City University of Hong Kong
Course Syllabus

offered by Department of Accountancy
with effect from Semester A 2022/23

Part I Course Overview

Course Title:	Seminar in Auditing Research
Course Code:	AC8940
Course Duration:	1 semester
Credit Units:	3
Level:	R8
Medium of Instruction:	English
Medium of Assessment:	English
Prerequisites: *(Course Code and Title)*	Nil
Precursors: *(Course Code and Title)*	Nil
Equivalent Courses: *(Course Code and Title)*	Nil
Exclusive Courses: *(Course Code and Title)*	Nil

Part II Course Details

1. Abstract

This course is designed to expose students to current issues in auditing research. Its focus is to familiarize students with the broad framework of the auditing process. It will enable students to identify viable research proposal in auditing. More specifically, this course aims to:

1. provide knowledge of basic principles, objectives and ethical requirements of auditing;
2. develop a solid understanding of the auditing regulatory framework in the Asia-Pacific region;
3. provide a comprehensive and critical understanding of auditing research literature;
4. identify research opportunity in the Greater China area.

2. Course Intended Learning Outcomes (CILOs)

No.	CILOs	Weighting	Discovery-enriched curriculum related learning outcomes (please tick where appropriate)		
			A1	*A2*	*A3*
1.	To provide knowledge of basic principles, objectives and ethical requirements of auditing.	10%	✓		
2.	To develop a solid understanding of the auditing regulatory framework in the Asia-Pacific region.	10%	✓	✓	
3.	To provide a comprehensive and critical understanding of auditing research literature.	50%	✓	✓	
4.	To identify research opportunity in the Greater China area.	30%	✓	✓	✓
		100%			

A1: *Attitude*
Develop an attitude of discovery/innovation/creativity, as demonstrated by students possessing a strong sense of curiosity, asking questions actively, challenging assumptions or engaging in inquiry together with teachers.

A2: *Ability*
Develop the ability/skill needed to discover/innovate/create, as demonstrated by students possessing critical thinking skills to assess ideas, acquiring research skills, synthesizing knowledge across disciplines or applying academic knowledge to self-life problems.

A3: *Accomplishments*
Demonstrate accomplishment of discovery/innovation/creativity through producing /constructing creative works/new artefacts, effective solutions to real-life problems or new processes.

3. Teaching and Learning Activities (TLAs)

TLA	Brief Description	CILO No.						Hours/week (if applicable)
		1	2	3	4			
Lectures, in-class case discussion	Designed to assist students' understanding and learning of the institutional environment and historical development.	✓	✓	✓				
#Presentation and discussion	Presentations and discussion on selected seminal papers; research proposals on topical topics in auditing.			✓	✓			

DEC TLA element

4. Assessment Tasks/Activities (ATs)

Assessment Tasks/Activities	CILO No.						Weighting	Remarks
	1	2	3	4				
Continuous Assessment: **100%**								
Class-based assessment activities#	✓	✓	✓	✓			30%	
Term paper#			✓	✓			70%	
							100%	

DEC AT element

5. Assessment Rubrics

Applicable to students admitted in Semester A 2022/23 and thereafter

Assessment Task	Criterion	Excellent (A+, A, A-)	Good (B+, B)	Marginal (B-, C+, C)	Failure (F)
1. Class-based assessment activities	Demonstration of understanding of the nature and development of auditing, regulatory environment and comprehensive auditing literature.	High	Significant	Moderate	Not even reaching marginal levels
2. Term paper	Ability to provide a comprehensive and critical understanding of auditing research literature, identify research opportunity and make contribution to the existing literature.	High	Significant	Moderate	Not even reaching marginal levels

Applicable to students admitted before Semester A 2022/23

	Assessment Task	Criterion	Excellent (A+, A, A-)	Good (B+, B, B-)	Fair (C+, C, C-)	Marginal (D)	Failure (F)
1.	Class-based assessment activities	Demonstration of understanding of the nature and development of auditing, regulatory environment and comprehensive auditing literature.	High	Significant	Moderate	Basic	Not even reaching marginal levels
2.	Term paper	Ability to provide a comprehensive and critical understanding of auditing research literature, identify research opportunity and make contribution to the existing literature.	High	Significant	Moderate	Basic	Not even reaching marginal levels

Part III Other Information

1. Keyword Syllabus

Economics of auditing; auditing regulation, audit pricing, audit opinions, auditor switches, audit quality, audit report.

2. Reading List

2.1 Compulsory Readings

1.	Research papers published in internationally recognized journals (Please see the attached reading list in the next page)

2.2 Additional Readings

1.	Please see the attached reading list in the next page

Auditing Research Seminar Reading List

General Reference for all topics:
Francis, J. R. 2004. What do we know about audit quality? *The British Accounting Review* 36: 345-368.

DeFond, M. and J. Zhang. 2013. A review of archival auditing research. *Journal of Accounting and Economics* 58 (2/3): 275-326.

★: for senior Ph.D. students only

(1) Auditor choice
1-1. Choi, J.-H., and T. J. Wong. 2007. Auditors' governance functions and legal environments: An international investigation. *Contemporary Accounting Research* 24 (1): 13-46.

1-2. Lennox, C. and J. Pittman. 2011. Voluntary audit versus mandatory audits. *The Accounting Review* 86 (5): 1655-1678. ★

1-3. Minnis, M. 2011. The value of financial statement verification in debt financing: Evidence from private U.S. firms. *Journal of Accounting Research* 49 (2): 457-506. ★

1-4. Guedhami, O., J. Pittman, and W. Saffar. 2014. Auditor choice in politically connected firms. *Journal of Accounting Research* 52 (1):

Further reference:
Lennox, C. 2005. Management ownership and audit firm size. *Contemporary Accounting Research* 22 (1): 205-227. Δ

Guedhami, O., J. Pittman, and W. Saffar. 2009. Auditor choice in privatized firms: Empirical evidence on the role of state and foreign owners. *Journal of Accounting and Economics* 48 (2/3): 151-171.

(2) Audit fee
2-1. Ghosh, A. and S. Lustgarten. 2006. Pricing of initial audit engagements by large and small audit firms. *Contemporary Accounting Research* 23 (2): 333-368.

2-2. Choi, J. -H., J. -B. Kim, X. Liu, and D.A. Simunic. 2008. Audit pricing, legal liability regimes, and Big 4 premiums: Theory and cross-country evidence. *Contemporary Accounting Research* 25 (1): 1-49.

2-3. Beck, M. and E. Mauldin. 2014. Who's really in charge? Audit committee versus CFO power and audit fees. *The Accounting Review* 89 (6): 2057-2085.

2-4. Choi, J. –H., J. –B. Kim, Y. Lee, and H. –Y. Sunwoo. 2017. Audit market concentration and audit fees: An international investigation. *Working Paper*. Seoul National University.

Further reference:

Francis, J., K. Reichelt, and D. Wang. 2005. The pricing of national and city-specific reputation for industry expertise in the U.S. audit market. *The Accounting Review* 80 (1): 113-136.

Ghosh, A. and R. Pawlewicz. 2009. The impact of regulation on audit fees: Evidence from the Sarbanes-Oxley Act. *Auditing: A Journal of Practice and Theory* 28 (2): 171-197.

(3) Audit opinion

3-1. Kaplan, S. and D. Williams. 2013. Do going concern audit reports protect auditors from litigation? A simultaneous equations approach. *The Accounting Review* 88 (1): 199-232.

3-2. Lennox, C. 2005. Audit quality and executive officers' affiliations with CPA firms. *Journal of Accounting and Economics* 39 (2): 201-231. ★

3-3. Chan, P., S. He, Z. Ma, and D. Stice. 2016. The information role of audit opinions in debt contracting. *Journal of Accounting and Economics* 61 (1): 121-144.

3-4. Mayew, W., M. Sethuraman, and M. Venkatachalam. 2015. MD&A disclosure and the firm's ability to continue as a going concern. *The Accounting Review* 90 (4): 1087-1115.

Further reference:

Carcello, J., A. Vanstraelen, and M. Willenborg. 2009. Rules rather than discretion in audit standards: Going-concern opinions in Belgium. *The Accounting Review* 84 (5): 1395-1428.

Li, C. 2009. Does client importance affect auditor independence at the office level? Empirical evidence from going-concern opinion. *Contemporary Accounting Research* 26 (1): 201-230. Δ

(4) Auditor change

4-1. DeFond M., and K. Subramanyam. 1998. Auditor change and discretionary accruals. *Journal of Accounting and Economics* 25: 35-67.

4-2. Lennox, C. 2000. Do companies successfully engage in opinion-shopping? The UK experience. *Journal of Accounting and Economics* 29 (3): 321-337. ★

4-3. Haislip, J., L. Myers, S. Scholz, and T. Seidel. 2017. The consequences of audit-related earnings revisions. *Contemporary Accounting Research* 25 (2): 567-604.

4-4. Wieczynska, M. 2016. The "big" consequences of IFRS: How and when does the adoption of IFRS benefit global accounting firms? *The Accounting Review* 91 (4): 1257-1283.

(5) Arthur Andersen, SOX, and other regulations

5-1. Nelson, K., R. Price, and B. Rountree. 2008. The market reaction to Arthur Andersen's role in the Enron scandal: Loss of reputation or confounding effects? *Journal of Accounting and Economics* 46 (2-3): 279-293.

5-2. Cahan, S. W. Zhang, and D. Veenman. 2011. Did the Waste Management audit failures signal lower firm-wide audit quality at Arthur Andersen? *Contemporary Accounting Research* 28 (3): 859-891.

5-3. Blouin, J., B. M. Grein, and B. R. Rountree. 2007. An analysis of forced auditor change: The case of Former Arthur Andersen clients. *The Accounting Review* 82 (3): 621-650.

5-4. Lamoreaux, P., 2016. Does PCAOB inspection access improve audit quality? An examination of foreign firms listed in the United States. *Journal of Accounting and Economics* 61 (2/3): 313-337.

Further reference:

Cahan, S., and W. Zhang. 2006. After Enron: Auditor conservatism and ex-Andersen clients. *The Accounting Review* 81 (1): 49-82.

(6) Audit Committee & Corporate Governance

6-1. Chiu P.-C., S. H. Teoh, and F. Tian. 2013. Board interlocks and earnings management contagion. *The Accounting Review* 88 (3): 915-944.

6-2. Krishnan, G. V. and G. Visvanathan. 2008. Does the SOX definition of an accounting expert matter? The association between audit committee directors' accounting expertise and accounting conservatism. *Contemporary Accounting Research* 25 (3): 827-857.

6-3. Lisic, L. L., T. L. Neal, I. X. Zhang, and Y. Zhang. 2016. CEO power, internal control quality, and audit committee effectiveness in substance versus in form. *Contemporary Accounting Research* 33 (3): 1199-1237.

6-4. Badolato, P., D. Donelson, and M. Ege. 2014. Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics* 58 (2/3): 208-230.

Further reference:

Naiker, V., and D. Sharma. 2009. Former audit partners on the audit committee and internal control deficiencies. *The Accounting Review* 84 (2): 559-587.

Lennox, C., and C. W. Park. 2007. Audit firm appointments, audit firm alumni, and audit committee independence. *Contemporary Accounting Research* 24 (1): 235-258.

Srinivasan, S. 2005. Consequences of financial reporting failure for outside directors: Evidence from accounting restatements and audit committee members. *Journal of Accounting Research* 43 (2): 291-334.

(7) Audit Quality

7-1. Bills, K., D. Jeter, and S. Stein. 2015. Auditor industry specialization and evidence of cost efficiencies in homogenous industries. *The Accounting Review* 90 (5): 1721-1754.

7-2. Choi, A., J. –H. Choi, and B. C. Sohn. 2017. The joint effect of audit quality and legal regimes on the use of real earnings management: International evidence. Forthcoming at *Contemporary Accounting Research*.

7-3. DeFond, M., C. Y. Lim, and Y. Zang. 2016. Client conservatism and auditor-client contracting. *The Accounting Review* 91 (1): 69-98.

7-4. Lawrence, A., M. Minutti-Meza, and P. Zhang. 2011. Can Big 4 versus non-Big 4 differences in audit-quality proxies be attributed to client characteristics? *The Accounting Review* 86 (1): 259-286.

Further reference:

Mansi, S. A., W. F. Maxwell, and D. P. Miller. 2004. Does auditor quality and tenure matter to investors? Evidence from bond market. *Journal of Accounting Research* 42 (September): 755-793.

Caramanis, C., and C. Lennox. 2008. Audit effort and earnings management. *Journal of Accounting and Economics* 45 (1): 116-138.

(8) Non-audit service

8-1. Markelevich, A. and R. Rosner. 2013. Auditor fees and fraud firms. *Contemporary Accounting Research* 30 (4): 1590-1625.

8-2. Lim, C. –Y. and H. T. Tan. 2008. Non-audit service fees and audit quality: The impact of auditor specialization. *Journal of Accounting Research* 46 (1): 199-246.

8-3. De Simone, L., M. Ege, and B. Stomberg. 2015. Internal control quality: The role of auditor-provided tax services. *The Accounting Review* 90 (4): 1469-1496.

8-4. Causholli, M., D. J. Chambers, and J. L. Payne. 2014. Future non-audit service fees and audit quality. *Contemporary Accounting Research* 31 (3): 681-712.

Further reference:

Ashbaugh, H., R. LaFond, and B. Mayhew. 2003. Do non-audit services compromise auditor independence? Further evidence. *The Accounting Review* 78 (3): 611-639.

(9) Audit office/partner

9-1. Swanquist, Q. and R. Whited. 2015. Do clients avoid "contaminated" offices? The economic consequences of low-quality audits. *The Accounting Review* 90 (6): 2537-2570.

9-2. Lennox, C. and B. Li. 2014. Accounting misstatements following lawsuits against auditors. *Journal of Accounting and Economics* 57 (1): 58-75.

9-3. Li, L., B. Qi, G. Tian, and G. Zhang. 2017. The contagion effect of low-quality audits at the level of individual auditors. *The Accounting Review* 92 (1): 137-163.

9-4. Carcello, J. and C. Li. 2013. Costs and benefits of requiring an engagement partner signature: Recent experience in the United Kingdom. *The Accounting Review* 88 (5): 1511-1546.

Further reference:

Choi, J. –H., S. Kim, and K. K. Raman. 2017. Did the 1998 merger of Price Waterhouse and Coopers & Lybrand increase audit quality? *Contemporary Accounting Research* 34 (2): 1071-1102.

Lennox, C., X. Wu, and T. Zhang. 2014. Does mandatory rotation of audit partners improve audit quality? *The Accounting Review* 89 (5): 1775-1803.

(10) Internal control

10-1 Bauer, A., 2016. Tax avoidance and the implications of weak internal control. *Contemporary Accounting Research* 33 (2): 449-486.

10-2 Gao, X. and Y. Jia. 2016. Internal control over financial reporting and the safeguarding of corporate resources: Evidence from the value of cash holdings. *Contemporary Accounting Research* 33 (2): 783-814.

10-3. Kim, J. –B., B. Song, and L. Zhang. 2011. Internal control weakness and bank loan contracting: Evidence from SOX section 404 disclosures. *The Accounting Review* 86 (4): 1157-1188.

10-4. Feng, M., C. Li, S. McVay, and H. Skaife. 2015. Does ineffective internal control over financial reporting affect a firm's operations? Evidence from firms' inventory management. *The Accounting Review* 90 (2): 529-557.

Further reference:

Ashbuagu-Skaife, H., D. W. Collins, W. R. Kinney Jr., and R. LaFond. 2009. The effect of SOX internal control deficiencies on firm risk and cost of equity. *Journal of Accounting Research* 47 (1): 1-43.

(11) Market reaction

11-1. Menon, K. and D. D. Williams. 2010. Investor reaction to going concern audit reports. *The Accounting Review* 85 (6): 2075-2105. Δ

11-2. DeFond, M., R. Hann, and X. Hu. 2005. Does the market value financial expertise on audit committees of boards of directors? *Journal of Accounting Research* 43 (2): 153-193.

11-3. Burks, J. J., 2011. Are investors confused by restatements after Sarbanes-Oxley? *The Accounting Review* 86 (2): 507-539.

11-4. Reid, L. and J. Carcello. 2017. Investor reaction to the prospect of mandatory audit firm rotation *The Accounting Review* 92 (1): 183-211.

Further reference:

Louis, H. 2005. Francis, J. and B. Ke. 2006. Disclosure of fees paid to auditors and the market valuation of earnings surprises. *Review of Accounting Studies* 11 (4): 495-523. Δ

Dee, C. C., A. Lulseged, and T. Zhang. 2011. Client stock market reaction to PCAOB sanctions against a Big 4 auditor. *Contemporary Accounting Research* 28 (1): 263-291.

(12), (13) & (14)

Final Exam (only in the case when we have many students).

Short Research Proposal Presentations: 20 minutes each – about 10 pages of PPT.