

Audit Research Summaries

Ook deze maand presenteren wij weer enkele “Audit Research Summaries” uit de database van de American Accounting Association (www.auditingresearchsummaries.org).

De eerste samenvatting betreft een onderzoek van Sharma, Tanyi en Litt naar *de kosten van verplichte audit partner-rotatie in de VS*. Hiertoe wordt nagegaan of partner-rotatie gerelateerd is aan de hoogte van de audit fee en het tijdsverloop tussen einde boekjaar en datum afgifte van de controleverklaring (audit report lag). Uit het onderzoek blijkt onder andere dat een positieve en significante associatie bestaat tussen partner-rotatie en audit fees. Ook blijkt dat deze associatie met name bestaat voor grotere klanten en voor de niet-Big 4-audit firms. Een vergelijkbare associatie bestaat voor rotatie en de lengte van de audit report lag.

De volgende samenvatting betreft een experiment van Kim en Harding onder Australische en Zuid Koreaanse accountants naar *het effect dat gepercipieerde expertise van een leidinggevende heeft op de besluitvorming van een ondergeschikte*. Uit het onderzoek blijkt dat de invloed van de vooraf bekende preferentie van de leidinggevende op een te nemen besluit groter is naarmate de leidinggevende meer deskundigheid wordt toegedicht. Er wordt geen verschil geconstateerd tussen Australische en Zuid Koreaanse accountants.

De derde samenvatting betreft een experiment van Bishop, DeZoort en Hermanson naar *het effect van CEO “Social Influence Pressure” en CFO accounting-ervaring, op*

de besluiten die de CFO neemt inzake financiële rapportage. Uit dit onderzoek blijkt dat zowel druk van de CEO om te gehoorzamen als de druk om aan regels te voldoen kunnen leiden tot onjuiste rapportage door de CFO. Ongeacht de mate van druk zijn CFOs zich bewust van hun verantwoordelijkheid voor de rapportage. Meer ervaren CFOs kunnen druk beter weerstaan.

In het vierde onderzoek wordt nagegaan of de *mate waarin aandeelhouders tegen het benoemen van een accountant stemmen (gemiddeld tussen 1 a 2%) samenhangt met de kans dat binnen een jaar van accountant wordt gewisseld*. Uit dit onderzoek van Barua, Raghunandan en Rama blijkt dat de mate waarin tegen de benoeming wordt gestemd significant gerelateerd is aan de kans dat de accountant binnen een jaar wordt ontslagen. De opvolgend accountant is in de meeste gevallen geen Big 4-accountant.

De laatste samenvatting betreft een onderzoek van Cunningham naar *de invloed van aanbevelingen van “proxy advisors” op de stemming inzake de benoeming van de accountant*. Uit het onderzoek blijkt onder andere dat er meer negatieve aanbevelingen van proxy advisors zijn in geval van bezorgdheid over de onafhankelijkheid van de accountant (tussen 69 en 85 procent), dan in geval van twijfel over de kwaliteit van de audit (tussen 4 en 12 procent). Gemiddeld neemt het percentage afwijkende stemmen bij de benoeming van de accountant met 8,6 procent toe ingeval proxy advisors aanbevelen om tegen de benoeming te stemmen. ■

research summary

Title:	Costs of Mandatory Periodic Audit Partner Rotation: Evidence from Audit Fees and Audit Timeliness
Practical Implications:	These findings provide valuable insight on the implications of mandatory periodic audit partner rotation in the U.S. First, partner rotation has an adverse effect as it increases both audit fees and audit timeliness. Second, the incremental costs of partner rotation are felt more by non-Big 4 city industry non-specialist auditors and their clients. Third, the results suggest these audit fees and audit report lag implications are similar for the second and third incoming audit partners following rotation.
Citation:	Sharma, D. S., P. N. Tanyi, and B. A. Litt. 2017. Costs of Mandatory Periodic Audit Partner Rotation: Evidence from Audit Fees and Audit Timeliness. <i>Auditing: A Journal of Practice and Theory</i> 36 (1): 129 – 149.
Keywords:	partner rotation, partner change, audit fees, audit report lag, audit firm rotation, audit delay, and industry specialist.
Purpose of the Study:	The authors examine how mandatory periodic audit partner rotation in the U.S. is related to audit fees and audit timeliness. They also examine how the preceding association varies by audit firms size, client size, and audit office industry specialization. Finally, they examine if partner rotation effects on audit fees and audit report lag persist over successive partner rotations. The SEC tightened partner rotation regulations in the Sarbanes-Oxley Act of 2002 with the hopes of quicker turnover bringing a fresh perspective to, and enhancing the independence, of the audit. The accounting profession opposed the new rules, arguing that, in addition to deterioration in audit quality, there would be significant effects on audit costs and effort, learning and training costs, loss of client-specific expertise, and inefficiencies affecting both the client and auditor. To the knowledge of the authors, there had been no empirical evidence that examined the impact of partner rotation on audit production under the mandatory rotation regime at the time this article was written.
Design/Method/ Approach:	The authors draw upon and utilize a method to identify partner rotation in the U.S. following Litt et al. (2014); however, they extend this study by also examining if the audit cost effects of partner rotation persist over successive audit partner rotations. The authors design tests to examine if partner rotation costs persist at each rotation, and if client-specific knowledge at the audit firm level could potentially mitigate loss of client-specific knowledge and partner rotation costs at the partner level. This design provides a relatively long-term perspective on the consequences of a series of partner rotations and addresses some challenges to partner rotation studies.
Findings:	<ul style="list-style-type: none"> • The authors find a positive and significant association between partner rotation and audit fees. • When the sample is segregated by auditor size and client size, they find significant positive associations for larger clients and non-Big 4 audit firms. • The audit timeliness results also show a positive and significant association between audit partner rotation and audit report lag for the full sample. • Similar to the audit fee results, the authors detect a significant and positive association between partner rotation and audit report lag for clients of city industry non-specialist auditors.

research summary

Title:	The Effect of a Superior's Perceived Expertise on the Predecisional Distortion of Evidence by Auditors
Practical Implications:	Most importantly, the findings of this study educate on the audit quality implications of a subordinate making judgments with knowledge of their superior's preference. While knowledge of a superior's preference may negatively affect the objectivity of audit judgments, the findings suggest that is also has the potential to improve audit judgment quality. Second, possible cross-nation variation in audit judgment has important implications for the audit of multinational organizations and offshoring of audit work, among others.
Citation:	Kim, S. and N. Harding. 2017. The Effect of a Superior's Perceived Expertise on the Predecisional Distortion of Evidence by Auditors. <i>Auditing: A Journal of Practice and Theory</i> 36 (1): 109 – 127.
Keywords:	audit quality, culture, predecisional distortion, superior's expertise, Australia, and South Korea
Purpose of the Study:	Auditors are influenced by the known preferences of their superiors such that they are motivated to make judgments that favor those preferences. In this study, the authors examine the potential for the influence of a superior's known preferences to positively affect audit quality, and whether that influence varies across nations that differ in their hierarchical culture. There is a potential for a superior's preference to have information value such that a judgment favoring the superior's preference may not be entirely non-normative; however, there is an implicit assumption that this is a threat to the objectivity of auditor judgments and detracts from audit quality. With this study, the authors hope to address a gap in the existing literature and, in doing so, to contribute to an understanding of what superiors should communicate to their subordinates in order to enhance audit quality.
Design/Method/ Approach:	The authors conduct an experiment in which auditors from Australia and South Korea evaluate a number of going concern evidence items and then make a judgment as to whether the firm for which the evidence items relate would continue as a going concern.
Findings:	<ul style="list-style-type: none"> • The authors find that auditors exhibit greater levels of predecisional distortion toward the known preference of a superior perceived to possess higher levels of expertise as opposed to those perceived to have lower levels of expertise, and this is the case for auditors in both Australia and South Korea. • The authors find no evidence of differences in the level of predecisional distortion exhibited by auditors from Australia and South Korea.

Overgenomen van www.auditingresearchsummaries.org, 12 juni 2017

research summary

Title:	The Effect of CEO Social Influence Pressure and CFO Accounting Experience on CFO Financial Reporting Decisions
Practical Implications:	This study provides direct testing of the effects of two forms of CEO social influence pressure on actual CFO's reporting decisions. Examining such pressures improves the overall understanding of an individual's decision to engage in dysfunctional behavior, which can inform auditors and audit committee members who provide oversight of the financial reporting process and have responsibility for mitigating the risk of financial misreporting.
Citation:	Bishop, C. C., F. T. DeZoort and D. R. Hermanson. 2017. The Effect of CEO Social Influence Pressure and CFO Accounting Experience on CFO Financial Reporting Decisions. <i>Auditing: A Journal of Practice and Theory</i> 36 (1): 21 – 41.
Keywords:	accounting manipulation, chief financial officer, chief executive officer, compliance pressure, obedience pressure, social influence pressure, and accounting experience
Purpose of the Study:	CFOs play critical stewardship roles related to financial reporting quality and a prominent and increasing role in accounting manipulations, particularly in conjunction with their CEO. This study examines how CEO pressure on the CFO and CFO accounting experience influence public company CFOs' financial reporting judgments and decisions.
Design/Method/ Approach:	The authors conducted an experiment involving a hypothetical CFO's earnings manipulation decision. Using a between-subjects manipulation, they utilize three levels of CEO pressure (a control group where the CEO does not pressure the CFO, a compliance pressure group where the CEO asks the CFO to revise an estimate, and an obedience pressure group where the CEO tells the CFO to revise an estimate).
Findings:	<ul style="list-style-type: none"> • The authors find that two different forms of CEO social influence pressure (obedience pressure and compliance pressure) are both effective in motivating some CFOs to misreport, with no significant difference between the two. • The authors find that the CFOs do not abdicate the financial reporting responsibility under pressure, despite predictions from the obedience theory; instead, the CFOs acknowledge that they still have ultimate responsibility. • The authors find an inverse relation between CFO accounting experience and revision of the initial adjustment, consistent with accounting experience empowering CFO resistance to pressure.

research summary

Title:	Shareholder Votes on Auditor Ratification and Subsequent Auditor Dismissals
Practical Implications:	The results of this study are important for audit firms to consider given interest from regulators on the role of shareholder ratification on auditor selection. The evidence indicates that while shareholders, through auditor ratification voting, are not responsible for the acceptance or dismissal of a firm's auditor, subsequent auditor dismissals do appear to be influenced by increased shareholder resistance. A one percent increase in shareholder votes against auditor ratification is associated with a four percent increase in the likelihood of auditor dismissal within the following year.
Citation:	Abhijit Barua, K. Raghunandan, and Dasaratha V. Rama (2017) Shareholder Votes on Auditor Ratification and Subsequent Auditor Dismissals. <i>Accounting Horizons</i> : March 2017, Vol. 31, No. 1, pp. 129-139.
Keywords:	shareholder voting; auditor ratification; auditor dismissal
Purpose of the Study:	The role of shareholders in the process of auditor selection is of great interest to regulators, investors, activists, and audit firms. Corporate governance activists as well as the U.S Treasury's Advisory Committee on the Auditing Profession have recommended the adoption of an annual ratification of a firm's independent auditors, since the primary responsibility of auditors is to the shareholders of their clients. This study looks at whether shareholder voting on auditor ratification is associated with the likelihood of subsequent auditor dismissal. As many of these votes are non-binding and on average an auditor ratification vote receives over 98% approval, the role of shareholder ratification in the auditor selection process remains an empirical question.
Design/Method/ Approach:	The authors use company-year observations from public U.S. companies with shareholder voting on auditor ratification from 2011 to 2014. Auditor dismissal within one year of a shareholder ratification vote occurred in 3.3% of the sample.
Findings:	The authors find that: <ul style="list-style-type: none"> • Shareholder votes against auditor ratification are significantly associated with the likelihood of subsequent auditor dismissal (within a year as well as within 3-months and 6-months from the time of shareholder voting). • The successor auditor is significantly more likely to be a non-Big 4 firm, indicating that Big 4 auditors may view shareholder ratification votes as a client-related risk factor and may be reluctant to accept a new client with higher resistance from shareholders.

Overgenomen van www.auditingresearchsummaries.org, 12 juni 2017

research summary

Title:	Auditor Ratification: Can't Get No (Dis)Satisfaction
Practical Implications:	The results of this study are important for audit firms to consider given interest from regulators on the role of shareholder ratification on auditor selection. The evidence indicates that proxy advisor recommendations significantly influence the number of dissenting auditor ratification votes. Unfavorable recommendations are more likely when there are concerns regarding auditor independence rather than audit quality.
Citation:	Lauren M. Cunningham (2017) Auditor Ratification: Can't Get No (Dis)Satisfaction. <i>Accounting Horizons</i> : March 2017, Vol. 31, No. 1, pp. 159-175.
Keywords:	auditor ratification; corporate governance; proxy advisor; proxy disclosure; shareholder voting.
Purpose of the Study:	This study looks at the role of proxy advisor recommendations in shareholder voting on auditor ratification. Given the importance of shareholder involvement and the influence of proxy advisors to influence other voting outcomes, the author investigates the characteristics of the company and audit firm that lead to an unfavorable recommendation on auditor ratification.
Design/Method/ Approach:	The author uses company-year observations for the Russell 3000 firms with shareholder voting on auditor ratification occurring during shareholder meetings from January 1, 2009 to June 30, 2012. More than ninety percent of firms in their sample voluntarily include auditor ratification on the ballot.
Findings:	<p>The author finds that:</p> <ul style="list-style-type: none"> • On average, the percentage of dissenting votes on an Auditor ratification is 8.6 percent when proxy advisors issue an <i>Against</i> recommendation. • The dissenting votes are higher when there are concerns over auditor independence (non-audit service fees are higher, auditor tenure is longer) or when the proxy advisor's recommendation is more influential (percentage of blockholders is lower and institutional ownership is higher). • Proxy advisors are less likely to issue an unfavorable recommendation when firms have stronger performance or a willingness to disclose internal control issues and are more likely to issue an unfavorable recommendation when the auditor tenure is longer or when the audit firm is a Big 4 Audit firm. • Proxy advisors issue more unfavorable recommendations when there are suspected concerns about auditor independence (69 to 85 percent) then when there are concerns regarding audit quality (4 to 12 percent).