to the final audit quality through audit fees, and is expected to be significantly negative.

Table 8 reports the results. We find that the coefficients of \(a_1 \times b_1\) are significantly negative for both measures, \(\text{ABSDA}\) and \(\text{DA}\) (coefficient = -0.006, -0.002, respectively; \(z\)-statistics = -7.36, -2.35, respectively). Thus, our results are consistent with auditors increasing their charges in response to more media coverage and using the additional audit fees to conduct a higher quality audit. Untabulated results show that the direct effect of \(\text{Media}\) on \(AQ\) \((b_2)\) is not significant in estimating Model 1b for both measures of \(AQ\), suggesting the effect of media coverage on client’s audit quality more likely work through auditor effort, rather than the alternative channels.

*Insert Table 8 about here*
4.5.2. Media coverage in first quarter

Our primary measure of media coverage reflects the number of news stories over the entire fiscal year. As a result, it reflects the period when the audit is planned and fees are established, as well as the time when the majority of the audit is conducted and when auditors subsequently adjust the scope of the audit. We consider whether our results hold if we only focus on the media coverage since audit firms typically negotiate their fees with their clients in the first quarter of the fiscal year (e.g., Hackenbrack et al. 2014). Consequently, media coverage around this time should be more relevant for auditors when making their pricing decisions.

Column (1) of Table 9 presents the results where we re-estimate eq. (1) using the media coverage in the first quarter of the fiscal year. The coefficient of Media is still significantly positive at 1% level (coefficient = 0.054, p-value < 0.01).

Insert Table 9 about here

4.5.3. Stale news vs. original news

In this section, we investigate whether auditors respond to stale and original news differently. Prior research argues that the media has two roles in the capital market, namely, an information creation role and a rebroadcasting role (e.g., Bushee et al. 2010, Drake et al. 2014). While the two roles are not mutually exclusive, prior research has generally provided more support for the rebroadcasting role (e.g., Bushee et al. 2010, Drake et al. 2014, Dai et al. 2015). Thus, we investigate whether the higher litigation risk and reputation risk are associated with greater media coverage arises from the media’s creation of original information or from the media disseminating existing information more broadly.

TRNA attaches a novelty score to each news item that reflects whether a news item \( j \) was preceded by a related news item \( k \) in a window period (e.g., 12 hours, 24 hours, 3 days, 5 days, 7 days) before the release of \( j \). We define a news item as an original news item if it is not linked
(related) to prior news items in the previous 24 hours and as stale news item if it is linked to prior news items in the previous 24 hours. After classifying each news item as original or stale, we recalculate the media coverage for each firm-year and create two new variables, \( \text{Media}_O \) and \( \text{Media}_S \), to capture the volume of original and stale news, respectively. Specifically, \( \text{Media}_O \) (\( \text{Media}_S \)) is the natural log of number of original (stale) news in the current fiscal year, respectively. Next, we orthogonalize \( \text{Media}_O \) and \( \text{Media}_S \) to mitigate multicollinearity as these two variables are naturally highly correlated. Last, we obtain normalized values for original media coverage and stale media coverage, \( \text{NormOrthMedia}_O \) and \( \text{NormOrthMedia}_S \). The Appendix provides the details regarding our calculation of these variables.

Column (2) of Table 9 contains the estimation results. The coefficient of \( \text{NormOrthMedia}_O \) is significantly positive at 1% level (coefficient = 0.306, \( p \)-value < 0.01) while the coefficient of \( \text{NormOrthMedia}_S \) is also significant and positive at the 1% level (coefficient = 0.381, \( p \)-value < 0.01). Moreover, the \( p \)-value for an \( F \)-test comparing the magnitudes of the coefficients is 0.129, indicating the auditors’ response to stale information is not significantly different than their response to original information. Thus, in contrast to some studies that find the dissemination role is more important in financial markets (e.g., Bushee et al. 2010, Drake et al. 2014, Dai et al. 2015), we find that the auditor’s business risk is affected through both the information creation and rebroadcasting channels.

4.5.4. Bad news vs. good news

Last, we look at whether auditors respond to favorable media coverage and unfavorable media coverage differently. TRNA uses a knowledge-driven neural network to analyze the linguistic content of each item, and it provides three sentiment scores that reflect the positive, negative, and neutral sentiment in that item. Recently, Hendershött et al. (2015) use TRNA data and find a positive relation between institutional trading and news sentiment, while Cahan et al.
(2015) find that both positive and negative news sentiment are associated with lower liquidity volatility. Thus, news sentiment could potentially provide additional information to auditors.

For each client-year, we classify each piece of news articles into positive, negative, and neutral ones based on the sentiment score provided by Thomson Reuters, and we recalculate the news coverage of good news ($\text{Media}_G$) and bad news ($\text{Media}_B$) separately for each client-year.

Prior studies show that auditors consider bad news in formulating an opinion. In particular, researchers find that bad news is more likely to trigger auditors’ decision to issue going-concern opinions (Mutchler et al. 1997; Joe 2003; Dhaliwal et al. 2014). In our setting, we conjecture that auditors’ *ex ante* estimation of the media’s effect on their business risk is more likely to depend on the client’s *ex ante* media coverage, and we do not have predictions on the *ex ante* favorability or unfavorability of the media coverage. The underlying rationale is that current news tone may have no bearing on the future news tone, particularly in the case of a future restatement or fraud. That is, a restatement is negative news, regardless of the tone of previous news coverage.

We report the estimation results for the good media coverage and bad media coverage subsamples separately in column (3) of Table 9. The coefficients of $\text{Media}_G$ and $\text{Media}_B$ are both found to be significantly positive (coefficient = 0.084, 0.070, respectively; both $p$-values < 0.01). Moreover, the $p$-value of comparing the magnitudes of the coefficients is 0.028, indicating auditors’ response to positive media coverage is statistically larger than their response to bad media coverage. This finding extends the prior research on the news in short windows prior to issuing the audit opinion (Mutchler et al. 1997; Joe 2003; Dhaliwal et al. 2014) because these studies only examine negative news. Our results indicate that positive media coverage can also
affect auditors’ behavior in terms of setting audit fees and that the channel could be also
different. That is, similar with stale news, positive news could capture general media exposure
and has much less information content than the bad news from the auditors’ perspectives. The
stronger results for positive news suggest the dissemination channel of media is more important
than the information channel of media in the setting of auditing pricing, a result that is consistent
with Drake et al.’s (2014) finding that dissemination plays a larger role in reducing investors’
mispricing of cash flows.

5. Conclusion

The media’s central role as an information intermediary has attracted increasing attention
from researchers in finance and financial accounting; however, the broader implications of media
coverage on auditors has yet to be explored. In this study, we posit that media coverage of an
audit client can affect the production and pricing of an audit. We propose two alternative
explanations for the direction of the relation between a client’s overall media coverage and audit
fees. First, under the business risk view, media coverage can increase the auditor’s litigation risk
and reputation risk _ex ante_, leading to higher audit fees either through a risk premium or through
greater audit effort. Second, under the corporate governance view, the media’s disciplining effect
on firms can pressure clients to improve their financial reporting in the first place, resulting in
less audit risk and lower audit fees.

Our results support the business risk view. We find that media coverage is positively
associated with audit fees, and this relation is stronger for clients that have higher litigation risk
and that expose the auditor to greater reputational damage. We also provide evidence that prior
accounting restatements are associated with more litigation and greater losses in local market
share _ex post_. Further, these relations are stronger if the restating client has high media coverage,
which supports our contention that the increase in business risk arises from the media’s negative coverage of poor audit quality. In additional analyses, we conduct a path analysis which suggests that auditors charge a media-related risk premium but also increase their audit effort to mitigate the potential risk. Further, our results are unchanged after explicitly addressing endogeneity concerns.

Our study contributes to the auditing literature by identifying media coverage as a distinct source of auditors’ business risk. Future research could investigate how auditors make the trade-off between charging a risk premium and undertaking additional audit effort to address this business risk. Another fruitful avenue for research would be to examine what determines the level of media coverage of incidences of poor audit quality such as restatements. While Files et al. (2009) find the firms vary the reporting prominence in announcing a restatement, the determinants of the level of media attention given to a restatement is unknown.
References


Center for Audit Quality, 2008. *Report of the Major Public Company Audit Firms to the Department of Treasury Advisory Committee on the Auditing Profession*.


# Appendix

## Variable Definitions

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>AuditFee(_{i,t})</td>
<td>The natural logarithm of total audit fee.</td>
<td>Audit Analytics</td>
</tr>
<tr>
<td>Media(_{i,t})</td>
<td>The natural logarithm of number of news in the current fiscal year.</td>
<td>Thomson Reuters</td>
</tr>
<tr>
<td>MV(_{i,t})</td>
<td>The natural logarithm of market capitalization.</td>
<td>Compustat</td>
</tr>
<tr>
<td>(Quick(_{i,t})</td>
<td>Current assets minus inventories, divided by current liabilities.</td>
<td>Compustat</td>
</tr>
<tr>
<td>Loss(_{i,t})</td>
<td>1 if the firm reports a loss and 0 otherwise.</td>
<td>Compustat</td>
</tr>
<tr>
<td>ROA(_{i,1})</td>
<td>Income before extraordinary items deflated by total assets.</td>
<td>Compustat</td>
</tr>
<tr>
<td>(Lev(_{i,t})</td>
<td>Total debts to equity ratio.</td>
<td>Compustat</td>
</tr>
<tr>
<td>InvRec(_{i,t})</td>
<td>Sum of inventories and receivables, divided by beginning total assets.</td>
<td>Compustat</td>
</tr>
<tr>
<td>BM(_{i,t})</td>
<td>Book-to-market ratio.</td>
<td>Compustat</td>
</tr>
<tr>
<td>NumSeg(_{i,t})</td>
<td>The number of business segments.</td>
<td>Compustat</td>
</tr>
<tr>
<td>(Spec(_{i,t})</td>
<td>1 if the firm reports a special item, and 0 otherwise.</td>
<td>Compustat</td>
</tr>
<tr>
<td>FOps(_{i,t})</td>
<td>1 if the firm has a foreign operation, and 0 otherwise.</td>
<td>Compustat</td>
</tr>
<tr>
<td>MA(_{i,t})</td>
<td>1 if the firm is engaged in a merger or acquisition, and 0 otherwise.</td>
<td>SDC</td>
</tr>
<tr>
<td>Finance(_{i,t})</td>
<td>1 if long term debt or number of shares increased by at least 10%, and 0 otherwise.</td>
<td>Compustat</td>
</tr>
<tr>
<td>Busy(_{i,t})</td>
<td>1 if the fiscal year end is December, and 0 otherwise.</td>
<td>Compustat</td>
</tr>
<tr>
<td>Big4(_{i,t})</td>
<td>1 if the firm is audited by a Big 4 audit firm, and 0 otherwise.</td>
<td>Audit Analytics</td>
</tr>
<tr>
<td>GC(_{i,t})</td>
<td>1 if the firm receives a going concern opinion, and 0 otherwise.</td>
<td>Audit Analytics</td>
</tr>
<tr>
<td>Sued(_{i,t+1})</td>
<td>1 if the auditor is being sued by the shareholders one year after clients’ restatement.</td>
<td>Securities Class Action Clearinghouse</td>
</tr>
</tbody>
</table>
The annual averaged values of Litigation by auditor’s clients in auditor city office level. The Litigation is an indicator variable set to one for litigious industries including Biotechnology (SIC 2833 to 2836), Computer Hardware (SIC 3570 to 3577), Electronics (SIC 3600 to 3674), Retailing (SIC 5200 to 5961), and Computer Software (SIC 7371 to 7379), and zero otherwise;

1 if the average news coverage of one auditor in the city office level is above sample median, and 0 otherwise.

The change of the market share percentage of one auditor in city office level from year $t$ to $t+1$ in terms of the total audit fees.

The change of the market share percentage of one auditor in city office level from year $t$ to $t+1$ in terms of the total audit and non-audit fees.

1 if a firm restates its financial reports in year $t$, and otherwise.

Current assets scaled by total assets in year $t$.

The change in sales in year $t$ scaled by sales in year $t-1$.

1 if the firm locates in the same state as one of Dow Jones’ offices and 0 otherwise.

1 if the minimum distance between the firms and Dow Jones’ offices is within 40% of minimum distance values for all firms and 0 otherwise

Absolute value of discretionary accrual from the modified Jones model.

Sighed value of discretionary accrual from the modified Jones model.

The natural logarithm of number of news in the first two fiscal quarters.

The natural logarithm of number of stale news in the current fiscal year.

The natural logarithm of number of original news in the current fiscal year.
Normalized stale news coverage, calculated as the following formula:

\[
\frac{\text{Orthogonalized } \text{Media}_S - \text{Min Orthogonalized } \text{Media}_S}{\text{Max Orthogonalized } \text{Media}_S - \text{Min Orthogonalized } \text{Media}_S}
\]

Normalized original news coverage, calculated as the following formula:

\[
\frac{\text{Orthogonalized } \text{Media}_O - \text{Min Orthogonalized } \text{Media}_O}{\text{Max Orthogonalized } \text{Media}_O - \text{Min Orthogonalized } \text{Media}_O}
\]

The natural logarithm of number of good news in the current fiscal year.

The natural logarithm of number of bad news in the current fiscal year.
<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>S.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>AuditFee$_{i,t}$</td>
<td>20,871</td>
<td>13.536</td>
<td>13.570</td>
<td>1.185</td>
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<tr>
<td>Media$_{i,t}$</td>
<td>20,871</td>
<td>2.861</td>
<td>2.890</td>
<td>0.717</td>
</tr>
<tr>
<td>MV$_{i,t}$</td>
<td>20,871</td>
<td>6.043</td>
<td>6.056</td>
<td>1.901</td>
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<tr>
<td>Quick$_{i,t}$</td>
<td>20,871</td>
<td>2.390</td>
<td>1.614</td>
<td>2.179</td>
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<tr>
<td>Loss$_{i,t}$</td>
<td>20,871</td>
<td>0.336</td>
<td>0.000</td>
<td>0.472</td>
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<tr>
<td>ROA$_{i,1}$</td>
<td>20,871</td>
<td>-0.039</td>
<td>0.036</td>
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<tr>
<td>Lev$_{i,t}$</td>
<td>20,871</td>
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<td>0.131</td>
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<td>InvRec$_{i,t}$</td>
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<td>0.246</td>
<td>0.218</td>
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<td>BM$_{i,t}$</td>
<td>20,871</td>
<td>0.573</td>
<td>0.468</td>
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<td>NumSeg$_{i,t}$</td>
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<td>2.268</td>
<td>1.000</td>
<td>1.771</td>
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<td>Spec$_{i,t}$</td>
<td>20,871</td>
<td>0.659</td>
<td>1.000</td>
<td>0.474</td>
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<tr>
<td>FOps$_{i,t}$</td>
<td>20,871</td>
<td>0.506</td>
<td>1.000</td>
<td>0.499</td>
</tr>
<tr>
<td>MA$_{i,t}$</td>
<td>20,871</td>
<td>0.235</td>
<td>0.000</td>
<td>0.424</td>
</tr>
<tr>
<td>Finance$_{i,t}$</td>
<td>20,871</td>
<td>0.345</td>
<td>0.000</td>
<td>0.475</td>
</tr>
<tr>
<td>Busy$_{i,t}$</td>
<td>20,871</td>
<td>0.672</td>
<td>1.000</td>
<td>0.469</td>
</tr>
<tr>
<td>Big4$_{i,t}$</td>
<td>20,871</td>
<td>0.763</td>
<td>1.000</td>
<td>0.425</td>
</tr>
<tr>
<td>GC$_{i,t}$</td>
<td>20,871</td>
<td>0.030</td>
<td>0.000</td>
<td>0.172</td>
</tr>
</tbody>
</table>

This table reports the descriptive statistics for the variables used in the analyses. See the Appendix for variable definitions.
Table 2
Audit Fee and Media Coverage

<table>
<thead>
<tr>
<th>Dependent variable = AuditFee_{i,t}</th>
<th>Coeff. (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media_{i,t}</td>
<td>0.083*** (0.000)</td>
</tr>
<tr>
<td>MV_{i,t}</td>
<td>0.306*** (0.000)</td>
</tr>
<tr>
<td>Quick_{i,t}</td>
<td>-0.043*** (0.000)</td>
</tr>
<tr>
<td>Loss_{i,t}</td>
<td>0.166*** (0.000)</td>
</tr>
<tr>
<td>ROA_{i,t}</td>
<td>-0.082** (0.039)</td>
</tr>
<tr>
<td>Lev_{i,t}</td>
<td>0.175*** (0.000)</td>
</tr>
<tr>
<td>InvRec_{i,t}</td>
<td>0.481*** (0.000)</td>
</tr>
<tr>
<td>BM_{i,t}</td>
<td>0.001*** (0.000)</td>
</tr>
<tr>
<td>NumSeg_{i,t}</td>
<td>0.048*** (0.000)</td>
</tr>
<tr>
<td>Spec_{i,t}</td>
<td>0.241*** (0.000)</td>
</tr>
<tr>
<td>FOps_{i,t}</td>
<td>0.378*** (0.000)</td>
</tr>
<tr>
<td>MA_{i,t}</td>
<td>0.019 (0.105)</td>
</tr>
<tr>
<td>Finance_{i,t}</td>
<td>-0.038*** (0.000)</td>
</tr>
<tr>
<td>Busy_{i,t}</td>
<td>0.099*** (0.000)</td>
</tr>
<tr>
<td>Big4_{i,t}</td>
<td>0.485*** (0.000)</td>
</tr>
<tr>
<td>GC_{i,t}</td>
<td>0.026 (0.447)</td>
</tr>
<tr>
<td>Constant</td>
<td>9.168*** (0.000)</td>
</tr>
</tbody>
</table>

Year fixed effects: Yes
Industry fixed effects: Yes
N: 20,871
Adj. $R^2$: 0.769

This table reports the results of the regression for the effects of media coverage on audit fees. Industry and year fixed effects are controlled in the model. $p$-values are calculated based on robust standard errors clustered at the firm level. See the Appendix for variable definitions. *, ** and *** denote significance at the 10%, 5% and 1% levels, respectively.
This table reports the results of regression for the effects of media coverage on audit fees for different sample partitions. Panel A reports the results when the sample is partitioned by the litigation risk measures developed by Kim and Skinner (2012). Panel B reports the results when the sample is partitioned by institutional ownership. Industry and year fixed effects are controlled in the model. \( p \)-values are calculated based on robust standard errors clustered at the firm level. See the Appendix for variable definitions. *, ** and *** denote significance at the 10%, 5% and 1% levels, respectively.
Table 4
Media Coverage and Audit Fees: Potential Market Share Loss

<table>
<thead>
<tr>
<th>Panel</th>
<th>Description</th>
<th>Dependent variable = AuditFee_{it}</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(1) High Coeff. (p-value)</td>
</tr>
<tr>
<td>A</td>
<td>Local audit competition partition</td>
<td>Media_{it}</td>
</tr>
<tr>
<td></td>
<td></td>
<td>p-value of coefficient comparison</td>
</tr>
<tr>
<td>B</td>
<td>Big 4/non-Big 4 partition</td>
<td>Media_{it}</td>
</tr>
<tr>
<td></td>
<td></td>
<td>p-value of coefficient comparison</td>
</tr>
<tr>
<td>C</td>
<td>Number of segment partition (within Big N)</td>
<td>Media_{it}</td>
</tr>
</tbody>
</table>

This table reports the results of regression for the effects of media coverage on audit fees for three different tests on potential market share loss. Panel A reports the result when the sample is partitioned by the local audit competition environment. Panel B reports the results when the sample is partitioned by client firms’ audit switching cost proxied by Big Four or Non-Big Four. Panel C reports the results when the Big N sample is partitioned by client firms’ audit switching cost proxied by client firms’ number of segments. Industry and year fixed effects are controlled in the model. p-values are calculated based on robust standard errors clustered at the firm level. See the Appendix for variable definitions. *, ** and *** denote significance at the 10%, 5% and 1% levels, respectively.
Table 5
Media Coverage and Auditors’ Litigation Risk after Restatement

<table>
<thead>
<tr>
<th></th>
<th>(1) Full sample</th>
<th>(2) Clients’ sued sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Est. Coeff.</td>
<td>(p-value)</td>
</tr>
<tr>
<td>( H\text{Media}<em>{i,t} ) ( \times ) ( \text{Restate}</em>{i,t} )</td>
<td>0.034**</td>
<td>(0.037)</td>
</tr>
<tr>
<td>( H\text{Media}_{i,t} )</td>
<td>0.001</td>
<td>(0.757)</td>
</tr>
<tr>
<td>( \text{Restate}_{i,t} )</td>
<td>-0.013</td>
<td>(0.126)</td>
</tr>
<tr>
<td>( MV_{i,t} )</td>
<td>0.000</td>
<td>(0.904)</td>
</tr>
<tr>
<td>( GC_{i,t} )</td>
<td>-0.008**</td>
<td>(0.039)</td>
</tr>
<tr>
<td>( \text{Lit}_{i,t} )</td>
<td>0.009***</td>
<td>(0.006)</td>
</tr>
<tr>
<td>( \text{Lev}_{i,t} )</td>
<td>-0.004</td>
<td>(0.322)</td>
</tr>
<tr>
<td>( BM_{i,t} )</td>
<td>0.000**</td>
<td>(0.013)</td>
</tr>
<tr>
<td>( ROA_{i,t} )</td>
<td>-0.013</td>
<td>(0.136)</td>
</tr>
<tr>
<td>( InvRec_{i,t} )</td>
<td>-0.018**</td>
<td>(0.038)</td>
</tr>
<tr>
<td>( CRatio_{i,t} )</td>
<td>0.010</td>
<td>(0.384)</td>
</tr>
<tr>
<td>( DSale_{i,t} )</td>
<td>0.017</td>
<td>(0.121)</td>
</tr>
<tr>
<td>( DA_{i,t} )</td>
<td>-0.000</td>
<td>(0.549)</td>
</tr>
</tbody>
</table>

Year fixed effects: Yes
Auditor fixed effects: Yes

\( N = 2,468 \) \( R^2 = 0.035 \)
\( N = 252 \) \( R^2 = 0.206 \)

This table reports the results of the regression for the effects of media coverage on auditors’ litigation risks after clients’ restatements. Auditor and year fixed effects are controlled in the model. \( p \)-values are calculated based on robust standard errors clustered at the auditor city office level. Column (1) reports the results using the full sample. Column (2) reports the results using the subsample whose clients are sued. See the Appendix for variable definitions. *, ** and *** denote significance at the 10%, 5% and 1% levels, respectively.
Table 6
Media Coverage and Auditors’ Market Share Change after Restatement

<table>
<thead>
<tr>
<th></th>
<th>(1) Dependent variable = ChgMShare1,t</th>
<th>Coeff.</th>
<th>(p-value)</th>
<th>(2) Dependent variable = ChgMShare2,t</th>
<th>Coeff.</th>
<th>(p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMedia,t * Restate,t</td>
<td>-0.174**</td>
<td>-0.176**</td>
<td>(0.010)</td>
<td></td>
<td>0.000</td>
<td>(0.787)</td>
</tr>
<tr>
<td>MV,t</td>
<td>0.000</td>
<td>0.000</td>
<td>(0.032)</td>
<td></td>
<td>0.000</td>
<td>(0.009)</td>
</tr>
<tr>
<td>Restate,t</td>
<td>-0.116**</td>
<td>-0.124***</td>
<td>(0.032)</td>
<td></td>
<td>0.000</td>
<td>(0.009)</td>
</tr>
<tr>
<td>ROA,t</td>
<td>-0.013*</td>
<td>0.000</td>
<td>(0.055)</td>
<td></td>
<td>0.000</td>
<td>(0.029)</td>
</tr>
<tr>
<td>InvRec,t</td>
<td>-0.050*</td>
<td>-0.049*</td>
<td>(0.063)</td>
<td></td>
<td>0.000</td>
<td>(0.069)</td>
</tr>
<tr>
<td>Lev,t</td>
<td>0.000</td>
<td>0.000</td>
<td>(0.931)</td>
<td></td>
<td>0.000</td>
<td>(0.931)</td>
</tr>
<tr>
<td>BM,t</td>
<td>0.000</td>
<td>0.000</td>
<td>(0.208)</td>
<td></td>
<td>0.000</td>
<td>(0.144)</td>
</tr>
<tr>
<td>CRatio,t</td>
<td>-0.082*</td>
<td>-0.078*</td>
<td>(0.056)</td>
<td></td>
<td>0.000</td>
<td>(0.061)</td>
</tr>
<tr>
<td>DSale,t</td>
<td>0.050</td>
<td>0.050</td>
<td>(0.810)</td>
<td></td>
<td>0.000</td>
<td>(0.810)</td>
</tr>
<tr>
<td>DA,t</td>
<td>0.000</td>
<td>0.000</td>
<td>(0.162)</td>
<td></td>
<td>0.000</td>
<td>(0.144)</td>
</tr>
<tr>
<td>Year fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>2,290</td>
<td>2,290</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.074</td>
<td>0.077</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This table reports the results of the regression for the effects of media coverage on auditors’ market share changes after clients’ restatements. Auditor and year fixed effects are controlled in the model. p-values are calculated based on robust standard errors clustered at the firm level. Column (1) reports the results when the market share is measured using audit fees and Column (2) reports the results when the market share is measured using total audit and non-audit fees. See the Appendix for variable definitions. *, ** and *** denote significance at the 10%, 5% and 1% levels, respectively.
Table 7
Audit Fee and Media Coverage: Tests to Address Endogeneity

Panel A: Firm Fixed Effects Included

<table>
<thead>
<tr>
<th>Dependent variable = AuditFee_{i,t}</th>
<th>Coeff.</th>
<th>(p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media_{i,t}</td>
<td>0.034***</td>
<td>(0.000)</td>
</tr>
</tbody>
</table>

Control Variables
Year fixed effects Yes
Firm fixed effects Yes
N 20,871
Adj. R² 0.906

Panel B: 2SLS

<table>
<thead>
<tr>
<th>IV=DJS_{i,t}</th>
<th>1st Stage</th>
<th>2nd Stage</th>
<th>2nd Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coeff. (p-value)</td>
<td>Coeff. (p-value)</td>
<td>Coeff. (p-value)</td>
<td>Coeff. (p-value)</td>
</tr>
<tr>
<td>IV_{i,t}</td>
<td>0.064***</td>
<td></td>
<td>0.036**</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td></td>
<td>(0.034)</td>
</tr>
<tr>
<td>^Media_{i,t}</td>
<td></td>
<td>1.586***</td>
<td>1.645***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
</tbody>
</table>

Control Variables
Year fixed effects Yes
Industry fixed effects Yes
N 20,871
Adj. R² 0.310

Panel C: Change Test

<table>
<thead>
<tr>
<th>Dependent variable = AuditFee_{i,t}</th>
<th>Coeff.</th>
<th>(p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ΔMedia_{i,t-1}</td>
<td>0.018***</td>
<td>(0.000)</td>
</tr>
</tbody>
</table>

N 14,079
Adj. R² 0.028

This table reports the results of three tests to address the endogeneity for the effects of media coverage on audit fees. Panel A reports the results when firm and year fixed effects are controlled in the model to control for any unobservable and omitted firm characteristics. p-values are calculated based on robust standard errors clustered at the firm level. Panel B reports the results from 2SLS tests. The first column reports the results when the IV is a dummy variable equaling to one if the firm locates in the same state as one of Dow Jones’
offices and zero otherwise. The second column reports the results when the IV is a dummy variable that equals one if the minimum distance between the firms and Dow Jones’ offices is within 40% of minimum distance values for all firms and zero otherwise. Industry and year fixed effects are controlled in the model. \( p \)-values are calculated based on robust standard errors clustered at the state level. Panel C reports the results of the regression for the effects of the change of media coverage in prior year on the change of audit fees in current year. \( p \)-values are calculated based on robust standard errors clustered at the firm level. See the Appendix for variable definitions. *, ** and *** denote significance at the 10%, 5% and 1% levels, respectively.
Table 8
Path Analysis on Media Coverage, Audit Fee and Audit Quality

<table>
<thead>
<tr>
<th>Path</th>
<th>Predicted sign</th>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P(\text{Media, AuditFee}) = \hat{\alpha}_1$</td>
<td>+</td>
<td>0.061***</td>
<td>0.061***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(14.54)</td>
<td>(14.54)</td>
</tr>
<tr>
<td>$P(\text{AuditFee, EQ}) = \hat{\beta}_1$</td>
<td>-</td>
<td>-0.101***</td>
<td>-0.030**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-2.59)</td>
<td>(-2.38)</td>
</tr>
<tr>
<td>$\hat{\alpha}_1 \cdot \hat{\beta}_1$</td>
<td>-</td>
<td>-0.006***</td>
<td>-0.002**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-7.36)</td>
<td>(-2.35)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Controls</th>
<th>Yes</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Obs.</td>
<td>28,701</td>
<td>28,701</td>
</tr>
<tr>
<td>$\chi^2$ goodness-of-fit test</td>
<td>30458.47</td>
<td>27419.72</td>
</tr>
<tr>
<td>$\chi^2$ test p-values</td>
<td>&lt; 0.01</td>
<td>&lt; 0.01</td>
</tr>
</tbody>
</table>

This table reports the results from a path analysis that examines how dynamic over-optimism affects managerial effort and firm performance. We estimate the following model:

\[
\begin{align*}
\text{AuditFee} &= a_0 + a_1 \text{Media} + a_k \text{Controls}^k + \varepsilon \\
\text{EQ} &= b_0 + b_1 \text{AuditFee} + b_2 \text{Media} + b_k \text{Controls}^k + \varepsilon
\end{align*}
\]

EQ presents the proxies for earnings quality. Controls are the variables that we use in Tables 2. Constants and control variables are included but not reported. $P(X1, X2)$ stands for the standardized path coefficients. z-statistics of the coefficients are reported in parentheses. The table reports the path coefficients of interest. See the Appendix for variable definitions. *, **, and *** denote significance at 10%, 5%, and 1% levels (two-tailed), respectively.
### Table 9
Audit Fee and Media Coverage: Additional Tests

<table>
<thead>
<tr>
<th></th>
<th>(1) Quarter 1</th>
<th>(2) Original vs. stale</th>
<th>(3) Good vs. Bad news Coeff.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff. (p-value)</td>
<td>Coeff. (p-value)</td>
<td>Coeff. (p-value)</td>
</tr>
<tr>
<td>Media_{FQ,i,t}</td>
<td>0.054*** (0.000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NorOrtMedia_{S,i,t}</td>
<td></td>
<td>0.306*** (0.000)</td>
<td></td>
</tr>
<tr>
<td>NorOrtMedia_{O,i,t}</td>
<td></td>
<td>0.381*** (0.000)</td>
<td></td>
</tr>
<tr>
<td>Media_{G,i,t}</td>
<td></td>
<td></td>
<td>0.084*** (0.000)</td>
</tr>
<tr>
<td>Media_{B,i,t}</td>
<td></td>
<td></td>
<td>0.070*** (0.000)</td>
</tr>
<tr>
<td>MV_{t,t}</td>
<td>0.313*** (0.000)</td>
<td>0.296*** (0.000)</td>
<td>0.305*** (0.000)</td>
</tr>
<tr>
<td>Quick_{t,t}</td>
<td>-0.042*** (0.000)</td>
<td>-0.042*** (0.000)</td>
<td>-0.043*** (0.000)</td>
</tr>
<tr>
<td>Loss_{t,t}</td>
<td>0.170*** (0.000)</td>
<td>0.162*** (0.000)</td>
<td>0.166*** (0.000)</td>
</tr>
<tr>
<td>ROA_{t,t}</td>
<td>-0.105*** (0.009)</td>
<td>-0.071* (0.069)</td>
<td>-0.084** (0.033)</td>
</tr>
<tr>
<td>Lev_{t,t}</td>
<td>0.175*** (0.000)</td>
<td>0.172*** (0.000)</td>
<td>0.174*** (0.000)</td>
</tr>
<tr>
<td>InvRec_{t,t}</td>
<td>0.479*** (0.000)</td>
<td>0.482*** (0.000)</td>
<td>0.483*** (0.000)</td>
</tr>
<tr>
<td>BM_{t,t}</td>
<td>0.001*** (0.000)</td>
<td>0.001*** (0.000)</td>
<td>0.001*** (0.000)</td>
</tr>
<tr>
<td>NumSeg_{t,t}</td>
<td>0.048*** (0.000)</td>
<td>0.048*** (0.000)</td>
<td>0.048*** (0.000)</td>
</tr>
<tr>
<td>Spec_{t,t}</td>
<td>0.241*** (0.000)</td>
<td>0.235*** (0.000)</td>
<td>0.241*** (0.000)</td>
</tr>
<tr>
<td>FOps_{t,t}</td>
<td>0.378*** (0.000)</td>
<td>0.376*** (0.000)</td>
<td>0.378*** (0.000)</td>
</tr>
<tr>
<td>MA_{t,t}</td>
<td>0.024** (0.042)</td>
<td>0.015 (0.203)</td>
<td>0.019 (0.112)</td>
</tr>
<tr>
<td>Finance_{t,t}</td>
<td>-0.032*** (0.001)</td>
<td>-0.037*** (0.000)</td>
<td>-0.038*** (0.000)</td>
</tr>
<tr>
<td>Busy_{t,t}</td>
<td>0.094*** (0.000)</td>
<td>0.100*** (0.000)</td>
<td>0.099*** (0.000)</td>
</tr>
<tr>
<td>Big4_{t,t}</td>
<td>0.479*** (0.000)</td>
<td>0.481*** (0.000)</td>
<td>0.485*** (0.000)</td>
</tr>
<tr>
<td>GC_{t,t}</td>
<td>0.040 (0.268)</td>
<td>0.026 (0.455)</td>
<td>0.026 (0.453)</td>
</tr>
<tr>
<td>Constant</td>
<td>9.287*** (0.000)</td>
<td>9.168*** (0.000)</td>
<td>9.175*** (0.000)</td>
</tr>
</tbody>
</table>
This table reports the results of the regression for other additional tests. Column (1) presents the effects of media coverage within the first fiscal quarters on audit fees. Column (2) shows the results of the regression for the effects of staled news coverage and original news coverage on audit fees. We use the orthogonalized value to avoid any multicollinearity problems. Column (3) reports the results of the regression for the effects of media coverage on audit fees for the good news and bad news. Industry and year fixed effects are controlled in the model. * denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level. industry and year fixed effects are control in the model. * denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level.