

BENTLEY UNIVERSITY
PACC 1602 – Auditing and Assurance Research
Spring 2016
AAC 242; Tuesday 1:00 – 4:00 (except for three sessions as noted)
Professor Jean C. Bedard
AAC 240, 781-891-2410, jbedard@bentley.edu
Office hours: Wednesday 9:30-11:30 and by appointment

COURSE DESCRIPTION

The purpose of this seminar is to help students develop a foundation for evaluating and producing scholarly research on topics related to auditing and assurance. During the seminar, we will read and critique research papers on a variety of auditing topics. With regard to each article covered, we will pay particular attention to the significant and unique contribution of the research question, logical and coherent development of the theoretical-empirical background, appropriate and valid design of the research process, rigorous and comprehensive analysis of the data, and meaningful and insightful discussion of the research findings. We will also discuss various alternative ways in which the author(s) might have approached the research question, and consider the generation of future research topics arising from the article's findings. This syllabus may be adjusted as we move through the course.

LEARNING OBJECTIVES

Upon the conclusion of the course you should:

1. Develop a deep understanding of auditing and assurance theory and research;
2. Develop a deep understanding of current auditing and assurance topics and issues;
3. Learn how to apply auditing and assurance research methods;
4. Know how to critically evaluate auditing and assurance research; and
5. Demonstrate your knowledge by developing a viable research proposal in the domain of auditing and assurance.

COURSE REQUIREMENTS

Required knowledge of auditing: I assume each of you has a working knowledge of auditing standards and regulation of the auditing profession in the U.S. (e.g., the main provisions of the Sarbanes-Oxley Act, and functions of the PCAOB), at least at the level of the standard undergraduate course. It will be helpful throughout the course to refer to a textbook for details on current auditing standards. However, you need not buy a text. If you do not have access to one, we will discuss in our first class how we can assure that all of you have a text for reference.

Participation: The key to a meaningful and interesting seminar experience is class participation, and thus each student is expected to make a significant contribution to discussion of each of the readings. By "significant" contribution, I mean both the quantity and quality of comments that you make. This implies that all assigned papers must be read carefully prior to class. Also, you will benefit from reading prior research on which the authors of the assigned papers rely heavily. This will improve your ability to make comparisons across studies, and provide you with material for questions and comments that will enliven class discussion. Assigned readings are available on the course Blackboard site, under "Assignments."

Presentations: Each student is required to read every assigned paper and be prepared to discuss the paper intelligently. However, one student will be assigned to be the primary presenter of each paper. The primary presenter is also responsible for searching for current working papers on the topic to include at the end of their presentation of the assigned paper. The objective of this process is to identify viable questions for research to extend the literature. You must prepare a professional presentation using PowerPoint, and lead the class through the paper as well as a critique of the work. The readings are numbered in the course schedule below. Please see the spreadsheet under “Assignments” on the course Blackboard site, which shows the papers that each of you will be responsible for presenting.

Article Analysis: For each assigned article, you must turn in an evaluation using either a bullet-point or outline format. Your article analyses should be about 5 manuscript pages in length (double-spaced, one-inch margins, 12-point font). Your evaluation should: (1) describe the research question and why it is interesting and important; (2) for empirical papers, evaluate the key assumptions, theories, variables (identify independent and dependent variables using “Libby boxes”, and discuss validity of each), hypotheses or research questions; (3) consider the appropriateness of the sample, research design, and testing method; (4) discuss the results of tests or analysis (significant/insignificant? interesting? surprising?); and (5) assess the article’s contributions, limitations, and implications. Submit your evaluations to me electronically before noon of the relevant class day. (Note: for the articles that you are presenting, you may use your presentation slides as the deliverable, as long as it contains the above components. Using the “notes” function will help you include all relevant material that I should consider in grading.)

Research Proposal: You are required to turn in and present a research proposal for a study related to a topic in the domain of auditing and assurance. The proposal should:

1. Identify the purpose of the proposed research project;
2. Defend the relevance of the research question;
3. Articulate the expected scholarly contribution;
4. Offer a brief synopsis of the appropriate theory and literature;
5. Propose the research model and hypotheses;
6. Set forth a research design; and
7. Identify the appropriate data source and statistical methods.

Your proposal should be about 10 to 15 pages in length (double-spaced). Please talk to me early in the term about possible topics, to give you maximum opportunity to prepare a good proposal. I hope that these proposals will become actual papers for you (perhaps part of your dissertation if auditing is your area of interest), and if so, you will have a good start on the front end of the paper from this class exercise. Written proposals are due on April 26, and will be presented in class on May 3.

Final Examination. There will be a closed-book/notes essay format final examination at the end of the semester. You will have access to the syllabus as a reminder of the papers we covered. This is the same format as the comprehensive examinations, and so will be valuable practice.

Course Grade: Your grade will be determined by your performance on in-class presentations (20%), class participation (10%), article evaluations (20%), research proposal (20%), and the final examination (30%).

The Bentley Academic Honesty System:

All assignments for this course are **individual assignments**. While you may benefit from talking to each other about general issues regarding the assigned papers, the preparation of work that you hand in must be your own. If you have questions on the papers, it is best to communicate with me. If it is unclear to you whether a particular communication is outside of the bounds of this policy, always ask me.

General guidance: “Learning is an opportunity and a privilege that demands responsibility and an uncompromising level of honor, integrity and trust. The expectation at Bentley is that students and faculty will take advantage of the opportunity for intellectual development, and that they will also conduct themselves in a manner consistent with the standards of academic honesty. When these standards are violated or even compromised, individuals and the entire Bentley community suffer.” Students are responsible for familiarizing themselves with and understanding the academic honesty guidelines presented in the *Student Handbook*. Fair Use of Copyright Materials - All course materials, including library reserves, are for teaching purposes for this course during this term only. You may not reproduce these materials to distribute outside of class. Please see *Fair Use of Copyright Materials* for more information. From the *Student Handbook*: <http://www.bentley.edu/shandbook/integrity/index.cfm>.

Students With Disabilities:

Bentley University abides by Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, which stipulate no students shall be denied the benefits of an education solely by reason of a disability. Disabilities covered by law include, but are not limited to, learning disabilities, visual, hearing, and mobility impairments, medical conditions, psychiatric disorders, and temporary disabilities. If you have a documented disability that may have some impact on your work in this course and for which you may require academic accommodations, please call as soon as possible to make an appointment with Stephanie Brodeur, Coordinator of Disability Services, in LaCava 166 (Office of Counseling and Student Development, 781.891.2274) within the first four weeks of the semester so that such accommodations may be arranged.

The Writing Center:

The Writing Center offers one-on-one tutoring to students of all years and skill levels. Located on the lower level of the Bentley library (room 023), the Writing Center provides a welcoming and supportive environment in which students can work on writing from any class or discipline. Writers are encouraged to visit at all stages of the writing process; they can come with a draft, an outline, or just some initial thoughts and questions. Staffed by highly skilled student tutors, the Writing Center is open six days a week. Drop-ins are welcome, but appointments are encouraged and can be made online at bapps.bentley.edu or by phone at 781.891.3173. For hours and additional information, visit our website at bentley.edu/writing-center.

COURSE SCHEDULE

January 19 - SESSION 1: Introduction

In this first class we will consider the topics covered in auditing research, the methods generally used, sources of data, the role of research in audit practice, the process of preparing research, and research ethics.

Francis, J. 2004. What do we know about audit quality? *The British Accounting Review* 36: 345–368.

DeFond, M., and Zhang. 2014. A review of archival auditing research. *Journal of Accounting and Economics* 58: 275–326

January 26 - SESSION 2: The Audit Process: Risk Assessment and Audit Planning

***** Class meets 10:30-1:30****

1. Brazel, J., T. Carpenter, and G. Jenkins 2010. Auditors' use of brainstorming in the consideration of fraud: Reports from the field. *The Accounting Review* 85 (4): 1273–1301.
2. Bowlin, K. 2011. Risk-based auditing, strategic prompts, and auditor sensitivity to strategic risk of fraud. *The Accounting Review* 86 (4): 1231-1253.
3. Boritz, E., N. Kochetova-Kozloski, and L. Robinson. 2015. Are fraud specialists relatively more effective than auditors at modifying audit programs in the presence of fraud risk? *The Accounting Review*: 90 (3): 881-915.

February 2 - SESSION 3: The Audit Process: Analytical Procedures

***** Class meets 10:30-1:30****

1. Pike, B., M. Curtis, and L. Chui. 2013. How does an initial expectation bias influence auditors' application and performance of analytical procedures? *The Accounting Review* 88 (4):1413–1431.
2. Plumlee, D., B. Rixom, and A. Rosman. 2015. Training auditors to perform analytical procedures using metacognitive skills. *The Accounting Review* 90 (1): 351-369.
3. Luippold, B., T. Kida, D. Piercey, and J. Smith. 2015. Managing audits to manage earnings: The impact of diversions on an auditor's detection of earnings management. *Accounting, Organizations and Society* Pages 39–54.

February 9 - SESSION 4: The Audit Process: Control and Substantive Tests

1. Bedard, J., and L. Graham. 2011. Detection and severity classification of Sarbanes-Oxley Section 404 internal control deficiencies. *The Accounting Review* 86 (3): 825–855.
2. Hammersely, J., K. Johnstone, and K. Kadous. 2011. How do audit seniors respond to heightened fraud risk? *Auditing: A Journal of Practice and Theory* 30 (3): 181-101.
3. Griffith, E. 2015. How do auditors use valuation specialists when auditing fair values? Working paper.

February 16 - SESSION 5: The Audit Process: Review

1. Payne, E., R. Ramsay, and E. M. Bamber. 2010. The effect of alternative types of review on auditors' procedures and performance. *Auditing: A Journal of Practice & Theory* 29 (1): 207-220.
2. Lambert, T., and C. Agoglia. 2011. Closing the loop: Review process factors affecting audit staff follow-through. *Journal of Accounting Research* 49 (5): 1275-1306.
3. Andiola, L., and J. C. Bedard. 2015. What happens after audit review? Examining the attitudes and actions of staff auditors. Working paper.

February 23 - SESSION 6: Auditor Independence

***** Class meets 10:30-1:30****

1. Ye, P., E. Carson, and R. Simnett. 2011. Threats to auditor independence: The impact of relationship and economic bonds. *Auditing: A Journal of Practice & Theory* 30 (1): 121-148.
2. Schmidt, J. 2012. Perceived auditor independence and audit litigation: The role of nonaudit services fees. *The Accounting Review* 87 (3): 1033-1065.
3. Dhaliwal, D. S., P. Lamoreaux, C. Lennox, and L. Mauler. 2015. Management influence on auditor selection and subsequent impairments of auditor independence during the Post-SOX Period. *Contemporary Accounting Research* 32 (2): 575–607

March 1 - SESSION 7: Audit Firm Quality Control

1. Dowling, C. 2008. Appropriate audit support system use: The influence of auditor, audit team and firm factors. *The Accounting Review* 84 (3): 771–810.
2. Ramirez, C. 2013. ‘We are being pilloried for something, we did not even know we had done wrong!’ Quality control and orders of worth in the British audit profession. *Journal of Management Studies* 50 (5): 845–869.
3. Westermann, K., C. Earley and J.C. Bedard. 2015. Learning the “craft” of auditing: A dynamic view of auditors’ on-the-job learning. *Contemporary Accounting Research* 32 (3): 864-896.

March 8 - SESSION 8: Auditor-Client Negotiation

1. Trotman, K., A. Wright, and S. Wright. 2005. Auditor negotiations: An examination of the efficacy of intervention methods. *The Accounting Review* 80 (1): 349-367.
2. Perreault, S., and T. Kida. 2011. The relative effectiveness of persuasion tactics in auditor-client negotiation. *Accounting, Organizations and Society* 36 (8): 534-574.
3. Keune, M., and K. Johnstone. 2012. Materiality judgments and the resolution of detected misstatements: The role of managers, auditors, and audit committees. *The Accounting Review* 87 (5): 1641-1677.

March 15 - SPRING BREAK

March 22 - SESSION 9: Auditing Fair Values

1. Griffith, E., J. Hammersley, K. Kadous. 2014. Audits of complex estimates as verification of management numbers: How institutional pressures shape practice. *Contemporary Accounting Research* 32 (3): 833–863.
2. Maksymov, E., M. Nelson, and W. Kinney. 2014. Planning audits of fair values: interactive effects of frame and perceived verifiability of audit procedures. Working paper.

3. Cannon, N., and J. C. Bedard. 2015. Auditing challenging fair value measurements: Evidence from the field. Working paper.

March 29 - SESSION 10: Economics of Auditing

1. Carson, E. 2008. Industry specialization by global audit firm networks. *The Accounting Review* 84 (2): 355–382.
2. Eshleman, J., and P. Guo. 2014. Abnormal audit fees and audit quality: The importance of considering managerial incentives in tests of earnings management. *Auditing: A Journal of Practice & Theory* 33 (1): 117-138.
3. Prawitt, D., N. Sharp, and D. Wood. 2011. Reconciling archival and experimental research: does internal audit contribution affect the external audit fee? *Behavioral Research in Accounting* 23 (2): 187-206.

April 5 - SESSION 11: Audit Firm Size and Client Portfolio Management

1. DeFond, M., and C. Lennox. 2011. The effect of SOX on small auditor exits and audit quality. *Journal of Accounting and Economics* 52: 21-40.
2. Lawrence, A., M. Meza, and P. Zhang. 2011. Can Big 4 and Non-Big 4 differences in audit quality proxies be attributed to client characteristics? *The Accounting Review* 86 (1): 259–286.
3. DeFond, M., Erkens, D. and Zhang, J. 2015. Does PSM really eliminate the Big N audit quality effect? Working paper.

April 12 - SESSION 12: International Auditing Research

1. Lennox, C., and J. Pittman. 2011. Voluntary audits versus mandatory audits. *The Accounting Review* 86 (5): 1655–1678.
2. Carcello, J., and C. Li. 2012. Costs and benefits of requiring an engagement partner signature: Recent experience in the United Kingdom. *The Accounting Review* 88 (5): 1511–1546.
3. Downey, D. H., and J. C. Bedard. 2015. Coordination and communication challenges in global group audits. Working paper.

April 19 - No class (Monday classes are scheduled for this day, due to Patriot's Day holiday)

**April 26 - SESSION 13: Litigation Against Auditors
(Submit your research proposal papers by the beginning of class.)**

1. Reffett, A. 2010. Can identifying and investigating fraud risks increase auditors' liability? *The Accounting Review* 85 (6): 2145-2167.
2. Kaplan, S. and D. Williams. 2013. Do going concern audit reports protect auditors from litigation? A simultaneous equations approach. *The Accounting Review* 88 (1): 199–232.
3. Grenier, J., B. Pomeroy, and M. Stern. 2015. The effects of accounting standard precision, auditor task expertise, and judgment frameworks on audit firm litigation exposure. *Contemporary*

Accounting Research 32 (1): 336–357.

May 3 - SESSION 14: Presentation of research proposals

May 10 - SESSION 15: Final Examination, in class, closed book/notes