

Economic research and implications for policy

Office of Economic and Risk Analysis (ERA)

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Disclaimer

- The views expressed are our own views and do not necessarily reflect the views of the Board, individual Board members, or the staff of the PCAOB.

Recap: Economic Analysis at PCAOB

- Primary activities:
 - Prepare economic analysis to inform standard setting activities and other PCAOB rulemakings.
 - Apply economic and statistical techniques to enhance the effectiveness of PCAOB oversight programs.
 - Foster economic research on topics important to the PCAOB's audit oversight and investor protection mission.

Purpose of today's session

- ❑ Describe the role of research in audit oversight.
- ❑ Expose SAG members to examples of recent economic research.
- ❑ Discuss implications of these research projects for regulatory policy and standard-setting.
- ❑ Obtain input on topics for future research.

Background on the fellowship program

- Started in September 2014 with the appointment of two fellows.
 - Since then five further fellows have been accepted into the program (two in 2015, one in 2016, and two who will start later in 2017). Fellows are appointed for 1-2 years.
- Generates high quality publishable economic research on topics that inform PCAOB oversight activities.
 - Generally quantitative in nature.
 - Leverages PCAOB and third-party data.
 - Employs econometric techniques.

Considerations that guide the design of the program

- ❑ Deepen understanding of market issues and possible effects of regulatory actions.
- ❑ Add credibility to economic analysis.
- ❑ Staff development, retention and recruitment.
- ❑ Help get data structured for analysis and identify gaps.

Research Summary

	Topic	Paper title	Author	Status
1	Proxies for audit quality	The Validity of Publicly Available Measures of Audit Quality. Evidence from the PCAOB Inspection Data	Aobdia	Released 3/30/2015
2	Part I findings	The Impact of the PCAOB Individual Engagement Inspection Process – Preliminary Evidence	Aobdia	Released 7/23/2015
3	Onset of PCAOB inspections	Public Oversight and Reporting Credibility: Evidence from the PCAOB Inspection Regime (with Christian Leuz and Mark Maffett)	Gipper	Released 7/23/2015
4	Auditor reputation	What's in a Name? Reputation and Monitoring in the Audit Market (with Suraj Shekhar)	Basu	Released 10/27/2015
5	Part II findings	Does the Organization and Culture of the Largest Audit Firms Influence their Audit Quality and Efficiency?	Aobdia	Released 11/10/2015
6	ROC curves	ROC Curves and Nonrandom Data	Cook	Released 4/7/2016

Research Summary (cont.)

	Topic	Paper title	Author	Status
7	Role of partner expertise	Does Engagement Partner Expertise Matter? Evidence from the U.S. Operations of the Big 4 Audit Firms (with Saad Siddiqui and Andres Vinelli)	Aobdia	Released 5/24/2016
8	Internal control deficiencies	Do Auditors Correctly Identify and Assess Internal Control Deficiencies? Evidence from the PCAOB Data (with Gil Sadka)	Aobdia, Choudhary	Released 9/13/2016
9	Materiality and audit adjustments	Direct Measures of Auditor's Quantitative Materiality Judgments: Properties, Determinants and Consequences for Audit Characteristics and Financial Reporting Reliability (with Kenneth Merkley and Katherine Schipper)	Choudhary	Released 4/25/2017
10	Audit effort	Does the Composition of the Audit Matter? Evidence from PCAOB Data	Aobdia, Choudhary	Manuscript in preparation
11	Internal audit firm inspections	Are Audit Firms Internal Inspection Programs Effective? Evidence from Internal Inspection Data of the Largest Audit Firms	Aobdia	Manuscript in preparation
12	Partner consequences	Engagement Partner Consequences of Audit Quality Incidents	Aobdia	Manuscript in preparation

Research Summary (cont.)

	Topic	Paper title	Author	Status
13	Economics of partner rotation	The Economic Consequences of Audit Partner Rotation: Big 4 Partners in the U.S. (with Christian Leuz and Luzi Hail)	Gipper	Manuscript in preparation
14	Broker-dealer audit quality	A Conceptual Model and Empirical Test of Audit Quality in the Broker-Dealer Industry	Kowaleski	Research in-process
15	Broker-dealer auditor selection	Auditor Selection in the Broker-Dealer Industry (with Jonathan Cook and Karla Johnstone)	Kowaleski	Research in-process
16	Form AP disclosure	Title TBD (with April Klein and Yu-Ting Forester Wong)	Honigsberg	Project approved
17	Audit offshoring	Title TBD (with Robert Jackson, Jr)	Honigsberg	Project approved
18	Multi-location audits	Title TBD (with Jean Bedard)	Downey	Project approved