

## *Phd course on Auditing Research*

September 30- October 3, 2009

### Instructor:

Prof. Dr. Marleen Willekens, Katholieke Universiteit Leuven

### Course Objectives

The objectives of this course include:

1. To introduce students to the primary areas of research in auditing.
2. To introduce students to research methodologies and statistical methods used in auditing research.
3. To improve students ability to critically evaluate the quality of research in auditing.
4. To facilitate the development of research projects in auditing, possibly leading to selection of topics for dissertation work.
5. To introduce students to the publication process.

### Assignments for Paper Discussions

Students are assigned the role of “author” or “discussant” on one paper as indicated in the compulsory reading list. Students should prepare a presentation of the paper in accordance with their role; that is: authors briefly present the contents of the paper and discussants critically discuss the paper. All other students are expected to ask questions and provide critical feedback on the paper. Some guidelines for discussing a research paper are attached. The discussion of a single paper in class will last approximately 45 minutes. The “author” should plan a presentation of 15 minutes and the “discussant” should present for approximately 10 minutes; the remaining part of the time is for class interaction and feedback.

### Advance Preparation:

Students should arrive for the course having completed the following work:

1. Every student is required to thoroughly read in advance **ALL** papers to be discussed in the course (i.e. the 12 papers included in the course outline). Each student is also required to prepare at least 3 (but potentially many more) questions and/or comments for each paper.  
**A WRITTEN REPORT INCLUDING ALL QUESTIONS/COMMENTS PREPARED FOR EACH OF THE 12 PAPERS IS TO BE HANDED IN TO PROFESSOR WILLEKENS AT THE START OF THE FIRST SESSION ON SEPTEMBER 30.**

2. Every student is required to prepare a presentation for the paper assigned to her/him and thus for which the student is the “author” or “discussant”.  
**EACH PRESENTATION SHOULD LAST 10 MINUTES FOR DISCUSSANTS AND 15 MINUTES FOR AUTHORS.**
3. During the course students will be put in 5 groups and each group will have to prepare a group presentation about a new research proposal in a chosen audit research area. During the course the groups will get some time to prepare this presentation, but it would be a good idea to think about a possible topic in advance (perhaps during the preparation of the course, while reading the literature). This exercise will enable the students to apply what we learn during the course. On the last day of the course, **each group will get about 30 minutes in class to present (briefly) and discuss their proposal.**

Please be well prepared for attending the course!  
Interaction is critical to enhance your learning.

Looking forward to seeing you in Berlin!

Prof. Dr. M. Willekens

## Detailed Course Plan

<i>Time</i>	<i>Topic</i>	<i>Who?</i>	<i>Details</i>
<b>Wednesday September 30, 2009</b>			
14:00—15:45	Introduction	Professor Willekens	“Introduction to the course and overview of audit research methodologies”  Lecture
15:45—16:00	<i>Break</i>		
16:00—18:00	Papers	Professor Willekens  Students	“Economics of auditing & the market for audit services”  Paper 1: Simunic (1980) Paper 2: Francis, Reichelt and Wang (2005) Paper 3: Numan and Willekens (2009)

<b>Thursday October 1, 2009</b>			
9:00—10:45	Lecture and Papers	Professor Willekens  Students	“Audit Quality: overview of the metrics in research”  Lecture  Paper 4: Francis (2004)
10:45—11:15	<i>Break</i>		
11:15—13:00	Papers	Professor Willekens  Students	“Auditing and Earnings Quality”  Paper 5: Francis, Maydew, & Sparks (1999)  Paper 6: Vander Bauwhede and Willekens (2004)
13:00—14:00	<i>Lunch</i>		
14:00—15:45	Papers	Professor Willekens  Students	“Going Concern and Audit Reporting”  Paper 7: Gaeremynck and Willekens (2003)  Paper 8: Bruynseels and Willekens (2009)
16:15—18:00	Lecture  Paper	Professor Willekens  Students	“Auditing and Institutions”  Lecture  Paper 9: Hope, Kang, Thomas and Yoo (2009)

<b>Friday October 2, 2009</b>			
9:00—10:45	Lecture	Professor Willekens & students	“Behavioral Research in Auditing” Overview lecture Paper 10: O’Donnell and Schultz (2005)
10:45—11:15	<i>Break</i>		
11:15—13:00	Papers  Lecture	Professor Willekens & Students  Professor Willekens	Publishing – lessons to be learned from an analysis of MS 2009-04
13:00—14:00	<i>Lunch</i>		
14:00—15:45	Papers	Professor Willekens  Students	“European Audit Research perspectives” Paper 11: Eilifsen and Willekens (2008) Paper 12: Ruiz_Barbadillo, Gomez-Aguilar & Carrera (2009)
15:45—16:15	<i>Break</i>		
16:15—18:00	Papers	Students	Research project brainstorm in groups

<b>Saturday October 3, 2009</b>			
9:00—10:45	Proposals	Professor Willekens & Students	Presentation of research proposal by groups and discussion
10:45—11:00	<i>Break</i>		
11:00—13:00	Lecture	Professor Willekens	Concluding session: “The publication game” – lessons to be learned from an analysis of MS 2007-21  “Course rap up and overview of topics and methodologies”
13:00—14:00	<i>Lunch</i>		

### Compulsory reading list and allocation of students to papers

<b>Paper no.</b>	<b>Reference</b>	<b>Presenting student</b>	<b>Discussing student</b>
<b>1. Simunic (1980)</b>	The Pricing of audit Services: Theory and Evidence. <i>Journal of Accounting Research</i> 18:1, 161-190.	Nicole Ratzinger	Only group discussion!
<b>2. Francis, Reichelt and Wang (2005)</b>	The Pricing of National and City-Specific Reputations for Industry Expertise in the U.S. Audit Market. <i>The Accounting Review</i> 80:1, 113-136.	Roland Rentz	Matthias Finking
<b>3. Numan and Willekens (2009)</b>	Industry specialization as a means to soften price competition in the audit market. Working paper Tilburg University and KU Leuven.	Kristina Yankova	Only group discussion!
<b>4. Francis (2004)</b>	What do we know about audit quality? <i>The British Accounting Review</i> 36, 345–368.	Only group discussion!	
<b>5. Francis, Maydew &amp; Sparks (1999)</b>	The Role of Big Six Auditors in the Credible Reporting of Accruals. <i>Auditing: A Journal of Practice and Theory</i> 18:2, 17-34.		Steffen Braun
<b>6. Van der Bauwhede &amp; Willekens (2004)</b>	Evidence on (the Lack of ) Audit-quality Differentiation in the Private Client Segment of the Belgian Audit Market. <i>The European Accounting Review</i> 13: 3, 501–522.	Daniela Maccari	Rainer Laier
<b>7. Gaeremynck &amp; Willekens (2003)</b>	The endogenous relationship between audit-report type and business termination: evidence on private firms in a non-litigious environment, <i>Accounting and Business Research</i> 33:1, 65-79.	Frederik Frey	Only group discussion!
<b>8. Bruynseels &amp; Willekens (2009)</b>	Audit Reporting and Turnaround Initiatives in Distressed Companies: Evidence from the US Manufacturing	Jens Jany	Steffen Umlauf

	Industry. Working paper Tilburg University and KU Leuven.		
<b>9. Hope, Kang, Thomas &amp; Yoo (2009)</b>	Impact of Excess Auditor Remuneration on the cost of Equity Capital around the World. <i>Journal of Accounting Auditing and Finance</i> . 24:2, p. 177-210.	Christian Hanke	Johanna Quandil
<b>10. O'Donnell &amp; Schultz (2005)</b>	The Halo Effect in business Risk Audits: Can Strategic Risk Assessment Bias Auditor Judgment about Accounting Details? <i>The Accounting Review</i> 80:3, 921-940.	Miriam Rokitta	Mirko Merkenkotte
11. Eilifsen & Willekens (2008)	In the name of trust. Some thoughts about trust, audit quality and audit regulation in Europe. In: <i>Auditing, Trust and Governance</i> . Quick, Turley and Willekens (eds.), p. 1-18.	Only group discussion!	
<b>12. Ruiz-Barbadillo, Gomez-Aguilar &amp; Carrera (2009)</b>	Does Mandatory Audit Firm rotation Enhance Auditor Independence? Evidence from Spain. <i>Auditing: A Journal of Practice and Theory</i> . 28:1, p. 113-135.	Ilka Canitz	Thilo Helpenstein

## **Guidance for Discussion of Research Papers**

When reviewing and preparing a discussion of a research paper, you should be prepared to address the following issues:

1. What is the research question being addressed by the study?
2. Why is the question interesting or important to the profession, practice of auditing or capital markets?
3. What are the hypotheses or expectations of the authors?
4. What is the general approach taken for examining the research question?
5. What is the source of the data used in the study?
6. What statistical methods were used to test the hypotheses?
7. What were the key findings of the study?
8. What are the implications of the study for the profession?
9. What are the limitations/weaknesses/caveats of the study?
10. What follow-up research would you suggest?

## **Additional Background Literature (voluntary)**

Note that the papers that are indicated with an \* are highly recommended as additional reading.

- \* Becker, C., M. DeFond, J. Jiambalvo, and K.R. Subramanyam (1998), "The Effect of Audit Quality on Earnings Management", *Contemporary Accounting Research*, Spring, pp. 1-24.
- Bedard, J.C. and K.M. Johnstone (2004). "Earnings Manipulation Risk, Corporate Governance Risk and Auditor's Planning and Pricing Decisions". *The Accounting Review*, April, pp. 277-304.
- Blackwell, D., T. Noland, and D. Winters (1998), "The Value of Auditor Assurance: Evidence from Loan Pricing", *Journal of Accounting Research*, Spring, pp. 57-70.
- \* Chen, K. and B. Church (1996), "Going Concern Opinions and the Market's Reaction to Bankruptcy Filings", *The Accounting Review*, January, pp. 117-129.
- \* Craswell, A., J. Francis, and S. Taylor (1995), "Auditor Brand Name Reputations and Industry Specialization", *Journal of Accounting and Economics*, pp. 297-322.
- DeAngelo, L. (1981a), "Auditor Independence, 'Low Balling', and Disclosure Regulation", *Journal of Accounting & Economics*, December, pp. 113-127.
- DeAngelo, L. (1981b), "Auditor Size and Audit Quality", *Journal of Accounting & Economics*, pp. 183-199.
- DeFond, M. (1992), "The Association Between Changes in Client Firm Agency Costs and Auditor Switching", *Auditing: A Journal of Practice & Theory*, Spring, pp. 16-31.
- Dopuch, N., M. Gupta, D. Simunic and M. Stein (2003), "Production Efficiency and the Pricing of Audit Services", *Contemporary Accounting Research*, Vol. 20, No. 1, Spring, pp. 47-78.
- Geiger, M. and K. Raghunandan (2002). "Auditor Tenure and Audit Reporting Failures". *Auditing: A Journal of Practice & Theory*: 67-78.
- \* Hay, D., Knechel, W.R. and N. Wong, "Audit Fees: A Meta-Analysis of the Effect of Supply and Demand Attributes", *Contemporary Accounting Research* (Spring 2005): 141-192.
- Hopwood, W., J. McKeown, and J. Mutchler (1994), "A Reexamination of Auditor versus Model Accuracy within the Context of Going-Concern Opinion Decisions", *Contemporary Accounting Research*, Spring, pp. 409-431.
- Johnson, V.E., I.K. Khurana and J.K. Reynolds. "Audit-Firm Tenure and the Quality of Financial Reports". *Contemporary Accounting Research* (2002): 637-660.
- Klein, B. and K. Leffler (1981), "The Role of Market Forces in Assuring Contractual Performance", *Journal of Political Economy*, pp. 615-641. (Note: The economic arguments in this paper underlie the audit quality argument in the following key paper by DeAngelo.)
- Knechel, W.R., V. Naiker and G.Pacheco, "Does Auditor Industry Specialization Matter? Evidence from Market Reaction to Auditor Switches", *Auditing: A Journal of Practice & Theory* (May 2007): 19-45.
- McDaniel, L., "The Effects of Time Pressure and Audit Program Structure on Audit Performance", *Journal of Accounting Research* (Autumn 1990): 267-285.
- \* Mutchler, J. (1985), "A Multivariate Analysis of the Auditor's Going Concern Opinion Decision", *Journal of Accounting Research*, Autumn, pp. 668-682.



- O'Keefe, T., D. Simunic and M. Stein (1994), "The Production of Audit Services: Evidence from a Major Public Accounting Firm", *Journal of Accounting Research*, Autumn, pp.241-261.
- Simunic, D. (1984), "Auditing, Consulting, and Auditor Independence", *Journal of Accounting Research*, Autumn, pp. 679-702.
- \* Wallace (1981), "The Economic Role of the Audit in Free and Regulated Markets" found at: <http://raw.rutgers.edu/raw/wallace/homepage.html>
- \* Watts, R. & J. Zimmerman (1983), "Agency Problems, Auditing, and the Theory of the Firm: Some Evidence", *Journal of Accounting & Economics*, pp. 613-634.
- Weber, J. and M. Willenborg (2003), "Do Expert Informational Intermediaries Add Value? Evidence from Auditors in Microcap Initial Public Offerings", *Journal of Accounting Research*, Vol.41, No. 4, September, pp. 681-720.
- Willekens, M., A. Steele, and D. Miltz (1996), "Auditing Standards and Auditor Liability: A Theoretical Model", *Accounting and Business Research*, Vol. 26, pp. 249-264.