

Essay Assignment Audit Quality

Audit quality research has a long history and there is a large body of literature providing evidence of differential audit quality above and beyond the legal and professional minimum. Instruments to measure audit quality, however, are limited and not without problems. Regulators and audit firms are currently working on the development of audit quality indicators to measure and monitor audit quality, but for now, this has not resulted in a consensus measure of audit quality. Given the strong public interest in specific elements of financial reporting and auditing, we furthermore observe that regulators perceive an increased pressure for more regulatory intervention, especially in the aftermath of the high profile corporate failures at the beginning of the 21st century and the recent financial crisis. Clearly, researchers could play an important role in this regard to evaluate these (proposed) regulatory initiatives.

Assignment

Discuss the challenges for regulators and researchers in relation to audit quality. In doing so you should cover at least the following:

1. What is audit quality?
2. Why has audit quality consistently received substantial attention from regulators and academics alike?
3. What do we currently know about audit quality based on the existing body of literature on this topic? How suitable are existing audit quality indicators in this respect?
4. As audit quality is an important area of concern to regulators, a number of regulatory initiatives have recently been taken (or will be taken in the future) which are expected to improve audit quality. Discuss these initiatives and their underlying rationale.
5. Although audit quality research has a long history, Francis (2011) argues that researchers have not made a lot of progress on this topic. Explain and discuss the challenges that face audit quality researchers.

Literature

These references should serve as a starting point only. You are required to consider additional literature in your overview. Published articles can be found on EBSCO and Econlit, working papers are available on SSRN.

- Bedard, J., Johnstone, K. and Smith, E. (2010). Audit quality indicators: A status update on possible public disclosures and insights from audit practice. *Current Issues in Auditing*, 4(1), C12-C19.
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- Francis, J.R. (2011). A framework for understanding and researching audit quality. *Auditing: A Journal of Practice and Theory*, 30(2), 125-152.
- Francis, J.R., and Wang, D. (2008). The joint effect of investor protection and Big 4 audits on earnings quality around the world. *Contemporary Accounting Research*, 25(1), 157-191.
- Lennox, C., and Pittman, J. (2010). Auditing the auditors: Evidence on the recent reforms to the external monitoring of audit firms. *Journal of Accounting and Economics*, 49(1-2), 84-103.
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