Auditing Standards Committee Auditing Section
American Accounting Association

Re: Invitation to comment on A Framework for Audit Quality.

May 10, 2013

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the consultation paper *A Framework for Audit Quality,* which was recently developed and published by IAASB.

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that you found our comments useful for your deliberations and incorporate some of our insights into the final version of the framework. Please, feel free to contact our committee chair if you have questions or need further clarifications.

Respectfully submitted,

Auditing Standards Committee
Auditing Section – American Accounting Association.

Chair-Mikhail Pevzner, George Mason University/University of Baltimore
Sebahattin Demirkan, Suffolk University
Nancy Feng, Suffolk University
Natalia Mintchik, University of Missouri, St. Louis
Gregory Sierra, Southern Illinois University, Edwardsville

Auditing Standards Committee Auditing Section
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Responses to Specific Questions in the Invitation to Comment

The IAASB's Consultation Paper "A Framework for Audit Quality" makes great strides towards meeting the IAASB's strategy of "enhancing the quality of assurance" and "supporting global financial stability". The three-by-three design (attributes of quality audits coupled with levels of engagement, firm, and national) and detailed outline of inputs, outputs, context, and interactions gives practitioners, regulators, and others stakeholders a common audit-quality roadmap for implementation, communication, and research agendas. As financial systems continue to become more integrated, the Framework supports global financial system and economic stability by providing worldwide coordination of the expectations of auditors, regulators, investors, and other stakeholders. We also believe that the framework should be of great use to auditing academics and doctoral students, both as a teaching and a research tool. Summarized below are our specific comments on different issues raised in the consultation paper.

1. **Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?**

One of the objectives of the Framework for Audit Quality (the Framework) is to facilitate the dialogue between key stakeholders by raising the awareness of the key elements of audit quality and by providing the shared terminology for common discourse. This is the commendable goal, and we want to applaud the IAASB efforts in this direction. The Framework offers a comprehensive coverage of major aspects of audit quality, and its organizing principles (inputs, outputs, context, and interactions) are sufficiently broad to encapsulate all the relevant factors. However, a few of the lower-level components may be enhanced to help the detailed Framework meet its objectives. Therefore, we think that some of the topics of the framework could be clarified or further extended and several additional areas could be added, based on Francis' (2011) research and similar studies:

(a) ***The framework should be complemented by the fourth "international" (or inter-jurisdictional) level.*** To a limited extent, the Framework mentions national level interaction with international coordinating bodies but ironically excludes a fourth "international" (or inter-jurisdictional) level that would explicitly include global coordination as one of the levels that fosters the attributes of audit quality. Coordinating organizations (e.g., the IAASB and the Basel Committee on Banking Supervision) play a distinct and important role that merits a level in the Framework. If the IAASB considers the addition of an inter-jurisdictional level unnecessary or overly cumbersome, it should consider adding greater emphasis on the interactions of the inter-jurisdictional bodies and institutions with the three established levels. For example, if another inter-jurisdictional level is beyond the scope of the Framework, section 2.2 of the framework should include reporting/interacting with global coordinating organizations and institutions as part of the Framework.

(b) ***The framework should be further extended to consider big social, legal, and macro-economic issues that affect audit environment.*** In particular, the framework recognizes that the values and attitudes of auditors are shaped at 1) the audit engagement level, 2) the level of the audit firm, and 3) the national level. However, the further discussion of the national level factors is limited to the discussion of ethical behavior promulgated by the regulators and the professional accountancy organizations. It does not include any discussion about main market forces and cultural traditions, operating at national level, that affect conditions of the job market for accounting graduates (average pay scale, average working hours per week, promotion opportunities, work-life balance issues, etc.), self-selection of the people with certain expertise, values, and aptitudes into accounting profession, and the performance of the audit engagement itself. (Some of those issues are recognized in the subsection 1.6.4 (p. 37). However, the coverage here is very limited and refers to expertise rather than to overall aptitudes and ethical values.)

First, we believe ***the framework should consider environmental factors related to the overall market conditions or economic volatility.*** In their framework for the audit of fair values, Bratten et al. (2012) stress the important impact of economic and capital market conditions on the audit of fair values and other estimates. They state that market conditions affect inherent estimation uncertainty and potentially audit and reporting quality. None of the Framework's existing seven contextual factors seems to capture the notion of economic and capital market conditions. Although the Framework does have a brief discussion of the special case of fair values, market and economic conditions are of sufficient importance to be included as a separate contextual factor.

Second, we also believe ***that the structure of audit market should be recognized as an input attribute at the national level or as one of the contextual factors***. Accounting literature has long documented that the structure of audit market can potentially influence auditor behavior. For example, in a cross-country study of 42 countries, Francis et al. (2013) find that Big 4 firms offer higher audit quality when the Big 4 as a group have a more dominant market share relative to non-Big 4 firms. However, when the market is concentrated in one particular firm, audit quality may suffer. In contrast, Oxera Consulting (2006, 2007) reports that regulators in U.K. and Europe are concerned about the potential detrimental effect that the market dominance of the Big4 has on audit quality. Therefore, on page 19 in sections 1.3 National Level Input, we suggest that the Framework add the structure of audit market as an additional influencing factor for audit quality.

Third, ***the framework should consider differential demands for audits in different societies.*** For example, research shows that the impact of IFRS adoption varies across countries (Christensen et al 2013), and depends on the levels of enforcement of securities laws. As a result, these differences in enforcement of securities laws might also affect audit quality across countries. In addition, recent studies demonstrate the impact of more primal cultural forces, such as levels of societal trust, on markets' perceptions of accounting information (Pevzner, Xie, and Xin, 2013). Therefore, such cultural traits as societal trust, individualism, and hierarchical orientation may also influence audit quality across countries. Recognition of these social-level forces and incorporation of the relevant constructs in future studies could help us to understand why the status of the audit profession and ex-ante levels of audit quality differ across different societies (Michas, 2011).

To ensure wider social discourse about audit quality we also believe ***that it is important that the framework does explicitly recognize the crucial value of universities and other educational establishments in shaping expertise and ethical reasoning of the people coming into accounting profession***. The current version of the framework also ignores the detrimental effect of high risk litigation legal environment on the profession's inclination to adopt rule-based accounting system, decrease application of professional judgment, and accept check-list mentality. This high risk litigation environment also has a significant impact on the behavior of senior management and Board members and decreases their inclination for complete and transparent disclosure. According to the recent survey of International Federation of Accountants, legal environment became worse in this aspect in the recent decade.[1] Overall, while the framework mentions some of the factors we discuss here in the "contextual factors" category, we believe contextual factors should be sub-divided into different levels like entity-level contextual factors and broader social-level contextual factors, and more guidance should be given separately for each of those sub-categories. For example, contextual factors related to corporate governance and information systems are entity-level factors. On the other hand, business practices, regulations, and broader cultural factors are higher "social-level" factors that have pervasive impact on the corporate governance, information systems, and other entity-level contextual factors.

(c) For the clarity purposes, authors of the framework might consider providing further guidance on inter-relationships between different components of the framework and the degree (e.g., relative weight) to which each of those components contributes to audit quality. For example, do the inputs, outputs, context and interactions exist in the same plane or this is a multidimensional picture (e.g., like COSO cube (COSO 2013)? Does the position of the ***context*** on the top imply that the context is guiding everything else (e.g., has the pervasive impact on all other components similar to control environment in COSO framework) or the location of an each component does not communicate the specific meaning and each component plays the equal role in the audit quality? Also, one might argue that interactions and context are not truly independent components when the context is defined to the degree by the interactions themselves.

[1] (http://www.ifac.org/sites/default/files/publications/files/financial-reporting-supply.pdf, p. 20, p. 28).

(d) For the clarity purposes, the authors of the framework might reconsider the principles of the sub-dividing the inputs of the audit quality into distinct categories. Currently, the inputs are grouped in the following categories (p. 19, par. 24):

(a) The values, ethics and attitudes of auditors, which in turn, are influenced by the culture prevailing within the audit firm;

(b) The knowledge and experience of auditors and the time allocated for them to perform the audit; and

(c) The effectiveness of the audit process and quality control procedures.

The principle of such subdivision is not absolutely clear, and the second category mixes together auditors' knowledge (personal characteristic) with the allocated time (environmental characteristic). One might argue that the better subdivision would be (1) personal characteristics of the audit team members (attitudes, values, knowledge, and expertise), (2) resources in the possession of the audit team members team (time, access to additional knowledge storage), (3) specific actions of the audit team members (effectiveness of the audit procedures) and (4) specific quality control procedures at the firm level. In other words, it would make sense to subdivide inputs into (1) capabilities, resources, and actions or (2) attitudes, capabilities, resources, and actions building on contemporary management theories of planned behavior and resource dependency (Ajzen 1991, 2005; Drees and Heugens 2013).

(e) Because it is such an important factor, we suggest including partner compensation as an input attribute at the engagement and firm level. For instance, Trompeter (1994), Liu and Simunic (2005), Knechel et al (2012) have hypothesized and provided limited evidence that an audit firm's partner compensation policy could influence a partner's behavior and his (or her) judgment that may affect audit quality. Based on our discussion with auditors, we also are aware of anecdotal evidence that partner compensation could be adversely affected by the negative results of PCAOB inspections; this suggests that the partner compensation is an important factor to consider in shaping audit quality. Thus, on page 18 in sections 1.1 "Engagement Level" and 1.2 "Firm Level" Inputs, we suggest that the Framework add the structure of partner compensation contracts to the list of firm level attributes as an additional input factor that may affect audit quality.

(f) Authors of the framework might consider complementing the framework with additional consideration for the audit of small and medium size enterprises. Also, the guidance might be extended on the very sensitive topic of the auditor independence. In particular, the description of the specific techniques that would help auditors to conserve the independence in the complex business relationships would be the most helpful addition.

(g) Authors of the framework might consider including the details and the resolution of the related litigation or regulatory enforcement actions as the source of additional insights on the audit outcomes. Several studies have used the incidence of litigation cases or disciplinary actions that are enforced by regulators such as SEC and PCAOB as the proxies for audit quality (Palmrose 1987, 1988; Dechow et al. 1996, Gunny and Zhang, 2013, Abernathy et al 2013). Therefore, on page 23 in section 2.1 "From Audit Regulators", we suggest the Framework adding the incidence of litigation cases or regulatory enforcement actions as additional output attributes after 2.1.7. Information from the section 1.9.3 "Effective Systems Exist for Investigation Allegations of Audit Failure and Taking Disciplinary Action When Appropriate" on page 44 of the Framework can also be added to page 21.

2. **Does the Framework reflect the appropriate balance in the responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders? If not, which areas of the Framework should be revised and how?**

Overall, the Framework highlights the important point that the audit quality is not produced in the vacuum but is in fact the outcome of joint actions by the auditor (engagement team and firm), the entity (management and those charged with governance), regulators, and other stakeholders, achieved in the process of their complex interactions. The framework also performs a very important function by describing different responsibilities and connections between the auditors that are at the different level of hierarchy in the audit firms (e.g., staff members of the engagement team and engagement partner). In particular, the Framework covers input factors, output factors, and contextual factors for auditors (engagement team and firm) thoroughly in sections 1, 2, and 4. Section 3 provides a balanced explanation about the responsibility of audit quality owned by entities including management and those charged with governance, regulators, and financial statement users.

Framework also recognizes the importance of promoting relevant academic research as the way to enhance audit quality. However, it misses several opportunities to include academia in the list of stakeholders and to employ variety of resources available through scholar connections. One major research-related issue is academia's role in conceptually defining and scientifically testing audit quality and perceived audit quality metrics. Another major area for cooperation with the academia is the joint analysis of the archival engagement-level data, obtained from the regulators or directly provided by the audit firms. Jeanette Frenzel (PCAOB 2013) recently cited the benefits of the PCAOB's formal relationship with academia and described forthcoming project to examine the impact of PCAOB standards, inspections, and other oversight activities. The IAASB should consider explicitly encouraging the similar interaction with academia where appropriate. For example, paragraphs 138 and 195, which mention utilizing the results of external audit inspections, should urge inclusion of academia in these analyses processes.

At the same time, as written, the Framework still puts the main burden of responsibility for the audit quality on the auditor (engagement team and firm) and, to the degree, on the audit committee without providing them with the sufficient guidance and description of available resources on ***how*** to achieve those responsibilities. For example, it is stated in the beginning of the document:

"In the IAASB's view, a quality audit is likely to be achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that:
• Exhibited appropriate values, ethics and attitudes;
• Was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work;
• Applied a rigorous audit process and quality control procedures;
• Provided valuable and timely reports; and
• Interacted appropriately with a variety of different stakeholders."

First, this statement limits the issue of resources on the second statement to the issue of "sufficient time". However, time is just one of the resources available to the auditor. It should be more appropriate "had sufficient and appropriate resources in their possession, including time". Other resources might be access to the supporting literature, technical consultation, etc. Second, this interpretation makes auditors the main responsible party for the initiation and the appropriateness of interactions with the other critical stakeholders such as management and audit committee. Also, the framework does not stress strongly enough the main audit-related challenge: the need for auditors to be assertive to persuade the client to make the necessary corrections. For example, DeAngelo (1981) states that quality audit does in fact take place when a competent and independent audit firm is able to identify accounting misstatements and exert pressure on the client to correct those misstatements. This approach suggests that competence by itself is not sufficient if the willingness to confront is absent. The framework currently mentions the appropriate values but the related discussion is very vague in this aspect.

The greater weight of responsibility for audit quality that the framework places on the audit engagement team and audit firm in comparison with management and regulators exhibits itself in the specific framing of the recommendations. For example, the framework is very direct and specific when it comes to responsibilities of the auditors on p. 21:

"1.4.1 Partners and staff have the necessary competences.
1.4.2 Partners and staff understand the entity's business.
1.4.3 Partners and staff make reasonable judgments. "

On the other hand, the language becomes very vague and impersonal when the responsibilities of the regulators are discussed. Take a look for this example from p. 44: 'Transparency through the timely disclosure of investigations and disciplinary actions has the potential to provide important feedback to auditors and audit firms, in relation to matters that may enhance audit quality " (p. 44). Compare this sentence with the following statement that communicates the same idea more directly and as a result signals higher responsibility : "To enhance audit quality, regulators should disclose the results of their investigations to audit companies in a timely manner and be specific in their recommendations."

Another example of the vague language from the framework: "Auditors need full and timely access to relevant information and individuals both within and outside the entity. This assists the auditor in gathering audit evidence." The resonance of this message differs from the statement that identifies the responsible party in a more direct manner such as: "Management must provide auditors with full and timely access to relevant information and organizational employees." While such framing is understandable and could be naturally explained by the fact that IAASB has no authority over management and regulators, we believe the framework might benefit from more direct requirements, especially when it comes to the management's responsibilities to communicate with the auditors in an effective manner and to provide the relevant and accurate information.

In addition, very often the framework contains general statements that demand auditors' responsibility with respect to highly subjective issues without providing specific advice about tools or methods how to achieve those goals. For example, it is stated on p. 25:

"The need for auditors, in particular, to be objective arises from the fact that many of the important issues involved in the preparation of financial statements involve judgment. Few items included in the financial statements can be measured with certainty, and many involve estimation and therefore judgment. Auditors need to be objective when they evaluate management judgments to reduce the risk that the financial statements are materially misstated by management, whether deliberately or inadvertently, making a biased judgment or following an otherwise inappropriate accounting practice." This is the mere declaration without any guidance for the auditors on the specific tools and methodologies on how to maintain objectivity or even how to assess its degree (for some examples of research related to auditor judgment issues, see, for example, Hackenbrack and Nelson, 1996, Kennedy, 1993). Another example of the declarative statement without specific guidance to achieve the goal from p. 27: "It is also important that an audit firm has robust internal governance arrangements to safeguard the public interest nature of the audit function and to avoid the firm's commercial interests adversely affecting audit quality, for example, by inappropriately promoting other practice areas (such as tax, corporate finance and consultancy) to the detriment of audit quality." We believe the usefulness of the framework will be enhanced with more practical guidance for the auditors on how to achieve those goals in addition to the declarative statements of responsibility. This is important because, despite popular beliefs to the contrary, academic research generally does not find conclusive or compelling evidence that non-audit services seriously compromises audit quality (see Knechel et al 2012 for the detailed review).

Public accounting firms perform audit engagements under strict budget constraints that often limit the size and scope of the performed audit procedures. Such constraints are dictated by the simple business logic: public accounting firms are business enterprises that need to generate financial return to stay in business. Those budget constraints affect all types of resources (staff, time, technical support to guide on complex financial accounting issues) at the disposal of the audit firm. Also, as stressed in the Framework, the threat exists that "most competent partners and staff will be allocated to the firm's largest most prestigious clients and, as a result, will not be available to audit other clients where the risks that the financial statements are misstated may be greater."

Overcoming such practical matters would be difficult in the competitive business environment that exists today, and auditors truly need very specific guidance to help them in this regard as well as the true commitment of all parties identified in the framework to the honest and effective interactions.

3. **How do you intend to use the Framework? Are there changes that need to be made to the form or content of the Framework to maximize its value to you?**

   Beside its important value for practitioners and regulators, the Framework might be used in the educational settings, especially in the graduate program, to promote complex reasoning and thought-provoking discussions. In particular, the Framework might be used in the MBA and Master's in Accounting courses on corporate governance to stimulate the dialogue about audit quality and the related stakeholders or in the specialized graduate accounting course such as Seminar in Auditing to discuss critical audit capabilities and importance of contextual factors for audit quality. The Framework also provides a means for researchers to structure their research and to facilitate communication of research results. As such, the Framework can be also used in accounting doctoral seminars that explore audit research to identify areas where no empirical evidence exists to support the conjectures of the framework (e.g., threats to audit quality due to inappropriate use of technology (pp. 31-32 and pp. 38-39 of the framework) and generate specific hypothesis for further empirical testing.

   In order to make the Framework even more useful for these and other reasons we suggest the following editorial clarifications:

   (1) The Framework seems to emphasize national audit firms over regional and local audit firms. Even though, we recognize that national firms control the lion market share of the audit market among publicly held companies, local and regional firms still play very important role in influencing audit firms among smaller size entities. It is perhaps better to add regional and local audit firms to the phrase to be inclusive.
   (2) In the section 5.2.3 "Contextual Factors", we suggest the Framework adding two factors: One factor is the unique legal environment for the public sector. For example, Feng (2012) has documented that auditors in the U.S. nonprofit sector face low litigation risk. The other factor is the financial constraints faced by the organizations in the public sector.

4. **What are your views on the suggested Areas to Explore? Which, if any, should be given priority and by whom? Are there additional Areas to Explore?**

We believe the suggested areas to explore are well justified and presented in a systematic manner. We think that IAASB might consider explicit encouragement of collaboration between accounting scholars and audit companies to achieve important insights into these issues. We also believe that the regulatory bodies such as PCAOB might encourage such cooperation and also share some of its own collected data with accounting scholars on the condition of confidentiality. Such collaboration is critical if we truly pursue science-based insights into factors, affecting the audit quality. Regulators might especially benefit from collaboration with accounting scholars in the area N 4 "considering whether audit inspection can do more to improve audit quality and to make audit quality more transparent to users" and in the area N 5 "exploring whether there would be value in sharing information between national regulatory authorities in order to evaluate the relative effectiveness of different arrangements".

In our experience, audit companies are often wary to release any information to accounting scholars or to ensure direct access of accounting scholars to their employees for relevant interviews and other types of data collection (e.g., surveys, experimental materials). While we understand that those concerns are warranted in certain cases and are driven by variety of considerations such as confidentiality, efficiency, and litigation risks, we think active collaboration between accounting scholars and audit firms is an essential condition for gaining valuable insights on the factors of audit quality. Among the areas where the collaboration between audit firms and accounting scholars are especially critical are: area N 2 "establishing a common understanding of capabilities critical for audit quality and how effective audit firms are in cultivating such capabilities through their recruiting and promoting practices", area N 6 "considering root causes and best practices in order to learn from past audit deficiencies and to identify and address systemic issues" and area N 7 "increasing the information value of auditor's reports and improving perceptions of the value of the audit".

We think that it is especially critical that IAASB encourage audit firms to seek such collaboration at the local and regional level and not to redirect all research effort to one single point at the national level. The last situation, while still better than no collaboration at all, might lead to bureaucratic delays, very limited pool of available research respondents, and subtle discouragement for accounting scholars to pursue the direction of such inquiry.

We also have suggestions for additional areas to explore:

a) ***Defining and measuring Audit Quality & Perceived Audit Quality.*** The Framework leaves too little room for audit quality measures and perceived audit quality measures. The challenges of defining and measuring audit quality in practice are clearly pointed out at the beginning of the Framework. Academic researchers face similar challenges in defining audit quality and do not yet have consensus measures of audit quality or perceived audit quality. Researchers typically rely on several measures at once (e.g., Chi et al. 2011, Lim and Tan 2007). In a review of the status of audit quality in practice, Bedard et al. (2010) describe several audit quality definitions and measures of audit quality and state that several of these measures are potentially helpful in assessing audit quality. However, they acknowledge that benchmarking audit quality to measures might have the unintended consequence of firms managing practices to meet the indicator. In spite of this potential shortfall, the Framework should state that under some circumstances and conditions audit quality or perceived audit quality measures may be useful to auditors, firms, managers, investors, and other stakeholders. For example, the "Challenges of Defining Audit Quality" section would benefit from a clear statement of openness to (but no requirement of) empirical audit quality measures.

b) ***Considering what represents audit failure.*** This is one of the most crucial factors in the discussion of the audit quality. The framework states on p. 44: "Audit failures can be difficult to define, especially as so much of an audit involves judgment, and criteria in laws and regulations are sometimes vague and difficult to enforce. The effectiveness of disciplinary activities is increased when clear criteria have been established as to what represents an audit failure." Since people still disagree on the indicators of the audit failures (e.g., restatements do not always represent audit failures), the detailed discussion of this issue and the collection of the relevant empirical evidence is warranted.

c) ***Positions of audit profession in different countries and factors that affect ability of the profession to attract and retain high-quality individuals.*** In particular, it is noted on p. 37: "In some countries, there is a tendency for large numbers of newly qualified accountants to leave the audit firms and take jobs in business. While this may have a beneficial impact on financial reporting, it can limit the number of experienced staff available to audit firms and thereby jeopardize audit quality." It is an empirical question in which countries such tendencies exist and to which degree. Also, it is an empirical question: how recent regulations (e.g., mandatory engagement partner rotation, engagement partner signature), countries culture and institutions may have affected those tendencies in different countries and jurisdictions. It is also stated on p. 25: "Partners and staff may believe that their remuneration and, indeed, their ongoing careers with the audit firm are dependent on retaining an audit client, creating a familiarity or self-interest threat." What about perceptions of the staff that after several years of practice do not see audit as the rewarding career to follow? How many of them view the several years of work in public accounting firms just as a stepping stone to more lucrative careers in consulting? This adds the society's view on the profession and its value as the core determinants of the key values exercised by the engagement team.

d) ***Considering the accounting university curriculum across the globe and what is the impact of the particular changes in such curriculum on the expertise and ethical values of the graduates, entering into audit profession.*** The retirement of the significant number of accounting faculty with Ph.D. degrees combined with the relative scarcity of the new faculty graduating from accounting Ph.D. programs lead to substantial changes in types and numbers of course offerings in many universities. The need exists to explore the direction of such changes and the impact of such changes on the expertise and ethical values of the graduates, entering into audit profession. In addition, the framework may want to encourage a more active involvement of audit professionals into development of auditing curriculum as well as timely education of accounting educators on current issues faced by auditors. In the US, PCAOB runs an annual academic conference to brief auditing academics on the issues they face; in addition, American Accounting Association and Big 4 accounting firms co-sponsor an annual Auditor Educator Bootcamp. We believe both of these represent excellent examples of continued collaboration of the audit professionals and academics that could be emulated around the world.

e) ***Considering whether the audit quality is impaired or improved when different audit firms (as opposed to different subsidiaries of the same firm in different***

countries/locations) are involved in the group audit. It is stated on p. 39: "Group management usually expects the group auditor to co-ordinate the work undertaken on components efficiently. Some believe that this can be facilitated if the audits of components are undertaken by the same audit firm or firms within the same audit network or association. The firm's geographic reach, and therefore its ability to provide efficient audit coverage for subsidiaries and other components of the group, can therefore be important. Others believe that having a number of different audit firms involved in a group audit provides an opportunity for a range of views on the risks of the entity, and appropriate audit responses, to be considered. Due to conflicting view on the issue, this is an area for further empirical testing with important practical implications for audit quality (see, for example, Haapamaki et al 2011).

f) ***Considering unique challenges of the audit quality in countries with developing economies as well as the impact of such quality on the dynamics of the global capital markets.*** Framework contains some references to such countries but we believe further research efforts in this area are warranted. For example, it is stated on p. 37 of the framework: "The status of the auditing profession in a national environment can also impact the respect for auditors and therefore the effectiveness of the audit function. In environments where the audit profession is not well respected or given appropriate authority, auditors will be in a weaker position relative to management. In such circumstances, there may be a lower likelihood that auditors will probe management on significant matters or stand firm on significant audit issues. Conversely, where the profession is highly regarded or is conferred appropriate authority through the relevant mechanisms, it will be easier for auditors to demonstrate professional skepticism and undertake robust audits." It remains unclear what represents the "authority of the auditor" and how this authority differs in different jurisdictions.

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