

Collected Abstracts: Research Forum Sessions

AUD

Auditing

Code: **AUD R01**
Abstract ID: **0084**

Day: **Wednesday**
Time: **16.00-17.30**
Room: **Q118**

**Internal Control in Turkish Publicly-Held Companies:
Implications of Sarbanes Oxley**

Kiymet Tunca Caliyurt
(kiymet1442@yahoo.com)
Trakya University, Turkey
Co-author(s): David Crowther

In recent years a lot of accounting scandals have occurred, some well known such as Enron, and radical changes have been promulgated in USA such as the enactment of Sarbanes Oxley (SOX) in 2002. It is not surprising that a lot of countries' capital market regulations have been affected after SOX. In Turkey also efforts have been made to try to protect shareholders. This research is part of a larger ongoing study which is designed to evaluate the changes both on the working procedures of internal auditing departments and on the relations between independent auditing companies, the internal auditing function and top management. The findings reported in this paper are therefore necessarily preliminary and are based on the results of a questionnaire which was sent to all publicly held companies with a explanatory letter. The preliminary findings reported in this study is that 27% of Turkish publicly held companies have no internal audit department nor written internal audit procedures. Indeed only 15% of the internal auditors have a Certified Internal Auditor title in publicly held companies, while 27% of the companies answered that they did not notice a significant difference in working of independent auditing firms after SOX. It is apparent therefore that there are significant deficiencies in the operation of auditing and internal control in Turkish publicly held companies.

Code: **AUD R02**
Abstract ID: **0649**

Day: **Wednesday**
Time: **16.00-17.30**
Room: **Q118**

**The Relation between Audit Quality and Internal
Control: Evidence from Japanese Companies**

Takashi Sasaki
(eaa2006@ssk.misc.hit-u.ac.jp)
Hitotsubashi University
Co-author(s): Suzuki Kazumi

We conduct a questionnaire survey to investigate the relation between audit quality and internal control for Japanese companies. The survey contains 13 questions divided into three groups, i.e., (1) questions about internal control system and cost to improve the system, (2) questions about review of quarterly financial reports and its review fee, and (3) questions about audit quality and cost to enhance the quality. We sent the questionnaire to 2,848 listed companies and received 306 responses. 304 respondents are sample of our breakdown analysis, correlation analysis, and Tukey's multiple comparison. The results show that Japanese companies demand for higher quality of audit and intend to pay for it additionally 19.5% of the present audit fee. The companies demanding for the high quality of audit are likely to pay more for improving the internal control and audit of quarterly financial reports. The companies expect to cost 103 million yen on average for putting business procedures in all divisions into documentation and pay 21.4% of the present audit fee for the audit of quarterly financial reports. The results also suggest that the companies demanding for the high quality of audit are likely to need more non-audit service, such as a consultant on internal control system and tax planning.

Code: **AUD R03**
Abstract ID: **0658**

Day: **Wednesday**
Time: **16.00-17.30**
Room: **Q118**

**Quality control of the auditor's work – comparative study
for some European Union countries**

André Soares
(aaguiao@soares@mail.telepac.pt)
Universidade do Minho
Co-author(s) António Caiado

This paper represents part of a comparative study performed between some European Union (EU) countries regarding the Quality Control (QC) of the statutory auditor's work. It approaches a number of aspects of the QC of each Member-State (MS), reflecting the work developed by the professional Organisms in that matter and exposing the obtained answers to a questionnaire specifically structured for that purpose. We believe that this questionnaire approaches a pertinent theme and, above all, a sensitive one. Being so, it is our goal to present the elements that allow a reflection on the QC mechanisms performed in the MS, creating also the possibility of confrontation with the already approved ones in other MS here presented.

Code: **AUD R04**
Abstract ID: **0699**

Day: **Wednesday**
Time: **16.00-17.30**
Room: **Q118**

**Design and development of quality management systems
(QMS) for auditing and accounting firms (case study)**

Konstantin Gaydarov
(k.gaydarov@paneko.com)
Centre for Economic and Social Research, Moscow

Results of design and development of Quality Management Systems (QMS) for a number of auditing and accounting firms in Russian Federation for the purpose of certification procedure due to ISO 9001:2000 standard, are presented. Basic principles of customization of general requirements of ISO 9000 standards to meet specific demands of international and national auditing and accounting standards, which had to be effected in the presented analysis and projects, are described in detail. The main problem is to meet an applicable compromise between requirements of auditing (accounting) quality control standards and requirements of ISO 9001:2000 to QMS essential for certification purposes. Current modifications in some basics of quality management systems (like current transformation from a concept of "Customer" to the concept of "Stakeholder") are in fact forming a satisfactory background for essential customization. Process models for auditing and accounting firms and a description of Quality Manual are also presented in the paper. A special attention is made to the technique of evaluation and measurement of customers' (stakeholders') satisfaction applicable for auditing and accounting firms. All presented results are based on the results of actual projects for auditing and accounting firms in Russian Federation when those firms had been prepared for certification due to ISO 9001:2000.

Code: **AUD R05**
Abstract ID: **0923**

Day: **Wednesday**
Time: **16.00-17.30**
Room: **Q118**

The effect of a decision aid on the auditor's client acceptance decision under ISA 315

Roger Meuwissen
(r.meuwissen@aim.unimaas.nl)
Universiteit Maastricht

Co-author(s) **Eveline Van Caspel, Peter Eimers**

This study investigates the effect of a decision aid on the auditor's client acceptance decision under the risk assessment requirements of International Statement on Auditing (ISA) 315. Previous studies have tested the impact of decision aids on various audit decisions, including client acceptance. The current study, however, tests the effect of a decision aid in the client acceptance process under the newly implemented ISA 315. Under ISA 315 the distinction between significant risks (higher risk of a material misstatement) and other risks is an essential element of proper professional judgment. We therefore investigate whether decision aids lead to better discrimination between significant risks and other risks in client acceptance decisions. Hereto, an experiment was conducted in which auditors of a big-four audit firm participated. To test for the effect of the decision aid, one group of auditors uses the decision aid while the other group makes client acceptance decisions solely based on professional judgment. The results of the study indicate that the use of a decision aid improves the consensus among auditors and that the decision aid directs the auditor in considering all potential kind of risk factors. Furthermore, it appears that auditors who use the decision aid are better able to discriminate between the importance of risk factors (significant or other risk) than auditors who solely rely on their professional judgment. Hence, the use of decision aids in client acceptance decisions is therefore advisable given ISA 315.

Code: **AUD R06**
Abstract ID: **0097**

Day: **Thursday**
Time: **9.00-10.30**
Room: **Q118**

Strategic Audit: An Exploratory Study of Companies Listed on Euronext Lisbon

Tânia Barbosa
(taniab@eeg.uminho.pt)
University of Minho

Organisations develop in environments characterised by rapid and deep changes, as a consequence of competitive pressures. Strategic audit emerges in such context as an analytic instrument to help to deal with the evaluation of organisation strategy and the communication of business threatening risks. In this paper, we compare the traditional model of audit and the new methodologies of strategic audit. Based upon the strategic audit concepts found in literature, we build a conceptual structure that reflects the several working areas we believe necessary to implement this kind of audit. Using the survey questionnaire our empirical study is aiming to verify the reasons that may help explain the adoption of strategic audit practices by Portuguese listed companies and to obtain evidence about the way in which that kind of audit is implemented. We have found evidence that the size of companies is related to the implementation of strategic audit and that the practice of strategic audit differs significantly through activity sectors. The results confirm the theoretical model and therefore the implementation of strategic audit should contemplate the following organisation areas, and with the following level of importance: internal control systems underlying management activities and strategic planning, knowledge of the organisation strategy, business risks, forecasting system, and organisational culture.

Code: **AUD R07**
Abstract ID: **0124**

Day: **Thursday**
Time: **9.00-10.30**
Room: **Q118**

An Empirical Analysis of Auditor's Evidence Gathering Techniques in Bahrain

Prem Lal Joshi
(joshi@buss.uob.bh)
University of Bahrain

Co-author(s): **Ashutosh Deshmukh**

There is paucity of empirical research in evaluating the auditors' perceptions regarding strengths, weaknesses, reliability and practical problems in using evidence gathering techniques in the field, especially in the non-Western countries. This study investigates the auditors' perceptions regarding these audit techniques in the following areas: extent of use, reliability, average time spent, and persuasiveness of the collected evidence. Additionally, the problems encountered by the auditors in using these techniques in the field are also catalogued. This study used a survey method and collected information from the Big4 and non-Big4 firms in Bahrain. The results indicate that the auditors primarily use documentation, analytical procedures, and confirmations in collecting evidence. The auditors rank confirmation, physical, and documentary evidence as the most reliable forms of evidence. The auditors also spend most of their time on these techniques. However, the sufficiency and competency of the audit evidence is rated as merely satisfactory. The Bahrain business environment is conservative and secretive, which affects the audit process and partly explains our results. The common problems faced by the both the Big4 and non-Big4 firms are difficulties in collecting external evidence and uncooperative clients.

Code: **AUD R08**
Abstract ID: **0217**

Day: **Thursday**
Time: **9.00-10.30**
Room: **Q118**

Partner leverage and audit strategy

J.P. van Buuren
(j.buuren@nivra-nyenrode.nl)
University Nivra-Nyenrode

In academic literature, little is known about partner leverage. In this paper, partner leverage is introduced as a strategic choice of audit firms to build reputations and to minimize effort costs. First, a model is build to describe determinants of partner leverage. Partner leverage is the number of employees managed by one partner. Second, differences in partner leverage are examined between large, medium-sized and small audit firms in the Netherlands per industry/market segment. By providing evidence, this paper contributes to the scarce literature about partner leverage within audit firm context. Furthermore, it provides arguments in the discussion of audit quality differences between larger and smaller firms and audit firm reputation. From the developed model, hypotheses are derived to be tested empirically within Dutch audit firms. The Netherlands have a relatively large and highly developed audit market, a long history in auditing and use Anglo-Saxon based audit approaches. The hypotheses refer to the association of partner leverage and (i) client visibility (or market monitoring ability), (ii) client risk profile, (iii) employee capability and experience, (iv) consequences of work load peaks and (v) investments in audit technology, such as technical offices, audit automation and industry/market group divisions. The differences in outcomes of small, medium-sized and large audit firms are compared per industry/market segment.

Code: **AUD R09**
Abstract ID: **0499**

Day: **Thursday**
Time: **9.00-10.30**
Room: **Q118**

Constructing audit expertise: dualities of tacit and formal knowledge in value for money practices

Nina Sharma
(SharmaN@cf.ac.uk)
Cardiff University

This paper examines the way in which Value for Money (VFM) knowledge and expertise are constructed and presented. The paper draws on ethnographic research conducted at the National Audit Office in the UK which followed the progress of two VFM studies as they were being conducted by audit teams. Expertise is discussed as a dichotomy whereby auditors constructed a 'professional' image of the practice through 'scientific' discourses of method and technique, yet this was contrasted by descriptions of the process as "common sense". Formal structure of audit guidance and methods creates a symbolic impression of VFM practice (Meyer and Rowan, 1977). Drawing on rhetoric associated with traditional financial audit, VFM practitioners found a knowledge base within which to locate and describe their everyday activities. Yet ad-hoc expertise assembled through familiarity with government departments, building awareness of changes to publicly funded programmes and experience of the VFM processes were integral to the job. Whilst subject knowledge differs for every new audit, shared understandings and tacit knowledge of VFM processes develop and are maintained over time (Berger and Luckmann, 1967). Such 'common sense', tacit knowledge cannot be encoded or learned outside of the practice, but forms the basis of the way in which the studies are carried out and comes to be so deeply embedded that auditors struggled to articulate how they knew how to perform these audits.

Code: **AUD R10**
Abstract ID: **0873**

Day: **Thursday**
Time: **9.00-10.30**
Room: **Q118**

Auditor-client inquiry: The effect of client gender and competence on auditor belief revision

Anna Nöteberg
(anoteberg@rsm.nl)
RSM Erasmus University
Co-author(s) **James Hunton, Mohamed Gomaa**

We extend prior audit research on client competence effects by testing the degree to which client attributes of expertise and gender influence auditors' belief revision during auditor-client inquiry. We also investigate whether male and female auditors' respond differently to these two source attributes. Results from a laboratory experiment with 158 experienced auditors reveal that auditors exhibit more belief revision when the client possesses relatively higher expertise, and when the client is male versus female. A significant three-way interaction suggests the following: (1) Both male and female auditors favor the male client; (2) male auditors—when the client's expertise is high, relative to low, the gender effect on belief revision is reduced; (3) female auditors—the client gender gap increases when the client's expertise is high, relative to low. Post-experimental psychological debriefings provide insight into the nature of auditors' conscious and subconscious gender stereotypes.

Code: **AUD R11**
Abstract ID: **0306**

Day: **Thursday**
Time: **11.00-12.30**
Room: **Q118**

Role of Professional Ethics In Auditing Financial Statements

Marek Cieslak
(marek.cieslak@ae.poznan.pl)
The Poznan University of Economics
Co-author(s): **Manuela Skoczek-Spychala**

Unlike many other professions, chartered accountants in developed market economies must act in a way ensuring public trust. This requires not only the highest quality of service, but also taking into account broadly understood public interest. The aim of this paper is to present the fundamental issues regarding the professional ethics of a chartered accountant. Stronger competition in the recent years have caused auditing companies to put more emphasis on establishing long-term relationship with their clients and generating a "reasonable" profit, as well as providing high quality auditing service. Due to greater competition, many companies have implemented philosophies and practices aiming at an improvement of recruitment and HR policies. Chartered accountants must be honest, reliable and sincere in their approach to professional work. Just as importantly, they must be impartial and unbiased, thus being free from external influence. Thus, it comes naturally that legislation of many countries include provisions enabling and requiring the chartered accountant to act in an independent and unbiased way. One of such provisions is the *Code of Professional Ethics*. The Polish Code of Professional Ethics of a chartered accountant is based first of all on the International Ethical Code developed by the Ethics Committee and accepted by the Council of the International Federation of Accountants¹. The International Code has replaced "Ethical Guidelines" previously published by IFAC.

Code: **AUD R12**
Abstract ID: **0334**

Day: **Thursday**
Time: **11.00-12.30**
Room: **Q118**

Does the duty to publish audit and non-audit fees increase the independence of auditors? An evaluation of arising agency conflicts in Germany

Ruth-Caroline Zimmermann
(ruth-caroline.zimmermann@uos.de)
University Osnabrueck

In December 2004 a new regulation changed the German commercial code and demands as of 2005 from German listed firms to publish audit and non-audit fees (4 categories) in the notes. The aim is to increase the independence of auditors. Through analyzing the regulation problems become obvious. (1) Audit services matched to a wrong category of fees, (2) contracts between auditor and client base on flat rates, on hours or on values (sales or net income). The effect of the vague regulation to publish fees is that manager and auditor could work together and design the amount of several fee category, classify services to one or another category or put them off in the next year. But are there incentives to manipulate the notes? My analysis of agency conflicts between shareholder, management and auditor, confirm this question in the case of big listed corporation, not for listed family-owned enterprises. Especially published non-audit fees allow shareholders to estimate the management's ability and the independence of auditors. Thus auditors fear reputation losses and will behave more independent and report managers' mistakes. Consequently the manager restricts his opportunistic behaviour. Finally agency-conflicts between shareholder and manager are reduced. Because only shareholders take advantage of published audit/non-audit fees, managers and auditors will try to reduce their disadvantages and manipulate the notes. Then the aim of the legislator to increase independence is not reached.

Code: **AUD R13**
Abstract ID: **0651**

Day: **Thursday**
Time: **11.00-12.30**
Room: **Q118**

**Assurance on general purpose non-financial reports:
an international comparison**

Ann Vanstraelen
(ann.vanstraelen@ua.ac.be)
University of Antwerp

Co-author(s) **Roger Simnett, Chua Wai Fong**

Many leading organisations around the world are producing general-purpose non-financial reports (GPN-FRs), including social, community, environmental and sustainability reports. Some of these reports are independently assured, but many are not. Very little is known about the current status of this assurance service across the world. To better understand the development of this assurance service from an international perspective, we utilise two potential theoretical explanations in examining the provision of assurance and choice of assurance provider for these types of reports: the La Porta et al (1997, 1998, 2003) theory explaining international differences in stakeholder rights and Power's (1997, 1999) theory related to trust. For 542 listed organisations around the world that produce GPN-FRs, we collected the required financial and non-financial information. 253 (47%) of these reports are assured, and 75 (32%) of these 253 are assured by members of the auditing profession. We find little evidence to support La Porta et al's view that organisations domiciled in countries with stronger stakeholder protection rights are more likely to have their GPN-FRs assured, although we do find that, for those that have their GPN-FRs assured, the assurance service is more likely to be provided by members of the auditing profession. We do find some evidence that organisations classified as lower trust are more likely to have their GPN-FRs assured, and by members of the profession.

Code: **AUD R14**
Abstract ID: **0878**

Day: **Thursday**
Time: **11.00-12.30**
Room: **Q118**

**What are the determinants of abnormal audit fees?
a French survey**

Sophie Audoussset-Coulier
(audousssets@hec.fr)
HEC School of Management, Paris

Following the trend of post-Enron regulations, the recent disclosure of audit and non-audit fees by French listed firms opens a new field of investigation. The French context is specific because external audit is maybe more regulated here than elsewhere: audit engagements have a duration of six years, two co-auditors are certifying consolidated financial statements, there is a process of control of audit quality, non audit activities are restricted and auditors independence is regulated. In that context our research question is: are the audit fees paid by French listed firms subject to the same phenomena detected in other countries: low balling, BIG4 premium, fee dependence? To test this question, we have built an empirical research design in two steps. Firstly, we use an audit pricing model derived from Simunic's (1980) seminal work, in order to measure the influence of economic determinants of audit fees including firm size, audit complexity and audit risk. This model is then used to compute predicted values of audit fees. We postulate that the difference between predicted values and real audit fees consists in "abnormal audit fees". We then built a second model to find the determinants of abnormal audit fees. Our hypotheses are that abnormal audit fees arise from audit relationship characteristics such as: dependence, tenure, non audit fees, and from corporate governance characteristics including auditor type (BIG4) effect.

Code: **AUD R15**
Abstract ID: **0988**

Day: **Thursday**
Time: **11.00-12.30**
Room: **Q118**

**Resisting imperialism of influence:
the development of the institution of accountancy
in Greece in the 1955-1993 period**

Emmanouil Dedoulis
(ededoulis@hotmail.com)
Athens University of Economics and Business
Co-author(s) **Constantinos Caramanis**

A significant body of academic research on accounting professionalisation has shown that 'Western' policies and influences (re)structure the social, political and economic context of emerging economies in a way that creates conditions favourable to the emergence of accountancy bodies similar to the dominant Anglo-American associationist, free market model. This paper focuses on the development of the Greek institution of auditing to show that, although it operated within a context of "Western" influences in the period 1955-1993, it exhibited significant organisational differences from the dominant Anglo-American model. The paper adopts a historical perspective and indicates that locating accountancy in the broader historical, social, political and economic context better assists in explaining developments in the accounting domain. In particular, it is shown that, under certain conditions, the local state may have a certain level of autonomy, enabling it to prioritise certain (public Vs market) policies. Hence, developments in accountancy may not follow in a linear fashion as the predetermined outcome of pressures exerted by "Western" organisations and as a perfect emulation of the dominant Anglo-American paradigm.

Code: **AUD R16**
Abstract ID: **0041**

Day: **Thursday**
Time: **14.00-15.30**
Room: **Q118**

**The Importance of Audit Reports in Payment Default
Prediction: Empirical Evidence from Finland**

Erkki K. Laitinen
(ekla@uwasa.fi)
University of Vaasa
Co-author(s): **Teija Laitinen**

This study analyzes the importance of audit reports for the prediction of payment defaults in Finland. Payment defaults are typically predicted by financial ratios (Mossman, Bell, Swartz & Turtle 1998 and Turetsky & McEwen 2001). This study will however employ audit report (qualification) information and board background information in addition to financial ratios. Background information includes such variables as size of board, personal payment defaults of board members, and number of persons resigned. It is hypothesized that audit report and background information will bring additional information for prediction over financial ratios. It is also hypothesized that audit report information will act as a moderator in default prediction model. This is because audit report will moderate the importance of financial ratios when there are qualifications on the reliability of financial statements. These qualifications deal with valuation of assets or inadequacy of financial statement information. Defaults have usually been predicted by traditional statistical methods (see Zavgren 1983, Jones 1987, and LeClere 2000). In this study, the partial least squares method (PLS) is used together with the logistic regression analysis. First, PLS is used to extract information contained by financial ratios and background variables. Second, PLS factors and audit variables are used as predictors in a logistic regression model. The data set includes 30.000 Finnish firms with 1.000 default firms.

Code: **AUD R17**
Abstract ID: **0131**

Day: **Thursday**
Time: **14.00-15.30**
Room: **Q118**

**The new Auditing law in Republic of Macedonia
– a step forward to the European Union**

Zorica Bozinovska Lazarevska
(zoricab@eccf.ukim.edu.mk)
Faculty of Economics

Co-author(s): Aleksandar Kocovski

On 9th April 2001, R. of Macedonia has become the first country in the region which has signed the Agreement for Association and Stabilization with the EU and its member countries. Considering the fact that integration with the EU is being conditioned by acceptance of *acquis communautaire*, on 16 September 2005 the Government of R.M has passed the new Auditing Law. The interest by which the preparation of the Law was followed, and the reactions which it has created between the domestic auditors, has inspired us to analyze it in details and compare it with the EU regulation and to systemize the acquired information within this paper. The paper has three basic components. In the first, a detail presentation of the conditions in the auditing profession in R.M is being presented, which have initialized radical changes in the existing Law. In the frames of the second component, the proposed alternatives by the Law together with the proposed new Eight Company Law Directive are analyzed through comparative approach. In continuity, in the third component is being given a draft of the segments from the auditing profession in which a high level of harmonization with the EU regulation has being achieved, versus those in which there are still some discrepancies. Finally, at the end of the paper will be presented the set of measures to be undertaken in accordance with the Action Plan, in direction of efficient implementation of the new Law, which should bring us a step closer to the EU.

Code: **AUD R18**
Abstract ID: **0294**

Day: **Thursday**
Time: **14.00-15.30**
Room: **Q118**

**The Influence of the Audit Report When the Firm Requests
External Debt**

Antonio Duréndez
(antonio.durendez@upct.es)
Polytechnic University of Cartagena
Co-author(s): Javier Sánchez

This article analyses the utility or relevance of the auditor's opinion (clean, qualified, adverse or disclaimer) for the potential users of financial information. With this aim, we test the hypothesis about the influence that the audit report has when the companies ask for loans such as banks as trade creditors. By doing so, we try to obtain evidence on the relationship between the opinion the auditor issues in his report and the lending decisions of external creditors. We have supposed that a company whose financial statements present an audit report with a negative opinion will have less possibilities of obtaining external debt. We work with a data base of 5673 companies. We have gathered either qualitative and qualitative economic and financial information. The methodology of the work is based on the use of data panel for the period 1999-2003. In this sense, we regress the increase of external debt on the opinion that the auditor issues in his audit report, as well as the influence of the type of auditor, which are the independent variables determined by the hypotheses to contrast. We have used as control variables the economic sector, the profitability, the solvency, the asset increase, the size and the age of the company. The obtained results allow us to conclude that the audit report plays an excellent role in the process of obtaining external debt from credit institutions and trade creditors.

Code: **AUD R19**
Abstract ID: **0894**

Day: **Thursday**
Time: **14.00-15.30**
Room: **Q118**

**Classification and Analysis of Major
European Business Failures**

Jeroen van Raak
(j.vanraak@aim.unimaas.nl)
Universiteit Maastricht

*Co-author(s) Laury Bollen, Gerard Mertens,
Roger Meuwissen, Caren Schelleman*

The objective of this study is to analyse the characteristics of major business failures in the European Union in order to understand the common features, which are evident in these cases. The study also examines whether the external audit function has been held responsible for these business failures and if so whether any common factors can be identified. The analysis of business failure cases consists of three separate analyses. The first analysis classifies business failures into four business failure categories. This classification is based on a framework originally developed by Argenti (1976). The results of the classification analysis show that business failures in Europe are related to all four categories. This proves that that the classification model is representative for the occurrence of business failures in Europe. The second analysis is aimed at finding common factors or characteristics in business failures. Most business failures were related to economical issues, which may be considered to be part of normal business risk. The second most dominant factor is harmful, fraudulent or unethical behaviour by management. The third analysis focuses on the role of the auditor in business failures. For business failures due to economic reasons there is virtually no indication of a problematic role of the auditor. The vast majority of cases in which the role of the auditor has been questioned can be linked to the occurrence of fraudulent or unethical behaviour by management.

Code: **AUD R20**
Abstract ID: **1081**

Day: **Thursday**
Time: **14.00-15.30**
Room: **Q118**

**External audit vs. Statutory committee auditing
The Italian evidence**

Patrizia Tettamanzi
(patrizia.tettamanzi@unibocconi.it)
università Bocconi

Co-author(s) Laura Mariani, Fabio Corno

Since 1 Jan. 2004 Italian Corporate Law Reform (the Reform) has come into force and, as a result, the number of companies submitted to external auditing (EA) has increased. The Reform modified auditing structure introducing a separation of tasks: while the ISC is still responsible for administrative auditing, an independent external auditor has been made responsible for financial auditing concerning Annual Reports. The aim of this paper is to stress differences in auditing quality between external auditors and ISC that justify the new Italian law choices. In particular, due to wider specialization, independence from the company, and being trained and experienced to use better methods for detecting problem areas and interpreting GAAP, external auditors should be more qualified to audit companies' financial statements. To investigate the association between auditing quality and type of auditor the discretionary accruals can be compared – obtained by using Jones' model – of firms audited by external auditors with those firms audited by ISC. To test the hypothesis the Authors use a sample of annual reports approved as on 31 December 2004 of: - Italian listed companies submitted to EA; - Italian non-listed companies submitted to EA; - and Italian non-listed companies still submitted to ISC financial audit.

Code: **AUD R21**
Abstract ID: **0501**

Day: **Thursday**
Time: **11.00-12.30**
Room: **Q201**

How should the execution of additional services to audit be regulated? The opinion of academics as against auditors

Rosario Lopez
(lgrosa@us.es)
University of Sevilla

Co-author(s): **Jose Angel Perez, Jose Enrique Romero**

The objective of our paper is to study empirically the regulation of the market of audit services. In concrete, we strive to investigate more deeply the legal aspects with respect to the fulfilment of the obligation of independence when auditors realize other services distinct from financial audit. Our study is based on the reform of the Spanish Law of Audit. We show that many of the modifications carried through concern the independence of audit professionals when they perform other services. Furthermore, we point out those modified aspects that entail a direct or indirect influence on said circumstance: New incompatible activities with audit, novelties in the regulation of Audit Committees, new requirements of rotation for auditors, and publication of honoraria. For our empirical study, we have made use of a questionnaire, asking both academics and auditors about their opinions on the changes made in the Spanish regulation, whether they believe that these contribute towards a decrease of the existing controversy on non-auditing services rendered by auditors and, otherwise, what they propose as possible alternatives for palliating the conflict. Our findings show different conclusions for both groups, with academics being more restrictive than auditors regarding the regulation of this market.

Code: **AUD R22**
Abstract ID: **1138**

Day: **Thursday**
Time: **11.00-12.30**
Room: **Q201**

**Typology of Audit Research:
A Content Analysis**

Cédric Lesage
(lesage.iae@univ-paris1.fr)
University Paris 1 Panthéon La Sorbonne
Co-author(s) **Heidi Wechtler**

Turbulences that the audit world has experienced after the accounting scandals of the beginning of the 2000ies have raised the question of the utility and the relevance of research in audit. According to certain authors, important research topics had been forsaken to privilege of those justifying the current practices. Authors criticizing more or less explicitly the mainstream research are often pointing the overweighting of the “technical” research, as opposed to the “social” research, dealing with questions like relations auditor-auditee, social pressure, etc. So some concerns may be raised about the research themes in audit research. But which are the topics studied in research literature? Which are those the most analyzed? Which are the relations between them? In a surprising way, there exists very little work on this field. Indeed, it seems difficult to criticize the insufficiency of audit research without a relevant taxonomy, i.e. a typology of the research topics, including an evaluation of the quantity of items and their evolution in the course of time. All existing classifications rest on an a priori structure, generally resulting from a practitioner’s approach. It thus seems particularly important to have a classification based on a rigorous analysis of research literature, organizing knowledge in audit research from the actual scientific production, and not according to an a priori practical framework. We use a content analysis on the abstracts of 18 academic journals, ranging from their very first number to the last one. The results enable us to identify the main research topics in audit, to assess the evolution of their importance during the 20th century and to determine the contribution of the main journals.