

RESEARCH ISSUES IN AUDITING AND CONTROL

BANDI
(PDIE UNS)

HIGHLIGHTS OF AUDIT RESEARCH

Bolt-Lee and Scott

Learning Objective

1. Focus research in auditing

- a. THE IMPACT OF **INDUSTRY SPECIALIZATION** ON AUDITOR JUDGMENT
- b. AUDITOR-CLIENT **NEGOTIATIONS**
- c. EXECUTIVE **OVERCONFIDENCE** AND EARNINGS MANAGEMENT

2. Auditor Profession

PENDAHULUAN

LO: 1

- **Studies examine**
 - **auditors' industry specialization,**
 - **auditor-client negotiations, and**
 - **executive confidence regarding earnings management.**
- Auditors have become the focus of several recent academic studies.

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LO: 1

- The academy has centered its lens
 - on auditors who examine financially distressed companies and
 - on auditor-client negotiations.
- New **research** also examines
 - executive overconfidence as a cause of earnings mismanagement.
- This article summarizes
 - the findings and observations
 - from recently published **research** in prominent **accounting** and **finance** journals.

THE IMPACT OF INDUSTRY SPECIALIZATION ON AUDITOR JUDGMENT

LO: 1

example

- **Issues:**
 - Users of financial statements consider going-concern opinions a forewarning of potential bankruptcy.
 - Yet, according to several studies, fewer than 50% of companies receive this warning prior to filing for bankruptcy.

THE IMPACT OF INDUSTRY SPECIALIZATION ON AUDITOR JUDGMENT

LO: 1

example

1. Liesbeth Bruynseels, W Robert Knechel, and Marleen Willekens

- continues the debate about the likelihood that a soon-to-be-bankrupt company will receive a going-concern report.
- Their **research**, published in the February **2011 issue** of **Auditing: A Journal of Practice & Theory**:
- See: ocw.uns.ac.id, and/or bandi.staff.fe.uns.ac.id

AUDITOR-CLIENT NEGOTIATIONS

LO: 2

example

- Issues:
 - Researchers frequently study auditor-client relationships.
 - The negotiation process is an area of particular importance in these interactions.
 - Whether the **issue** is
 - determining the appropriate application of GAAP,
 - a proposed audit adjustment, or
 - the audit opinion itself,
 - the auditor's persuasiveness affects not only the financial reporting process, but also the overall relationship between auditor and client.

AUDITOR-CLIENT NEGOTIATIONS

LO: 2

example

2. Stephen Perreault and Thomas Kida

- The Relative Effectiveness of Persuasion Tactics in Auditor-Client Negotiations.
- published in the November 2011 edition of *Accounting, Organizations and Society*, centered on the effectiveness of different types of persuasive communication
- See: ocw.uns.ac.id, and/or bandi.staff.fe.uns.ac.id

EXECUTIVE OVERCONFIDENCE AND EARNINGS MANAGEMENT

LO: 3

example

- Issues:
 - Corporate executives are the focus of "Executive Overconfidence and the Slippery Slope to Financial Misreporting."

EXECUTIVE OVERCONFIDENCE AND EARNINGS MANAGEMENT

LO: 2

example

1. Catherine M. Schrand and Sarah L.C. Zechman

- The study examines the SEC's Accounting and **Auditing** Enforcement Releases (AAERs) for 49 sanctioned companies
- to determine the attitudes and rationalizations behind the misreporting.
- Companies with highly publicized fraud, such as Tyco, Enron, and HealthSouth, were included in the study.
- statistically analyzed the financial trends and characteristics of the companies and matched them against comparable companies with no misreporting, to provide insight into why companies misstate earnings.
- See: ocw.uns.ac.id, and/or bandi.staff.fe.uns.ac.id

REFERENSI

1. Bolt-Lee, Cynthia E. and Showalter, D. Scott. Highlights of Audit Research. *Journal of Accountancy*, Jul2012, Vol. 214 **Issue 1**, p32-35, 4p