

**AUPSD02**

Chair : Ewald Aschauer

Room : **Amphi 5****Auditor Competition And Audit Quality In Local Market**

Discussant : David Hay

Author : JONG-HAG CHOI, SEOUL NATIONAL UNIVERSITY

EA = Empirical Archival

Co-authors : Jeong-Bon Kim, City University of Hong Kong  
 Zheng Wang, City University of Hong Kong  
 Yoonseok Zang, Singapore Management University

*This study examines the association between the intensity of competition in the local audit market and audit quality. Audit market has witnessed dramatic market structure changes since late 1980s. Frequent auditor mergers causes regulators in various countries worry about the potential negative effect of the concentrated audit market structure on auditor competition and thus audit quality and audit fees. Prior studies on the issue, mostly use Hefindahl index to proxy for the level of auditor competition, generally yield mixed findings. In this study, we proxy for the intensity of auditor competition by the proportion of auditor switches in a local audit market. Using the measure, we investigate whether the level of auditor competition is related to audit quality, measured by clients' abnormal accruals and auditors' tendency to issue going-concern audit opinion. Our results suggest that audit quality improves as the auditor competition increases in the local market. Furthermore, we document that the association between the level of auditor competition and audit quality is more pronounced in large local market and when the client is relatively less important to the auditor.*

**AUPSD02**

Chair : Ewald Aschauer

Room : **Amphi 5****Audit Market Concentration And The Reputation Effect Of Pwc Global- And Country-Level Market Leadership: Some Evidence From Investor-Perceived Audit Quality**

Discussant : Kenneth Reichelt

Author : XINDONG ZHU, CITY UNIVERSITY OF HONG KONG

EA = Empirical Archival

Co-authors : Simon Yu-Kit Fung, The Hong Kong Polytechnic University  
 Ferdinand A. Gul, Monash University Sunway Campus  
 K. K. Raman, The University of Texas at San Antonio

*In this study we examine the relation between audit market concentration and investor-perceived audit quality, and whether PwC's reputation as the world's largest auditor conditions the potential adverse impact of concentration on perceived audit quality in countries where PwC has the largest market share. Using observations (excluding US firms) for the period 1999-2004 when PwC was the world's largest auditor, we show that (1) the favorable effects of Big 4 market dominance (i.e., higher aggregate Big 4 market share) on investor-perceived audit quality is stronger in countries where PwC was the market leader (PwC ML), and (2) the adverse effects of within Big 4 concentration (i.e., more unequal market shares among the Big 4) on investor-perceived audit quality is absent in PwC-ML countries. Similar results are obtained with respect to "factual" audit quality in PwC-ML countries.*

**AUPSD03**

Chair : Luc Paugam

Room : **Amphi 5****City-Level Human Capital And Audit Markets**

Discussant : Alan Kilgore

Author : JERE FRANCIS, UNIVERSITY OF MISSOURI-COLUMBIA

EA = Empirical Archival

Co-authors : Mathew Beck, University of Missouri  
 Joshua Gunn, University of Missouri

*This study investigates how human capital in United States cities affects the local audit market in each city. Human capital is measured in the urban economics literature as the average educational level in a city, and we argue that this will affect the quality of labor in the local audit market. We predict and find evidence that audit quality is positively associated with the level of human capital in an audit office's local labor market, and that this association is stronger for smaller (non-Big 4) audit firms than for the larger Big 4 audit firms, which are less reliant on local labor markets. All else equal, public companies are more likely to choose a non-Big4 auditor when the level of human capital in the audit office's local labor market is high. Further, audit quality, as measured by clients' abnormal accruals, total working capital accruals, and accrual estimation errors, improves as human capital increases and this relationship is stronger for non-Big 4 auditors. Finally, we show the audit fees earned by non-Big 4 audit firms, but not Big 4 audit firms, increase in the level of local human capital. Together, these results suggest that small auditors' greater reliance on local labor markets affects their ability to compete in the public company audit market.*

**AUPSD03**

Chair : Luc Paugam

Room : **Amphi 5****Government Intervention, Audit Market, And Audit Quality**

Discussant : Gary Monroe

Author : THOMAS JEANJEAN, ESSEC BUSINESS SCHOOL PARIS

EA = Empirical Archival

Co-authors : Zhongwei Huang, ESSEC Business School  
Like Jiang, ESSEC Business School

In this paper, we analyze the consequences of government intervention on the audit market and audit quality. Regulators have expressed concern over the dominance of Big 4 firms and its potential harmful effects on the quality of audited financial statements. These concerns generated various initiatives to assure audit quality ranging from mandatory audit rotation to more direct forms intervention from public authorities. For instance, the European Commission proposed to generalize joint audit before giving up this proposal. From 2010, the Chinese government decided to limit the dominance of Big4 firms by fostering non-Big4 attractiveness. We exploit this setting as a natural experiment to explore the consequences of a state intervention on the audit market. We find that audit market structure is altered significantly after the intervention. We also document a significant increase of audit fee pressure exerted on Big4 by their clients after the intervention and correspondingly a significant drop in Big4 audit fee premium. Further analysis indicates that, while the overall audit quality increased after the intervention, the audit quality of Big4 auditors decreased. Taken together, our study suggests that favoring non-Big4 firms helps to reduce Big4 market dominance and that much of the cost is borne by Big4 firms. Our evidence is of particular interests to regulators, such as European Commission, who may consider similar interventions.

**WEDNESDAY**

9:00-10:30

**AUPSD01**

Chair : Sophie Marmousez

Room : **Amphi 5****What Factors Influence The Internal Audit Function And Its Role In Corporate Governance? -A Comparative Study For The Usa And Germany-**

Discussant : Andrew Higson

Author : SARAH ZIPFEL, DUISBURG &amp; ESSEN UNIVERSITY, DUISBURG CAMPUS

SU = Survey

Co-authors : Marc Eulerich, University of Duisburg-Essen

*Abstract:* We investigate several variables that are theoretically associated with the internal audit function (IAF) having an active role in corporate governance with reference to a worldwide model and distinguishing the two leadership systems in the United States (U.S.) and Germany. Using responses from 572 U.S. and 87 German Chief Audit Executives (CAEs) in the CBOK (2010) database, in total 1,957 worldwide IAFs, for our investigation, we find the following: an IAF having an active role in corporate governance is significantly and positively associated with adherence to a governance code, an internal control framework, CAE's additional education, quality assurance and improvement program (QAIP) and the implementation of a risk-based audit plan in the worldwide investigation. Regarding Germany, QAIP, input from the Audit Committee, as well as reporting to the Audit Committee is positively related to the IAF having an active role in corporate governance. In the U.S. model only the presence of a QAIP is positively associated with the IAF having an active role in corporate governance, regarding our main testing variables.

**WEDNESDAY**

9:00-10:30

**AUPSD01**

Chair : Sophie Marmousez

Room : **Amphi 5****The Audit Committee Oversight Process Of The External Auditor: Auditor Selection And Monitoring**

Discussant : Michael Alles

Author : HEIDI VANDER BAUWHEDE, GHENT UNIVERSITY

SU = Survey

Co-authors : Rogier Deumes, Maastricht University  
Caren Schelleman, Maastricht University  
Ann Vanstraelen, Maastricht University

This paper investigates the audit committee's oversight process of the external auditor. We specifically focus on the selection and monitoring of the external auditor by audit committees. Based on survey results from more than 100 audit committee members in different countries, we find that respondents generally do not identify audit fee as a main selection criterion, but that skills, experience and expertise of the auditor are key for selection of the external auditor. Specifically, pricing becomes less relevant when sufficient information is available to make an informed auditor selection. Furthermore, we find that appropriate auditor communication is considered to be highly important for effective monitoring of the external auditor. The results further show that audit committee members view appropriate auditor communication and their perceived effectiveness of monitoring the external auditor to be significant determinants of perceived audit quality. Interestingly, our main results appear to be cross-sectionally robust, and the audit committee members responding to our survey mainly make use of private information sources and appear to have sufficient information at their disposal to fulfill their oversight role of selecting and monitoring the external auditor. This would alleviate regulators' concerns that audit committees may not be able to make informed decisions because of insufficient transparency on audit firms' governance practices and audit quality.

**AUPSD04**

Chair : Anne-Marie Garvey

Room : **Amphi 2****The Impact Of Audit Firm Commonality On Corporate Acquisitions**

Discussant : Tom Van Caneghem

Author : AHMED ABDEL-MEGUID, THE AMERICAN UNIVERSITY IN CAIRO

EA = Empirical Archival

Co-authors : Ahmed Abdel-Meguid, The American University in Cairo  
 Kofi Appiah Okyere, Syracuse University  
 Jeff Oxman, University of St. Thomas  
 Yildiray Yildirim, Syracuse University

*This paper introduces a new situational audit quality attribute, the sharing of an auditor by the acquirer and target in a corporate acquisition; audit firm commonality. We argue that the role of the auditor in mitigating information asymmetry is amplified by being situated between the two parties involved in the acquisition. We empirically examine the effects of commonality on certain characteristics of acquisitions namely the likelihood of deal completion, levels premiums offered by the acquirer, deal duration, and the wealth level of target shareholders. Our results suggest that commonality is associated with greater likelihood of deal completion, higher premiums offered by the acquirer and increases in the wealth of target shareholders. Furthermore the results of additional tests indicate that switching by one party to the auditor of the counterparty of the deal, in the year before the deal announcement, generally improves the chances of completing the deal. Also, such switches do not mitigate the impact of having a common auditor on target wealth gains.*

**AUPSD04**

Chair : Anne-Marie Garvey

Room : **Amphi 2****The Impacts Of Mandatory IFRS Adoption On Big Four And Non-Big Four Audits**

Discussant : Gilad Livne

Author : ZILI ZHUANG, THE CHINESE UNIVERSITY OF HONG KONG

EA = Empirical Archival

Co-authors : Chen Chen, University of Auckland

*This study examines the impact of mandatory adoption of International Financial Reporting Standards (IFRS) on audits. Using a difference-in-difference approach where mandatory IFRS adopters from 17 European countries form the treatment sample, we find that after IFRS adoption the audit quality gap between Big Four and non-Big Four auditors increases and non-Big Four auditors increase audit fees more than Big Four auditors. Our results are stronger in countries with greater GAAP changes. Our audit quality results, but not audit fee results, are more pronounced in countries with strong institutions. Finally, while clients shift from non-Big Four to Big Four auditors in countries with greater GAAP changes and from Big Four to non-Big Four auditors in countries with fewer GAAP changes, the overall market shares of the two types of auditors do not change as a result of IFRS-related auditor switch.*

**AUPS01**

Chair : Charlotta Bay

Room : **A301****'and The Bafta Goes To ...': The Assurance Role Of The Auditor In The Film Awards Industry**

Author : INGRID JEACLE, THE UNIVERSITY OF EDINBURGH

CF = Case / Field Study

Co-authors : ,

*The annual film awards ceremony of the British Academy of Film and Television Arts (BAFTA) is a glitzy and glamorous affair watched by millions of television viewers. A BAFTA win can substantially boost the revenue generation of a film while ensuring career success for the starring actor. Overseeing these winning results on the night of the ceremony, literally backstage, sits the Official Scrutineer, a role occupied by the audit firm Deloitte. This moment represents the culmination of weeks of systems testing by Deloitte on BAFTA's voting process. As such, the case of BAFTA provides an illustrative example of the increasing demand for discretionary assurance services from audit firms (Free, Salterio & Shearer, 2009), which in turn is reflective of Power's (1997) 'audit society'. It showcases the power of audit as a legitimating tool. The paper seeks to understand the role of the auditor as assurance provider by drawing upon Goffman's (1959) dramaturgical framework. Viewing the auditor as 'performer' and a range of interested stakeholders (BAFTA voting members, sponsors, award winners and industry commentators) as the 'audience', this theoretical lens facilitates insights into the nature of assurance provision. Interview results indicate that Deloitte are highly effective in delivering a successful performance to their audience; they convey a very convincing impression of trust and assurance. The paper therefore suggests the importance of performance ritual in the auditor's role as assurance provider. Additionally, it argues that such a performance may be particularly effective, in the eyes of the audience, when played by a well known audit firm.*

**AUPS01**

Chair : Charlotta Bay

Room : **A301****Audit Firms' Strategies That Have Emerged To React To The Changeable Audit Environment**

Author : MOHAMED KHALED ELDALY, ANGLIA RUSKIN UNIVERSITY

CF = Case / Field Study

Co-authors : Magdy Abdel-Kader, Anglia Ruskin University

*This study aims to identify strategies that have been emerged by the big 4 firms to protect their leading reputations and to react to the new regulatory requirements of the global independent. A grounded theory methodology was followed and the analysis was extended to identify the main themes of the identified strategies. Thirty two interviews were conducted with partners in the big 4 firms and with audit regulators at the top management level in the UK and Egypt. The emerged grounded theory identifies six main strategies. The global networks of the big 4 firms developed these strategies to manage the global challenges of the audit environment. Standardization, centralization, specialization, and fast communication are the main themes of the identified strategies by which the big 4 achieve their objectives.*

## MONDAY

16:00-17:30

**AUPS01**

Chair : Charlotta Bay

Room : **A301****From Meticulous Professionals To Superheroes Of The Business World: A Historical Portrait Of A Cultural Change In The Field Of Accountancy**

Author : CLAIRE-FRANCE PICARD, LAVAL UNIVERSITY

CF = Case / Field Study

Co-authors : Sylvain Durocher, University of Ottawa  
Yves Gendron, Université Laval

*The purpose of this paper is to examine the relative cultural shift from professionalism to commercialism in the accounting profession, based on an analysis of the advertising material used by the Ordre des comptables agréés du Québec (Institute of Chartered Accountants of Québec), over the last forty years, to attract new members. The specific objectives are: (1) to examine accountancy's cultural representations as promoted in advertising material; (2) to evaluate the extent to which these representations are indicative of the commercialist shift as documented in the literature; and (3) to establish whether the representations under study provide further insight into the nature of the cultural shift. Drawing on the semiological approach developed by Roland Barthes, our analysis is predicated on the idea that adverts, though often simple in appearance, constitute complex representations that convey meaningful information about influential values and cultural change. We found that commercial values are increasingly apparent through the celebration of multidisciplinary services and the emphasis on generous compensation and high dynamism. In addition to confirming the relative shift towards commercialization, we discuss our study's implications from the angle of significant contemporary social trends: globalization, naturalization, and marketization.*

## MONDAY

17:45-19-15

**AUPS02**

Chair : David Hav

Room : **A301****The Internal Audit Quality View By Internal Auditors**

Author : MELANIE ROUSSY, LAVAL UNIVERSITY

CF = Case / Field Study

Co-authors : ,

*The purpose of this paper is to examine perceptions of internal auditor among internal audit quality. The paper contributes to the literature on internal audit quality by focusing specifically on the criteria used by internal auditors to assess the quality of the internal audit function. To this extent, the study differs from the existing literature by examining the issue from the point of view of internal auditors rather than external auditors. Based on 42 semi-structured interviews conducted with experimented internal auditors, the results indicate that internal audit quality is perceived differently among internal auditors compared to external auditors. Among internal auditors, internal audit quality is assessed based on a range of quality criteria at a functional and individual level. At a functional level, the relevance of audit reports based on the organizational context appears to be the main quality criterion and is dependent on the relationship with the top manager and the content of the audit report. At an individual level, the key quality criterion is the competence of internal auditors. However, the competence criteria defined by internal auditors differ significantly from those highlighted by external auditors. Moreover, it appears that the way internal auditors view internal audit quality is driven by their desire of efficiency with respect to their perceived role.*

**AUPS02**

Chair : David Hav

Room : **A301****'hunters, Killers And Skinners': An Exploration Of The Professional Habitus In Big 4 Accounting Firms**

Author : CRAWFORD SPENCE, UNITED ARAB EMIRATES UNIVERSITY

CF = Case / Field Study

Co-authors : Chris Carter, Newcastle University

The meaning of professionalism is changing, with the commercial pressures of globalization exerting dramatic pressures on the nature of professional work and the skill sets required of professionals. We engage with this debate by reporting on a qualitative, empirical study undertaken in a domain that has been largely neglected by sociology: professional accounting. Focusing on the elite 'Big 4' accounting firms we analyse the ways in which partners and other senior accountants embody both commercial and traditional professional logics into their professional habitus. We document the existence of multiple professional habituses in Big 4 firms. Whilst commercial and professional logics co-exist at all levels within the Big 4, partners more readily embody the commercial logic than those just below partner level. In turn, those just below partner level more readily embody the professional logic than partners, thereby constituting the professional-ethical safety net for their firms.

**MONDAY**

17:45-19-15

**AUPS02**

Chair : David Hav

Room : **A301****The Internal Audit Function In The German Two-Tier System**

Author : MARC EULERICH, DUISBURG &amp; ESSEN UNIVERSITY, DUISBURG CAMPUS

CF = Case / Field Study

Co-authors : Jochen Theis, University Duisburg-Essen  
Carolyn Van Uum, University Duisburg-Essen

This study investigates the integration of the internal audit function in the organizational governance structure of the German two-tier system. The research results are based on 21 semi-structured interviews, which were conducted with Chief Auditing Executives and Internal Auditors of six DAX-listed German companies and one organization from the public/governmental sector. In addition to the organizational integration, this study also analyzes the relationships and collaborations between the internal audit function and other corporate governance bodies, such as the board of directors, the supervisory board, the audit committee, the risk management or the external auditor. Based on the research results best practices regarding potential ways of organizing and integrating the internal audit function within businesses shall be identified. These best practices provide an adequate benchmark and support practitioners as well as scholars in creating an effectively working audit unit.

**MONDAY**

16:00-17:30

**AUPS03**

Chair : Marc Eulerich

Room : **A413****Do Joint Audits Improve Or Impair Audit Quality?**

Author : MINLEI YE, UNIVERSITY OF TORONTO

AM = Analytical / Modelling

Co-authors : Mingcherng Deng, Baruch College  
Tong Lu, University of Houston  
Dan A. Simunic, University of British Columbia

Conventional wisdom holds that joint audits would improve audit quality by enhancing audit evidence precision, because "Two heads are better than one," and by enhancing auditor independence, because it is more expensive for a company to "bribe" two audit firms than one. Our paper challenges this wisdom. We show that joint audits by one big firm and one small firm may impair audit quality, because joint audits (1) induce a free-riding problem between audit firms, lowering audit evidence precision, and (2) creates an opportunity for internal opinion shopping, compromising auditor independence. We further derive a set of empirically testable predictions comparing audit evidence precision, auditor independence, and audit fees under joint and single audits. This paper, the first theoretical study of joint audits, contributes to a better understanding of the economic consequences of joint audits on audit quality.

## AUPS03

Chair : Marc Eulerich

Room : A413

**Audit Firm Tenure And Audit Quality: Evidence From U.S. Firms**

Author : LI BROOKS, WASHINGTON STATE UNIVERSITY

EA = Empirical Archival

Co-authors : C.S. Agnes Cheng, Hong Kong Polytechnic University  
Ken Reichelt, Louisiana State University

The PCAOB recently solicited comments on a 10-year mandatory audit firm rotation requirement for the largest 100 S&P firms. We propose that audit quality is likely to increase in the earlier years due to a dominant Learning Effect and in later years it decreases due to a dominant Bonding Effect. Adopting a quadratic model to empirically estimate the turning point, we find that the average turning point is between 12 to 16 years for a large sample of U.S. firms. With an average tenure of 9 years in our sample, these findings imply that mandatory auditor firm rotation may not be necessary. Further, we find that the turning point varies by auditor - it is longer for non-Big N auditors, non-specialist auditors, and auditors with high client importance, and the deterioration of audit quality exists in low litigation industries only, consistent with the Bonding Effect explanation. Moreover, we find that after the Sarbanes-Oxley Act of 2002 (SOX, hereafter) was enacted, the turning point gets longer, implying that SOX may have mitigated the Bonding Effect. Our results have implications for the current debate on whether audit firm rotation should be mandatory for the U.S. companies.

## MONDAY

## 16:00-17:30

## AUPS03

Chair : Marc Eulerich

Room : A413

**Joint Audits And Audit Quality**

Author : MARCEL STELLER, INNSBRUCK UNIVERSITY

AM = Analytical / Modelling

Co-authors : Erich Pummerer, University of Innsbruck

The European Commission's green paper on auditing has initiated an intense debate on the usefulness of joint audits. In this paper we discuss effects associated with substituting a single by a joint audit, when auditors are risk averse. Thereby we mainly focus on audit quality. The reference point for assessing joint audits is the audit quality provided by a risk-averse auditor in a single audit. The analysis proves that an auditor's optimal audit effort is a function of the auditor's risk aversion. Hence effects of combining to differently risk-averse auditors in a joint audit mainly depend on the organizational structure of the audit, ie risk- or a compensation-apportionment. By discussing three different joint audit setups we show, that joint audit may lead to more homogeneous audit quality in a market, but depending on the auditors' risk aversion conditionally improves or impairs audit quality for a specific audit.

## MONDAY

## 16:00-17:30

## AUPS10

Chair : Kim Ittonen

Room : A302

**Familiarity Threat Argument Revisited: Confidence, Trust And Professional Skepticism**

Author : EWALD ASCHAUER, VIENNA UNIVERSITY OF ECONOMICS AND BUSINESS

SU = Survey

Co-authors : Matthias Fink, Vienna University of Economics and Business  
Katharina Van Bakel-Auer, Vienna University of Economics and Business  
Bent Warming-Rasmussen, University of Southern Denmark

Familiarity between auditors and their clients is discussed to threaten auditors' independence and thus to compromise audit quality. While recent examples reported on media support this familiarity threat hypothesis, results from previous empirical research are ambiguous. We argue that the concepts of familiarity and independence are too broad and too complex to be adequately covered in an empirical study and thus focus on those dimensions that are carrying the relationship underlying the familiarity threat hypothesis. Thus, we investigate the impact of auditors' confidence and trust in their clients on the clients' perception of auditors' professional skepticism. Further, we investigate the impact of the duration of the auditor/audit firm-client relationship (auditor tenure/audit firm tenure) and the provision of non-audit services (NAS). We employ OLS regression based on data collected among 230 German auditor-client dyads to test four hypotheses. We find auditors' confidence in their clients to compromise the clients' perception of auditors' professional skepticism, while trust contributes to the auditors being perceived as skeptical. Further, we find a negative impact of NAS but no significant effect of auditor tenure or audit firm tenure on clients' perception of auditors' professional skepticism. Besides the theoretical contributes, the practical implications of our findings for (re)designing the regulations for auditing are discussed.

**AUPS10**

Chair : Kim Ittonen

Room : A302

**Explaining The Influence Of Time Budget Pressure On Audit Quality In Sweden**

Author : TORBJORN TAGESSON, LINKOEPING UNIVERSITY

SU = Survey

Co-authors : Daniela Argento, Kristianstad University  
 Pernilla Broberg, Kristianstad University  
 Niclas Gyllengahm, Kristianstad University  
 Ola Mårtensson, Kristianstad University

Audit firms constantly try to meet market expectations on audit quality (AQ) and price by managing their costs and maximize their efficiency in order to remain competitive. In order to control the trade-off between audit efforts and available resources, most audit firms have time budgets for each audit assignment. The aim of this study is to explain how time budget pressure (TBP) influence AQ. The empirical data is based on a survey sent to all authorized and approved auditors in Sweden. The response rate was 20.7 %. The result shows a negative relationship between AQ and TBP. The findings also show significant relationships between AQ and factors such as gender, position, audit firm and number of clients.

## MONDAY

16:00-17:30

**AUPS10**

Chair : Kim Ittonen

Room : A302

**Addressing Information Needs To Reduce The Audit Expectation Gap: Evidence From Dutch Bankers, Audited Companies And Auditors**

Author : JOOST VAN BUUREN, NYENRODE UNIVERSITY

SU = Survey

Co-authors : Joost Van Buuren, Nyenrode Business Universiteit  
 Robin Litjens, Nyenrode Business Universiteit  
 Ruud Vergoossen, Nyenrode Business Universiteit

This research examines whether the audit expectations gap (AEG) may be explained and reduced by addressing certain informational needs of financial statement users and preparers that are currently not met. We base our findings on a survey with 302 participants from the Netherlands, consisting of 61 bankers, 118 financial statement preparers and 123 auditors. First, we find that bankers place more value on additional company information contained in auditors' reports and additional information about the audit (process) than management and auditors. By contrast, bankers place low value on changes in the auditors' report format. Second, we observe that only information about continuity in the audit process and the error reporting seem to reduce the bankers' AEG, despite their professed valuation of additional information. These results suggest that the frequently discussed calls for additional information in the auditor's report may not actually reduce the financial statement user's AEG. We therefore suggest that the profession and policy makers should focus on guidelines that make the auditor more visible and highlight the credibility of the audit.

## MONDAY

17:45-19:15

**AUPS11**

Chair : Gilad Livne

Room : A302

**Global Audit Firm Networks And The Role Of 'other Auditors': Impact On The Quality And Costs Of Multinational Group Audits**

Author : ANN VANSTRAELEN, MAASTRICHT UNIVERSITY

EA = Empirical Archival

Co-authors : Elizabeth Carson, University of New South Wales  
 Roger Simnett, University of New South Wales  
 Greg Trompeter, University of Central Florida

Regulators have raised concerns about the price and quality associated with the audits of multinational groups. Of particular concern are engagements in which parts of the audit are not undertaken wholly by the principal auditor but involve component auditors either affiliated or unaffiliated with the signing audit firm. Using unique disclosure requirements for Australian listed firms, we examine the incidence of such arrangements and their impact on fees and quality over the period 2008-2011 for a large sample of multinational companies. We find that in almost 50% of multinational group audits, other auditors are involved. Consistent with expectations, our results indicate that relative to audits conducted solely by principal auditors, fees are lower when other auditors, either within or outside the network, are involved. However, we do not find differences in the magnitude of discretionary accruals, which reduces concern that audit quality is impaired when other auditors are involved in a multinational group audit. This suggests that auditors are fulfilling the objective of international auditing standards and are undertaking steps to ensure that audit quality is not compromised when other auditors are involved. Collectively, our evidence supports calls for greater disclosure of identity and responsibilities of the use of other auditors involved in multinational group audits.

## AUPS11

Chair : Gilad Livne

Room : A302

**Clients' Political Connections And Audit Pricing**

Author : OLIVER ZHOU, CITY UNIVERSITY OF HONG KONG

EA = Empirical Archival

Co-authors : Chansog Kim, City University of Hong Kong  
Zhifeng Yang, City University of Hong Kong

*This study examines how clients' political connections influence auditors' assessments of audit risk that is reflected in audit fees in the United States. On the one hand, political connections may help improve the financial performances of connected firms by receiving the economic rents extracted from the connections. They also increase connected firms' chances of being bailed out in case of financial distress. As such, clients' political connections are predicted to reduce audit risk and thus audit fees. On the other hand, politically connected firms tend to be more opaque in financial reporting. Connected firms are also subject to the additional risk related to election outcomes and political misfortune of their backers. Hence, we predict higher audit fees for client-firms with political connections than for non-connected firms. Our empirical results for a large sample of U.S. publicly listed firms show that auditors charge higher fees to politically connected firms than to non-connected ones. We also find that this adverse effect of firms' political connections on audit fees is more pronounced among firms with weaker corporate governance and with more complicated operational structures. Furthermore, this relation becomes more pervasive in the post-SOX era. These findings suggest that auditors perceive politically connected firms to be riskier. Accordingly, they exercise greater effort and/or charge higher fees to these connected firms. Our evidence is robust to a battery of econometric endogeneity remedies and to such exogenous events as presidential and mid-term elections and financial crisis.*

## MONDAY

17:45-19:15

## AUPS11

Chair : Gilad Livne

Room : A302

**To Work or to Shirk: How Do Auditors Deal with Tax Enforcement?**

Author : WIM JANSSEN, TILBURG UNIVERSITY

EA = Empirical Archival

Co-authors : ,

*I examine whether independent auditors respond to corporate tax enforcement. I argue that tax enforcement affects audit fees in two non-mutually exclusive ways. First, tax enforcement could decrease audit fees due to spillover effects from the tax inspector's monitoring activities on audit risk (spillover effect mechanism). Second, tax enforcement could increase audit fees due to an increased probability that the tax inspector reports a managerial action that implies bad monitoring of the auditor (penalty risk mechanism). I use two new measures of corporate tax enforcement to explore which of these effects dominates. I find that audit fees are negatively associated with tax enforcement, which is consistent with the hypothesis that corporate tax enforcement generates spillover effects on audit risk.*

## MONDAY

17:45-19-15

## AUPS18

Chair : Mervi Niskanen

Room : A413

**Impact Of Joint Auditor Pair On Timely Loss Recognition: Evidence From Impairment Tests**

Author : LUC PAUGAM, ESSEC BUSINESS SCHOOL PARIS

EA = Empirical Archival

Co-authors : Gerald Lobo, University of Houston  
Jean-François Casta, Université Paris-Dauphine  
Dana Zhang, dzhang@bauer.uh.edu

*As some regulators view joint audit as a way to enhance audit quality, French law already requires two (joint) auditors. We examine the impact of auditor pairs on a key mechanism ensuring timely loss recognition: impairment tests. Impairment tests rely on unverifiable fair value estimates and are often manipulated by managers. In a simple game theory model, we assume that Big 4 auditors face higher reputation and litigation costs than non-Big 4. We demonstrate that pairs of Big 4 auditors are likely to lead to the prisoner's dilemma solution, according to which no auditor takes corrective actions. Conversely, pairs of Big 4 and non-Big 4 auditors increase Big 4's incentives to force firms to book timely impairments. From a sample of French listed firms (SBF 120) from 2006 to 2009, we provide evidence that: (1) Big 4–Big 4 auditor pairs book more untimely impairments than other combinations; (2) Big 4–Big 4 auditor pairs manage more impairment tests' transparency; (3) Big 4–Big 4 auditor pairs do not significantly improve earnings quality as compared to Big 4–non-Big 4 pairs.*

**AUPS18**

Chair : Mervi Niskanen

Room : **A413****Audit Partner Rotation And Financial Reporting Quality: Evidence From The United States**

Author : PAUL TANYI, UNIVERSITY OF NEBRASKA-LINCOLN

EA = Empirical Archival

Co-authors : Barri Litt, Nova Southeastern University  
Thuy Simpsons, Grand Valley State University

Audit partner rotation has received considerable attention since the Sarbanes-Oxley Act of 2002 and other independence measures set forth by the Securities and Exchange Commission have mandated a five-year rotation period for all lead and concurring engagement partners. Given the limited research on this topic in the United States, we investigate the effect of partner rotation on financial reporting quality in this setting. Using a sample of 977 US firms and observing their use of abnormal discretionary accruals to meet or beat analyst earnings, we find evidence of lower financial reporting quality after an auditor change. We also provide insight into this association as it relates to firm size, auditor type, and persistence over the first three years with the new audit partner as compared to the old partner. By employing a novel measure of audit partner rotation, we add valuable insight into its implications on financial reporting quality in the United States, and its related application to clients of varying sizes and auditor types.

## MONDAY

17:45-19-15

**AUPS18**

Chair : Mervi Niskanen

Room : **A413****Are Auditors Compromised By Auditing Clients' Major Customers?**

Author : KENNETH REICHEL, LOUISIANA STATE UNIVERSITY

EA = Empirical Archival

Co-authors : Hsihui Chang, Drexel University  
Hsin-Chi Chen, I-Shou University  
Jengfang Chen, National Cheng Kung University  
Kenneth J. Reichelt, Louisiana State University

Our study examines whether there is lower audit quality when the same auditor is engaged by the client and the client's major customer(s). We posit that in this setting that the auditor's independence is compromised by the potential threat of losing not just one client but two or more clients. We employ two measures of revenue quality: discretionary revenues and the likelihood of meeting or beating analysts' revenue forecasts. We find that revenue quality is negatively associated with the proportion of sales to the major customer(s) who employs the same auditor as the client supplier. This result is primarily driven by the client supplier employing the same office-level auditor as the major customer(s), when compared to the firm-level. Our findings provide evidence that auditors compromise independence when they have clients who are partners of the same supply chain.

## TUESDAY

11:00-12:30

**AUPS04**

Chair : Joost Van Buren

Room : **A301****Risk Aversion And Audit Markets**

Author : ERICH PUMMERER, INNSBRUCK UNIVERSITY

AM = Analytical / Modelling

Co-authors : Marcel Steller, Department of Accounting, Auditing and Taxation

We discuss auditing by considering risk-averse agents in a market context. The results may be of interest for auditors, investors and standard setters. First we analytically derive optimal audit effort as well as auditors and investor's marginal audit fee. The analysis proves and that auditor's risk aversion essentially influences audit quality. Second we discuss auditing in the context of different market settings assuming the auditors' risk aversion is observable. Then we drop this assumption and show, that as soon as the auditors' risk aversion is unobservable, a lemon market in terms of an "audit lottery" is created, where investors have to randomly draw out of a set of auditors with different risk aversions. Using a quantitative approach we illustrate the significance of this market inefficiency and elaborate, that the assessment of the audit lottery is a function of the investor's risk aversion.

## AUPS04

Chair : Joost Van Buren

Room : A301

**Mandatory Auditor Rotation: Evidence From The Italian Experience**

Author : MARA CAMERAN, BOCCONI UNIVERSITY

EA = Empirical Archival

Co-authors : Jere R. Francis, University of Missouri  
Antonio Marra, Università Bocconi  
Angela K. Pettinicchio, Università Bocconi

Mandatory rotation was recently proposed for the European Union and is also under consideration in the United States: however there is little rigorous published research into either the benefits or costs of rotation that could inform intelligent policy making. Our paper helps fill this gap by examining Italy where mandatory rotation of auditors has been required since 1975. We used proprietary data on audit engagement hours and audit fees provided to us by the Big 4 accounting firms for estimating incremental audit costs of mandatory rotation during the sample period 2006-2009. Outgoing auditors do not shirk on effort (or quality), but we do find that final year fees are 6 percent higher than normal which suggest some price gouging. Incoming auditors have more engagement hours in the first year (16 percent), but fees are discounted by 8 percent, suggesting a lowballing amount of 24 percent. However, this amount is recovered through abnormally higher fees in the future. Thus the direct cost of mandatory rotation appears to be small in Italy. An implicit cost of rotation occurs if there is a decline in the quality of audited earnings around the rotation event, and we find evidence of lower quality audited earnings in the first three years following rotation, relative to later years of auditor tenure. Since the quality of audited earnings improves with auditor tenure, the evidence does not support the case for mandatory rotation as rotation will induce more "short tenure" audits.

## AUPS04

Chair : Joost Van Buren

Room : A301

**The Impact Of Different Measures Of Audit Tenure On Audit Quality**

Author : JONATHAN TYLER, UNIVERSITY OF TECHNOLOGY SYDNEY

EA = Empirical Archival

Co-authors : Fiona Ball, University of Technology, Sydney  
Peter Wells, University of Technology, Sydney

The objective of this study is to provide empirical evidence of any association between auditor tenure and audit quality which would support auditor rotation being prescribed. Auditor tenure is measured having regard to both the period of tenure between an individual CEO and a specific audit partner termed the 'personal relationship' and the period of tenure between the client firm and the audit firm, termed the 'professional relation', with these having potentially differing impacts on audit quality. Based on a sample of 151 publically listed firms during the change over to IFRS in Australia and using three main proxies for audit quality, (absolute IFRS errors, signed IFRS errors and ranked IFRS errors) we find no significant association between IFRS transition errors and the length of tenure between audit partners and the CEO of the client firm. This would suggest that this relationship does not undermine audit quality. In contrast, we find a significant negative association between audit quality and length of tenure of the audit firm and the client. The professionalism maintained by audit partners and CEOs is attributed to a number of factors and calls into question legislative and regulatory requirements for auditor rotation. Further research should be directed towards developing more appropriate alternatives to audit partner rotation as a means of maintaining audit quality.

## AUPS05

Chair : Erich Pummerer

Room : A302

**Audit Quality And Corporate Governance: Evidence From The Microfinance Industry**

Author : LEIF ATLE BEISLAND, UNIVERSITY OF AGDER

EA = Empirical Archival

Co-authors : Roy Mersland, University of Agder  
R. Oystein Strom, Oslo and Akershus University College

This study uses a unique, hand-collected sample of microfinance institutions from 73 countries that typically are not investigated in accounting research to analyze the relationships between audit quality and governance mechanisms. We examine two measures of audit quality, namely, the use of Big Four auditors and the presence of internal auditors who report to the boards of these institutions. The empirical analysis of this study reveals that these two quality metrics are highly related, although we also demonstrate that these metrics capture distinctive aspects of audit quality. In particular, the presence of internal auditors is related to other indicators of stricter governance, whereas the use of Big Four auditors is generally unrelated to other control mechanisms. This study illustrates that there is no single association between audit quality and governance; instead, the relationships between these two characteristics are dependent on the specific mechanism that is investigated. However, for situations in which a significant relationship between audit quality and governance does exist, the sign of this relationship is always positive. Thus, our data support the complementarity view of these two traits that is espoused by prior research. We find no support for the contention that these control mechanisms function as substitutes.

**AUPS05**

Chair : Erich Pummerer

Room : **A302****Firm Credit Rating Status And Their Implications For The Estimated Effects Of Auditor Size On Bank Loan Pricing**

Author : ROBERT MATHIEU, WILFRID LAURIER UNIVERSITY

EA = Empirical Archival

Co-authors : Ling Chu, Wilfrid Laurier University  
Ping Zhang, University of Toronto

*This study estimates the relationship between auditor size and audit quality using the cost of bank loans as the audit quality proxy. To the extent that banks perceive Big 4 auditors as of higher audit quality then, they will incur lower cost of capital. We initially document findings consistent with the literature. That is, when using the complete sample, the results indicate that firms audited by non-Big 4 pays a higher interest rate on their new loans. This result is robust to the use of the Heckman's two-stage model. Then, we provide evidence that firms' characteristics between rated and unrated firms are drastically different. Specifically, all variables used in the regression analyses are statistically different between rated and unrated firms. This raises the concern that firms' characteristics may be driven the initial result. In other words, the significance of audit quality may in fact reflect differences in clients' characteristics across clients of Big 4 and non-Big 4 auditors. Once we regress separately rated and unrated firms, the results indicate that banks do not perceive Big 4 auditors as having a higher audit quality than non-Big 4 auditors. After comparing the coefficients of the variables in the regression model from the respective rated and unrated samples, we conclude that the two samples fit distinctive regression regimes and hence, using the pooled sample can bias the estimation.*

**AUPS05**

Chair : Erich Pummerer

Room : **A302****Audit Quality, Ifrs And Perceived Bank Risks Under Heterogeneous Regulations**

Author : ANGELA PETTINICCHIO, BOCCONI UNIVERSITY

EA = Empirical Archival

Co-authors : Lorenzo Pozza, Università Bocconi  
Angelo Provasoli, Università Bocconi  
Maxim Zagonov, Purdue University

*The recent turmoil in global financial markets has accentuated the need to better understand the underlying bank risks and their determinants. A vast literature has emerged to analyse this issue in depth. Surprisingly, the role of auditing in monitoring and shaping bank risk has not hitherto been considered. This research fills this gap by examining the link between audit quality and the market's assessment of bank risk in the G10 countries. We also analyse whether this relationship is affected by cross country regulatory differences and the IFRS introduction in 2005. We find that higher audit quality is associated with a lower level of bank risk taking. This link is stronger in countries with weaker regulations. Further, our findings suggest that the IFRS introduction was received favourably by the market with banks reporting under the IFRS having lower level of risk. This favourable market reaction is more pronounced for banks employing a Big audit firm. Overall, our empirical findings bear important strategic implications for bank regulators and supervisors with an interest in improving auditing standards and banking sector policies.*

**AUPS06**

Chair : Gary Monroe

Room : **A301****Lead Auditor Expertise, Audit Quality, And Audit Fees**

Author : JUERGEN ERNSTBERGER, RUHR UNIVERSITY BOCHUM

EA = Empirical Archival

Co-authors : Christopher Koch, Johannes Gutenberg Universitaet Mainz  
Hun-Tong Tan, Nanyang Technological University, Singapore

*This study investigates the effects of lead auditors' attributes, including their technical knowledge, managerial knowledge and problem-solving ability, on audit quality and audit fees. The German institutional environment enables us to track auditors over their careers and measure their various personal attributes. We find that lead auditors with greater managerial knowledge receive higher audit fees; however, lead auditors with greater technical knowledge produce higher quality audits. Problem-solving ability is associated with improved audit quality in some settings. Our findings are robust to the use of fixed effects and change models. Additional tests using interaction models indicate that the effects of expertise are strongest in the settings in which they are expected to matter most. The findings enhance our understanding of the nature of expertise in auditing and demonstrate the value of lead auditor identification as currently discussed by the PCAOB and the IAASB.*

**AUPS06**

Chair : Gary Monroe

Room : **A301****Revisiting The Effects Of Industry Expertise On Audit Pricing**

Author : JOHN GOODWIN, SABANCI UNIVERSITY

EA = Empirical Archival

Co-authors : Donghui Wu, The Chinese University of Hong Kong

Several studies report an audit fee premium for auditor industry expertise measured at the office-level. We extend this line of research by examining whether there is a fee premium for auditor industry expertise measured at the partner level. We show that the coefficient for partner-level industry expertise is highly significant and economically important. This is consistent with industry knowledge or expertise residing in the human capital of individual engagement partners. Inconsistent with prior research, we show that there is no auditor industry expertise fee premium at the audit office level when expertise at the partner-level is controlled for. Consistent with prior research we find little evidence of a fee premium at the national level. In sum, our results show that the auditor industry expertise fee premium is mainly a partner-level phenomenon, casting doubt on the belief that industry knowledge or expertise is distributed across engagement partners within an audit office.

**AUPS06**

Chair : Gary Monroe

Room : **A301****Do Industry Specialist Auditors Improve Investment Efficiency?**

Author : GIL BAE, KOREA UNIVERSITY BUSINESS SCHOOL

EA = Empirical Archival

Co-authors : Seung Uk Choi, Korea University

This paper examines whether the investment efficiency of client firms with industry specialist auditors is higher relative to that with non-specialist auditors. Using a large sample from the period 1976 to 2005, we find that investment efficiency of client firms with industry specialist auditors is significantly higher than that with non-specialist auditors. Furthermore, industry specialist auditors discourage both over-investment and under-investment, although they do so more in the over-investment side relative to the under-investment side. The results are generally unaffected by the different definitions of specialist auditors, clients' firm size, yearly regressions, differences in the market share of specialist auditors, and the potential self-selection bias.

**AUPS12**

Chair : Jeff Payne

Room : **A301****The Big 4 Premium: A Long Gone Phenomenon? Evidence From Europe**

Author : ROUVEN FLEISCHER, CATHOLIC UNIVERSITY OF EICHSTÄTT-INGOLSTADT

EA = Empirical Archival

Co-authors : Max Goettsche, Catholic University of Eichstaett-Ingolstadt  
Maximilian Schauer, Catholic University of Eichstaett-Ingolstadt

The market for audit services has strongly changed over the past years. Consolidation of audit firms, increasing internationalization and an advancing organization of second-tier auditors in international networks suggest that competition among auditors has gained more importance. In light of these developments, this study gives an up-to-date analysis on the existence of a Big 4 premium as well as fee cutting. We affirm the existence of fee cutting for firms changing their auditor and provide first time evidence that in years following an auditor change, the fee increase is stronger for switching firms than for non-switching firms. In terms of a Big 4 audit fee premium, our results also show differentiated pricing behavior for switching and non-switching firms. For non-switchers we still find a Big 4 audit fee premium, for switchers, though, our results show that a Big 4 premium no longer exists; rather we find a Big 4 discount. Compared to prior research, this study is not based on data from a single market but uses a multinational dataset of all listed German, Italian, Belgian and Finnish firms for the years 2007 – 2010. Also, in contrast to prior research, our results are not based on regression analysis, but we use a nearest neighbor matching approach, based on Abadie and Imbens (2002).

## AUPS12

Chair : Jeff Payne

Room : A301

**Evaluating The Evidence On The Big Firm Premium**

Author : DAVID HAY, UNIVERSITY OF AUCKLAND

EA = Empirical Archival

Co-authors : ,

*This paper uses meta-regression analysis to take stock of the results of research examining the premium charged by the Big audit firms. It shows that the Big firm premium is overstated in research taken as a whole, as a result of the publication bias that is inherent in the system of research publication. The evidence of publication bias shows that the Big firm is generally overstated, but is not so strong as to completely eliminate the remaining premium. Greater publication bias is in some cases associated with higher quality publications and higher status researchers. The small remaining Big firm premium is more consistent with product differentiation explanations for the premium than with oligopolistic pricing explanations, because the premium is more prevalent in private sector settings than in the public sector, is negatively associated with the extent of investor protection measures in the jurisdiction concerned and is not associated with Big firm concentration. The evidence also shows that the premium does not apply in the public sector; is negatively associated with investor protection measures. Meta-regression analysis has potential to lead to revised views of many areas of accounting and auditing research.*

## TUESDAY

## 14:00-15:30

## AUPS12

Chair : Jeff Payne

Room : A301

**How Are Big 4 Audits Valued Around The World? The Non-Linear Relationship Between The Value Of Audit Quality And The Investor Protection Quality**

Author : MANUEL CANO RODRIGUEZ, UNIVERSITY OF JAÉN

EA = Empirical Archival

Co-authors : Manuel Núñez-Nickel, Carlos Ill of Madrid  
Santiago Sánchez-Alegría, Public University of Navarra

*Although audit quality is expected to be positively valued by the users of financial information, that value can vary with the level of investor protection. However, previous literature on this issue is controversial: while some papers defend that audit quality and investor protection are complementary (that is to say, audit quality is valued higher in those countries with a strong investor protection), other papers defend that both are substitutes (and, thereby, audit quality is valued higher in those countries with weaker investor protection). In this paper, we reconcile these two competing views by showing the existence of a non-linear relation between the value of audit quality –proxied by the interest rate premium of Big 4 auditors' clients– and the quality of creditor protection. Our results show that Big 4 auditors' clients pay, on average, a lower cost of debt, thereby confirming the positive value of audit quality over the world. The relation between that interest rate premium and the creditor protection quality is U-shaped, that is, the maximum premium is observed for the countries with intermediate levels of creditor quality.*

## TUESDAY

## 11:00-12:30

## AUPS13

Chair : Kenneth Richelt

Room : A302

**Firm And Office Level Effects On Audit Quality: A Multilevel Approach**

Author : KRIS HARDIES, UNIVERSITY OF ANTWERP

EA = Empirical Archival

Co-authors : Christopher Koch, University of Mannheim

*Data in auditing research are typically hierarchical in nature. That is, audit firms consist of multiple audit offices in which multiple audit partners are auditing several client firms. Findings of prior auditing research suggest that characteristics of the different units—the audit firm, the audit office, and the audit partner—matter for audit quality. Statistically, that means that the observations for each unit are clustered and dependent. Ignoring the dependency of observations creates potential statistical problems like deflated standard errors. We introduce multilevel modeling as a means for auditing researchers to address the potential statistical problems that can arise from analyzing hierarchical data with traditional "single-level approaches" (such as OLS). More importantly, we demonstrate that multilevel modeling enables the examination of new research questions by treating the clustering in the data as an interesting phenomenon per se. Using a large dataset from the U.S. audit market, we re-examine the effects of firm-wide and office-specific industry specialization on audit quality. Our results show that even despite serious clustering of local offices within audit firms, most OLS estimates are reliable and valid. The results also show that most of the variance in audit quality is situated at the audit firm level; that is, stems from differences between audit firms rather than from differences within audit firms (i.e., between local offices).*

## AUPS13

Chair : Kenneth Richelt

Room : A302

**Are Extensive Audits "good News"? - Market Perceptions Of Abnormal Audit Fees And Fair Value Disclosures**

Author : ULF MOHRMANN, KONSTANZ UNIVERSITY

EA = Empirical Archival

Co-authors : Jan Riepe, Ludwig-Maximilians-Universität München, Institute for Capital Markets and Corporate Finance  
Ulrike Stefani, University of Konstanz, Chair of Accounting

Although the auditor's role is to increase the reliability of financial statements, surprisingly little is known about the market participants' perceptions of the auditor-client relationship, even in situations in which management has substantial discretion about the valuation of a large proportion of assets. Using a sample of more than 1,000 U.S. bank-years from 2008 to 2011, we analyze the economic consequences of the joint announcement of audit fees and the level breakdown of fair value assets. We confirm prior findings that audit fees are higher in case of high proportions of Level 3 fair values. Moreover, we find that the market perception of fair value assets depends on the extent of managerial discretion in the process of estimating fair values. Most importantly, addressees interpret abnormal audit fees as an indication of additional risk. Thus, a higher amount of unexpected audit fees is not seen as a signal for a more reliable audit but further increases the market discount on Level 3 fair values. Bank managers have to consider these negative consequences in their reporting strategy.

## TUESDAY

## 11:00-12:30

## AUPS13

Chair : Kenneth Richelt

Room : A302

**The Effects Of Voluntary Interim Auditor Reviews On Audit Fees And Earnings Quality**

Author : BALTHASAR HOEHN, WUERZBURG UNIVERSITY

EA = Empirical Archival

Co-authors : ,

The interim reporting process provides decision-useful information to investors and market participants. However the external audit or review and the legal circumstances differ worldwide. A mandatory review rule in the US opposed to a contrary decision of the German legislator raises the question of the cost-benefit-relation of auditor reviews. Using a German sample of 1,023 firm-year observations from 2007 to 2010, we extract the costs and the benefits of voluntary semi-annual reviews. The unique German legal environment makes it possible to split the cost effect of a review in the price effect (included in audit-related fees) and a possible reduction of audit fees resulting from an improved year-around audit process. We observed a significant increase of audit and audit-related fees of around 14.5% (total fee effect). We can provide evidence on declining audit fees for a reviewed matched sample in comparison to the non-reviewed firms. The effect of an interim review on the quarterly earnings quality – using discretionary accrual as an earning management proxy – shows no significant influence.

## TUESDAY

## 16:00-17:30

## AUPS14

Chair : Olsen Carmen

Room : A411

**Compliance Checklists And Bias In Audit Judgments**

Author : VICTOR MAAS, ERASMUS UNIVERSITY ROTTERDAM / ERIM

EX = Experimental

Co-authors : Marcel Van Rinsum, Erasmus University  
David Stolker, Erasmus University

We investigate whether using a compliance checklist affects auditors' judgments of the acceptability of aggressive reporting methods. The use of decision aids such as checklists in audit settings is increasing and existing research generally suggests that checklist use can improve decision-making quality. We argue that the use of a compliance checklist can also have detrimental effects as it increases auditors' acceptance of aggressive reporting methods by inducing cognitive biases. Our data, collected using an experiment with experienced auditors of a Big Four company as participants, supports this prediction. Specifically, in line with theory that checklist use can induce automation bias, we find that auditors using a compliance checklist are more lenient in their evaluation of aggressive reporting. Furthermore, we find that this effect is stronger for auditors who have been hired by a company's management board than for auditors who have been hired by an independent audit committee, which is consistent with theory that checklist use can also induce pro-client acceptability bias. We discuss the implications of these findings for research and practice.

## AUPS14

Chair : Olsen Carmen

Room : A411

**Relational Coordination And The Communication Between The Chief Audit Executive And Senior Management: Experimental Evidence**

Author : FLORIAN HOOS, HEC SCHOOL OF MANAGEMENT

EX = Experimental

Co-authors : Anne D'Arcy, Vienna University of Economics and Business  
Gerrit Sarens, Université Catholique de Louvain

The purpose of this paper is to provide experimental evidence on the behavioral dimension of internal auditing and its influence on the internal audit function's (IAF) effectiveness. Research so far focused on organizational factors such as IAF size, resources, maturity or reporting lines, but we know very little about the behavioral dimensions that drive IAF effectiveness. Based on a 2x2 between-subjects experiment with 156 internal auditors (of which 93 possess CAE experience), we investigate the influence of two important interpersonal factors – shared goals (high vs. low level) and mutual respect (high vs. low level) – on the communication quality between the Chief Audit Executive (CAE) and the Chief Executive Officer (CEO), and on the overall effectiveness of the IAF. Our results support our predictions that (i) the CAE/CEO communication quality is positively correlated with the IAF effectiveness, and that (ii) mutual respect and shared goals improve both communication quality and IAF effectiveness. We discuss the implications of our findings for the internal audit profession and research on IAF effectiveness.

## AUPS14

Chair : Olsen Carmen

Room : A411

**The Negative Effect Of Auditors' Competiveness On Their Moral Reasoning**

Author : CAROLYN WINDSOR, BOND UNIVERSITY

EX = Experimental

Co-authors : Carolyn Windsor, Bond University  
Bent Warming Rasmussen, University of Southern Denmark

The purpose of this study is to examine the effect of auditing firm competitiveness on auditors' moral reasoning, a predisposition to provide fair judgments that is linked to professional integrity. The profession's credibility and legitimacy are sustained by the public's perception of auditors having the moral character to provide independent verification of corporate financial reports. A factor analysis reveals two divergent subcultures in transnational audit firms, one that exemplifies the values of the competitive, market oriented auditor or 'expert competitor' reflecting the surge of neo-liberalism. The other epitomizes the values steeped in the traditional concept of a profession that accentuates concern for the public interest. A multiple regression analysis finds a positive relationship between auditors' moral reasoning and the traditional professional subculture suggesting that auditors' ethicality is linked with socially responsible values. In contrast, the relationship between moral reasoning and the market orientation subculture is negative, indicating market values to not support ethicality. A discriminant analysis also suggests that audit partners unsuccessfully integrated these divergent subcultures because audit partners valued the market oriented (EC) subculture more than their subordinate auditor employees in our sample of auditors from transnational audit firms in Copenhagen.

## AUPS17

Chair : Katryn Kadous

Room : A301

**The Effect Of Estimation Risk On Audit Reporting**

Author : ASAD KAUSAR, NANYANG TECHNOLOGICAL UNIVERSITY

EA = Empirical Archival

Co-authors : Clive Lennox, Nanyang Technological University

Whether a company will file for bankruptcy in the future is uncertain. A point estimate of bankruptcy risk can be estimated using a statistical model but this poses estimation risk because the model's true parameters are unknown. The purpose of this paper is to show that this estimation risk affects auditors' going-concern reporting decisions. We find that auditors are more likely to issue going concern opinions when the point estimates of bankruptcy risk have larger standard errors. Moreover, auditors put less weight on the point estimates of bankruptcy risk when the standard errors surrounding the point estimates are larger. We demonstrate that estimation risk has a first-order impact on auditors' decisions to issue going concern opinions.

**AUPS17**

Chair : Katryn Kadous

Room : **A301****Subjectivity In Fair Value Estimates, Audit Quality And Informativeness Of Other Comprehensive Income**

Author : MYUNG PARK, VIRGINIA COMMONWEALTH UNIVERSITY

EA = Empirical Archival

Co-authors : Cheol Lee, Wayne State University

*This study empirically examines whether other comprehensive income (OCI) measures of Big 4 clients are more value-relevant than those of non-Big 4 clients. The current financial reporting environment raises concerns about the fair value measures, creating additional challenges for auditors. OCI is mainly derived from fair value application, which often involves subjective judgment by management. Unlike prior studies, we carve out different angle through which subjective fair value estimates of OCI should be of particular concern and scrutinized closely by auditors. Some OCI components may contain more subjective estimates than marketable securities adjustments (e.g., Dhaliwal et al. 1999), thereby requiring increased scrutiny by auditors. Therefore, we explore whether the differential valuation effect of OCI between Big 4 and non-Big 4 clients is more pronounced for more subjective OCI components compared to a less subjective component. We find that the aggregate OCI of clients audited by a Big 4 auditor has incremental information content in explaining stock returns, relative to OCI of clients audited by a non-Big 4 auditor. More interestingly, our results show that the differential valuation effect between Big 4 and non-Big 4 clients is stronger for more subjective OCI components than for less subjective marketable securities adjustments.*

**TUESDAY****9:00-10:30****AUPS19**

Chair : Luc Paugam

Room : **A413****The Monitoring Effectiveness Of Co-Opted Audit Committees**

Author : LINDA MYERS, UNIVERSITY OF ARKANSAS

EA = Empirical Archival

Co-authors : Cory Cassell, University of Arkansas  
Linda Myers, University of Arkansas  
Roy Schmardebeck, University of Arkansas  
Jian Zhou, University of Hawaii - Manoa

*We investigate the impact of audit committee co-option on financial reporting quality. We adapt the Coles et al. (2010) measure of board co-option and calculate audit committee co-option as the proportion of audit committee members appointed to the board after the current Chief Executive Officer (CEO) took office. Because CEOs are often actively involved in the director nomination and selection process, we expect that higher levels of audit committee co-option will be associated with less effective monitoring, as evidenced by more financial statement misstatements and greater absolute discretionary accruals. Consistent with our expectations, we find a positive relation between audit committee co-option and misstatements as well as between audit committee co-option and absolute discretionary accruals. Our findings should be of interest to regulators, investors, and other stakeholders because we provide new evidence about how potential CEO influence on director nominations and audit committee appointments impacts the effectiveness of monitoring.*

**TUESDAY****9:00-10:30****AUPS19**

Chair : Luc Paugam

Room : **A413****How Do Auditors Perceive Ceo's Risk Taking Incentives? Evidence From Audit Fees And Audit Opinions**

Author : YANGXIN YU, THE AUSTRALIAN NATIONAL UNIVERSITY

EA = Empirical Archival

Co-authors : Neil Fargher, The Australian National University  
Alicia Jiang, The Australian National University

*The Public Company Accounting Oversight Board has recently proposed that auditors must explicitly consider executive compensation incentives. CEO equity incentives are expected to have two different effects on managerial risk-taking behaviors. One effect is caused by the sensitivity of CEO wealth to stock prices (delta). Another effect is the sensitivity of CEO wealth to stock return volatility (vega). We examine how these different risk-taking incentives are currently associated with audit fees and auditor reporting. We argue that, ceteris paribus, if higher deltas reduce the managers' appetite for risk, auditors would assess client risk due to executive compensation as lower, resulting in lower audit effort and audit fees. As predicted, we find a negative and significant relation between CEO equity wealth deltas and audit fees. To the contrary, if higher sensitivity to return volatility (vega) increase the CEO's appetite for risk, auditors would assess client risk as higher, resulting in increased audit effort and higher audit fees. As predicted, we find a positive and significant relation between vega and audit fees. Overall, the results are consistent with auditors taking a sophisticated view of the risks associated with executive compensation incentives.*

**AUPS19**

Chair : Luc Paugam

Room : **A413****Social Networks, Auditor Independence And Earnings Quality**

Author : SOPHIE MARMOUSEZ, HEC MONTREAL

EA = Empirical Archival

Co-authors : Thomas Jeanjean, ESSEC  
Louis-Philippe Sirois, HEC Montréal

We analyze the existence and the consequences of social ties (networks) between auditors and auditees on earnings quality. In France, Grandes Ecoles alumni constitute strong business networks. We argue that audit partners, directors and officers who graduated from the same Grande Ecole share common social and educational backgrounds, tastes and activities. These similarities are likely to develop into strong social ties between audit partners and an auditee's directors and/or officers. It is unclear whether or not these networks will affect earnings quality. On the one hand, the implied social ties may impair auditor independence; on the other hand, stronger ties may facilitate information sharing or create a "social control" among network participants. Using a sample of French listed firms over 5 years, we document that a significant portion of audit partners, directors and officers graduated from the same Grande Ecole consistent with the importance of such networks in France. Our findings indicate that the existence of social ties between auditors and auditees is associated with an increase in earnings quality, consistent with greater information sharing and "social control".

## TUESDAY

11:00-12:30

**AUPS20**

Chair : Jose Antonio Gonzalo

Room : **A413****Audit And Earnings Management In Spanish Smes**

Author : DAVID HUGUET, UNIVERSITY OF VALENCIA

EA = Empirical Archival

Co-authors : Juan L. Gandía, University of Valencia

The paper examines the relationship between auditing and earnings management in the framework of SMEs, an issue that has not been tackled by previous literature because it has focused on the effect of auditor quality in settings where audits are mandatory. Using a sample of Spanish SMEs, which is composed of audited and non-audited companies, we find evidence that audits, regardless of they are mandatory or voluntary, constraint the level of earnings management. However, we find that companies that are audited by a Big 4 auditor do not have lower discretionary accruals, thus Big 4 auditors are not more restrictive than the rest of auditors in a setting with low litigation risk. We have also examined the impact of the accounting reform of 2008 on earnings management and results obtained are mixed, so we cannot state that earnings quality in SMEs has improved by the accounting reform.

## TUESDAY

11:00-12:30

**AUPS20**

Chair : Jose Antonio Gonzalo

Room : **A413****Ownership Structure, Audit Fees, And Accrual Quality In Japan**

Author : NAOKI KASAI, SHIGA UNIVERSITY

EA = Empirical Archival

Co-authors : ,

This study provides empirical evidence of how the association between accounting accruals (measured by accrual quality) and abnormal audit fees is moderated by ownership structure. Previous research shows that auditor independence is eroded by auditor-client economic dependence. Most researchers have focused on U.S. firms in assessing the effects of audit committees or boards of directors on the association between auditor-client economic bonding and audit quality. However, alternative governance mechanisms to these organizations exist in Japan, and can provide a new perspective on this issue. A unique feature of Japanese company ownership structure is that there exist stable shareholdings, such as financial institution shareholdings and cross-shareholdings (corporate-shareholdings). This governance structure is different from those found not only in the U.S. but also in other countries that have seen previous research on this issue, such as Australia and the U.K. There is no research available focusing on how the relationship between accrual quality and abnormal audit fees is moderated by financial institution shareholdings in the Japanese market. Thus, this study uses the accrual-quality measure developed by Dechow and Dichev (2002) as a measure of audit quality to fill this gap. The results demonstrate that higher audit fees are likely to have compromised auditors' independence and thereby led to lower audit quality. On the contrary, financial institution shareholdings are

## AUPS20

Chair : Jose Antonio Gonzalo

Room : A413

**Reputational Implications For Partners After A Major Audit Failure: Evidence From China**

Author : OLIVER RUI, CHINA EUROPE INTERNATIONAL BUSINESS SCHOOL

EA = Empirical Archival

Co-authors : Xianjie He, Shanghai University of Finance and Economics, Shanghai, China  
Jeffrey Pittman, Memorial University of Newfoundland, St. John's, NL, Canada  
Oliver Rui, China Europe International Business School

We analyze whether audit partners suffered damage to their professional reputations with the demise of Zhongtianqin (ZTQ), formerly the largest audit firm in China, after an audit failure enabled a major client, Yinguangxia (YGX), to fraudulently exaggerate its earnings in a high-profile scandal resembling the Andersen-Enron events in the U.S. This involves evaluating whether the reputational damage sustained by partners implicated in the scandal spreads to other partners in the same audit firm. We isolate whether impaired reputation impedes partners who were not complicit in the ZTQ-YGX events from attracting new clients or keeping existing ones. Our evidence implies that the market shares of these partners fell after ZTQ's collapse, supporting that guiltless partners' reputations were tarnished. We also find that these partners are less likely to be employed by reputable audit firms. The clients of these partners tend to have lower earnings response coefficients, implying that investors downgrade the perceived quality of their audits. Moreover, compared to a matched sample, the former ZTQ partners tend to charge lower audit fees after the firm's collapse. Finally, we exploit the unique structure of ZTQ to provide evidence consistent with the prediction that the former partners from the branch that handled the YGX audits experienced worse damage to their reputations. In a setting with minimal auditor discipline stemming from civil litigation, our results lend support

## TUESDAY

## 14:00-15:30

## AUPS21

Chair : Ulfert Grenewold

Room : A413

**Benefits And Costs Of Appointing Two Audit Engagement Partners**

Author : KIM ITTONEN, UNIVERSITY OF VAASA

EA = Empirical Archival

Co-authors : Per Christen Tronnes, University of New South Wales

We investigate whether the practice of voluntarily appointing two audit engagement partners is associated with audit quality and audit fees relative to appointing one partner and in which ways. Using a sample of publicly-held Finnish and Swedish firms listed in the Nasdaq OMX Exchanges, we find evidence that joint engagement partners are associated with higher earnings quality, but also with higher audit fees. Moreover, we show that joint engagement partners being co-located in the same office further increases both earnings quality and audit fees. In general, our findings indicate that the 'four eyes principle', i.e. the appointment of two jointly responsible engagement partners, benefits users of financial statements, but increases audit fees as well. Given the renewed regulatory interest in the issue of audit quality and joint audits, our evidence should be of interest to policy makers.

## TUESDAY

## 14:00-15:30

## AUPS21

Chair : Ulfert Grenewold

Room : A413

**Does capital structure dominate the demand for voluntary audit in micro-companies?**

Author : HANNU OJALA, AALTO UNIVERSITY SCHOOL OF ECONOMICS

EA = Empirical Archival

Co-authors : Jill Collis, Brunel University  
Lasse Niemi, Aalto University  
Juha Kinnunen, Aalto University  
Pontus Troberg, Hanken School of Economics

We investigate capital structure as a determinant of voluntary audit in a large sample of micro-companies in Finland. Building on agency theory, we hypothesize and find that the likelihood of voluntary audit is higher in micro-companies funded by trade credit or bank finance than in those funded solely by owners' equity. Surprisingly, we find that many micro companies that have no external debt funding, (i.e. those funded solely by owners' equity), also opt for voluntary audit. Interviews with owner-managers of micro-companies, bank managers and the tax authorities not only validate our statistical results, but also provide rich insights that help explain this unexpected demand. These include factors such as the need for advice and internal control, as well as the owner-manager's need to focus on the core business rather than financial systems and records. Our results should be of interest to auditing professionals and regulators in EU Member States in the context of the new accounting Directive (2012/6/EU) relating to micro-entities, where there is little empirical evidence to guide policy-makers.

## AUPS22

Chair : Andrew Higson

Room : A413

**Association Between Opportunistic Management Earnings Forecasts And Audit Fees**

Author : KAREN LAI, THE HONG KONG POLYTECHNIC UNIVERSITY

EA = Empirical Archival

Co-authors : Ferdinand Gul, Monash University Sunway Campus, Malaysia  
Bikki Jaggi, Rutgers Business School  
Suresh Radhakrishnan, The University of Texas at Dallas

*In this paper, we hypothesize that firms issuing management earnings forecasts (MEF), especially opportunistic MEF (OPP MEF), are associated with higher audit risk and hence with higher audit fees compared to the firms which do not issue MEFs or issue informative MEF. We use the methodology developed by Li et al. (2012) to classify MEFs into three types, i.e. cost of capital (COC), opportunistic (OPP) and disclose or abstain (DOA) MEFs. Our results confirm audit fees are significantly higher for firms issuing MEF compared to the firms which do not issue MEF, and that the significantly positive association between audit fees and MEF is especially higher for OPP MEF compared to other types of MEFs. Additionally, our results show that CEO's long horizon moderates the positive association between audit fees and OPP MEF, and conversely CEOs' short horizon strengthens positive association.*

## TUESDAY

## 16:00-17:30

## AUPS22

Chair : Andrew Higson

Room : A413

**A Firm's Corporate Social Responsibility Performance and Assurance Decision – A Stakeholder Perspective**

Author : MARIA STEINMEIER, RUHR UNIVERSITY BOCHUM

EA = Empirical Archival

Co-authors : Juergen Ernstberger, Ruhr University Bochum  
Katharina Sikora, Ruhr University Bochum  
Michael Stich, FAU Erlangen-Nuremberg

*This study examines the relation between a firm's corporate social responsibility (CSR) performance and its investment in external assurance on CSR reporting. More specifically, we explore whether, how, and why firm's CSR performance influences a management's decision to invest in external assurance on its CSR reporting. Thereby, we evaluate whether CSR assurance fulfills characteristics of an effective signal that helps to distinguish good from poor CSR performers. We use a unique dataset consisting of the world's largest firms' CSR assurance practices and CSR performance. For a sample of firms from 21 countries over the period 2006-2011, we find that firms characterized by lower CSR performance are more likely to invest in CSR assurance, and vice versa. We take this as evidence that assurance statements are inapplicable to draw a conclusion about a firm's CSR performance. Moreover, we document that the negative relation between CSR performance and assurance is more pronounced in the presence of powerful stakeholders that force managers to invest in external objectification for CSR information.*

## TUESDAY

## 16:00-17:30

## AUPS22

Chair : Andrew Higson

Room : A413

**Observability Of Audit Fees, Initial Audit Fee Discounting, And Audit Quality: Further Tests Of Two Competing Theories**

Author : XUJIA SU, CHINA EUROPE INTERNATIONAL BUSINESS SCHOOL

EA = Empirical Archival

Co-authors : Donghui Wu, The Chinese University of Hong Kong  
Xi Wu, Central University of Finance and Economics

*The auditing literature presents two competing theories on initial engagement audit fee discounting. DeAngelo (1981) predicts initial engagement discounts in all settings, whereas Dye (1991) proposes that discounting would be eliminated if audit fees are publicly disclosed. While recent research using publicly available fee data suggests that initial audit fee discounting remains after audit fee is publicly disclosed, it is not clear whether fee disclosure affects the degree of discounting. By directly comparing proprietarily obtained audit fees with publicly disclosed audit fees in China's capital market, this study shows that initial engagement audit fee discounting remains but is significantly reduced once audit fees are publicly disclosed. We further classify publicly disclosed fee data into accurate and questionable subsamples. We find that in comparison with continuing audits, initial audits with questionable fee disclosure involve significant audit fee discounting. Firms in which such initial audits take place are also subject to smaller absolute (and downward) audit adjustments to pre-audit earnings, suggesting audit quality in the former cohort is lower. In contrast, initial audits with accurate fee disclosure are not significantly different from continuing audits in terms of audit pricing and adjustments. Overall, our results suggest that the degree of discounting is sensitive to its observability, and low-balling is associated with lower audit quality.*

**AUPS07**

Chair : Ann Vanstraelen

Room : **A301****Audit Partner Specialization And Audit Quality: Further Evidence**

Author : NEAL ARTHUR, THE UNIVERSITY OF SYDNEY

EA = Empirical Archival

Co-authors : Alan Kilgore, Macquarie University  
Yu Chen, PricewaterhouseCoopers  
Medhat Endrawes, Macquarie University

*This study investigates the impact of audit partner rotation on audit quality and whether industry specialization moderates such a relationship. Specifically, it examines whether audit partner rotation results in higher audit quality and, if so, whether this is conditional on audit partner or audit firm industry specialization. Multivariate regression analysis was used to test the hypotheses. The study uses a sample of 432 firm - year observations for firms listed on the Australian Securities Exchange. The results of this study show that audit partner rotation can enhance audit quality but only when both the incoming audit partner and the audit firm are industry specialists. The results of the study provide valuable insights into the effectiveness of audit partner rotation and auditor industry specialization practices, and their impact on audit quality. The results have implications for the profession as well as regulators regarding audit partner and audit firm industry specialization. This is the first study to examine the moderating effect of industry specialization on the auditor rotation – audit quality relation at the partner level. The introduction of industry specialization as a moderating factor provides additional insights into the auditor rotation – audit quality relation at the partner level.*

## WEDNESDAY

9:00-10:30

**AUPS07**

Chair : Ann Vanstraelen

Room : **A301****A Re-Examination Of The Industry Specialist Audit Fee Premium**

Author : ANNE CAZAVAN-JENY, ESSEC BUSINESS SCHOOL PARIS

EA = Empirical Archival

Co-authors : Sophie Audoussert-Coulier, Concordia University  
Like Jiang, ESSEC Business School

*This paper analyzes the effects of using various definitions and measures of auditor industry specialization in empirical audit research. Industry specialist (ISP) auditors are auditors who have developed a specific expertise in their industry and who are therefore able to provide higher quality audits. This industry expertise provides them with a superior reputation and allows them to obtain an industry specialist fee premium. On a sample of 29,726 US-listed firms over the 2000–2010 period, we computed and compared 35 ISP measures. We find that the use of different definitions of auditor industry specialization results in inconsistent classifications of audit firms as specialists (or not) in a given industry. We further demonstrate that this lack of consistency between ISP measures is significant and represents a serious measurement issue as it questions the validity of the ISP fee premium estimates. We find that the results regarding the significance, sign and magnitude of the fee premium paid to ISP auditors are strongly dependent on the choice of the ISP measure. Our analysis suggests that the measures of industry specialization employed in empirical research have a low degree of internal and external construct validity.*

## WEDNESDAY

9:00-10:30

**AUPS07**

Chair : Ann Vanstraelen

Room : **A301****Auditor Industry Expertise And The Timeliness And Usefulness Of Litigation Loss Contingency Disclosures**

Author : GORDON RICHARDSON, UNIVERSITY OF TORONTO

EA = Empirical Archival

Co-authors : Feng Chen, University of Toronto  
Yu Hou, University of Toronto  
Minlei Ye, University of Toronto

*Using the largest archival data set examined to date in the literature, we find results consistent with the critics of current SFAS 5 that disclosures about certain loss contingencies do not provide timely and useful information to investors. To further examine the possibility of strategic non-compliance with SFAS 5 disclosure requirements, we investigate the role of auditors in litigation loss contingency disclosures, buttressed by an analytical model. The empirical results reveal a strong association between high audit quality, proxied by auditor industry specialization, and more timely and useful litigation loss contingency disclosures. A role for such expertise in enhancing SFAS 5 disclosures points to strategic noncompliance absent of auditor expertise. Thus, the solution may well be closer audit scrutiny of SFAS 5 disclosures. As such our study informs the ongoing debate.*

**AUPS08**Chair : *Thiphaine Compernelle*Room : **A301****Constructing The Diverse Accountant: An Examination Of The Logics Influencing Diversity Discourses And Practices**

Author : CARLA EDGLEY, CARDIFF UNIVERSITY BUSINESS SCHOOL

IC = Interdisciplinary / Critical

Co-authors : Nina Sharma, Cardiff University  
Fiona Anderson-Gough, University of Warwick

*This paper examines and constructs an interpretation of the macro institutional logics that shape the diversity agenda and the increase in diversity efforts and discourses displayed by professional accounting firms. The paper draws on information disseminated on UK and US websites of the Big Four professional accounting firms to explore the way in which information about diversity is being presented and disseminated. The paper considers the tensions that may exist between logics that frame public disclosures about diversity compared with backstage constructions of the relationship between the firm and the individual. Our findings indicate that the Big four firms are increasingly taking pro-active steps and disclosing information in the public domain. The discourses and practices in the name of diversity appear to be a strong step away from the logics of homogeneity that were apparent in earlier studies. The analysis highlights how logics of fairness and flexible patterns of working are associated with interpretations of diversity. Similarly, logics surrounding the diversity efforts appear to integrate inclusivity and the business case for diversity, with an aim of recruiting and retaining the most talented individuals, who are increasingly from diverse backgrounds. Discourses about inclusivity are increasingly dominant, and imply shifts towards valuing heterogeneity.*

**AUPS08**Chair : *Thiphaine Compernelle*Room : **A301****Micro Games Of Power In Auditing: Getting Comfortable With The Auditee**

Author : BERTRAND MALSCH, HEC MONTREAL

IC = Interdisciplinary / Critical

Co-authors : Henri Guénin-Paracini, Université Laval  
Marie-Soleil Tremblay, ENAP

*Based on the works of Crozier and Friedberg (1980), this paper examines the micro-strategies used by auditors and auditees to exert power over each other in the field. To conduct the study, seven audit teams of a Big Four firm were observed during several months. This produced the following findings. (1) By controlling the space, the time and the working atmosphere in which an audit is performed, members of audited organizations are able to interfere with the audit process and can therefore exact a price for their support to audit teams. (2) In response, public accountants resort to a number of interpersonal tactics to secure their possibilities for action, including not disturbing their "clients", developing good relationships with them, and offering value-added services. (3) Ultimately, an audit is shown to be a complex balancing act, in the course of which auditors strive to appeal to auditees to get comfortable with them, while taking care not to lose their independence along the way. To conclude, significant implications for research, regulation and audit methodology are discussed.*

**AUPS08**Chair : *Thiphaine Compernelle*Room : **A301****The Normalization Of Organizational Deviance And The Conceptualization Of The "dangerous" Individual: A Genealogy Of The Fraud Triangle**

Author : JEREMY MORALES, ESCP - EUROPE

IC = Interdisciplinary / Critical

Co-authors : Yves Gendron, Université Laval à Québec  
Henri Guénin-Paracini, Université Laval à Québec

*This article examines how a discourse of organizational fraud has been constructed around a particular technology: the fraud triangle. We examine the genealogy of the fraud triangle and follow various chains of translations underlying its construction. One of our main arguments is that the translational trajectories surrounding the triangle sustain a climate of generalized surveillance and suspicion that promotes a field of practical intervention (on individual deviance and morality), as legitimized through the production of hybrid knowledge on the overlap between fraud, control and individual ethics. Conceptualizations of organizational deviance, as epitomized in the fraud triangle, relate to a normalizing discourse targeting individual personality. As such, this discourse redefines social, political and economic relations around mechanisms of surveillance and risk assessment predicated on a view of the subject constituted as a potentially dangerous individual.*

**AUPS09**

Chair : Joshua Onome Imoniana

Room : **A301****A Comparative Historical Analysis Of The Development Of The Auditing Profession In The United Kingdom, France And Germany**

Author : CHARLES RICHARD BAKER, ESC - ROUEN BUSINESS SCHOOL

HI = History

Co-authors : ,

The purpose of this paper is to present a comparative historical analysis of the development of the auditing profession in the United Kingdom, France and Germany. While legal requirements for external audits of company financial statements provided the basis for the development of an auditing profession in Europe as early as the mid-19th century, differences in the role and status of professions in have led to differences in the development of the auditing profession in the three countries investigated. It is only in recent years that there have been significant efforts to harmonize the regulatory structures for the auditing profession on a more international basis. The findings of this paper support the arguments of the Institute of Chartered Accountants in England and Wales (2010) to the effect that there may be limits to international regulation of the auditing profession due to historical and cultural differences among countries.

**AUPS09**

Chair : Joshua Onome Imoniana

Room : **A301****Understanding Enforcement From The Gap Between Accounting Standards And Their Use**

Author : ANNA-STINA GILLQVIST, STOCKHOLM SCHOOL OF ECONOMICS

IC = Interdisciplinary / Critical

Co-authors : ,

Enforcement has, in both research and practice, been suggested as an important tool for creating accounting of high quality and for achieving comparability amongst financial reports. Drawing on Wittgenstein's *Philosophical Investigations* (1953), and its discussion of the relationship between a rule and its implications, this paper argues that ambiguities of accounting standards must be taken into account in our understanding of enforcement. Rather than perceiving enforcement as an objective and mechanic tool for detecting and sanctioning accounting errors, it is argued that enforcement must be understood as a co-constituter of "compliance". Empirically, the paper shows how the gap between accounting standards and their use render judgments a necessary step for settling the issue of "compliance" in specific enforcement decisions.

**AUPS09**

Chair : Joshua Onome Imoniana

Room : **A301****Internal Audit's Role In Ghg Emissions And Energy Reporting: Evidence From Audit Committees, Senior Accountants And Internal Auditors**

Author : KEN TROTMAN, THE UNIVERSITY OF NEW SOUTH WALES

CF = Case / Field Study

Co-authors : Andrew Trotman, Bond University

Internationally, disclosures related to greenhouse gas (GHG) emissions and energy usage have increased dramatically due to trends toward increased sustainability reporting, increased concerns about climate change and the introduction of new legislation and taxes. Audit committees, management, internal auditors, external auditors and external consultants all have a potential role. We conducted interviews with very senior audit committee members, senior accountants, in-house internal auditors and internal audit partners from the major accounting firms. These interviews allowed us to gain insights into the present role of internal auditors in GHG/energy reporting, the factors explaining internal audit's role and the future role of internal audit. In addition, audit committee members and senior accountants describe their present involvement in GHG/energy reporting. We then adopt the Nelson and Tan (2005) framework for judgment and decision making (JDM) audit research and outline future JDM research in GHG/energy assurance.

AUPS15

Chair : Jenny Stuart

Room : A411

**Causal Judgment Strategies And Fraud Detection: Auditors Vs. Forensic Specialists**

Author : IRIS STUART, NORWEGIAN SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION EX = Experimental

Co-authors : Dominyka Sakalauskaite, Aarhus University

The study examines whether auditors and forensic specialists rely more heavily on one causal judgment strategy than on another and if differences in judgment strategies lead to differing conclusions regarding possible fraud in the financial statements. Compared to auditors, we find that forensic specialists acquire information that is more consistent with their initial expectations and also assess the likelihood of material misstatement and the likelihood of misstatement due to fraud significantly higher. Auditors and forensic specialists acquire information and assess the likelihood of material misstatement due to fraud differently in a client engagement where fraud risk is high than where fraud risk is low. In high fraud risk situations forensic specialists rely more heavily on directed judgment strategy and are more accurate in assessing the likelihood that financial statements are materially misstated due to fraud. In low fraud risk situations auditors rely more heavily on sequential judgment strategy and are more accurate in assessing the likelihood that financial statements are materially misstated due to fraud. The results from this study indicate that information search patterns are important when assessing the likelihood of material misstatement due to fraud, yet neither auditors nor forensic specialists use either search pattern more effectively than do their counterparts in both high and low fraud risk situations.

WEDNESDAY

11:00-12:30

AUPS15

Chair : Jenny Stuart

Room : A411

**Review Engagements – Experimental Evidence Concerning The Practitioner’s Reporting On The Level Of Assurance Obtained**

Author : JOCHEN THEIS, DUISBURG &amp; ESSEN UNIVERSITY, DUISBURG CAMPUS

EX = Experimental

Co-authors : ,

Located in the context of exposure draft ISRE 2400 “Engagements to Review Historical Financial Statements”, our study contributes to a better understanding of the key elements of the practitioner’s reporting on assurance engagements that ensure the adequate communication of the assurance obtained by the practitioner to the addressees of the practitioner’s reporting. We derive the intended insights from the execution of an experiment with accounting professionals from Great Britain and oppose alternative phrasings of the review conclusion to the audit opinion and furthermore compare conditions where only the respective conclusion itself was provided, to conditions where the practitioner’s report as a whole was accessible for participants. Finally, we compare the results for the accounting professionals with the respective results for students of a German business school. Among other findings, we understand that professional experience and pertinent knowledge allows the accounting professionals to adequately perceive the level of assurance obtained in the audit vs. the review engagement based on the reading of the respective conclusion only. Contrary, for rather inexperienced addressees (as students), the respective report as a whole is the element which constitutes the adequacy of the communication process.

WEDNESDAY

11:00-12:30

AUPS15

Chair : Jenny Stuart

Room : A411

**Electronic Fraud Brainstorming In Hierarchical Audit Teams: Does Interaction Help Or Hurt?**

Author : HAILAN (FLORA) ZHOU, UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN

EX = Experimental

Co-authors : Clara Xiaoling Chen, University of Illinois at Urbana-Champaign  
Ken T. Trotman, University of New South Wales

In this study, we examine when and why interacting groups do or do not outperform nominal groups in electronic brainstorming using 111 managers and seniors from Two Big 4 accounting firms in Australia. We compare the following fraud brainstorming outcomes between nominal and interacting groups for hierarchical audit teams: 1) quantity of fraud risk factors and fraud hypotheses generated by the audit team; 2) quality of fraud hypotheses generated by the audit team; and 3) auditors’ fraud risk assessment. We find that nominal groups generate a significantly larger number of unique risk factors and fraud hypotheses than interacting groups. Nominal groups also generate higher quality of fraud hypotheses. We provide evidence that free-riding and social influence drive the differences between nominal and interacting groups in the fraud hypothesis generation task. In addition, auditors in interacting groups experienced significant increase in fraud risk assessment following the brainstorming sessions while the nominal groups did not. Our study extends recent literature on auditors’ fraud brainstorming and has important practical implications for audit ????

## AUPS16

Chair : Pik Lieuw

Room : A411

**Audit Market Regulation And Supplier Concentration Around The World: Empirical Evidence**

Author : BENJAMIN HESS, KONSTANZ UNIVERSITY

EA = Empirical Archival

Co-authors : Ulrike Stefani, University of Konstanz, Chair of Accounting

In the ongoing debate on audit regulation, the key issues of auditor independence and a high level of audit market concentration have become apparent. However, there is the concern that regulations intended to improve independence (i.e., restrictions on the joint supply of audit and non-audit services, audit firm rotation, joint audits, etc.) might further increase audit market concentration. We address this issue with an empirical analysis. Based on a cross-country study for the years 2001 – 2010, we investigate whether a country's audit regulation is connected to the combined market share of the four largest audit firms (Concentration Ratio), the inequality in the market share distribution (Hirschmann-Herfindahl-Index), and the number of audit firms per client (Auditor-Client Ratio). Our final sample consists of 141'190 firm-year observations of listed companies with a total of 2'439 audit firms, taken from 29 countries. The results of our country-fixed-effects models indicate that regulators should take the connections between potentially conflicting goals into account: Whereas the existence of a proportionate liability system and the prohibition of the joint supply of audit and non-audit services significantly decrease audit market concentration, joint audits and the mandatory audit firm rotation significantly increase audit market concentration. Thus, our study highlights the need to take into account clients' and audit firms' adaptive strategies to new regulations.

## WEDNESDAY

14:00-15:30

## AUPS16

Chair : Pik Lieuw

Room : A411

**Determinants Of The Capital Market Response To The Regulation Of Communication With Audit Committee Concerning Independence: A Case Of Isb No. 1**

Author : ERIC LEE, MONASH UNIVERSITY

EA = Empirical Archival

Co-authors : Farshid Navissi, Monash University  
Vic Naiker, Monash University

The purpose of this paper is twofold. First, it tests the effect of news announcements related to ISB No. 1 on equity value in order to empirically examine the objective of this standard, namely whether discussions on audit independence between audit committees and auditors enhance audit independence and consequently increase shareholder wealth. Next, a cross-sectional analysis is conducted to examine whether the variation in stock price reaction depends on the risk characteristics of firms (proxied by the lagged implied cost of equity). The empirical evidence shows that investors reacted positively to two of the three ISB No. 1-related news announcements. The results also show that firms with higher lagged implied costs of equity experienced higher cumulative abnormal returns around the passage of the standard. Collectively, these results show that investors value the communication of audit committee with auditors concerning the auditor independence.

## WEDNESDAY

9:00-10:30

## AUPS23

Chair : Natalia Kochetova-Kozloski

Room : A413

**Engaging Audit Partner Experience And Audit Quality**

Author : YANYAN WANG, XIAMEN UNIVERSITY

EA = Empirical Archival

Co-authors : Lisheng Yu, Xiamen University  
Zhenyu Zhang, University of Houston  
Yuping Zhao, University of Houston

We explore the Chinese market data to examine the relation between engaging audit partner experience and tenure, and actual as well as perceived audit quality. We report several key findings. First, audit partner experience is negatively associated with absolute and income-increasing abnormal accruals. Second, the earnings response coefficient is higher for firms audited by more experienced auditors. These results are robust even after controlling for audit firm characteristics. Our findings are consistent with the notion that audit partner experience increases both actual and perceived audit quality. Third, we fail to find consistent evidence on whether partner tenure improves actual or perceived audit quality. We also performed sensitivity tests using the propensity of engaging partners to issue going-concern opinions to financially distressed clients and abnormal trading volume and find consistent results.

## AUPS23

Chair : Natalia Kochetova-Kozloski

Room : A413

**Do Customers Respond To The Disclosure Of Internal Control Weakness?**

Author : XUEZHOU ZHAO, THE HONG KONG POLYTECHNIC UNIVERSITY

EA = Empirical Archival

Co-authors : Lixin (nancy) Su, School of Accounting and Finance, The Hong Kong Polytechnic University  
Gaoguang Zhou, School of Accounting and Finance, The Hong Kong Polytechnic University

In this study, we investigate the effects of firms' internal control weakness (ICW) disclosures on their customers. We hypothesize that ICW disclosure adversely affects customers' perceptions of firms' ability and incentive to honor implicit commitments to customers, and as such, customers are less willing to buy from such firms. We thus expect a decline in firms' sales growth after ICW disclosure. We find a significant decline in industry-adjusted sales growth subsequent to Sarbanes-Oxley (SOX) section 404 ICW disclosure after controlling for firms' past sales growth and other factors affecting sales performance and internal control. This result is robust to the consideration of selection bias in ICW disclosure. We also find that the decline is more pronounced for firms with company-level ICW disclosure, with industrial customers, in the durable goods industries, with high research and development (R&D) intensity, or without subsequent remediation of ICW. Taken together, these results are consistent with the argument that ICW concerns customers more when the implicit contracts between the firms and their customers are more intensive.

## WEDNESDAY

## 9:00-10:30

## AUPS23

Chair : Natalia Kochetova-Kozloski

Room : A413

**Leveraging Error To Improve Audit Quality: Towards A Socio-Cognitive Model**

Author : CHRISTOPH SECKLER, LEUPHANA UNIVERSITY OF LÜNEBURG

CF = Case / Field Study

Co-authors : Markus Reihlen, Leuphana University of Lueneburg

Audit quality has been subject to extensive research. Most of the research addressed questions of audit quality either from a macro level (e.g., legal environment, professional self-regulation) or a meso level (e.g., accounting firm size, non-audit services, industry specialization). However, few scholars have explored the production of audit quality from a micro level. Drawing on insights from the error management literature and an embedded case study design, we explore error management in accounting firms. Based on 18 months of participant observations, 41 interviews, and archival materials in a Big 4 accounting firm we suggest a socio-cognitive model that explains error management in accounting firms as a self-reinforcing system, in which structures and systems, organizational practices, and individual skills interact and jointly constitute and reconstitute each other in the production of audit quality. In particular, our study shows how organizational error prevention practices create resilient individuals which are the key for resilient error management practices in audit teams. Furthermore, resilient error management practices are reflected in the organizational structures and systems supporting error management in accounting firms. We conclude that studying audit quality requires a socio-cognitive approach to gain a better understanding of audit quality on the micro level.

## MONDAY

## 16:00-17:30

## AURF01

Chair : Josep Garcia Blandon

Room : A401

**Evidence Of Determinants Of Audit Pricing From Malta**

Author : PETER J. BALDACCHINO, UNIVERSITY OF MALTA

EA = Empirical Archival

Co-authors : Miriam Cassar Attard, University of Malta  
Frank Cassar, Ernst & Young

**Abstract Purpose** The main objective of this study is to investigate factors influencing the external audit fees in a microstate environment, using Malta as a point of reference. This includes ascertaining whether client size, complexity and risk, also known as the "traditional" determinants, are applicable, as well as testing the issue of premium pricing amongst the Big 4 (if any). Of particular interest is the determination of specific factors relevant to such a market. **Design/Methodology/Approach** A GLM regression model is used to examine the effect of the independent factors on the amount of audit fees for a sample of audit engagements performed in the Maltese audit market. The model is further complemented by a series of semi-structured interviews with audit partners from various audit firms of different sizes. **Findings/Results** indicate that the amount of external fees is significantly influenced by audit client size, complexity, risk, ownership control and corporate status. Additionally a fee premium has been found to accrue to the Big 4 audit firms. This research also provides evidence that there exist two significant market-specific factors, namely whether the company is government-owned and/or owned by foreign shareholders. **Originality/ Value** This study adds to the existing literature in that it is the first known to empirically investigate factors influencing the pricing of audit services in a microstate.

**AURFO1**

Chair : Josep Garcia Blandon

Room : **A401****Social Capital And Accounting Quality: A New Perspective For Audit Quality In Private Firms**

Author : PIETRO ANDREA BIANCHI, IE BUSINESS SCHOOL

EA = Empirical Archival

Co-authors : Marco Trombetta, IE Business School - IE University

In this paper we address the question whether social capital of auditors is positively associated with the quality of the audit. Auditors interact among each other to improve their expertise to detect and deter material misstatements in financial statements. We define what Francis and Yu (2009) call "networking/consultation opportunities" as social capital. We use three common measures of earnings management to proxy audit quality: absolute abnormal working capital accruals, absolute discretionary revenues, and earnings smoothing. We proxy social capital with the construct of structural holes [Burt [1992]]. We undertake a panel analysis of private firms over a five years period from 2006 to 2010. After controlling for endogeneity, our results show that firms with higher social capital auditors present lower absolute abnormal working capital accruals, lower absolute discretionary revenues and lower earnings smoothing.

MONDAY

16:00-17:30

**AURFO1**

Chair : Josep Garcia Blandon

Room : **A401****The Added Value Of Auditing In Belgium: Does Audit Remain If No Longer Mandatory?**

Author : DIANE BREESCH, FREE UNIVERSITY OF BRUSSELS

EA = Empirical Archival

Co-authors : Kris Hardies, University of Antwerp  
Jan De Muylder, Free University of Brussels

ABSTRACT In Belgium, all "large" companies are legally required to appoint a statutory auditor. The thresholds of the criteria to be considered "large" are, however, not that large. Consequently, many relative small companies in Belgium are legally required to appoint a statutory auditor. The evidence on the added value of auditing in small companies remains to date, however, rather scant and is often contradictory. In this study, we, therefore, tried to assess if companies in Belgium would still appoint an auditor if they would no longer be required to do so. Additionally, we also examined which factors would contribute to the voluntary appointment of auditors by companies in Belgium. Our results (based upon an email questionnaire, n = 288) show that the majority (nearly 65 %) of companies in Belgium would still appoint an auditor if they would no longer be required to do so. The most important reasons why companies would keep on hiring an auditor (i.e., the added value of the audit) are the fact that audits improve the credibility of financial statements, the fact that audits improve the internal control systems of companies, and because audits impose financial discipline on a company. Furthermore, our study indicates that larger companies, companies with more shareholders, and listed companies are more inclined to voluntarily appoint an auditor.

MONDAY

16:00-17:30

**AURFO1**

Chair : Josep Garcia Blandon

Room : **A401****Internal Auditing And Public Corporate Governance**

Author : ANNA BISCHOF, DUISBURG &amp; ESSEN UNIVERSITY, DUISBURG CAMPUS

EA = Empirical Archival

Co-authors : Anna Bischof, University of Duisburg-Essen  
Marc Eulerich, University of Duisburg-Essen  
Jochen Theis, University of Duisburg Essen

The purpose of this paper is to investigate the key factors associated with the role of the internal audit function (IAF) within the Public Corporate Governance in direct comparison to the private sector. Using data from the international conducted CBOK (2010) survey, the empirical examination contains the responses from CAEs of collectively 691 public respectively non-profit organizations and 1.759 privately held or publicly-traded (listed) companies. We find that the existence of a risk-based plan, a quality assurance and improvement program, an internal control framework as well as the experience of the CAE are positively associated with the role of internal auditing. The findings concerning the private sector are in accordance to the results in 2006, assuming that the CAE Certification is negatively related to the role of the IAF having in the corporate governance. Our sample is limited to the CAEs who are also IIA members and, thus the perceptions may deviate from actual practice. The identification of descriptive as well as explorative differences between the private and public sector may have practical implications for CAEs in public and non-profit organizations. Therefore, it provides new approaches in order to increase the role for their IAFs in corporate respectively public corporate governance.

**AURFO1**

Chair : Josep Garcia Blandon

Room : **A401****Blockholders' Ownership And Audit Fees: Evidence From Europe**

Author : CHIRAZ BEN ALI, IPAG BUSINESS SCHOOL PARIS

EA = Empirical Archival

Co-authors : Cedric Lesage, HEC Paris  
Raul Barroso, HEC Paris

This study analyzes the impact of blockholders' ownership on audit fees in 'shareholder' vs. 'stakeholder' corporate governance models. 'Shareholder' (resp. 'stakeholder') countries rely on public (resp. private) information to reduce information asymmetry for the shareholders (Ball et al., 2000) in a context of high (resp. low) litigation risk. As auditing is considered a mechanism to reduce information asymmetry and ownership structure affects firm's agency costs (Jensen and Meckling, 1976), we expect a non-monotonic relationship between audit fees and blockholder's ownership as a function of the type of corporate governance models. Based on multivariate regression analyses from 2405 firm-year observations over the period 2006-2008 in 13 European countries, our results show (1) a curvilinear (convex) relationship between audit fees and controlling shareholding for 'shareholder' countries; (2) a curvilinear (concave) relationship between audit fees and controlling shareholding for 'stakeholder' countries; and that (3) when the sample is split by size, we observe that the relation holds for smaller firms in 'stakeholder' countries and for larger firms in 'shareholder' ones. By distinguishing between 'shareholder' and 'stakeholder' countries, we shed light on previous ambiguous results (Hay et al., 2006).

## MONDAY

17:45-19:15

**AURFO9**

Chair : Michael Favere-Marchesi

Room : **A401****Auditors' Early Competence Development: A Finnish Study From The Knowledge Structure Perspective**

Author : YENG WAI LAU, UNIVERSITY OF TURKU

EX = Experimental

Co-authors : Antti Fredriksson, University of Turku

How auditors' knowledge is structured determines auditors' competence in exercising judgment. Experts' knowledge is of a deep structure where the fundamental principles applicable across situational contexts can be readily retrieved from memory and applied. Having to elicit and assess knowledge structure is challenging resulting in mixed findings on the dimensions used in structuring audit experts' knowledge. Using a problem solving task and a cue sorting task to elicit and assess knowledge structure on an individual basis, this study explores how Finnish auditors' knowledge is structured at the beginning of their career. Unlike the US accounting curriculum and GAAP, the Finnish accounting curriculum and legislation are acclaimed to be rooted in deep meaning. Results of this study suggest that these novice auditors' knowledge is more of a deep structure. Such findings run counter to the conventional understanding that novices' knowledge is more of a surface structure, which does little to enable novices to perform with competence. This study proceeds to demonstrate how these auditors perform the problem solving task with competence and the circumstances that help as well as hinder their competence development.

## MONDAY

17:45-19:15

**AURFO9**

Chair : Michael Favere-Marchesi

Room : **A401****The Effect Of Mandatory Audit Firm Rotation And Client Rejection On Auditor Independence: An Experimental Investigation**

Author : TATSUHIKO KATO, MEIJI UNIVERSITY

EX = Experimental

Co-authors : ,

The aim of our paper is to examine the effect of mandatory audit firm rotation and client rejection on auditor independence. An experimental investigation is conducted. Our research suggests that adopting a mandatory rotation requirement should enhance the investigative independence of auditors. It also demonstrates that client rejection should indeed occur, when managers are investment-averse and auditors are frequently facing with a legal penalty. Even in such a condition auditors don't make an effort frequently enough in order to improve the probability of discovering the real quality of management. Our concern is that audit firms who cannot reject an offer and cannot but accept any client are running the risk of impairing their independence. In other words, medium and small audit firms with less market power may compromise their independence not to lose their clients. Fortunately, we obtain negative results about this issue.

**AURF09**

Chair : Michael Favere-Marchesi

Room : A401

**Auditors' Judgment And Decision Making On Accounting Estimates: The Effects Of Estimation Uncertainty, Fraud Risk, Experience, And Skepticism**

Author : HIDETOSHI NAKAMURA, CHUO UNIVERSITY

EX = Experimental

Co-authors : Hironori Fukukawa, Hitotsubashi University

The purpose of this study is to examine the effects of estimation uncertainty, fraud risk, auditors' experience, and auditors' professional skepticism on auditors' judgments and decisions in the context of the audit of an impairment of a fixed asset. These factors are identified as variables that are important especially in the audit of accounting estimates in auditing standards and literature. Based on an experiment in which practicing auditors from one of large audit firms in Japan participated, we find that when estimation uncertainty is recognized as high, the risk of material misstatement regarding an impairment loss is assessed higher. Other factors do not affect the risk assessments. Among these factors, auditors' experience of the audit of asset impairment has a positive impact on auditors' decisions (i.e., additional audit procedures and audit hours necessary to complete the audit). These results imply that audit guidelines are necessary for inexperienced auditors in the audit of accounting estimates.

**AURF09**

Chair : Michael Favere-Marchesi

Room : A401

**"an Experimental Study Of Effects Of Accounting Choices And The Auditor's Report On Users' Judgments And Decisions"**

Author : MASAFUMI NAKANO, MEIJI UNIVERSITY

EX = Experimental

Co-authors : ,

This study investigates users' responses to a firm's discretionary accounting choices and the auditor's report when these choices match users' expectations or not. Clor-Proell (2009) examines how judgments and decisions of financial statement users are affected by the extent to which a firm's actual accounting choices match users' expectations. Although this study examines users' judgment and decisions from the aspect of financial statements, it does not consider the role of the auditor's report. Nonprofessional users may use information from the auditor's report in addition to the financial statements. I have tested the hypotheses of prior studies in the Japanese experimental settings, but did not get similar results; hence, I have conducted this experiment to test new hypotheses. The results indicate that the actual accounting choice, the auditor's report, and the extent to which it matches expectations affects assessments of credibility of financial statements, managers, and future profitability. Further, users' assessment of the credibility of financial statements is lower when there is a mismatch with the qualified opinion between actual and expected accounting choice than when there is a mismatch with the emphasis of matter paragraph between actual and expected accounting choice. This study provides evidence to researchers, academics, regulators, standards-setters, and managers.

**AURF11**

Chair : Sarowar Hossain

Room : A403

**The Incremental Information Content Of Audit Opinion**

Author : PANAYIOTIS TAHINAKIS, MACEDONIA UNIVERSITY

MB = Market Based

Co-authors : Michail Samarinas, UNIVERSITY OF MACEDONIA

During the recent decades a series of audit failures led to wide skepticism towards the audit credibility and consequently towards the worth of the information that financial statements disclose. It is true, at least theoretically, that the auditor's report provides important information for investors and validates financial statements. However, prior research has only revealed an antithesis created by the contradiction of the findings. This paper attempts to address the issue of auditor's report informative value by utilizing a methodological approach that emphasizes on the relation of stock returns with earnings and by incorporating auditor's opinion as an explanatory variable to the initial relation. More specifically, we modify a well known market valuation model and attempt to examine the lack or presence of the auditor's report effect on the investors' mentality. Our findings seem to support the argument that Auditor's report bears significance for the market and its informative power affects stock returns.

**AURF1 1**

Chair : Sarowar Hossain

Room : **A403****An Investigation Into The Determinants Of Auditor Switches By Uk Firms In A Large Panel Setting**

Author : AMY MAY, UNIVERSITY OF LEEDS

AM = Analytical / Modelling

Co-authors : Iain Clacher, University of Leeds  
Nicholas Wilson, University of Leeds

*This study investigates the determinants of auditor switching in a large UK panel setting. Our aim is to provide additional insights based on a different regulatory regime to the majority of extant auditor switching literature. Using a panel dataset of 17,972 private and public UK firms we analyse whether determinants of switching in US-based extant literature are generalizable a UK context. The determinants of a switch are classified along two dimensions of client risk: 'audit risk' and 'financial risk.' Firms undergoing a switch are found to have increased levels of both audit risk and financial risk in comparison to non-switching firms. In addition, firms switching downward to a non-Big N auditor are shown to possess increased levels of both audit and financial risk in comparison to firms switching upward; however, financial risk appears to be more influential with regards to the direction of a switch. Findings also support the proposition that the determinants of auditor switching differ for private and public firms. We conclude that the main findings from US-based auditor switching literature can be generalised to a UK context.*

**MONDAY****16:00-17:30****AURF1 1**

Chair : Sarowar Hossain

Room : **A403****Gender-Based Auditors' Judgments In Indonesia**

Author : SANY DWITA, MACQUARIE UNIVERSITY

SU = Survey

Co-authors : Chris Patel, Macquarie University  
Rahat Munir, Macquarie University

*One objective of this paper is to reject the simplistic assumption of homogeneity in accounting judgments within and between Islamic countries by focusing on significant within-countries differences in judgments between two important ethnic groups in Indonesia, namely Javanese and Minangkabau. Another objective is to provide evidence that the influence of organisational culture on professional auditor's judgments is more powerful compared to that of national culture by including judgments of accounting students in one hypothesis of this study. Especially, this paper examines the influence of client-gender and auditor-gender on accounting students' and professional auditors' judgments of Javanese and Minangkabau, in relation to unverified clients' explanations regarding overstated inventory balance. Data was collected using a survey questionnaire distributed to auditors and students in Jakarta and Padang. The questionnaire comprised an inventory obsolescence scenario in which the participants were asked to assume the role of an audit manager and to evaluate whether client-provided explanations would resolve a potential inventory overvaluation problem. Findings of this study provide evidence that ethnicity has significant influence on accounting students' judgments. The findings also provide evidence the influence of organisational culture of accounting firms had reduced differences in gender-based judgments among Javanese and Minangkabau professional auditors.*

**MONDAY****16:00-17:30****AURF1 1**

Chair : Sarowar Hossain

Room : **A403****Joint Audit and Audit Quality: A Matter of Size and/or Seniority?**

Author : HAMIDA CHIH, PARIS DAUPHINE UNIVERSITY

AM = Analytical / Modelling

Co-authors : Nadia Mhirs, PARIS DAUPHINE

*The paper examines the impact of both audit partner tenure and audit size on audit quality. Our sample consists of 891 French listed companies from SBF 250. The French context offers a unique setting to observe the tenure of both joint auditors. Our results show that the best audit quality is performed by a Big 4 audit firm paired with non-Big 4. Earning management is better controlled in case of partners' staggered tenures. Indeed, audit quality is slightly when the lag tenure is inferior to four years.*

**AURF02**

Chair : Jere Francis

Room : **A401****Big4 Reputation And Market Premium: Evidence From Korea Market**

Author : KWON IL CHOI, SUNGKYUNKWAN UNIVERSITY

EA = Empirical Archival

Co-authors : Yeonhee Park, Kongju National University  
 Inman Song, SungKyunKwan University  
 Sungjin Park, SungKyunKwan University  
 Kwonil Choi, SungKyunKwan University

Researches on the relationship between auditor size and audit quality have been carried out for a long time. But the consistent results have not been provided. Further the researches, whether companies audited by Big4 are highly valued in the market or not, have been barely performed. In this study, we will first verify whether audit quality of Big4 is high or not and then examine whether market premium is formed by audit quality of Big4 in the main analysis. In addition, we verify whether Big4 premium is higher than their audit quality. The results show that Big4's audit quality was higher in the KOSPI market, but there is no difference in audit quality between Big4 and Non-Big4 in the KOSDAQ market. The larger companies and the greater cash flow from operating activities is the higher audit quality. On the other hand, the smaller debt ratio (and return on assets, the growth rate) is the higher audit quality. Regression analysis reveals that stock market, premium of companies audited by Big4 were higher. The market premium is influenced by Big4's reputation as well as their audit quality. Such difference is not found in the KOSDAQ market. However, in the analysis using the cost of capital, companies audited by Big4 pay lower interest expenses in both KOSPI and the KOSDAQ market. This means that there are incentives for companies to utilize Big4 auditors even in the KOSDAQ market.

TUESDAY

14:00-15:30

**AURF02**

Chair : Jere Francis

Room : **A401****Audit Partner Tenure And Auditor Independence: A Panel Data Investigation Of The Spanish Market**

Author : JOSEP GARCIA BLANDON, UNIVERSITY RAMON LLULL

EA = Empirical Archival

Co-authors : Josep Maria Argilés, Universitat de Barcelona

The necessity to strengthen auditor independence has motivated a great deal of research and led to numerous policy initiatives in many jurisdictions around the world. This article investigates whether lengthy audit partner tenures impair auditor independence with a sample of Spanish companies for the period: 2002-2009. The main motivation is the lack of research examining the relationship between tenure and auditor independence at a partner level. Available published research has limited to the analysis of the issuance of going-concern modified opinions to financially stressed firms. This approach presents two shortcomings: The lack of generalization, on the one hand, and the inability to address the main role of the audit firm, which is not bankruptcy prediction, on the other. Besides, the cross-section estimations performed by these articles are particularly vulnerable to exogeneity problems, and therefore reported results might be biased. To overcome these limitations, we have extended previous research by using a panel data approach. Three different types of analysis have been performed. Firstly, we have studied the whole sample of firms and audit qualifications and then we have performed two segmented studies by type of qualification. The same result has been obtained in each of the three analyses performed, showing that long partner tenures do not impair audit independence. Unlike previous research we have controlled for situations of superficial partner rotation.

TUESDAY

14:00-15:30

**AURF02**

Chair : Jere Francis

Room : **A401****Audit Fee Changes Over The Audit Engagement**

Author : PETER WELLS, UNIVERSITY OF TECHNOLOGY SYDNEY

EA = Empirical Archival

Co-authors : Fiona Ball, University of Technology Sydney  
 Jon Tyler, University of Technology Sydney

This paper evaluates audit fee changes as audit firm tenure extends to determine if there is a recovery of discounts on initial audit fees and provide evidence on whether concerns over the consequences of discounting are misplaced. We find that audit fees increase materially over the first three years of an audit firms tenure and there is recovery of discounts on initial audit engagements. After this initial period audit fee increases are more modest and are consistent with the price level changes generally. There is some evidence that audit fee increases are greater if there is a longer personal relation between the audit partner and the CEO.

**AURF02**

Chair : Jere Francis

Room : **A401****Audit Partners' Personal Knowledge And Audit Firms' Organizational Knowledge**

Author : HIRONORI FUKUKAWA, HITOTSUBASHI UNIVERSITY

EA = Empirical Archival

Co-authors : Masaru Karube, Hitotsubashi University

*This study develops a conceptual framework of auditors' knowledge, measures three primary constructs in the conceptual framework using archival data, and preliminarily test whether the three measures of engagement partners' personal knowledge as well as audit firms' organizational knowledge affect audit fees. In the conceptual framework, auditors' knowledge is considered to be comprised of auditors' personal knowledge and audit firms' organizational knowledge. As three primary constructs of the former knowledge, the depth of knowledge, the width of knowledge, and industry expertise are proposed. As a result of preliminary analysis, we find that an engagement partner with deeper knowledge can provide audit service more efficiently. Also, partners' wider knowledge leads to more efficient audits and their industry expertise is associated with higher fees, but only for Big 4 audits.*

## TUESDAY

14:00-15:30

**AURF02**

Chair : Jere Francis

Room : **A401****Effects Of Audit Quality On Earnings Management And Cost Of Equity Capital: Evidence From India**

Author : TONY VAN ZIJL, VICTORIA UNIVERSITY OF WELLINGTON

EA = Empirical Archival

Co-authors : Kamran Ahmed, La Trobe University Australia  
Muhammad Nurul Houqe, Victoria University of Wellington

*We examine the effects of audit quality on earnings management and cost of equity capital of Indian firms. This study provides new evidence on the affects of audit quality on earnings management and cost of equity capital of Indian firms. This study also provides new evidence that differing levels of audit quality incur audit fees of invariable amounts and that business groups experience reduced earnings management and lower cost of equity capital. Specifically, this study examines the audit quality of Top 4 auditors and whether different levels of audit assurance quality lead to changes in earnings management, cost of equity capital and audit fees. We hypothesize that higher audit quality will lead to greater reduction in earnings management and lower cost of equity capital for firms in India. With consideration for our second hypothesis, which speculates that audit quality will have a positive effect in reducing cost of equity capital, we find that this hypothesis also holds true. Our findings are significant and support the belief that as the quality of audit increases, the cost of equity capital decreases due to reduced information risk.*

## TUESDAY

11:00-12:30

**AURF03**

Chair : Li Brooks

Room : **A401****Relationship Between Internal And External Auditing And Its Effect On Financial Reporting Quality**

Author : ESTER GRAS, MURCIA UNIVERSITY

EA = Empirical Archival

Co-authors : Salvador Marin, University of Murcia  
Domingo Garcia, Technical University of Cartagena  
Marcos Anton, University of Murcia

*The internal audit function (IAF) has taken on a major role in the regulation of corporate governance. In this sense, it is fundamental in the financial information quality, as a supervisor of the reliability of financial reporting. This paper examines whether the relationship between the IAF and the external audit (EA) affects financial reporting quality. We have analyzed the internal audit departments of Spanish banks, using a sample of 47 entities. Our results show that when the relationship between the IAF and external audit is greater, with more regular meetings and greater collaboration in preparing the annual audit, banks have higher quality of financial reporting.*

**AURF03**

Chair : Li Brooks

Room : A401

**Auditor Specialisation And Earnings Management: The Role Of Investment Opportunities**

Author : JANE MAREE HAMILTON, LA TROBE UNIVERSITY

EA = Empirical Archival

Co-authors : Jayne Godfrey, Australian National University

We examine whether the firm's Investment Opportunity Set (IOS) moderates the association between an industry specialist auditor and discretionary accruals, as a proxy for earnings management, using a national and office level framework for industry specialisation. Prior research suggests that there is a negative association between national and local industry specialist auditors and the size of discretionary accruals. Using Australian data, we find results that support the hypothesis that the association between specialist auditors and higher earnings quality increases as firm IOS increases. The results are strongest at the local office level. These results provide evidence that deep industry knowledge at the office level is associated with higher audit quality when IOS is increasing, suggesting that local auditor industry expertise is relevant in auditing higher IOS firms where accounting and auditing issues are more complex.

**AURF03**

Chair : Li Brooks

Room : A401

**Is The Level Of An Individual Audit Partner Specialisation Important In Issuing A Going-Concern Opinion?**

Author : SAROWAR HOSSAIN, THE UNIVERSITY OF NEW SOUTH WALES

EA = Empirical Archival

Co-authors : ,

We investigate the associations between an individual audit partner's industry and city-levels expertise and audit quality. Audit quality is measured by the propensity of auditors to issue going-concern opinions for financially distressed companies, first-time going-concern opinions, and going-concern opinions. We provide evidence of significant and positive associations between an individual audit partner's city-level expertise and the propensity of auditors to issue going-concern opinions for financially distressed companies, first-time going-concern opinions, and going-concern opinions. Those associations are not significant at audit partner's industry level expertise. We find consistent and similar association for city-level expertise of audit partner of non-Big 4 audit firms, but the associations are not significant for either industry or city-levels expertise of partner of Big 4 audit firms. The findings provide evidence that (i) an individual audit partner expertise at city-level is more important than industry level of expertise in improving audit quality, and (ii) city-level expertise is also more important to the partner of non-Big4 audit firms than Big4 audit firms. The results are robust in various sensitivity analyses.

**AURF03**

Chair : Li Brooks

Room : A401

**Are Female Auditors More Likely to Be Independent? Evidence from Modified Audit Opinions**

Author : JUKKA KARJALAINEN, UNIVERSITY OF EASTERN FINLAND

EA = Empirical Archival

Co-authors : Mervi Niskanen, University of Eastern Finland  
Jyrki Niskanen, University of Eastern Finland

The purpose of this paper is to examine the effect of auditor gender on the probability of issuing a modified audit opinion (MAO). We examine the setting of private Finnish firms in which the expected costs of litigation and the loss of reputation of the auditor associated with independence impairment are relatively low and opportunistic auditor reporting is therefore likely to occur. Based on psychological evidence that women are more risk averse and behave more ethically than men, we predict that female auditors are more likely to issue an independent audit opinion compared to male auditors. Supporting this contention, we find that male auditors are less likely to issue MAOs than female auditors and specifically when economic incentives for independence impairment are strong.

**AURF03**

Chair : Li Brooks

Room : A401

**Auditor Industry Specialization, Audit Experience, And Accounting Restatement**

Author : LI-JEN HE, ASIA UNIVERSITY TAIWAN

EA = Empirical Archival

Co-authors : Chen-Lung Chin, National Chengchi University / Department of Accounting  
Hsiangtsai Chiang, Feng Chia University / Department of Accounting

The impact of auditor industry specialization on audit quality has been extensively discussed in accounting and auditing studies and specialist auditors tend to produce higher-quality audits. While audit experience should be an important component for determining industry auditor specialization, most of prior empirical studies ignores the role of audit experience in forming expertise and. Therefore, the purpose of this study is to explore empirically the influence of experience on auditor specialization. This study expects that, compared to companies that are audited by less experienced specialists, companies that are audited by more experienced specialists will be less likely to experience financial restatements. The empirical results reveals that industry experience of auditors is significantly negatively associated company accounting restatements. Furthermore, for the influence of industry specialist experience, this study find that, support our hypothesis, the impact of industry specialization on audit quality will be more significant for more experienced industry specialist auditors while the influence of audit firm specialization is decreasing by auditor industry specialist experience. However, we do not find the evidence for the effects of specialist auditors with less specialist experience in a specific industry on audit quality increases with industry experience.

## TUESDAY

9:00-10:30

**AURF06**

Chair : CHIH-YING Chen

Room : A403

**Auditor Independence And Earnings Management In Post-Ifrs Greece: A Content Analysis Of Audit Qualifications And Empirical Investigation**

Author : MARIA TSIPOURIDOU, UNIVERSITY OF EXETER

EA = Empirical Archival

Co-authors : Charalambos Spathis, Aristotle University of Thessaloniki

Greece is subjected to the effects of three major financial events, the implementation of International Financial Reporting Standards (IFRS) to publicly listed firms beginning on January 1, 2005, the global financial crisis of 2007, and most importantly the ongoing Greek debt crisis. The new economic environment reopens fundamental questions on the level of independence and role of auditors in maintaining financial statement users' confidence in the audit report. We aim to investigate the relationship between auditor independence, measured by auditors' willingness to issue qualified opinions, and earnings management, measured by discretionary accruals, for firms listed on the Athens Stock Exchange (ASE). Overall, the results indicate that discretionary accruals are negatively related to the going-concern qualification decision in the first two years of IFRS adoption. The negative relationship is driven by IFRS compliance requirements. In examining the opinions that are qualified for reasons other than the going-concern uncertainty, we document that discretionary accruals are not related to the audit opinion decision. Taken together, the results indicate that earnings management does not drive the audit opinion decision, which can be attributed to the economic bonding of auditors with their clients, during the first years of IFRS adoption and the subsequent years of financial crises.

## TUESDAY

9:00-10:30

**AURF06**

Chair : CHIH-YING Chen

Room : A403

**Audit Partner Rotation And Audit Firm Switching: The Association With Audit Fees**

Author : JENNY STEWART, GRIFFITH UNIVERSITY

EA = Empirical Archival

Co-authors : Jenny Stewart, Griffith University  
Pamela Kent, Bond University  
James Routledge, Bond University

This paper examines the impact of audit partner rotation and audit firm switching on audit fees for a sample of more than 1000 Australian firms. The period of the study is from 2007 to 2010 and we examine the effects in the year of change and for the two subsequent years. Our analysis also includes testing the impact of the type of firm change (Big 4 to Big 4, Non-Big 4 to Big 4, Non-Big 4 to Non-Big 4 and Big 4 to Non-Big 4) on audit fees. Our results indicate that audit fees increase in the year of partner rotation. They remain at this level in the year following rotation but are only marginally higher in the second year after the rotation. Audit fees are lower in the year of audit firm change but the lower fee is not evident in subsequent years following the audit firm switch. Analysis of the type of firm change suggests that audit fees are significantly lower when companies switch from one Non-Big 4 auditor to another Non-Big 4 auditor.

**AURF06**

Chair : CHIH-YING Chen

Room : **A403****The Effects Of Earnings Management On Enforcement Releases And The Recognition In Audit Fees**

Author : MANUEL STROHMENGER, WUERZBURG UNIVERSITY

EA = Empirical Archival

Co-authors : Balthasar Höhn, University of Wuerzburg

In 2004 German legislation established the Financial Reporting Enforcement Panel that since then ordered the announcement of errors in prior disclosed and audited financial statements of German firms in 147 cases. We use this unique dataset to evaluate the consequences of increasing earnings management over time on enforcement releases and the recognition in audit fees. Ettredge et al. (2010) provide evidence on a phenomenon called 'balance sheet bloat' that is due to income increasing earnings management and is influencing the disclosure of misstated financial statements later on. This, the evidence of earnings management recognition in audit fees (Abbott et al. 2006) and the hypothesis of future information content in fees by Stanley (2011) leads us to the hypothesis that auditors recognize an increasing audit risk in audit fees before the enforcement process starts. We extend related earnings management and audit fee literature by modeling the development of earnings management within the misstatement firms and systematically link it to auditor reactions. We find significant prediction power of different commonly used accrual measures for enforcement releases in the period prior and up to the misstatement period. In this period of time, we also observe an audit fee increase, e.g. the recognition of increased audit risk. We investigate an audit fee effect after the misstatement period but find no significant relation.

TUESDAY

9:00-10:30

**AURF06**

Chair : CHIH-YING Chen

Room : **A403****The Quality Of Assurance Sustainability Reports: Empirical Evidence**

Author : LAURA SIERRA GARCIA, UNIVERSITY PABLO DE OLAVIDE, SEVILLE

EA = Empirical Archival

Co-authors : Ana Zorio- Grima, UNIVERSITY OF VALENCIA  
M<sup>o</sup> Antonia García- Benau, UNIVERSITY OF VALENCIA

There is a rising trend among companies to publish their Corporate Social Responsibility (CSR) reports. Assurance of these reports is a valuable voluntary tool to provide them with higher credibility. Nonetheless, quality of assurance reports differs in practice and the objective of this paper is to provide evidence in this new area of research. Indeed, we are pioneers to develop an index to measure the quality of assurance reports. We choose the Spanish setting because it is the worldwide leading country as regards CSR reporting (KPMG, 2011, Sierra et al., 2012). We have found evidence on the determinants for CSR reporting posited by existing literatures which have an impact on a) the decision of companies to publish their CSR reports, b) the decision to assure or not the CSR report, and c) the decision to hire the assurance services from an auditor/consultant and the subsequent quality of the assurance report. Last but not least, our results from a sample of 161 CSR assurance reports evidence that assurance reports are of rather acceptable quality, according to the index proposed. Furthermore, the value of the quality index is significantly higher if the assurance services are provided by an auditor (as opposed to a consultant) and if the CSR reporting company is larger.

TUESDAY

9:00-10:30

**AURF06**

Chair : CHIH-YING Chen

Room : **A403****Fees Paid To Audit Firms, And Board And Corporate Governance Characteristics –empirical Evidence From The French, German And Uk Markets**

Author : BAHRAM SOLTANI, UNIVERSITY OF PARIS 1 PANTHEON-SORBONNE

EA = Empirical Archival

Co-authors : Chedia Rekik, University of Paris 1-Sorbonne

This study examines the association between the fees paid to auditors for audit and non-audit services, and the characteristics of board and audit committee. We hypothesize that audit fees will be positively associated with number of board/audit committee members, and their independence, financial expertise and meeting frequency. The study is conducted for the period starting 2003, a time marked by momentous and historic events for auditors as well the major mandatory corporate governance reforms in many developed capital markets. The study examines 1551 annual/consolidated reports of 300 largest publicly listed companies in three European countries (France, Germany and the UK) for the period of six years (2003-2008). Although the consistency and the significance of the results are not similar for the three countries, the overall results provide evidence on the association between several characteristics of board and corporate governance and fees paid to auditors. The study provides also several mitigating results which do not support the theoretical hypotheses. This may be due to environmental factors specific to each country (size of professional accounting body and audit market, and characteristics of the regulations in the areas of auditing and corporate governance). This research study has several academic and practical contributions, particularly because of multidisciplinary, international features and cross-country analyses used in the paper.

**AURF07**

Chair : Tiphaine Campernolle

Room : **A401****Seeking And Sustaining Auditor Credibility In New Assurance Spaces**

Author : PAUL ANDON, THE UNIVERSITY OF NEW SOUTH WALES

CF = Case / Field Study

Co-authors : Clinton Free, University of New South Wales  
Prabhu Sivabalan, University of Technology Sydney

Focusing on the emergence and operation of the salary cap audit programs in the National Rugby League (NRL) in Australia and Canadian Football League (CFL) in Canada, this article explores the processes through which auditors compete for legitimacy in new audit spaces. According to Bourdieu, legitimacy is a scarce symbolic resource that is subject to struggle and (re)negotiation. Following the appointment and operation of two new audit roles, we document the way that the appointees sought to legitimise their positions and achieve stable networks of support by mobilising a range of social, cultural and symbolic resources to cohere with context-based expectations of key stakeholders. Further, we find the appointees employed a range of influence tactics to populate the field with new rules and standards, confer a new order within the field and impose themselves in their roles. Implications for the claims of the accounting profession to new audit spaces are discussed.

TUESDAY

9:00-10:30

**AURF07**

Chair : Tiphaine Campernolle

Room : **A401****Combined Assurance, A Challenge For Organisational Governance: Case Study Evidence**

Author : LOÏC DECAUX, CATHOLIC UNIVERSITY OF LOUVAIN

CF = Case / Field Study

Co-authors : Gerrit Sarens, Catholic University of Louvain-la-Neuve (Belgium)

The objective of this study is to explore a recommended organisational practice that has emerged in the updated South African Corporate Governance Code. The Code deals with the coordination of different assurance providers in an organisation within a combined assurance framework. This study enters the conversation in corporate governance literature accompanying the shift of focus from a shareholder-centric approach to a stakeholder-centric approach. More precisely, it contributes to the identification of a new accountability mechanism to protect the interests of a broader range of stakeholders by describing the combined assurance framework. From a practical point of view, this paper also investigates combined assurance in organisations as a potential road to 'good' organisational governance, given the limited number of organizations applying this framework. In 2011–2012, we carried out an in-depth study of six large multinational organisations in Europe, South Africa and Australia that were at different stages with respect to their combined assurance framework. Semi-structured interviews were conducted with key participants in the implementation of combined assurance. The aim of this paper is to identify: (1) How organisations understand combined assurance, and is this consistent with the literature?; (2) Why do organisations implement a combined assurance framework?; and (3) What are the benefits of implementing combined assurance? This paper suggests, as the literature

TUESDAY

9:00-10:30

**AURF07**

Chair : Tiphaine Campernolle

Room : **A401****Extended Audit Reporting. An Insight From The Auditing Profession In Poland**

Author : DOROTA DOBIJA, KOZMINSKI UNIVERSITY

CF = Case / Field Study

Co-authors : Iwona Cieślak, Kozminski University  
Katarzyna Iwuł, BDO

The auditreporting model has been on the agenda of researchers for a long time. The recent consultation papers, discussion and research reports on audit reporting have intensified the discussion whether the current standard audit report communicates the appropriate information to the users of the report. The new regulations proposed in the EU and in the US aim at decreasing not only the expectation, but also the information gap. The Polish auditing model is an interesting case to study in the context of audit reporting. Poland already has a long experience in the preparation of an additional audit report. The paper seeks to address two questions. The first one is to what extent the Polish extended audit report contribute to the reduction of the expectation and information gap and the second question is about possibilities of improvements of the audit report in general. Based on our interview findings we conclude that the auditors perceive the audit report to be generally useful for its users. However, the analysis of data provides mixed evidence with regard to the extended audit report. Auditors acknowledge the usefulness of the extended audit report to report on additional issues and concerns, but at the same time the standard form of the extended audit report is found to have little information value to its users.

**AURF07**

Chair : Tiphaine Campenolle

Room : **A401****What Is Good Performance? Performing Independent Performance Auditing**

Author : BINO CATASUS, STOCKHOLM UNIVERSITY

CF = Case / Field Study

Co-authors : Peter Öhman, Mid Sweden University  
Fredrik Svärdsten, Stockholm University

This paper reports from a study of how performance is stabilized by the Swedish National Audit Office (SNAO) in the audit reports. The paper builds on all (206) the reports published by the SNAO between its inauguration in 2003 and 2010 and analyzes the (28) reports that relate to an audit of substance (Pollitt, Girre et al. 1999). By investigating in which ways the SNAO make it possible to answer the question of what is good performance in the public sector, the paper suggests that the audit institution passes through three phases. In phase one the controversy that has to be handled is the definition of performance and, in phase two, this definition is put to the test by creating evidence. In the third phase the auditors mobilize benchmarks as a means to argue for good (or poor) performance. That is, differently from the arguments posed by the International Organization of Supreme Audit Institutions about good performance being something commonsensical, the audit report includes arguments about "good" emanating from other actors. The analysis of the paper builds on some analytical tools from Actor Network Theory. In specific, the idea of a linguistic actor is developed and used as a means to show how the concept of "independence" both helps the audit institution to become Mr. Somebody but also impedes the possibilities to produce an answer to the question of what good performance is.

TUESDAY

16:00-17:30

**AURF08**

Chair : Wendy Green

Room : **A401****Principles-Based Versus Rules-Based Accounting Standards:the Effect Of Proposed Auditor Judgment Guidance In Constraining Aggressive Reporting**

Author : MICHAEL BAMBER, GEORGIA UNIVERSITY

EX = Experimental

Co-authors : Ann Backof, University of Virginia  
Tina Carpenter, University of Georgia

We experimentally investigate auditors' judgments under accounting standards that differ in their precision and whether alternative judgment frameworks help auditors constrain aggressive financial reporting. One of our frameworks is based on the Securities and Exchange Commission's Advisory Committee on Improvements to Financial Reporting's recommendation to use counterfactual reasoning. Another framework based on Construal Level Theory encourages auditors to think broadly about the transaction. We find that auditors are more likely to allow aggressive reporting when accounting standards are less precise. However, employing a judgment framework reduces auditors' acceptance of such aggressive reporting. While the counterfactual framework is effective at constraining aggressive reporting when standards are less precise, auditors are least likely to allow aggressive reporting when they use the judgment framework based on Construal Level Theory, regardless of the precision of the standard. These results inform regulators, standard-setters, and auditors on how precision affects auditors' response to aggressive reporting and on the effectiveness of different judgment frameworks in constraining aggressive reporting.

TUESDAY

16:00-17:30

**AURF08**

Chair : Wendy Green

Room : **A401****May Expertise Mitigate Unintentional Bias In Auditing?**

Author : JOSE ANTONIO GONZALO, UNIVERSITY OF ALCALÁ

EX = Experimental

Co-authors : Andrés Guriral, Yonsei University (South Korea)  
Waymong Rodgers,  
Emiliano Ruiz Barbadillo, University of Cadiz

Because the auditing profession has been associated with much of the well-publicized corporate misconduct and consequent regulatory reform, it is important for both academics and practitioners to understand how biases influence auditing opinions, as well as how we might counteract those biases. According to moral seduction theory, auditors' judgments may be morally induced by conflicts of interest in an unconscious manner. We combined a cognitive model with moral seduction theory to demonstrate in a laboratory experiment that expertise may help to mitigate auditors' unconscious reporting bias. In particular, we examined the most controversial and complex task in auditing: the evaluation of the client's ability to continue in existence and the dilemma of the so called "self-fulfilling prophecy" effect.

AURF08

Chair : Wendy Green

Room : A401

**The Effect Of Auditors' Job Satisfaction On The Influence Of Ethical Conflict On Auditors' Inventory Judgments**

Author : RADZI JIDIN, THE UNIVERSITY OF NEW SOUTH WALES

EX = Experimental

Co-authors : Ji Yan Lum, School of Accounting, University of New South Wales, Sydney, Australia  
Gary S. Monroe, School of Accounting, University of New South Wales, Sydney, Australia

This study investigates the effects of job satisfaction and ethical conflict on auditors' inventory valuation judgments. It is predicted that participants who are more satisfied with their jobs will sign-off on a more conservative inventory amount compared to participants who are less satisfied with their jobs. It is also hypothesised that in the presence of an ethical conflict in the form of a job offer from the audit client, participants will sign-off on a less conservative inventory amount. Subsequently, it is expected that participants who are more satisfied with their jobs will sign-off on a more conservative inventory amount in the presence of an ethical conflict relative to participants who are less satisfied with their jobs. Using a sample of 53 auditors, a complex inventory valuation task is used to test the proposed hypotheses in a 1 x 2 between-subjects design. Auditors' job satisfaction is measured using the Minnesota Satisfaction Questionnaire designed by Weiss et al. (1967) and ethical conflict is manipulated at two levels (presence or absence of job offer from the audit client). Participants were required to sign-off on an inventory amount after reading the case materials. This study finds evidence that job satisfaction affects auditor participants' inventory valuation judgments, particularly the intrinsic dimension of job satisfaction. Consistent with prior studies, this study also finds that ethical conflict in the form of a job offer from the audit client, affects auditor participants' inventory judgments. It also demonstrates that only the intrinsic dimension of job satisfaction mitigates the effect of ethical conflict on auditors' judgments.

TUESDAY

16:00-17:30

AURF08

Chair : Wendy Green

Room : A401

**The Expectations Gap: Two Remedies Investigated**

Author : JAN DE MUYLDER, FREE UNIVERSITY OF BRUSSELS

EX = Experimental

Co-authors : Diane Breesch, Vrije Universiteit Brussel  
Kris Hardies, Universiteit Antwerpen

In this paper, we test the effectiveness of an expanded auditor's report vis-à-vis an audit course in narrowing the expectations gap. We compared two auditor's reports in a between-subjects design: the ISA 700 report and an expanded auditor's report. We also examined if explaining audits to users is (more) effective in reducing the expectations gap (compared to expanding the auditor's report). Belgian economics students participated in an experiment where the first group read a standard auditor's report and the second read a manipulated auditor's report. Moreover, a third group of students who already had taken an audit course, contrary to the two other groups, did not read any of the two auditor's reports. Through a questionnaire survey, we elicited the students' perceptions on different dimensions of the responsibilities of the auditor and the signaling power of the auditor's report. Overall, a more thorough explanation of technical audit concepts in the auditor's report does not significantly narrow the expectations gap. Students who already had an audit course, however, showed more reasonable expectations towards the auditor's role and responsibilities, leading to a significant smaller expectations gap.

WEDNESDAY

9:00-10:30

AURF04

Chair : Mark Defond

Room : A401

**Sec Division Of Corporation Finance Monitoring And Ceo Power**

Author : JANICE LAWRENCE, UNIVERSITY OF NEBRASKA-LINCOLN

EA = Empirical Archival

Co-authors : David Smith, University of Nebraska-Lincoln  
Xiaoyan Chen, University of Nebraska-Omaha  
Lei Gao,

SEC Division of Corporation Finance Monitoring and CEO Power Abstract Section 408 requires the Securities and Exchange Commission (SEC) to review filings of all SEC registrants every three years. Our study investigates this SEC monitoring role. Our study differs from past SEC research by focusing on the SEC Division of Corporation Finance (DCF), rather than the Division of Enforcement, and specifically on DCF's "review and comment" monitoring role. We rely on past theoretical research in management, finance and accounting that provides us with arguments suggesting the DCF may target companies with strong CEOs and weak monitoring. Our findings cast light on the power struggle between the board and CEO by suggesting that the CEO's influence over the board may adversely affect board oversight. This may be associated with the DCF's taking a more active monitoring role by selecting these companies for more intensive review. Second, our results indicate that the DCF-prompted restatements lead the companies to re-evaluate their governance oversight parameters.

**AURF04**

Chair : Mark Defond

Room : **A401****Economic Bonding, Auditor Safeguard And Audit Quality: A Contingency Approach**

Author : ERKKI K. LAITINEN, UNIVERSITY OF VAASA

EA = Empirical Archival

Co-authors : Teija Laitinen, University of Vaasa

*In this paper we examine whether the economic bond between an individual engagement partner and client threatens auditor independence and thus audit quality. Furthermore, we investigate if auditor's high income level acts as a safeguard against this economic bond. Using a sample of a peer reviewed individual audit engagement of 119 auditors we examined whether auditors are likely to bargain quality for clients that have a high economic rank in their client portfolio. Furthermore, using taxable earned and unearned income information of auditors we investigate if high income level of an auditor diminishes the risk of financial self-interest threat. Our results provide evidence that client's economic rank affects auditor's independence. Our results also suggest that this financial self-interest threat can be safeguarded by auditor's high income level diluting the economic bond with the client.*

WEDNESDAY

9:00-10:30

**AURF04**

Chair : Mark Defond

Room : **A401****How Is An Auditor Involved With Corporate Business Risk Disclosure?**

Author : HYONOK KIM, TOKYO KEIZAI UNIVERSITY

EA = Empirical Archival

Co-authors : Hironori Fukukawa, Hitotsubashi University, Tokyo, Japan

*The purpose of this study is to empirically investigate the auditor's involvement with business risk disclosure by management. More specifically, we examine whether the level of corporate business risk disclosure is influenced by whether its auditor is a Big 4 firm and, more importantly, by various attributes of engagement partners. Business risk disclosure that has been mandated since the fiscal year ending March 2004 is not a subject to auditing. However, auditors who concern their audit quality may have any influence on clients' business risk disclosure practice. Through OLS regression, we find that companies whose financial statements are audited by a Big 4 audit firm disclose more business risk than companies whose financial statements are audited by a non-Big4 audit firm. We also find that the longer companies are audited by the same engagement partner, the less risk factors are disclosed. In addition, companies with an engagement partner who has more clients disclose more business risk. The results suggest that an auditor is associated with the company's business risk disclosure.*

WEDNESDAY

9:00-10:30

**AURF04**

Chair : Mark Defond

Room : **A401****Corporate Governance Effectiveness And The Pricing Of Audit Services: A Longitudinal Study Of The Uk Life Insurance Industry**

Author : PAUL KLUMPES, EDHEC BUSINESS SCHOOL

EA = Empirical Archival

Co-authors : Iliya Komarev, Abu Dhabi University  
Konstantinos Eleftheriou, Abu Dhabi University

*This paper identifies the interrelation between the price of audit and actuarial services within the distinctive corporate governance environment of insurance sector. To do so, we use a panel of UK life insurance companies over the period 1994-2009. Our empirical evidence indicate that the nature of the institutional adjustments (market-driven or regulation-driven) appears to determine the association between the demand of audit and actuarial services. More specifically, after regulatory interventions, the above services exhibit complementarities (knowledge spillover). In contrast, when the governance control stems from the market mechanism, audit and actuarial fees are substitutes (impairment of auditor independence). Finally, we find that the effective internal governance (board independence) and the ownership structure are valid causal factors of audit fees along the entire period under consideration.*

**AURF04**

Chair : Mark Defond

Room : **A401****Audit Committee Effectiveness In A Mandatory Disclosure Environment**

Author : JENNY (JUNG-WHA) LEE, THE AUSTRALIAN NATIONAL UNIVERSITY

EA = Empirical Archival

Co-authors : Ellie (Iarelle) Chapple, Queensland University of Technology  
Christine Jubb, Australian National University  
Jenny (Jung-Wha) Lee, Australian National University

*This study examines audit committee effectiveness in its association with regulatory compliance in a highly sanctioned environment. It uses the Australian continuous disclosure regime to investigate whether audit committee effectiveness is associated with a higher frequency of disclosures, thereby enhancing the efficiency of the capital market and creating more informed individual investors. The findings show that, as hypothesised, audit committee effectiveness measured as an index composed of sub-components involving audit committee size, meeting frequency, independence, member financial literacy and membership of other audit committees, is positively associated with disclosure frequency. Further tests show that it is the financial literacy sub component which is most implicated in this relationship. Company size, years of listing, the proportion of inventories and receivables to total assets, whether or not the company has been involved in a takeover offer or bid or in changes to its number of shares are significant control variables.*

WEDNESDAY

14:00-15:30

**AURF05**

Chair : Nieves Carrera

Room : **A401****Can Auditors Mitigate Information Asymmetry In M&As?**

Author : MATHIEU LUYPAERT, VLERICK LEUVEN GENT MANAGEMENT SCHOOL

EA = Empirical Archival

Co-authors : Tom Van Caneghem, HUBrussel

*This paper empirically studies the relationship between an external financial statement audit and the method of payment in a sample of Belgian M&As between listed as well as private firms during 1997-2009. We investigate whether a high-quality financial statement audit reduces the need for contingent payments resulting from information asymmetry about the target's value. In addition, we analyse whether BigN audits limit incentives for bidders to exploit private information on their own value. Using multivariate ordered probit and binary regression models, our results show a lower necessity for contingent payments in M&As where the target is audited by a BigN audit firm, after controlling for several other deal and firm characteristics. Furthermore, we find that the incentive for acquirers to use stock payments in periods of stock market overvaluation is mitigated by a BigN external audit. Finally, target shareholders are more likely to accept contingent offers if the acquirer's financial statements are certified by a BigN auditor.*

WEDNESDAY

14:00-15:30

**AURF05**

Chair : Nieves Carrera

Room : **A401****Public Reporting On Internal Control Under Sarbanes-Oxley And Information Asymmetry**

Author : HEIBATOLLAH SAMI, LEHIGH UNIVERSITY

EA = Empirical Archival

Co-authors : Parveen Gupta, Lehigh University  
Haiyan Zhou, University of Texas - Pan American

*We investigate the association between management disclosure of internal control and auditor's report on internal control with information asymmetry. We hypothesize that both of these reports on internal control would provide outside investors with additional and higher quality information thereby reducing the information asymmetry in capital markets, as reflected in decreased bid-ask spreads and price volatility, and increased trading volume. Cross-sectional analyses shows that subsequent to the management disclosure on internal control (1) bid-ask spread decreased; (2) trading volume increased and (3) price volatility decreased. However, we did not find similar results subsequent to the auditors' reports on internal control. In our time-series intervention analyses, we find that about 69.79% (29.96%) of sample firms have experienced significant and permanent reductions in their bid-ask spreads subsequent to the implementation of Section 302 (404) of SOX. The results indicate that the management report on internal control helped significantly and permanently reduce information asymmetry in the market, and the auditor report had only marginal incremental impact on the information environment of the firms at the time of implementing Section 404. The results have implications for the standard-setters and regulators in the post Sarbanes-Oxley period as debate on the cost-benefit of these requirements continue to polarize the supporters and detractors of the legislation.*

**AURF05**

Chair : Nieves Carrera

Room : **A401****Audit Quality: The Role Of Board Structure In Private Firms**

Author : Mervi Niskanen, University of Eastern Finland

EA = Empirical Archival

Co-authors : Jukka Karjalainen, University of Eastern Finland  
Tensie Steijvers, Hasselt University

*This study investigates the role that board structure has on the demand for audit quality in a sample of private firms. We also shed light on whether ownership structure and board structure are substitute mechanisms in resolving agency costs in private firms. Our main results show that the presence of outsiders on the board increases the demand for audit quality in the overall sample. Our results also confirm previous results and the likelihood of engaging a Big 4 auditor decreases with an increase in CEO ownership even when we control for board structure. When we investigate the interaction between CEO ownership and outside boards, we find that role of outside boards is weaker when CEO ownership increases.*

## WEDNESDAY

14:00-15:30

**AURF05**

Chair : Nieves Carrera

Room : **A401****Non-Audit Fees And Audit Fees In A Poorly Regulated Context: The Case Of Switzerland**

Author : Alain Schatt, University of Neuchâtel

EA = Empirical Archival

Co-authors : Bernard Raffournier, HEC Geneva

*In this paper, we examine whether non-audit fees have been reduced in Switzerland following audit failures and the resulting regulatory changes that occurred in other countries a decade ago. In this country, the joint provision of audit fees and non-audit services is still allowed without limitation. Our results show that, despite the absence of national regulation that limit the provision of non-audit services, non-audit fees have been significantly reduced during the period under study (2002-2009). We then examine the impact of the decrease of non-audit fees on the association between non-audit fees and audit fees. Our results, which are similar to those obtained in the US, show that this relationship is not modified. Overall, our findings suggest that the greater legal pressure put on auditors in other countries has significantly reduced the revenues of Swiss auditors, despite the absence of such legal pressure in this country.*

## WEDNESDAY

14:00-15:30

**AURF05**

Chair : Nieves Carrera

Room : **A401****Audit Fee Restatements and Auditor Effort**

Author : Wei Shi, The Hong Kong University of Science and Technology

EA = Empirical Archival

Co-authors : ,

*In this paper we investigate the implications of audit fee restatements. Economic theory predicts that audit fee restatements may be indicative of either (i) additional auditor effort in response to findings that were not anticipated at the planning stage or (ii) collusion with the client (i.e., the loss of auditor independence). Using several identification strategies and propensity score matching to mitigate potential sample selection bias, we find that audit fee restatements are associated with higher incurrence of adverse events such as internal control weaknesses (ICW) and the issuance of modified audit opinions. Overall, we document that the observed relations are consistent with the auditor effort explanation and are inconsistent with the collusion explanation.*

**AURF10**

Chair : Ignace De Belde

Room : **A401****Integrating Personal Expertise: A History Of Japanese Audit Firms, 1965–2010**

Author : MASARU KARUBE, HITOTSUBASHI UNIVERSITY

HI = History

Co-authors : Hironori Fukukawa, Hitotsubashi University

To examine empirically the knowledge integration process of professional expertise that individuals have in a professional firm, this paper examines the emergence and growth of four large audit firms (ShinNihon, Azusa, Tohmatsu, and ChuoAoyama) in Japan over a period from the mid-1960s to 2010. Known as the Big Four, these firms—the product of a series of mergers between more than 70 audit firms—handled the vast majority of audit services for listed companies during this period. After the dissolution of ChuoAoyama in 2006, the remaining three audit firms have dominated the market. A longitudinal case study documents how these professional service firms were successful in providing nationwide services through mergers with domestic competitors and the provision of global services in alliance with large international firms, even though they did not sufficiently realize the systematic attainment of individual expertise. The historical account of this process suggests that the two driving forces underpinning the merger growth of the Big Four were strategic intent in (1) systematizing individual expertise and (2) establishing nationwide and global service networks in response to the increase in size and growing diversity and complexity of their client base. Finally, this paper discusses the knowledge tension between localized individual expertise and organizational knowledge in a global context.

WEDNESDAY

11:00-12:30

**AURF10**

Chair : Ignace De Belde

Room : **A401****Implications Of The Fraud Triangle For External Auditors**

Author : ANDREW HIGSON, LOUGHBOROUGH UNIVERSITY

IC = Interdisciplinary / Critical

Co-authors : Rasha Kassem, The British University in Egypt

In recent years the role of the external auditors in relation to the detection of fraud has come under scrutiny. In an effort to give guidance, the auditing standard-setters have employed the “fraud triangle” (which originated from Cressey’s work [1950]) setting out pressures, opportunity and rationalisation behind frauds. Traditionally, it could be said that external auditors have focussed on opportunity (i.e. through the assessment of internal controls). Since the mid-1990s auditors have looked at high level risks and so have been considering pressures on management. However, the third aspect of the fraud triangle, namely rationalisation, seems to have been ignored. The point is that two people may experience the same pressures and have the same opportunity to commit a fraud, but depending on how they rationalise the situation, one may commit it whilst the other may not. The under appreciation of this aspect of the fraud triangle may mean there is a weakness in the external auditors’ approach.

WEDNESDAY

11:00-12:30

**AURF10**

Chair : Ignace De Belde

Room : **A401****The Effect Of Behavioural Traits And Interpersonal Relationships On The Audit Committee Process**

Author : MAHBUB ZAMAN, MANCHESTER BUSINESS SCHOOL

CF = Case / Field Study

Co-authors : Chanchai Tangruenrat, University of Manchester

Our paper aims to contribute to the literature on ACs through an examination of the influence of international convergence, national context and behavioural traits on the governance role of audit committees and their effects on the monitoring of the audit process. A conceptual view implicit in most studies is that AC process is similar across countries, and as such research tend to focus on the existence and effects associated with structural features as stipulated in governance codes. In contrast, our study is premised on the view that while the adoption of ACs is influenced inter-alia by international convergence, local country level factors are also potentially a major influence affecting the role and functioning of ACs within organizations. How country factors affect social and organizational practice of governance, and in particular influence the monitoring role of ACs, has received limited attention in extant studies. In researching ACs within their institutional context, this paper views participants in the governance process in particular AC members and those interacting with them as social agents. We thus focus on the role of behavioural traits in influencing the monitoring role of ACs. While AC requirements might be universal, we show that individuals in the AC process are subject to influence of both professional traits as well as behavioural traits that are (to varying extent) connected with the national-country context.

**AURF10**

Chair : Ignace De Belde

Room : **A401****The Audit Report: Insights Into Audit Report Development Within Natural Resource Management Assurance**

Author : NONNA MARTINOV-BENNIE, THE UNIVERSITY OF SYDNEY

CF = Case / Field Study

Co-authors : Nonna Martinov-Bennie, Macquarie University

*This exploratory research, using a single longitudinal case study method, investigates an organisation's experience of assuring a complex non-financial subject matter and its determination of the key aspects of the audit report. The data analysed was collected from several sources with unrestricted access to internal and external documents, including audit work papers in addition to semi-structured interviews, informal discussions and observations of meetings. The data was analysed by drawing on Power's theoretical perspectives of the audit reporting processes. The challenges of determining the appropriate stakeholder audience, objective, content, format and level of assurance inform the current debate on audit reporting reforms and assurance of integrated reporting.*