



INSTITUTE OF
**PUBLIC
ACCOUNTANTS®**

**Parliamentary
Inquiry into the
Regulation of
Auditing in
Australia**

28 October 2019

The IPA and the IPA - Deakin SME Research Centre

The Institute of Public Accountants (IPA) was first established (under another name) in 1923, and is one of the three legally recognised professional accounting bodies in Australia. The IPA has been in operation for over 90 years and has grown rapidly in recent years to represent more than 37,000 members and students in Australia and in more than 80 countries. The IPA has offices around Australia and in London, Beijing and Kuala Lumpur. It also has a range of partnerships with other global accounting bodies. The IPA is a full member of the International Federation of Accountants (IFAC) and has over 4,600 individual accounting practices in its network, generating in excess of \$2.1 billion in accounting services fees annually. The IPA's unique proposition is for *small business*; providing personal, practical and valued services to its members and their clients/employers. More than 75 per cent of IPA members work directly in or with small business every day. The IPA has a proud record of innovation and was recognised in 2012 by *BRW* as one of Australia's top 20 most innovative companies. The IPA is also an active member of International Federation of Accountants Committee (IFAC), arguably the world's ultimate authority on accounting and auditing, theory and practice, with member institutions in more than 130 countries reflecting the views of over three million professionals. Moreover, fundamental to their existence as a respected professional body, is the overwhelming support for international auditing and assurance standards applied by member countries across the globe.

In 2013, the IPA partnered with Deakin University to form the IPA-Deakin SME Research Partnership, a first in Australia. This partnership has grown and evolved into the IPA assisting Deakin University in establishing the IPA-Deakin SME Research Centre in 2016. The goal of the Centre is to bring together practitioner insights with cutting-edge SME academic research, to provide informed comment for substantive policy development.

The IPA-Deakin SME Research Centre comprises:

Chair Andrew Conway FIPA

(Chief Executive of the IPA and Professor of Accounting *honoris causa* Shanghai University of Finance and Economics)

Mr Tony Greco FIPA

(IPA General Manager Technical Policy)

Ms Vicki Stylianou

(IPA Executive General Manager, Advocacy & Technical)

Professor Peter Carey

(Head, Department of Accounting, Deakin Business School)

Professor Barry Cooper
(Associate Dean, Deakin Business School)

Professor George Tanewski
(Director IPA-Deakin SME Research Centre, Deakin Business School)

Dr Nicholas Mroczkowski FIPA
(Professor of Practice, Deakin Business School)

Dr Iliyas Yusoff
(Research Fellow, Deakin Business School)

Dr Tunyar Kiatterittinun
(Research Fellow, Deakin Business School)

**This report was prepared by the IPA-Deakin SME Research Centre, Deakin Business School,
in conjunction with the Institute of Public Accountants.**

Copyright © 2019 Institute of Public Accountants and Deakin University

The Committee Secretary,
Parliamentary Joint Committee on Corporations and Financial Services,
P.O. Box 6100,
Parliament House,
Canberra, A.C.T. 2600
Email: corporations.joint@aph.gov.au

28 October 2019

Dear Committee Secretary,

The Institute of Public Accountants (IPA) welcomes the opportunity to offer our submission in response to the **Inquiry into the Regulation of Auditing in Australia** (hereafter, the Inquiry) and we look forward to working with Government as it sets its regulatory reform agenda.

At the outset, we wish to note that while we have not addressed all of the terms of reference (TORS) listed in the inquiry, we focus on those TORS where we are able to provide a strong evidentiary position and/or where we and/or our members have had significant exposure to relevant auditing issues in practice. That said, we are broadly supportive of the Inquiry's terms of reference and any potential reforms stemming from the Inquiry making for a rigorous but yet responsible auditing regulatory environment.

We look forward to discussing further and in more detail the IPA's recommendations with the Government and Treasury. Please address all further enquiries to Ms Vicki Stylianou, Executive General Manager, Advocacy and Technical, IPA.

Yours sincerely,



Vicki Stylianou

COPYRIGHT

© Institute of Public Accountants (ABN 81 004 130 643) 2019. All rights reserved. Save and except for third party content, all content in these materials is owned or licensed by the Institute of Public Accountants (ABN 81 004 130 643).

Introduction and Summary

The IPA-Deakin SME Research Centre welcomes the opportunity to offer its submission in response to the **Inquiry into the Regulation of Auditing in Australia** (hereafter, the Inquiry) and we look forward to working with Government as it sets its regulatory reform agenda.

The last two decades have witnessed a plethora of high-profile corporate collapses directly attributed to audit failure as well as a number of scandals associated with some of the large so called 'big-four' audit firms. In response to addressing these audit failures and scandals, a variety of remedies have been proposed by reformers such as banning auditors from providing consulting services, breaking up the oligopoly of the Big Four audit firms to improve competition, and introducing a public "rating" system of auditors by regulators (see Coffee, 2019).

Notwithstanding the seemingly sound rationale for introducing some of these proposed reforms, the IPA-Deakin SME Research Centre has concerns that the proposition to limit the capacity of auditors to provide consulting services (NAS) to audit clients will unlikely lead to an improvement in audit quality. The Centre believes that any benefits obtained from restricting NAS in the form of enhancing audit independence and the work culture within the audit firm, is likely to be outweighed by the costs associated with the audit firm not benefiting from a deeper understanding of the client's business and their associated risks. In our opinion, there is a range of alternative and far more influential measures that, if implemented correctly, would be far more effective at enhancing audit quality rather than banning an auditor from providing NAS. We believe that the most critical measures that will improve audit quality in Australia are as follows:

1. Change the current distorted revenue-driven compensation culture in audit firms through the introduction of alternative compensation schemes and via appropriate training;
2. The regulator ASIC to be required to reform and introduce a better monitoring system of auditors as well as via improved enforcement;
3. Introduce a requirement within the Corporations Act requiring auditors to be responsible for reporting on the internal control systems of firms as required in the US under SOX404, and;
4. The regulator ASIC to introduce a public "rating" system of auditors akin to a credit system.

Background: The audit market

Despite evidence that revenue from auditing is a diminishing proportion of the Big 4 firm's total revenue (30% in the E.U. (see Coffee, 2019) and between 14% and 21% in Australia in 2018), auditing services nonetheless generate significant revenues in Australia. For example,

the audit industry in Australia generates about \$1.4 billion from Big 4 audit firms alone. While consulting revenue among the Big 4 firms is growing as a proportion of total revenue, auditing 'compliance' services nonetheless remain a substantial component of the audit firm's business activities.

While audit services and concomitant revenues are usually associated with publicly listed companies, the number of private companies in Australia is substantially larger compared to the number of publicly listed companies. For example, there are more than 2.3 million actively trading businesses in Australia (ABS, 2019) and of these businesses, around 21,711 or 0.94 per cent are private entities that are required to lodge audited financial reports (ASIC, 2012) compared to 2,185 or 0.09 per cent public entities that lodge audited financial reports with the regulator. Under the provisions of the Corporations Act 2001, five categories of private and not-for-profit entities, namely, large proprietary, foreign-owned, unlisted public and public companies limited by guarantee as well as small proprietary companies requested by ASIC, are required to file audited financial reports with the regulator. According to Carey, Knechel and Tanewski (2013), the market for audit services in the large proprietary company sector alone is conservatively estimated to generate around \$500 million in auditing revenue (i.e., excluding non-audit services).

In spite of the significant revenue that private and not-for-profit entities generate for the audit industry in Australia, research commissioned by the Australian Accounting Standards Board (AASB) questions the adequacy of financial reporting produced by these private and not-for-profit entities. For example, research reported by Juneja, Potter, Rose and Tanewski (2019) and Potter, Pinnuck, Tanewski and Wright (2019) show that the quality of financial statements provided in Special Purpose Financial Reports (SPFRs) is low, whereas Carey, Potter and Tanewski (2014) report that the incidence of financial statements lodged on the public record that do not purport to fully applying accounting standards is high. More importantly, Juneja et al. (2019) highlight an alarming lack of transparency in the SPFRs produced by private and not-for-profit entities, with users of financial statement information unable to discern whether recognition and measurement requirements are being applied in around 34% of the SPFRs produced by these entities.

Academic Research linking NAS to Audit Quality

A review of the research literature reveals mixed and inconclusive evidence as to whether the joint provision of NAS and auditing compromises audit quality. While some studies find evidence consistent with the auditor's independence being compromised when NAS is also provided, other studies find the opposite. Results showing that NAS does not compromise auditor independence are frequently explained via learning, that is, the provision of non-audit services increases auditor learning, thus establishing a synergistic relationship between the auditor and client (Knechel & Payne, 2001; Lee, Mande, & Son, 2009) or that there is a knowledge spillover from consulting which enhances the auditor's understanding of the client and thus audit quality (Simunic, 1984).

A likely explanation for these inconclusive results is the fact that there are other more powerful factors at play driving audit quality. Any regulatory response should focus on these more important drivers of audit quality, namely, audit culture, compensation (incentives) provided to auditors, better monitoring and enforcement by the regulator of auditors, and creation of a quality rating system of auditors.

Audit Culture

It is universally accepted that a key driver of organisational success is culture (O'Reilly & Chatman, 1996). This begs the following two questions: (1) How has culture in audit firms evolved? and (2) What is the impact of consulting services on culture in audit firms?

Jenkins, Deis, Bedard, and Curtis (2008, p. 46) state “The Sarbanes-Oxley Act of 2002 (SOX) and the demise of Arthur Andersen LLP serve as reminders of the consequences of fostering a culture that values revenue generation over quality service.” The authors point to a study by the PCAOB that involved quasi-peer reviews at 28 offices of the eight largest accounting firms in the US. The PCOAB study concluded that “engagement partners and firm leaders treat the audit negatively—[they treat it] as a commodity” (Public Oversight Board, 2000, p. 99).

Wyatt (2004) similarly argues that the cultures of the big accounting firms has gradually changed from a central emphasis on delivering professional services in a professional manner, to an emphasis on growing revenues and profitability to the extent that firms overemphasize profitability to the detriment of quality. An excessive emphasis on profitability and competition has caused partners in large accounting firms to lose their focus on audit quality (Zeff, 2003). Analogously, Coffee (2019, p. 10) argues that at least some of the major audit firms have decided auditing is a commodity business in which firms cannot compete on quality but merely on “client accommodation and low cost”.

We have also witnessed a change in society’s culture where self-interest and the pursuit of profit have become paramount. Hence, we should not consider auditor culture in isolation to broader societal cultural norms. Clearly, the focus of profitability over professionalism in accounting firms reflects a broader change in society’s norms and culture.

Notwithstanding the importance of culture in organisations, there is a paucity of evidence on audit firm culture which is largely caused by the proprietary nature of the construct such that researchers do not get access to audit firms to assess culture (Jenkins et al., 2008). Accounting firms typically operate as private partnerships, so little is known about the nature of firm governance structures (Jenkins et al., 2008). While a number of commentators have argued that the growing numbers of firm professionals with non-accounting backgrounds (e.g., consultants with marketing backgrounds) has contributed to a shift in firm culture (Wyatt, 2004), there is little direct evidence to support this contention (Jenkins et al., 2008).

It is likely, for example, that the culture of the audit firm is shaped by the advisory function, which results in a lack of emphasis on audit quality in favour of commercialism (Pratt &

Beaulieu, 1992). Lennox (2016) argues that this occurred at KPMG, where the audit function of the firm violated the AICPA's prohibition on contingent fees due to pressures from the tax function of the firm, which wanted to charge higher contingent fees for aggressive tax avoidance plans sold to audit clients (Lennox & Wu, 2017). Similarly, Mowchan (2016) find that non-audit fees increase while audit quality suffers after an audit office changes leadership to an advisory managing partner, suggesting that the orientation of the managing partner (i.e., audit or advisory) can affect the organizational culture of the office and the behavior of partners, including those in the audit function.

A unique strand of research exploring 'contagion effects' highlights the pervasive impact of audit firm culture on audit quality. Francis and Michas (2012) identify the presence of a "contagion effect" on the quality audits conducted by a geographic office location. The evidence obtained by the authors suggest that certain audit offices have systematic audit-quality problems and that these problems persist over time. Similarly, Li, Qi, Tian, and Zhang (2016) conducted a study in China in which they find a contagion effect at the individual auditor level. They report that auditors who perform failed audits also deliver lower-quality audits on other audit engagements, with this "contagion" effect spreads both over time and to other audits performed by these same auditors in the same year.

Accordingly, based on the research literature reported above there is no clear evidence which shows that restricting NAS will enhance audit quality. It appears that a ban on NAS is misguided and policy efforts should instead be directed towards initiatives that will change audit firm culture from a focus on auditing as a commodity to an emphasis on professionalism and enhanced audit quality.

Auditor Compensation and Incentives

There is insufficient research that investigates how accounting firms incentivize audit partners, nor is there a clear understanding of the impact of compensation arrangements on audit quality. Notwithstanding this lack of evidence, research finds that revenue generation is a significant contributor to the salaries of audit partners (Coram & Robinson, 2016; Greenwood, Hinings, & Brown, 1990; Knechel, Niemi, & Zerni, 2013) and such audit partner compensation schemes have a negative effect on auditor quality (Trompeter, 1994; Vanstraelen, 2002). Economic fundamentals also suggest that incentives drive behaviour and if revenue generation drives compensation, then revenue generation will be given the greatest priority. Thus the compensation of individual audit partners should not be based on revenue generation alone, but also on an assessment of the audit partner's quality of work (Almer, Higgs, & Hooks, 2005; Liu & Simunic, 2005). While we do not know precisely how the Big 4 audit firms in Australia compensate audit partners, there is anecdotal evidence suggesting that audit partner performance is assessed primarily on revenue generation and the amount of revenue the partner brings into the firm (Coram and Robinson, 2016).

Meanwhile, Jenkins et al. (2008) report on quality-threatening behaviours observed in a number of studies (e.g., DeZoort & Lord, 1997; Ettredge, Bedard, & Johnstone, 2005; McNair,

1991; Sweeney & Pierce, 2004). These quality-threatening behaviours are usually associated with various forms of on-the-job pressures such as revenue generation reward-based systems appear to provide stronger incentives for audit efficiency rather than effectiveness, which is of concern.

Accordingly, regulators should ensure that audit firms build remuneration incentives around audit effectiveness rather than on an excessive focus on efficiency and profitability. More importantly, a rating system of audit firm quality developed by the regulator as well as introducing a more transparent system under which the audit regulator reviews the auditor's performance and publicly communicates its evaluation in much clearer language as suggested by Coffee (2019) should become an important component of the audit firm's compensation scheme. It is only through such reforms and shifts in reward systems will we be able to reduce quality-threatening behaviours and thereby observe a cultural change in audit firms.

Ethics training

Ongoing and systematic ethics training of audit staff and partners is another mechanism for enhancing audit firm culture. With a few minor exceptions, Warth (2000) finds that in-house training programs in accounting firms generally do not include coverage of ethics topics. Instead, firms rely on informal mechanisms to train staff in ethical behaviours, where senior colleagues educate junior colleagues informally. This is despite research demonstrating that formal professional training positively impacts quality. For example, Thomas, Davis, and Seaman (1998) report that CPAs who violate ethics rules related to technical issues have fewer relevant CPE hours than CPAs in a randomly selected control sample. Positive results from ethics training have however been found to be transitory (LaGrone, Welton, & Davis., 1996), which suggests the need for periodic reinforcement through continuing professional training.

Monitoring of auditors by the regulator

The 2019 final report of the banking Royal Commission highlights failure by the regulator ASIC. ASIC currently monitors audit quality and they are failing in their responsibilities in this area in a number of ways. As reported earlier in this submission, research by Juneja et al. (2019) and Potter et al. (2019) show that the quality of financial statements provided in SPFRs is low, whereas Carey et al. (2014a,b) report that the incidence of financial statements lodged on the public record that do not purport to fully applying accounting standards is high. These problems are not only a result of auditor failure, but are also directly due to a lack of monitoring by ASIC of the lodgment of financial reports of private and not-for-profit entities and the activities of auditors who audit these financial reports. For example, Carey et al. (2014a) and Potter et al. (2019) both report lack of timeliness in the lodgment of SPFRs with the regulator ASIC. For example, Potter et al. (2019) report that nearly 64 percent of companies lodge late and that the average number of days for lodgment is 167 days, instead of the 120 days required by regulation for non-reporting entities. Similarly, Carey et al. (2014a) report that 47.2 per cent of large proprietary companies lodging GPFs lodged more than four months after year-end, and 47.9 per cent of companies lodging SPFRs made late lodgments, with

the timeliness of lodgments ranging from a minimum number of late lodgments of six days to 1,067 days (i.e., two years and nine months).

The evidence suggests that ASIC is not committed to high quality reporting. These high rates of late lodgments is unacceptable in a market that requires timely information and it highlights the need to reform the lodgment process. For years companies have elected to lodge their financial reports with ASIC either in an electronic document or in hardcopy (paper) forms. It appears that many private and not-for-profit entities elect to lodge hardcopies of their financial reports with ASIC, which are then scanned by ASIC staff into ASIC's lodgment system. This antiquated lodgment system makes it difficult for ASIC to adequately monitor financial reports as it is nearly impossible to electronically search a scanned postscript pdf document. In order to significantly improve the monitoring and enforcement of companies' financial reports, the government should invest in building a suitable electronic lodgment system for the regulator that provides a quick translation of financial information into a proper database. Such a database would radically improve monitoring and enforcement of the financial reporting and auditing system, and it would change ASIC's current focus on minor compliance to a more holistic monitoring system that improves the overall transparency of financial reporting and auditing in Australia. Unfortunately government currently directs insufficient funds into ASIC's surveillance and ASIC's current delivery of \$1.273 billion¹ dividend to federal Treasury could go a long way to improving the system. Clearly ASIC is not sufficiently resourced to ensure high quality reporting and auditing.

Meanwhile, Holthausen (2009) notes many forces shape the quality of financial reporting and indeed, the international accounting literature suggests that the effect of accounting standards alone may be weak relative to the effects of, among others, the level of enforcement. Evidence suggests that the degree of enforcement is one of many important factors that will drive variation in financial reporting quality. Similarly, synthesizing the research on the regulatory regimes in the U.S., Löhlein (2016) suggests that the notion of external quality control, including government inspections, is positively linked with an improvement in audit quality.

Hope (2003) finds that managers are more likely to follow prescribed accounting and disclosure rules to a greater extent when enforcement is stronger and that strong enforcement to reduce instances of financial reporting-related fraud increases the consistency and reliability of the financial reports. In operation since 2005, the German enforcement mechanism consists of a 'name and shame' policy. Hitz, Ernstberger, and Stich (2012) find that the activities of the German enforcement bodies penalise infringing firms and thus provide potential deterrence. Similarly in the U.K., Florou, Morricone, and Pope (2019) examine the costs and benefits of proactive financial reporting enforcement by the UK Financial Reporting Review Panel (FRRP). They find evidence that increased enforcement intensity leads to temporary increases in audit fees (in the less-regulated Alternative Investment Market (AIM) segment) and more conservative accruals (in the London Stock

¹ In 2018–19, ASIC raised \$1,273 million for the Commonwealth in fees, charges and supervisory cost recovery levies, an increase of 5% from the 2017–18 year (following a 32% increase in 2017-2018 compared to 2016-2017).

Exchange's Main segment). Taken together, these findings suggest that AIM companies potentially subject to FRRP review adopt more conservative accounting practices, whereas the corresponding AIM companies incur higher compliance costs.

In the U.S., the Public Company Accounting Oversight Board (PCAOB) replaced the peer review auditor program with an independent inspection of audit firms where inspection reports identifying quality control weaknesses are made public when the PCAOB deems that remediation by the audit firm was insufficient after at least 12 months have passed. Johnson, Reichelt, and Soileau (2018) find that following the 12 month period, annually inspected audit firms eventually lose their reputation by lowering audit fees, while they concurrently make remedial efforts to increase the quality of their client's financial reporting quality. Carcello, Hollingsworth, and Mastrolia (2011) find a significant reduction in abnormal accruals in the year following the first PCAOB inspection and a further reduction in abnormal accruals in the year following the second PCAOB inspection. Their results provide preliminary evidence that the PCAOB inspection process has led to improved audit quality, at least as measured by a reduction in auditee client's earnings management. Barua and Smith (2013) provide insights about the consequences of an SEC investigation and find that SEC enforcement actions lead to clients paying higher audit fees in subsequent periods, suggesting greater audit effort.

While a widely held assumption in policy making and empirical research is that increasing the strength of public enforcement improves financial reporting quality and audit quality, Ewert and Wagenhofer (2019) provide a more nuanced view. They show that although stronger enforcement always mitigates earnings management, the effects of different instruments of strengthening enforcement are ambiguous and that they can improve or impair financial reporting quality and audit quality, depending on production risk, accounting system characteristics, and the scope of auditing relative to enforcement.

Using Australian data, Dowling, Knechel, and Moroney (2018) use the slippery-slope framework to understand how an oversight regulator's enforcement style influences audit firm compliance. Using data from interviews with audit regulators and audit partners in Australia, they find that partners perceive the regulator's enforcement style has shifted from being more collaborative to being more coercive. A consequence of this shift is that partners believe the development of trust between the two parties has been inhibited and a forced compliance climate has emerged. In response, firms have mandated strategies to increase the visibility of compliance, such as increasing mandatory use of checklists. Audit partners express some concern that oversight of the profession has resulted in firms adapting their audit process in ways aimed at minimizing inspection risk and not necessarily improving audit quality.

Concluding remarks

The IPA-Deakin SME Research Centre has focused on outlining four areas that we believe will transform the auditing industry as well as improve the overall quality of auditing in Australia. These four areas are changing the current distorted revenue-driven compensation culture in audit firms by introducing alternative compensation schemes as well as through appropriate training; ASIC should be required to reform and introduce a better monitoring and improved enforcement system of auditors and the financial reporting system and government should facilitate this process by assisting in building a suitable electronic lodgment system for the regulator that provides a quick translation of financial information into a proper database; introduce a requirement within the Corporations Act that requires auditors to be responsible for reporting on the internal control systems of firms as required in the US under SOX404, and; ASIC should introduce a public “rating” system of auditors akin to a credit system. These four areas are derived from the research literature and from investigations by some members of the Centre who have been involved in producing research reports for the AASB.

References

- Almer, E. D., Higgs, J. L., & Hooks, K. L. (2005). A Theoretical Framework of the Relationship between Public Accounting Firms and Their Auditors. *Behavioral Research in Accounting*, 17(1), 1-22.
- Barua, A., & Smith, A. (2013). SEC enforcement releases and audit fees. *Managerial Auditing Journal*, 28(2), 161-177.
- Carey, P., Potter, B., & Tanewski, G. (2014a). AASB Research Report 1: Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements. Retrieved from http://www.aasb.gov.au/admin/file/content102/c3/AASB_RR-1_06-14_Reporting_Entities_and_SPFSs.pdf
- Carey, P., Potter, B., & Tanewski, G. (2014b). Application of the reporting entity concept in Australia. *Abacus*, 50(4), 460-489.
- Carey, P., Knechel, W. R., & Tanewski, G. (2013). Costs and benefits of mandatory auditing of for-profit private and not-for-profit companies in Australia. *Australian Accounting Review*, 23(1), 43-53.
- Carey, P., Tanewski, G., & Yusoff, I. (2019). Audits of Large Proprietary Companies in Australia: A Comparison of Special and General Purpose Financial Statements, IPA-Deakin SME Research Centre Working Paper.
- Carcello, J. V., Hollingsworth, C., & Mastrolia, S. A. (2011). The effect of PCAOB inspections on Big 4 audit quality. *Research in Accounting Regulation*, 23(2), 85-96.
- Coffee, J. C. (2019). Why Do Auditors Fail? What Might Work? What Won't? *Columbia Law and Economics Working Paper Number 597*. Available at SSRN: <https://ssrn.com/abstract=3314338>.
- Coram, P. J., & Robinson, M. J. (2016). Professionalism and Performance Incentives in Accounting Firms. *Accounting Horizons*, 31(1), 103-123.
- DeZoort, F. T., & Lord, A. T. (1997). A review and synthesis of pressure effects research in accounting. *Journal of Accounting Literature*, 16, 28-85.
- Dowling, C., Knechel, W. R., & Moroney, R. (2018). Public Oversight of Audit Firms: The Slippery Slope of Enforcing Regulation. *Abacus*, 54(3), 353-380.
- Ettredge, M., Bedard, J., & Johnstone, K. (2005). An empirical test of audit budget ratcheting. *Working paper, University of Wisconsin–Madison*.
- Ewert, R., & Wagenhofer, A. (2019). Effects of Increasing Enforcement on Financial Reporting Quality and Audit Quality. *Journal of Accounting Research*, 57(1), 121-168.
- Florou, A., Morricone, S., & Pope, P. F. (2019). Proactive Financial Reporting Enforcement: Audit Fees and Financial Reporting Quality Effects. *The Accounting Review, In-Press*.
- Francis, J. R., & Michas, P. N. (2012). The Contagion Effect of Low-Quality Audits. *The Accounting Review*, 88(2), 521-552.
- Greenwood, R., Hinings, C. R., & Brown, J. (1990). "P2-Form" Strategic Management: Corporate Practices in Professional Partnerships. *Academy of Management Journal*, 33(4), 725-755.
- Hitz, J.-M., Ernstberger, J., & Stich, M. (2012). Enforcement of Accounting Standards in Europe: Capital-Market-Based Evidence for the Two-Tier Mechanism in Germany. *European Accounting Review*, 21(2), 253-281.
- Holthausen, R. W. (2009). Accounting Standards, Financial Reporting Outcomes, and Enforcement. *Journal of Accounting Research*, 47(2), 447-458.

- Hope, O.-K. (2003). Disclosure Practices, Enforcement of Accounting Standards, and Analysts' Forecast Accuracy: An International Study. *Journal of Accounting Research*, 41(2), 235-272.
- Jenkins, J. G., Deis, D. R., Bedard, J. C., & Curtis, M. B. (2008). Accounting Firm Culture and Governance: A Research Synthesis. *Behavioral Research in Accounting*, 20(1), 45-74.
- Johnson, E., Reichelt, K. J., & Soileau, J. S. (2018). No news is bad news: Do PCAOB part II reports have an effect on annually inspected firms' audit fees and audit quality? *Journal of Accounting Literature*, 41, 106-126.
- Juneja, N., Potter, B., Rose, M. & Tanewski, G. (2019). AASB Research Report 12: Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements. Retrieved from https://www.aasb.gov.au/admin/file/content102/c3/RR12_ASIC_08-19_1565850176017.pdf
- Khurana, I. K., & Raman, K. K. (2004). Litigation Risk and the Financial Reporting Credibility of Big 4 versus Non-Big 4 Audits: Evidence from Anglo-American Countries. *The Accounting Review*, 79(2), 473-495.
- Knechel, W. R., Niemi, L., & Zerni, M. (2013). Empirical Evidence on the Implicit Determinants of Compensation in Big 4 Audit Partnerships. *Journal of Accounting Research*, 51(2), 349-387.
- Knechel, W. R., & Payne, J. L. (2001). Additional Evidence on Audit Report Lag. *Auditing: A Journal of Practice & Theory*, 20(1), 137-146.
- LaGrone, R. M., Welton, R. E., & Davis, J. R. (1996). Are the effects of accounting ethics interventions transitory or persistent? *Journal of Accounting Education*, 14(3), 259-276.
- Lee, H.-Y., Mande, V., & Son, M. (2009). Do Lengthy Auditor Tenure and the Provision of Non-Audit Services by the External Auditor Reduce Audit Report Lags? *International Journal of Auditing*, 13(2), 87-104.
- Lennox, C. S. (2016). Did the PCAOB's Restrictions on Auditors' Tax Services Improve Audit Quality? *The Accounting Review*, 91(5), 1493-1512.
- Lennox, C. S., & Wu, X. (2017). A Review of the Archival Literature on Audit Partners. *Accounting Horizons*, 32(2), 1-35.
- Li, L., Qi, B., Tian, G., & Zhang, G. (2016). The Contagion Effect of Low-Quality Audits at the Level of Individual Auditors. *The Accounting Review*, 92(1), 137-163.
- Liu, X., & Simunic, D. A. (2005). Profit Sharing in an Auditing Oligopoly. *The Accounting Review*, 80(2), 677-702.
- Löhlein, L. (2016). From peer review to PCAOB inspections: Regulating for audit quality in the U.S. *Journal of Accounting Literature*, 36, 28-47.
- McNair, C. (1991). Proper compromises: The management control dilemma in public accounting and its impact on auditor behavior. *Accounting, Organizations and Society*, 16(7), 635-653.
- Mowchan, M. J. (2016). Do Office Managing Partners Influence Audit Quality? Available at SSRN: <https://ssrn.com/abstract=2784285>.
- O'Reilly, C. A., & Chatman, J. A. (1996). Culture as social control: Corporations, cults, and commitment. In *Research in organizational behavior: An annual series of analytical essays and critical reviews*, Vol. 18. (pp. 157-200). US: Elsevier Science/JAI Press.
- Pratt, J., & Beaulieu, P. (1992). Organizational culture in public accounting: Size, technology, rank, and functional area. *Accounting, Organizations and Society*, 17(7), 667-684.

- Potter, B., Pinnuck, M., Tanewski, G. & Wright, S. (2019). Keeping it private: financial reporting by large proprietary companies in Australia. *Accounting & Finance*, 59, 87-113.
- Public Oversight Board. (2000). The Panel on Audit Effectiveness: Report and Recommendations. Available at: <http://www.pobauditpanel.org/download.html>.
- Simunic, D. A. (1984). Auditing, Consulting, and Auditor Independence. *Journal of Accounting Research*, 22(2), 679-702.
- Sweeney, B., & Pierce, B. (2004). Management control in audit firms. *Accounting, Auditing & Accountability Journal*, 17(5), 779-812.
- Thomas, C. W., Davis, C. E., & Seaman, S. L. (1998). Quality review, continuing professional education, experience and substandard performance: An empirical study. *Accounting Horizons*, 12(4), 340-362.
- Trompeter, G. (1994). The Effect of Partner Compensation Schemes and Generally Accepted Accounting Principles on Audit Partner Judgment. *Auditing: A Journal of Practice & Theory*, 13(2), 56-68.
- Vanstraelen, A. (2002). Auditor economic incentives and going-concern opinions in a limited litigious Continental European business environment: empirical evidence from Belgium. *Accounting and Business Research*, 32(3), 171-186.
- Warth, R. J. (2000). Ethics in the accounting profession: A study. *The CPA Journal*, 70(10), 69-70.
- Wyatt, A. R. (2004). Accounting Professionalism—They Just Don't Get It! *Accounting Horizons*, 18(1), 45-53.
- Zeff, S. A. (2003). How the U.S. Accounting Profession Got Where It Is Today: Part II. *Accounting Horizons*, 17(4), 267-286.

Contact

IPA Head Office

Level 6, 555 Lonsdale Street
Melbourne Victoria 3000
Australia

Tel : 61 3 8665 3100

Fax: 61 3 8665 3130

Email : headoffice@publicaccountants.org.au

Website: www.publicaccountants.org.au/

IPA Divisional Offices are located in the following cities:

Melbourne

Sydney

Brisbane

Adelaide

Hobart

Perth

Canberra

The IPA has offices in:

London

Kuala Lumpur

Beijing

For enquiries within Australia call 1800 625 625 for your nearest Divisional Office. International enquiries can be directed in the first instance to IPA Head Office.