## 2017 UTS EMERGING ACCOUNTING RESEARCHER CONSORTIUM

Professor Clive Lennox  
University of Southern California  
Leventhal School of Accounting

**An Overview of Auditing Research:**  
*Limitations of the Literature, Research Opportunities, and Some Empirical Issues*

### Day 1 – Monday 30th January 2017

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<td>09.00 – 10.30am</td>
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<td>11.00 – 12.30pm</td>
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<td>1.30 – 3.00pm</td>
<td>Afternoon Session 1</td>
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| 3.30 – 5.00pm   | Afternoon Session – PhD Candidate and Emerging Researcher presentations:  
  *Each presenter will have 30 minutes to present and 15 minutes for Q&A*
  
  Xiu-ye Zhang (Australian National University)  
  “Director Turnover and Noncompliance with Securities Laws”
  
  Attila Balogh (University of Sydney)  
  “The Dynamics of Board Structure and Firm Characteristics” |
# 2017 UTS EMERGING ACCOUNTING RESEARCHER CONSORTIUM

**Professor Clive Lennox**  
University of Southern California  
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*An Overview of Auditing Research:  
Limitations of the Literature, Research Opportunities, and Some Empirical Issues*

## Day 2 – Tuesday 31st of January 2017

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</table>
| 3.30 – 5.00pm  | Afternoon Session – PhD Candidate and Emerging Researcher presentations:  
                 *Each presenter will have 30 minutes to present and 15 minutes for Q&A*  
                 Jenny Yang (University of New South Wales)  
                 “Auditors’ Propensity and Consistency in Issuing Going-Concern Modified Audit Opinions for Charitable Organisations”  
                 Ross McClure (University of Technology Sydney)  
                 “The Effect of Dividend Imputation on Corporate Tax Avoidance” |
During the two days of seminars we will be covering various topics organized into the following four sections:

1. An overview of auditing research
2. A review of the audit partner literature
3. Empirical issues in accounting
4. Some of my recent work

Further information about these four topics is provided below.

1. An overview of auditing research

   a) Quantitative data on publication rates for auditing studies
   We will begin this session by examining the quantitative impact of auditing research on the accounting literature. How popular is auditing research? Do any of the major journals exhibit a preference for, or against, auditing research? How has the quantity of auditing research changed over the period 2000-2016?

   b) Major themes of the auditing literature
   Next, we will review some of the major themes of the auditing literature. What are the factors that potentially affect audit quality? What does research show on the consequences of regulation? What are the factors affecting the demand for audits? What factors affect the supply of audits?

   c) Finding research opportunities in auditing
   We will end this session by discussing how to find good research opportunities. The focus will be on auditing, but many of the insights from this session will be applicable to other topics in the accounting literature as well. First, I will discuss how changes to the audit environment have helped to create new research opportunities. Second, I will explain why it is important to read outside of the accounting literature (especially in economics) in order to find new research opportunities. Third, I will illustrate the importance of critically assessing the limitations of published studies. Fourth, I will explain how new data sources can help to provide new research opportunities.
2. A review of the audit partner literature

Recent years have witnessed a boom in academic research on audit partners. The PCAOB and SEC have recently adopted new rules requiring US audit firms to disclose the name of the engagement partner, effective for audit reports issued on or after January 31, 2017. This new disclosure rule is likely to prompt a significant increase in research on audit partners. To assist these future research efforts, we shall review the extant literature on audit partners, discussing the literature’s limitations and opportunities for future research.

a) What have audit partner studies found?
We will begin by reviewing what audit partner studies have found thus far. First, we will discuss the insights of theoretical models on the agency problems within audit partnerships. Second, we will discuss the evidence on audit partners’ economic incentives. Third, we will review the literature examining differences in audit partners’ innate characteristics. Fourth, we will review the evidence on the governance arrangements within audit partnerships.

b) What are the limitations of the existing audit partner literature?
Next, we will discuss some of the limitations of the audit partner studies. These include: i) a lack of incremental contribution relative to studies conducted at the firm and office levels, ii) endogeneity problems, iii) a failure to consider how audit partners are compensated, iv) flawed F-statistics for tests of individual fixed effects, and v) measurement errors in the variables of interest.

c) What are the opportunities for future research on audit partners?
Finally, we will discuss some potential opportunities for future research. These include: i) testing alternative explanations for previously documented results, ii) correcting the large and systematic measurement errors in the variables of interest, iii) providing evidence on partners’ compensation arrangements and how these arrangements affect audit quality, iv) testing for gender discrimination against female auditors, and v) providing further evidence on the governance arrangements within audit partnerships.

3. Empirical issues in accounting

In my experience some accounting researchers do not have a good grasp of fundamental econometric techniques despite that these techniques are critical to carrying out reliable empirical research. In this session we will address several important econometric issues. In addition, we shall show the relevance of these issues, by discussing them in the context of several published studies in the accounting literature (not just auditing). In particular, we will address questions such as the following:

- How can a researcher assess whether a model is well-specified?
- Why is the R2 not a good indicator of model misspecification?
- What are the problems with the linear probability model?
- When should researchers use: i) multinomial models, ii) ordered models, iii) count data models, iv) tobit models, and v) duration models? Why is it important to use the correct model?
- What are the fundamental issues underpinning instrumental variables (IV) estimation?
- Why are exclusion restrictions so important for IV estimates?
- How have accounting researchers (mis)used the Heckman and treatment effects models?
- What are difference-in-differences designs? What are the advantages and potential limitations of DiDs?
- What are regression discontinuity designs? What are the advantages and potential limitations of RDDs?
4. Some of my recent work

We will conclude the two day seminars by discussing some of my recent research. There are eight papers that we could discuss and the topics are listed below:

- Audit adjustments and audit partner rotation (published in TAR)
- Audit adjustments and earnings quality (published in JAE)
- Audit adjustments and stock-financed M&As (working paper) *
- PCAOB inspections and internal control audits (forthcoming in JAR)
- Estimation risk and auditor conservatism (forthcoming in RAST) *
- Evidence on the outcomes of accounting lawsuits (working paper) *
- Auditor influence over executive appointments (working paper)
- Board interlocks and auditor appointments (working paper)

We will not have time to go through all eight papers. Therefore, I will ask for feedback from seminar participants about which papers you would like to discuss. I will at least try to find time to go through the three papers that are marked above with an asterix (*).
Seminar participants need to do some of the readings in advance for a couple of reasons. First, I will be asking questions about some of the papers. Second, I will be discussing in detail some of my recent papers. I have organized the readings into three groups:

- a) Required readings (you are advised to read these papers before the seminars),
- b) Recommended readings (read these papers if you have time),
- c) Optional readings (not necessary to read but I will refer to them during the seminars).

**Required readings**


**Recommended readings (in order of priority)**


