

Auditing Section American Accounting Association

Contents of *Auditing - A Journal of Practice & Theory* Waterloo Supplement --- Volume 17

MAIN ARTICLES

- **Assurance Services and the Audit Heritage**
Robert K. Elliott
 - **Planning Assurance Services**
Ronald R. King and Rachel Schwartz
[Summary](#)
Discussants: Douglas L. Cameron, Jeffrey W. Schatzberg
Reply: Ronald R. King and Rachel Schwartz
 - **Evidence of Non-Big 6 Market Specialization and Pricing Power in a Niche Assurance Service Market**
Charles P. Cullinan
[Summary](#)
Discussants: Barry Brownlow ([Summary](#)) and W. Daryl Lindsay
Reply: Charles P. Cullinan
 - **A Methodology for Developing Measurement Criteria for Assurance Services: An Application in Information Systems Assurance**
Douglas Havelka, Steve G. Sutton and Vicky Arnold
[Summary](#)
Discussants: Steven E. Salterio, Janet L. Stockton
Reply: Steve G. Sutton, Vicky Arnold and Douglas Havelka
 - **Timely Industry Information as an Assurance Service-Evidence on the Information Content of the Book-to-Bill Ratio**
Neil L. Fargher, Larry R. Gorman and Michael S. Wilkins
[Summary](#)
Discussants: Audrey A. Gramling, Frank J. Kelly
Reply: Neil L. Fargher, Larry R. Gorman and Michael S. Wilkins
 - **1998 Audit Symposium Panel Discussion on Assurance Services**
Discussants: J. Efrim Boritz and Don Cockburn
-

Summaries and Abstracts (where available):

Planning Assurance Services

Our purpose is to investigate the strategies an auditor will use to assess risk when planning for the provision of a type of assurance service. The assurance service that we model is the delivery of information from the auditor to an investor. Our primary objective is to explore the extent to which risk assessment strategies that are employed in the provision of traditional auditing services carry over to the assurance service that we model. We find that unlike audit services where conservatism can be the cure for the "auditor's curse," or a protection against legal liability, in assurance services that are user-driven there is a lesser role for conservatism as a universal property of the information system. We also find that auditors who supply assurance services (of the variety we model) will not compromise their reputation as high-quality auditors because assurance services will be provided at a high level of quality for economic reasons, even without regulator restrictions. [Return to Table of Contents](#)

Evidence of Non-Big 6 Market Specialization and Pricing Power in a Niche Assurance Service Market

Elliott and Pallais (1997) indicate the importance of finding an appropriate market niche when entering the assurance services market. They discuss the notion that the pricing of these assurance services can be based on the value of the services to the market, and provide an example of such pricing in a regulatory compliance setting. Auditing requirements in the pension plan audit market extend beyond those required by GAAS to include assurance regarding compliance with relevant regulations. Additionally, the Big 6 CPA firms have a fairly small market share (about 10 percent) in this market (Cullinan 1997). The pension plan environment therefore provides an opportunity to examine whether smaller CPA firms can establish a "brand name" in a niche assurance service market to distinguish their expertise, and thereby receive higher fees. This study examines the effects of industry expertise on audit fees in the multi-employer pension plan context. Results indicate that non-Big 6 firms with industry expertise (as measured by market share) receive fee premiums over nonspecialist firms. Big 6 firms with larger market shares do not receive fee premiums in this market. These results suggest that non-Big 6 firms may be able to obtain, and benefit from, market positions in certain niche assurance service markets.

Key Words: Assurance services, Audit fees, Auditor expertise, Industry specialization, Regulatory compliance, Pension auditing.

Data Availability: The data used in this study are publicly available under the Freedom of Information Act from the U.S. Pension and Welfare Benefits Administration. [Return to Table of Contents](#)

Discussion - Evidence of Non-Big 6 Market Specialization and Pricing Power in a Niche Assurance Service Market

Cullinan's (1998) argument proposes that specialization can provide competitive advantages to smaller firms. This assumption raises interesting questions, the most important of which is-under what circumstances or conditions could a smaller firm with fewer resources obtain a higher fee than a larger firm with greater resources? A logical extension of this argument indicates significant potential changes in the public accounting profession. One change to be considered would be the industry's value-pricing model which may be at odds with the established value-pricing model of most other markets. Should the public accounting industry rectify its value-pricing model to conform to established models in other industries? Those firms that make the required adjustments first will be rewarded with very significant profit and expansion opportunities. The key is to be one of the first. [Return to Table of Contents](#)

A Methodology for Developing Measurement Criteria for Assurance Services: An Application in Information Systems Assurance

In an analysis of the impact future assurance services will have on research and practice, Elliott and Pallais (1997a) specifically address seven areas of critical research need. This study is designed to address two of these areas: (1) methodologies for the development of measurement criteria for new services and (2) identification of factors impacting information systems reliability. A two-stage methodology is proposed for use in the future development of measurement criteria, and this methodology is in turn applied to the specific area of information systems assurance.

The empirical study engages six focus groups (three groups of information systems users and three groups of information technology (IT) specialists) in sessions specifically designed to identify the critical factors impacting the quality of the information requirements definition stage of systems development. The critical factors identified by these focus groups were subsequently integrated into a questionnaire instrument that was completed by 66 users and 66 IT specialists. The results provide evidence that the methodology for measurement development is robust in terms of (1) the generation of similar sets of critical factors among multiple groups and (2) the acceptance of the critical factors by broader groups of nonfocus group participants. In addition, the results of the application to information systems assurance provide a final set of 29 critical factors and substantiate theories positing a difference in perceptions of users and IT specialists as to the relative importance of these factors to information systems quality.

Key Words: Assurance services, Information systems assurance, Quality measurement, Performance measurement, Systems reliability, Systems quality.

Data Availability: Contact the authors. [Return to Table of Contents](#)

Timely Industry Information as an Assurance Service-Evidence on the Information Content of the Book-to-Bill Ratio

Assurance services include independent professional services that improve the quality of information. One such service is the collection of confidential information from participating firms on behalf of an industry association and the release of summarized information to investors. An example of this type of service is the collection of industry-wide information for the Semiconductor Industry Association. The primary output from this process is the monthly release of a ratio of new orders received to chips shipped, known as the book-to-bill ratio.

We evaluate the association between book-to-bill disclosures and common stock prices. Statements in the financial press suggest that the book-to-bill index is an important indicator of future demand in the semiconductor industry. Because changes in the book-to-bill ratio signal impending changes in sales, the index may be relevant information for firm valuation.

Our results suggest that investors in semiconductor firms utilize the book-to-bill ratio in revising their expectations of future cash flows. Specifically, we find (1) that eight of the 36 monthly book-to-bill announcements occurring during 1994 through 1996 produced share price reactions significant at the 10 percent level, and (2) that the price response across the subset of "good news" disclosures is positively related to the change in the book-to-bill ratio.

Key Words: Assurance services, Compilation, Industry statistics.

Data Availability: All data were obtained from publicly available sources. [Return to Table of Contents](#)



Return to [Journals and Newsletters](#) or [Auditing Section Home Page](#)



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Updated April 13, 1999