

How the profession can learn from results of academic audit research

**Audit Research Summaries are online available now
(www.AuditingResearchSummaries.org)**

Jay C. Thibodeau and Philip Wallage

Auditors fulfil an important societal role by assuring the reliability of companies' financial statements. However, the audit profession is quite often under scrutiny because of bankruptcies, mismanagement and frauds by their clients. Also, auditors, responsible for discovering material misstatements in their clients' financial reports, are increasingly being criticized for their making errors themselves, sometimes with far-reaching consequences for the financial markets and society as a whole.

In a world characterized by a rapidly changing information environment and increased media attention, necessary root cause analyses and opportunities for re-

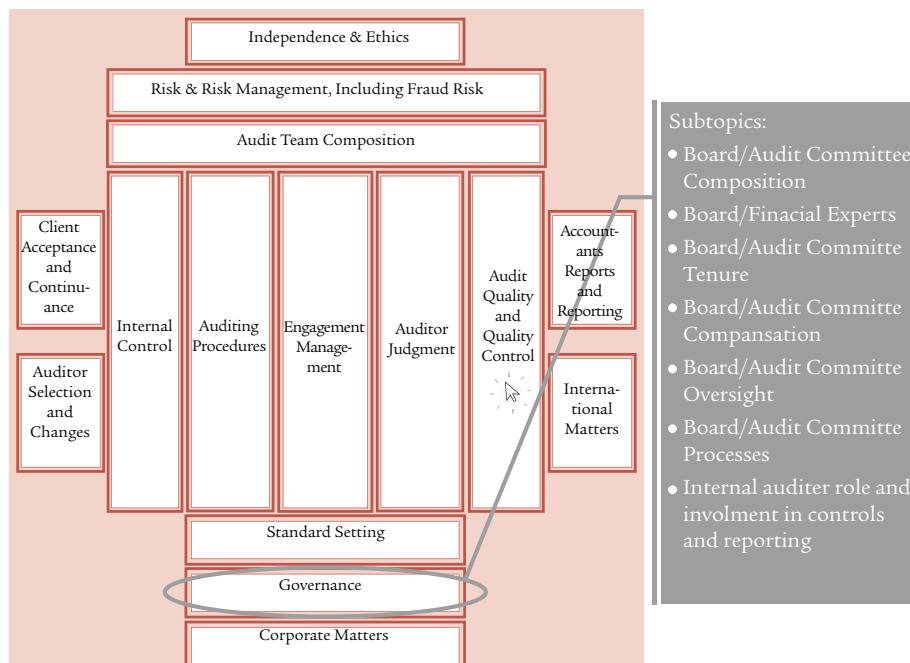
flection and learning are potentially compromised by the need for urgent decision-making in times of turmoil and crises. This pressure for sometimes immediate decision-making could lead to the risk that actions taken do not ever really solve the actual problem and instead may even trigger unintended side effects.

As a result, the global audit profession, (inter)national policy makers and regulators are struggling with the fundamental question of how to improve audit quality which has led to a growing demand for audit research (CAQ, 2015; IAASB, 2015; PCAOB¹, 2015). Following some incidents and negative reports by the oversight body of auditors, the Netherlands Institute

Figure 1 ARS Topical Framework (AAA, 2015)

FIND
RESEARCH
SUMMARIES
USING THE
ARS
TOPICAL
FRAMEWORK

Click a *Main Topic*
to see Subtopics
or
Search



of Chartered Accountants (NBA) took several recent measures to improve the quality and independence of the audit in the Netherlands (NBA, 2014). Among others actions, the NBA recommended that the accountancy sector should undertake an initiative to set up an independent scientific research institute. This institute should be charged with reviewing the: 1) effects of audits; 2) drivers of audit quality; and 3) effects of measures taken (internationally) about the sector. This initiative should be started from the Netherlands, including a contribution from the firms to provide for the financial means, future researchers (i.e., PhD students), data, and increased access to practitioners, such as senior partners and directors (NBA, 2014, p. 102). As a result the Foundation for Auditing Research (FAR) was incorporated in autumn 2015. Notwithstanding the growing demand for audit research, it is important to remember that a vast amount of audit research has already been published in internationally highly ranked academic Journals over the last several decades. In fact, the Auditing Section of the American Accounting Association (the Auditing Section) has recently provided a mechanism to help improve the understandability and access to the vast body of academic audit research that has previously been conducted. Indeed, recognizing that much of this research has been designed to help our colleagues in practice improve audit quality, the Executive Committee of the Auditing Section recently articulated a strategic initiative

to develop and disseminate research summaries. The initiative was explicitly designed to further its mission of taking actions to help improve the practice of auditing through basic academic research.

Quite recently, a team led by Dr. Jennifer Mueller (Auburn University) opened up access to very valuable summaries of published audit research papers, that have been prepared by Ph.D. Student Members of the Auditing Section and made available online without charge (AAA, 2015). The Audit Research Summary (ARS) database was created with the objective to support policy makers and regulators and to foster proactive exchanges of research ideas and current state of knowledge between academics and professionals.

The ARS database includes summaries of papers that were published (2005-current) in the following academic journals:

- *Accounting Horizons*
- *Accounting, Organizations and Society*
- *Auditing: A Journal of Practice & Theory*
- *Behavioral Research in Accounting*
- *Contemporary Accounting Research*
- *Journal of Accounting Research* (added late 2015)
- *The Accounting Review*

The summaries are indexed by topic while each topic area has numerous sub-topics (see figure 1). Additional summaries will be added on a regular basis.

Figure 2 Example ARS (AAA, 2015)

EXAMPLE	research summary
	<p>Busyness, Expertise, and Financial Reporting Quality of...</p> <p><small>research summary posted 1:10 PM by Jennifer M Mueller-Phillips, tagged 13.0 Governance, 13.01 Board/Audit Committee Composition, 13.02 Board/Financial Experts, 13.05 Board/Audit Committee Oversight</small></p> <p><small>5 Views</small></p>
Tweet:	<p>Title: Busyness, Expertise, and Financial Reporting Quality of Audit Committee Chairs and Financial Experts</p> <p>Practical Implications: This research makes important contributions to understanding the factors associated with audit committee monitoring effectiveness in the post-SOX period. This study provides additional support for already existing research that both busy audit committee chairs and busy audit committee financial experts may result in overall lower financial reporting quality. These results are important for firms to consider in order to understand how the effectiveness of the audit committee can be affected by these key roles.</p> <p><small>For more information on this study, please contact Paul Tanyi.</small></p> <p>Citation: Tanyi, P. N. and D. B. Smith. 2015. Busyness, expertise, and financial reporting quality of audit committee chairs and financial experts. <i>Auditing: A Journal of Practice and Theory</i> 34 (2): 59-89.</p> <p>Keywords: Audit committee chairs, audit committee financial experts, audit committees, financial reporting quality</p> <p>Purpose of the Study: The audit committee chairman and financial experts hold important roles for audit committee oversight. This study investigates whether the number of other chairman or expert positions held by the individuals ("busyness") negatively influences their ability to properly oversee financial reporting. Previous research has shown that before the Sarbanes-Oxley Act there was a positive relationship between multiple audit committee directorships and monitoring quality. This study seeks to support the alternative hypotheses that financial reporting quality post-SOX is negatively associated with the number of audit committee chair positions and other audit committee financial expertise positions held by the audit committee chairman/financial experts.</p> <p>Design/Method/Approach: The final data sample consisted of 6,535 firm-year observations from the period 2004 to 2008. The authors compare the busyness of the audit committee chairman and financial expert(s) to the quality of the public companies' financial reporting. The authors determine the busyness of the chairman and financial experts using the number of other chair and financial expertise positions that they hold. <i>Financial reporting quality</i> is measured by evaluating certain characteristics of the firms' earnings and indicators of managerial earnings manipulation. The authors controlled for certain firm characteristics that might influence financial reporting quality—other governance characteristics, the nature of the firm's business, the strength of internal controls over financial reporting, and auditor characteristics.</p> <p>Findings:</p> <ul style="list-style-type: none"> • The number of audit committee chair positions and other audit committee financial expertise positions held by the audit committee chairman is significantly negatively associated with financial reporting quality. • The number of audit committee chair positions and other audit committee financial expertise positions held by the audit committee financial expert is significantly negatively associated with financial reporting quality.
	Excerpt.

Already since 1924 the editorial policy of the Dutch journal 'Maandblad voor Accountancy en Bedrijfseconomie' (MAB) is to publish academic papers for a broad range of practitioners. The MAB Editorial Board therefore wishes to contribute to the AAA initiative by informing readers and potential readers in the Netherlands about relevant audit research findings and make existing research findings available for practitioners and policymakers. As the FAR will start to invest in audit research in the Netherlands, we intend to contribute by preparing ARS of the FAR's research output. Finally we will consider cooperation with other European Journals to disseminate auditing research findings.

Starting with this issue we will publish examples of relevant ARSs (figure 2) that are relevant for the Dutch audit profession. On the MAB website (MAB-online)

you will find further information about the ARS database, the ARS twitter account (@AuditResearch) and ARS Facebook page.

We expect this development to help bridging the worldwide gap between academics and practitioners to support the highly relevant audit profession. ■

Prof Jay C. Thibodeau is the Rae D. Anderson Professor of Accountancy at Bentley University and former President of the AAA Audit Section.

Prof Philip Wallage is Professor of Auditing at the VU University Amsterdam/ University of Amsterdam and Chair of the Editorial Board of Maandblad voor Accountancy en Bedrijfseconomie (MAB).

Noten

■ PCAOB Center for Economic Analysis, conducts high quality, independent academic research on audit-related topics, including

the role and relevance of the audit in capital markets, informs the PCAOB in its oversight activities and provides evidence

regarding the possible outcomes of policy decisions.

Literatuur

■ American Accounting Association (AAA) (2015). *Audit Research Summaries, Topical Framework*. Retrieved from www.AuditingResearchSummaries.org.

■ Center for Audit Quality (2015). *CAQ Issues Request for Auditing-Related Academic Research Proposals*, November 19, 2015. Retrieved from Newsroom, <http://www.thecaq.org/newsroom/2015/11/19/caq-issues-request-for-auditing-related-academic-research-proposals>

■ Nederlandse Beroepsorganisatie van Accountants (NBA). Future Accountancy Working Group (2014). *In the Public Interest. Measures to improve the quality and independence of the audit in The Netherlands*. Amsterdam: NBA. Retrieved from https://www.accountant.nl/globalassets/accountant.nl/toekomst-accountantsberoep/in_the_public_interest.pdf.

■ IAASB, 2015, IAASB, ICAS and IAAER Call for Research to Inform the IAASB Standard-

setting Process, Press Release, May 30. Retrieved from <http://www.ifac.org/news-events/2015-03/icas-and-iaaer-call-research-inform-iaasb-standard-setting-process>.

■ PCAOB, 2015, Center for Economic Analysis. Retrieved from <http://pcaobus.org/About/CenterforEconomicAnalysis/Pages/about-center-economic-analysis.aspx>.