

COMMENTARY

Comments by the Auditing Standards Committee of the Auditing Section of the American Accounting Association on *Framework for Audit Quality*, Consultation Paper by the International Auditing and Assurance Standards Board

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SUMMARY: On January 15, 2013, the International Auditing and Assurance Standards Board (IAASB) solicited public comments on the exposure draft of its consultation paper entitled *A Framework for Audit Quality* (the Framework). The four-month comment period ended on May 15, 2013. This commentary summarizes the contributors' views on this exposure draft (the exposure draft and related information are available at: <http://www.ifac.org/publications-resources/framework-audit-quality>).

This consultation paper makes great strides toward meeting the IAASB's strategy of "enhancing the quality of assurance" and "supporting global financial stability." The three-by-three design (attributes of audit quality coupled with engagement, firm, and national levels; see page 24 of the Framework) and detailed outline of inputs, outputs, context, and interactions provides practitioners, regulators, and other stakeholders with a common audit-quality roadmap for implementation, communication, and research agendas. As financial systems continue to become more integrated, the Framework supports the 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 research tool. Summarized below are our specific comments on specific issues raised in the consultation paper.

Submitted: June 2013
Accepted: June 2013
Published Online: June 2013

RESPONSES TO SPECIFIC QUESTIONS IN THE INVITATION TO COMMENT

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

- (a) *The Framework should be complemented by a fourth "international" (or inter-jurisdictional) level.* To a limited extent, the Framework mentions national-level interaction with international coordinating bodies, but 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, 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 to be 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 important social, legal, and macroeconomic issues that affect the audit environment.* The Framework recognizes that the values and attitudes of auditors are shaped at (1) the audit engagement level, (2) the audit firm level, and (3) the national level. However, the further discussion of the national-level factors is limited to the discussion of ethical behavior promulgated by 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 job market conditions for accounting graduates (e.g., average pay scale, average working hours per week, promotion opportunities, work-life balance issues); self-selection of the people with certain expertise, values, and aptitudes into the accounting profession; and the performance of the audit engagement itself. Some of those issues are recognized in 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 that *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. \(2013\)](#) stress the important impact of economic and capital market conditions on the audits 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 include a brief discussion of the special case of fair values, market and economic conditions also are of sufficient importance to be included as a separate contextual factor. Furthermore, in the context of auditing fair values and accounting estimates, the Framework also should consider the manner of presentation of audit evidence for the purposes of conducting more effective audits (Backoff et al. 2013).

Second, we also believe that *the structure of the 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 the audit market potentially can 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 on one particular firm, audit quality may suffer. In contrast, Oxera Consulting (2006, 2007) reports that regulators in the U.K. and Europe are concerned about the potential detrimental effect that the market dominance of the Big 4 has on audit quality. Therefore, on page 19, in Section 1.3 relating to the National Level Input, we suggest that the Framework add the structure of the 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 also could 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 et al. 2013). Therefore, such cultural traits as societal trust, individualism, and hierarchical orientation also could 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 explicitly recognizes the crucial value of universities and other educational establishments in shaping the expertise and ethical reasoning of the people entering the accounting profession*. The current version of the Framework also ignores the detrimental effect of a high litigation risk legal environment on the profession's inclination to adopt rules-based accounting systems, decrease application of professional judgment, and accept a checklist 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 the International Federation of Accountants, the legal environment became worse in this respect in the early 2000s.¹

Overall, while the Framework mentions some of the factors that we discuss here in the "contextual factors" category, we believe that contextual factors should be subdivided into

¹ The survey is available at: <http://www.ifac.org/sites/default/files/publications/files/financial-reporting-supply.pdf>, pp. 20, 28.

different levels, such as entity-level contextual factors and broader social-level contextual factors, and more guidance should be provided separately for each of those subcategories. 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 a pervasive impact on the corporate governance, information systems, and other entity-level contextual factors.

- (c) *For 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 is this a multidimensional picture (e.g., Committee of Sponsoring Organizations of the Treadway Commission [COSO] 2013, the COSO cube)? Does the position of the context on the top imply that the context is guiding everything else (e.g., the pervasive impact on all other components, similar to the control environment in the COSO [2013] Framework) or that each component plays an equally important role for audit quality? Also, one might argue that interactions and context are not truly independent components when the context is defined to a degree by the interactions themselves.*
- (d) *For clarity purposes, the authors of the Framework might reconsider the principles of subdividing the inputs of the audit quality into distinct categories.*

Currently, the inputs are grouped in the following categories (p. 19, para. 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 behind such a subdivision is not absolutely clear, and the second category mixes 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 (e.g., attitudes, values, knowledge, and expertise), (2) resources in the possession of the audit team members team (e.g., time, access to additional knowledge storage), (3) specific actions of the audit team members (e.g., 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 levels. For instance, Trompeter (1994), Liu and Simunic (2005), and 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) judgments that may affect audit quality. Based on our discussions with auditors, we also are aware of anecdotal evidence that partner compensation could be adversely affected by the negative results of Public Company Accounting Oversight Board (PCAOB) inspections, suggesting that 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 adding 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.* The guidance also might be extended concerning the very sensitive topic of auditor independence. In particular, the Framework would benefit from a description of the specific techniques that would help auditors engaged with small and medium-size enterprises to preserve their independence.
- (g) *Authors of the Framework might consider including the details and the resolution of specific litigation or regulatory enforcement actions as the source of additional insights on audit outcomes.* Several studies have used the incidence of litigation cases or disciplinary actions that are enforced by regulators such as the Securities and Exchange Commission (SEC) and PCAOB as 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 adding the incidence of litigation cases or regulatory enforcement actions as additional output attributes after Section 2.1.7. Information from Section 1.9.3, “Effective Systems Exist for Investigation of Allegations of Audit Failure and Taking Disciplinary Action When Appropriate,” on page 44 of the Framework, also can 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 audit quality is not produced in a 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, and that it is 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 levels of hierarchy in the audit firms (e.g., staff members of the engagement team, engagement partner). In particular, the Framework addresses 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.

The 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 a variety of resources available through scholarly 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 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 a 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 analysis processes.

At the same time, as written, the Framework still puts the main burden of responsibility for audit quality on the auditor (engagement team and firm) and, to a degree, on the audit committee, without providing them with sufficient guidance and descriptions 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 to the second statement concerning the notion of "sufficient time." However, time is just one of the resources available to the auditor. It could be more appropriate to state, "had sufficient and appropriate resources in their possession, including time." Other resources might include access to the supporting literature, technical consultation, etc. Second, this interpretation makes auditors the main party responsible for the initiation and the appropriateness of interactions with the other critical stakeholders, such as management and the audit committee. Also, the Framework does not stress strongly enough the main audit-related challenge: the need for auditors to be assertive when persuading the client to make necessary corrections. For example, [DeAngelo \(1981\)](#) states that a 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 respect.

The greater weight of responsibility for audit quality that the Framework places on the audit engagement team and audit firm, in comparison to management and regulators, is evident 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. For example, consider this excerpt 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." To communicate in a more direct manner and to signal higher responsibility, we suggest revising this sentence as follows: "To improve audit quality, regulators

should disclose the results of their investigations to their audit clients in a timely manner and be specific in their recommendations.”

Another example of the vague language in the Framework is the following: “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.” To reinforce the message, we suggest revising the sentence as follows: “Management must provide auditors with full and timely access to relevant information and organizational employees.” While such framing is understandable and could naturally be explained by the fact that the IAASB has no authority over management and regulators, we believe that the Framework might benefit from more direct requirements, especially when it comes to management’s responsibilities to communicate with the auditors in an effective manner and to provide relevant and accurate information.

In addition, very often, the Framework contains general statements that describe auditors’ responsibility with respect to highly subjective issues, without providing specific advice about the tools or methods that they could employ 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 a mere declaration without any guidance for the auditors on specific tools and methodologies to assist them with maintaining objectivity, or even how to assess its degree (for some examples of research related to auditor judgment issues, see [Kennedy \[1993\]](#), [Hackenbrack and Nelson \[1996\]](#), and [Carpenter and Reimers \[2013\]](#)). Another example of a declarative statement without specific guidance to achieve the goal appears on page 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 that 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 nonaudit services seriously compromise audit quality (see [Knechel et al. \[2013\]](#) for a 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 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 ensure 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?

Besides its important value for practitioners and regulators, the Framework might be used in educational settings, especially in graduate programs, to promote complex reasoning and thought-provoking discussions. In particular, the Framework might be used in M.B.A. and Master's in Accounting courses on corporate governance to stimulate a dialogue about audit quality and related stakeholders, or in specialized graduate accounting courses, such as a Seminar in Auditing, to discuss critical audit capabilities and the 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 also can be used in accounting doctoral seminars that explore audit research to identify areas in which no empirical evidence exists to support the Framework's conjectures (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 hypotheses 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 majority of the audit market share among publicly held companies, local and regional firms still play very important roles 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 Section 5.2.3, "Contextual Factors," we suggest adding two factors. One factor is the unique legal environment for the public sector. For example, [Feng \(2012a, 2012b\)](#) 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 that the suggested areas to explore are well justified and presented in a systematic manner. We think that the IAASB might consider explicit encouragement of collaboration between accounting scholars and audit firms to achieve important insights into these issues. We also believe that regulatory bodies such as the 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 audit quality. Regulators might especially benefit from collaboration with accounting scholars in the Framework's Area N4, "considering whether audit inspection can do more to improve audit quality and to make audit quality more transparent to users," and in the Area N5, "exploring whether there would be value in sharing information between national regulatory authorities in order to evaluate the relative effectiveness of different arrangements."²

² Areas N4 and N5 (and N2 and N6 below) are specific passages in the Framework that identify areas for further exploration.

In our experience, audit firms often are hesitant 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 a variety of considerations, such as confidentiality, efficiency, and litigation risk, we believe that active collaboration between accounting scholars and audit firms is an essential condition for gaining valuable insights into audit quality factors. Among the areas where the collaboration between audit firms and accounting scholars is especially critical are: Area N2, “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 N6, “considering root causes and best practices in order to learn from past audit deficiencies and to identify and address systemic issues,” and area N7, “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 the IAASB encourage audit firms to seek such collaboration at the local and regional level, to not redirect all research efforts to one single point at the national level. The last situation, while still better than no collaboration at all, might lead to bureaucratic delays, a 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 and Perceived Audit Quality.* The Framework should not disregard audit quality measures and perceived audit quality measures, and should at least encourage and be open to their future development and utilization. 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., [Lim and Tan 2008](#); [Chi et al. 2011](#)). 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 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 for 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 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.” Because people still disagree on the indicators of audit failures (e.g., restatements do not always represent audit failures), the detailed discussion of this issue and the collection of relevant empirical evidence is warranted.
- (c) *Positions of the audit profession in different countries and factors that affect the 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 what degree. Also, it is an empirical question about how recent regulations (e.g., mandatory engagement partner rotation, engagement partner signature), as well as countries’ culture and institutions, may have affected those tendencies. It also is 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.” However, what about perceptions of the staff that after several years of practice do not see auditing as a 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 curricula across the globe and the impact of the particular changes in such curricula on the expertise and ethical values of the graduates entering into the audit profession.* The retirement of a significant number of accounting faculty with Ph.D. degrees, combined with the relative scarcity of the new faculty graduating from accounting Ph.D. programs, leads to substantial changes in the 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 the audit profession. In addition, the Framework may want to encourage more active involvement from audit professionals in the development of the auditing curriculum, as well as timely education of accounting educators on current issues faced by auditors. In the U.S., the PCAOB runs an annual academic conference to brief auditing academics on the issues they face. In addition, the American Accounting Association and Big 4 accounting firms co-sponsor an annual Auditor Educator Bootcamp. We believe that both of these represent excellent examples of continued collaboration between audit professionals and academics that could be emulated around the world.
- (e) *Considering whether audit quality is impaired or improved when different audit firms (as opposed to different offices or affiliates of the same firm in different countries/locations) are involved in a group audit.* The Framework states on p. 39: “Group management usually expects the group auditor to coordinate 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.” Because of conflicting views on this 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.* The

Framework contains some references to such countries, but we believe that 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 as to what represents the “authority of the auditor” and how this authority differs in different jurisdictions.

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