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Submission Abstracts

JIAR-2022-032

A systematic Review of the Association Between Big Data Analysis and the Financial Auditing

Iyad Husni Ismail
UUM: Universiti Utara Malaysia, Sintok, Sintok, MALAYSIA

Fathilatul Zakimi Abdul Hamid, Senior Accounting Lecturer, supervisor

ABSTRACT

This systematic literature review provides the association between big data analysis and the financial auditing using PRISMA technique. Because of the deficient experience in the usage of big data analysis in the financial auditing, auditors could not use big data analysis perfectly among the audit processing. Therefore, they still use classical auditing with IT software audits. Throughout the big data analysis age, auditors may face challenges of big data analysis usage, resulting in the boundaries and restrictions. But big data analysis could provide easier way of processing and analysis of information. This research identified 84 studies related to auditing and big data analysis studies. The investigation represents beneficial prudence in several fields by determining research suppositions and questions that needs to be identified through the future research to obtain wide conception about the association between big data analysis and the financial auditing.

JIAR-2022-030

CEO-CFO Gender Congruence and Tax Avoidance

Xiaoqi Chen
Xiamen University
E-mail: chen.xiaoqi001@gmail.com

HSIEH Chih-Chieh
NEOMA Business School
E-mail: chris.hsieh@neoma-bs.fr

Lei Zhu
Southwestern University of Finance and Economics
E-mail: zhulei_swufe@163.com

Abstract

This paper investigates whether CEO-CFO gender congruence affects corporate tax avoidance using Chinese listed firm data spanning from 2008-2017, we find that CEO-CFO gender congruence is negatively related to tax avoidance. These results are robust when we use different proxies of tax avoidance and control for other confounding factors, such as age gap, tenure gap, and salary gap between CEO and CFO. To address the endogeneity issue, we employ a propensity match method and a Heckman selection two-stage regression and find a similar result. Moreover, we find that the negative effect of CEO-CFO gender congruence on tax avoidance is weaker for firms with fewer incentives to conduct tax avoidance, and firms whose CFO has less career risk. Overall, our study establishes the first evidence that CEO-CFO gender congruence is a vital determinant of firms' taxation.

JIAR-2022-029

The Balanced Scorecard in Italy: Use and Connection with Factors Internal and External to Companies

Antonella Cugini
Department of Economic and Political Sciences
University of Valle d'Aosta
Italy

Clementina Bruno
Department of Economics and Business Studies, University of Piemonte Orientale, Italy

Teresa Ferrara
Italy

ABSTRACT
The purpose of this paper is to analyze the conditions of effectiveness of the performance measurement and management systems by referring to a sample of 127 Italian companies. We use a logit model with the aim of evaluating the impact of the characteristics of the company and the competitive environment on the probability of choosing different types of performance management tools: the Balanced Scorecard(BSC), the Strategy Map(SM) and an Incentive System(IS).The main results of this study are: the positive association between the size of the company and the use of the BSC and between the organizational structure and the use of the BSC; the positive association between the matrix organizational structure and the use of SM; the positive association between the divisional organizational structure and the use of an Incentive System; the negative association between belonging to a Group and the use of an Incentive System.

JIAR-2022-028

Executive Compensation and Idle Capacity Expenses

Liu-Ching Tsai
Professor
Department of Banking and Finance
National Chia-Yi University

Chaur-Shiuh Young
Professor
Department of Accountancy and Graduate Institute of Finance & Banking
National Cheng Kung University

Hui-Wen Hsu
Associate Professor
Department of Public Finance
Feng Chia University

Abstract

Under Taiwan's new SFAS No. 10, which is convergent to IAS No. 2, the idle capacity cost becomes visible. Despite the prompt income-decreasing effects of the recognized idle capacity expenses, idle capacity may arise due to a firm's long-run capacity plan or production/sales decisions and thus have complicated economic implications for future performance. Thus, this study examines the compensation adjustment on idle capacity expenses and the potential factors, the size of manufacturing overhead and managerial power, influencing this adjustment. Using a sample of Taiwanese listed manufacturing firms included in TEJ over the period 2009-2012, we find the existence of shielding executive compensation from idle capacity expenses (adjusting downward the compensation weight) and the differential shielding effect for the different level of managerial power and firms' fixed manufacturing overhead. This evidence can help regulators completely assess the economic consequences of implementing IFRSs.

JIAR-2022-026

Book-tax Conformity, ESG Performance, and M&A Efficiency

Audrey Hsu
National Taiwan University, Taiwan

Leon van Jaarsveldt
National Taiwan University, Taiwan

Sophia Liu*
National Taiwan University, Taiwan

Abstract
Using international data across 32 countries, we examine how book-tax conformity of a country where the target firm is located affects acquisition efficiency. After controlling for firm-specific and country-level factors, increased book-tax conformity of the target country is associated with lower acquisition efficiency. Besides, we find the negative association between book-tax conformity of the target and acquisition efficiency is mitigated among target with better environmental, social, and governance (ESG) performance/or more transparent ESG disclosure. The positive moderating effect suggests that ESG performance and ESG disclosure, respectively, helps acquirers reduce information asymmetry and increase trust, mitigating the negative effect of the target's country-level conformity on acquisition efficiency. Overall, our findings suggest that while the acquisition efficiency is negatively affected by the target's country-level book-tax conformity, ESG performance and ESG disclosure can help mitigate information asymmetry and the acquirers' concerns about the target's information uncertainties.

JIAR-2022-024

The Impact of Internal Governance on Conservatism: Evidence from Australia

Millie Liew
School of Accounting, Economics and Finance, Curtin University, Australia

June Cao
School of Accounting, Economics and Finance, Curtin Business School, Perth, Australia

ABSTRACT: Financial reporting decisions can be influenced by the distribution of executive decision-making power. We examine whether internal governance, the process through which the power to make decisions is distributed between CEOs and their subordinates, can influence the level of conservatism in such decisions. We show that firms with better internal governance are more conservative. We also find that the effect is more pronounced for firms with less powerful and older CEOs, those with subordinate executives who contribute more and receive higher pay, and those that are more mature. We conduct various tests that confirm the robustness of our results. Unlike other studies that only focus on CEOs, we examine how the top management team as a group and the power distribution between a CEO and key subordinates shape financial reporting quality. Our study can inform various stakeholders, including firms aiming to appoint executives and to strengthen their internal governance.

JIAR-2022-023

Private Bank Lending to Small Business in China: An Analysis of Default Rates

Min Cao
College of Staten Island

Jingyi Du
Legend Capital
Beijing 100190

Bharat Sarath
Rutgers Business School
Rutgers University

Abstract

This study examines small business loans and default rates using a unique proprietary dataset from a private bank in China. As Chinese regulations preclude differential interest rates, alternative tools, such as auditing, relationship length, and group lending, are employed to mitigate default risk. Although audits in China are extremely superficial, they lower default rates as borrowers use audits as a positive signal of the firms' likelihood of success. We also find that a long relationship length reduces default risk as it likely increases the bank's soft information regarding borrowers. Group lending is another popular mechanism to reduce default rates, especially for microfinance loans. While the risk sharing and monitoring aspects of this strategy have been widely analyzed, we focus on a free rider problem using a game-theoretic model that suggests the optimal group size may be smaller than suggested by conventional wisdom and empirically confirm this hypothesis.

JIAR-2022-022

Connecting Through Zoom or Email? The Influence of Client-Specific Experience on Auditors' Skepticism in Remote Audits

Arizona Mustikarini
University of Agder, Norway
Universitas Gadjah Mada

ABSTRACT

Audit associates are often assigned to recurring audit clients and have developed client-specific experience (CSE) from prior audits. In a remote audit setting where associate auditors experience recurring audit clients, this study examines whether their communication mode in remote audits impacts subsequent skeptical behavior. To examine this relationship, computer-mediated communication (CMC) modes with distinct verbal and visual cues, email and video communication, are manipulated that differentially facilitate auditors' skepticism when encountering prior positive versus negative CSE. Results from a 2x2 between-subjects experiment indicate that associate auditors are socially influenced by their prior CSE when assessing an email response due to limited verbal and visual cues, affecting their skeptical judgment differently. In comparison, a video response with neutral cues facilitates a similar level of skeptical judgment. Notably, auditors with a prior positive CSE show higher skeptical judgment when assessing a video response with neutral cues than an email response.

Whereas in a prior negative CSE, both responses from email and video with neutral cues lead to an insignificant difference in skeptical judgment. Path analysis further identifies the cognition in CMC that retrieval memory on prior CSE and perceived reasonableness mediate the relationship between the perception of prior CSE and skeptical judgment. Finally, once auditors culminate their judgment, this study finds that CMC modes with distinct immediacy feedback feature moderate auditors' perception of prior CSE, affecting the likelihood to undertake direct follow-up inquiries and follow-up actions without client interaction. Collectively, this study contributes to auditors' communication modes literature and provides practical implications on the notion of remote audits.

JIAR-2022-021

The Use of Shared Service Centers in the Audit Industry and the Impact on Financial Analyst Perceptions

Ewald Aschauer*
Institute for Accounting and Auditing
Vienna University of Economics and Business
Vienna, Austria

Reiner Quick
Department of Accounting and Auditing
Faculty of Business and Economics
Technical University Darmstadt
Darmstadt, Germany

Markus Isack
Institute for Accounting and Auditing
Vienna University of Economics and Business
Vienna, Austria

Abstract

Audit firms are increasingly using Shared Service Centers (SSCs). However, this process is not obvious for users. Regarding the effect on audit quality, there are arguments both for improvement and for deterioration due to the use of SSCs. We provide experimental evidence regarding the effects of SSCs on audit quality as perceived by financial analysts. Based on data from 205 financial analysts, we investigate whether the use of SSCs impacts perceived audit quality and whether the location of the center and the task complexity play a role. We find that SSC involvement negatively impacts audit quality perceptions. The internal outsourcing of complex tasks reinforces this effect. Our results have direct implications for audit practice and regulators, as they demonstrate the need to include information on the use of SSC in the auditor report. Moreover, we find that trust in auditing and a positive attitude towards SSCs is a mitigating force.

JIAR-2022-020

Valuation Specialists and Value Relevance of Fair Value Measurements: Evidence from International Banks

Alfred Bu
Queensland University of Technology

Yuyu Zhang
Queensland University of Technology

Troy Yao
Queensland University of Technology

Abstract

Prior studies find that auditors’ fair value expertise contributes to the credibility and usefulness of fair value disclosures. However, auditors may not have the required expertise in auditing complex fair value and rely appreciably on their valuation specialists who have the required valuation skills. Using a sample of international commercial banks over 2016 – 2019, we find that Level 1 and Level 2 FVMs are generally value-relevant, regardless of using valuation specialists in auditing. Level 3 FVMs, however, are only value-relevant when bank auditors use their valuation specialists in auditing Level 3 FVMs. Our results suggest that valuation specialists are likely to complement the required expertise of their auditors in auditing Level 3 FVMs, improving the reliability of the audited Level 3 FVMs, thus enhancing the value-relevance of Level 3 FVMs. Our results should be of interest to standard setters, regulators, and the accounting profession.

JIAR-2022-019R1

The Changing Role of Accrual Accounting: International Evidence

Haidan Li
Santa Clara University

Siqi Li
Santa Clara University

ABSTRACT

Under the accrual accounting model, the timing role of accruals leads to a negative correlation between accruals and cash flows. Our study investigates the time-series trend of the accrual timing role in a sample of 51 countries in the last three decades. Consistent with the time trend of U.S. firms in Bushman et al. (2016), we find a temporal decline in the relation between accruals and cash flows in our non-U.S. sample over 1991-2019. We also find that the timing role of accruals enhances the link between accounting earnings and GDP growth, suggesting that the attenuation of the accrual timing role can negatively affect the ability of aggregate accounting earnings to capture real economic activities. Further analysis suggests that firm-level and country-level economic and accounting-related factors explain a significant portion of the time trend of accrual timing. Notably, IFRS mandate improves the accrual-cash flow relation and mitigates the downward trend of the timing role of accruals.

JIAR-2022-018

Is Liquidity Risk Exposure Associated with Earnings and Capital Management? Results on the Unexplored Relationship in the European Banking Sector

Alessandra Allini
University of Naples Federico II, Via Vicinale Cupa Cintia, 21, 80126 Napoli (Italy)

Raffaela Casciello (Corresponding Author)
University of Naples Federico II, Via Vicinale Cupa Cintia, 21, 80126 Napoli (Italy)

Marco Maffei
University of Naples Federico II, Via Vicinale Cupa Cintia, 21, 80126 Napoli (Italy)

David Ziebart
University of Kentucky, Lexington, 40506 Kentucky (United States of America)

ABSTRACT

Purpose. We investigate whether the exposure to liquidity risk is associated with earnings and capital management inside European listed banks.

Methodology. We run two fixed-effects and two random-effects regressions with interaction variables to test our hypotheses of association between the exposure to liquidity risk and earnings and capital management. Liquidity risk is detected through accounting risk measures, whereas recourse to earnings and capital management are identified through discretionary provisioning.

Findings. The results reveal that the higher the exposure to liquidity risk, the greater the recourse to earnings and capital manipulations in the banking context.

Implications. Our study enables banking supervisory authorities to better investigate banking accounting behavior through accounting measures of the exposure to liquidity risk and discretionary loan loss provisions (DLLPs) policies. It also helps regulators to develop new *ad hoc* interventions to correct and prevent earnings and capital management. Finally, it allows market participants to discover potential red flags of unfaithful representations of what financial statements purport to represent and of manipulated soundness.

Originality/value. Ours is the first study to detect an association between the exposure to liquidity risk and earnings and capital management in the banking context.

JIAR-2022-017

Clawback Adoption and the Shielding of CEO Compensation from R&D Expenditures: The Role of Compensation Committee Quality

Liu-Ching Tsai
Professor
Department of Banking and Finance
National Chia-Yi University
No.580, Sinmin Rd., Chiayi City 600, Taiwan (R.O.C.)

Chaur-Shiuh Young
Professor
Department of Accountancy and Graduate Institute of Finance & Banking
National Cheng Kung University
No.1, University Road, Tainan City 701, Taiwan (R.O.C.)

Yang Ya-Chih
Ph. D. Student
Department of Accountancy and Graduate Institute of Finance & Banking
National Cheng Kung University

Hui-Wen Hsu
Associate Professor
Department of Public Finance
Feng Chia University
No. 100, Wenhwa Rd., Seatwen, Taichung City 407, Taiwan (R.O.C.)

ABSTRACT

This study examines whether clawback adopters shield CEO compensation from R&D expenditures in response to the potential myopic R&D reductions driven by clawback adoption. We further examine whether such a shielding effect varies with compensation committee quality. Using a sample of U.S. firms with R&D activities from 2010 to 2016, we find that clawback adopters shield CEO compensation from the effect of R&D expenditures more than their pre-adoption periods and matched firms without clawbacks. Next, we find that the increased shielding effect of R&D expenditures is mainly driven by clawback adopters with high-quality compensation committees. This evidence helps assess the potential adverse consequences of adopting clawbacks, particularly for adopters with low-quality compensation committees. Our additional analysis suggests that clawback adopters engaging in R&D shielding mitigate subsequent myopic R&D reductions. Our results are robust for considering other incentives to shield R&D expenditures, including managerial horizon and earnings benchmarking myopia problems.

JIAR-2022-016

Geographic Location and Corporate Social Responsibility: Urban versus Non-Urban Firms

Narisa Tianjing Dai
Business School
University of International Business and Economics
10th Huxindong Street, Chaoyang District
Beijing, 100029, P.R.China

Yinjie Shen
Monte Ahuja College of Business
Cleveland State University
1860 E 18th St, Cleveland
OH 44114, USA

Fuzhao Zhou
School of Business and Management
State University of New York at Brockport
350 New Campus, Brockport
NY 14420, USA

Abstract

This paper examines whether and how firm headquarters location affects corporate social responsibility (CSR) performance. Utilizing a propensity-score matched sample, we find that comparing to their urban counterparts, non-urban firms are less likely to spend resources on CSR programs while exhibit a similar degree of socially irresponsible behavior, resulting in a lower overall CSR score. Further analysis indicates that the availability of financial resources, public monitoring, and social capital mediate the relationship between firm location and CSR performance. Our research adds to the debate on CSR impetus by lending support to the economic incentive of CSR engagement and provides evidence of the social impact of location of corporate headquarters.

JIAR-2022-012

The Effect of Pure Audit Firms, Non-Provision of Non-Audit Services to Audit Clients, and a Statutory Fee Schedule on Audit Quality Perceptions

Nicolas Pappert
Technical University of Darmstadt

Reiner Quick
Technical University of Darmstadt

ABSTRACT

An ongoing debate among accounting academics and regulators revolves around instruments for strengthening the audit quality perceptions of financial statements users. Despite constant regulatory change, the occurrence of accounting scandals (e.g., recently Carillion in the U.K. or Wirecard in Germany) has reignited public allegations that the existing regulation is insufficient. Therefore, this study investigates two measures that lack empirical evidence but could theoretically improve perceived audit quality. These are a full ban of NAS (either by requiring pure audit firms, or a voluntary decision not to provide NAS to audit clients) and a statutory fee schedule. We conduct an experiment with bankers and non-professional investors in Germany. The results indicate a positive main effect of pure audit firms and the non-provision of NAS to audit clients on perceived audit quality and auditor independence; but not on perceived auditor competence. Furthermore, we find a positive main effect of a statutory fee schedule on audit quality, auditor independence, and auditor competence perceptions.

JIAR-2022-009

Recognition versus Disclosure and Managerial Discretion:
Evidence from Japanese Pension Accounting

Masaki Kusano
Graduate School of Economics, Kyoto University
Yoshida-honmachi, Sakyo-ku, Kyoto 606-8501, Japan

ABSTRACT: In Japan, the current pension accounting standard requires firms to recognize pension items—prior service costs and actuarial gains and losses—in consolidated financial statements; however, firms are still allowed to disclose them in the notes when preparing unconsolidated financial statements. Employing this unique pension accounting rule, I explore whether and how disclosed versus recognized pension liabilities influence managerial discretion regarding pension assumptions. Recognition firms, those that recognize the previously disclosed pension items on the balance sheet, choose higher discount rates than disclosure firms, those that still disclose them in their notes. In particular, in case of larger pension deficits and more debt-contracting incentives, recognition firms are more likely to exercise their discretion over discount rates than disclosure firms. Overall, my results suggest that firms underestimate pension liabilities by using pension assumptions when pension recognition rules are mandated.

<u>JIAR-2022-008</u>

The Impact of Turning Away from IFRS on Earnings Quality of UK Private Firms

Yu-Lin Hsu
University of Strathclyde

Ya-Chih Yang
National Cheng Kung University

The Impact of Turning Away from IFRS on Earnings Quality of UK Private Firms

Abstract

New UK GAAP follows the design of IFRS and IFRS for SMEs, and was introduced from 2015 to improve the comparability and quality in financial reporting, and to reduce disclosure costs. This new standard heavily affected the financial reporting of private firms. To help assess whether the goal of Financial Reporting Council is achieved, this study examines whether switching from IFRS to new UK GAAP affects private companies' earnings quality. We use UK private firm data during 2015-2018, to conduct difference-in-differences and regression analyses. Overall, the results suggest that the switch from IFRS to new UK GAAP does not have significant impact on accruals quality, but reduces the timely loss recognition. This study contributes to the ongoing debate over the design of financial reporting standards for private firms and SMEs, and provides useful evidence for evaluating new UK GAAP and IFRS for SMEs.

<u>JIAR-2022-003</u>

Intersection of Auditing, Accountancy & Law: Constructing the Extent of Public Accountant Liability Related to Indonesia to Indonesia Tax Amnesty Program

Aria Farahmita
Associate Professor, Accounting Department, Universitas Indonesia

Daniel Pandapotan
Master of Accounting Student, Universitas Indonesia

ABSTRACT

This study aims, firstly, to construct the practice of Public Accountant (PA) roles and responsibilities to the audited financial statement information on clients engaged to Indonesia tax amnesty program and the initial application of SFAS 70; Then, to evaluate audit standards and legislation specifically regulate and provide legal guarantees on the practice of PA roles and responsibilities for the conduct of audits on clients participation in tax amnesty programs through in-depth review of audit standards and regulation. This research was conducted with qualitative approach through symbolic interactionism paradigm as PA role and responsibility analysis method. Data analysis techniques were conducted with Milles and Huberman interactive models. The results analysis show (1) Informant urge to comply on Audit Standards 250, Audit Standards 315, Document TJ 07 and SFAS 70 as accounting standards for their roles and responsibilities when conduct the audit on tax amnesty transactions in accordance with, so risk on tax amnesty transactions were minimized through their audit procedures; (2) there is no audit standards nor currently regulation to cap the role and responsibility of Indonesia PA and provide certainty of legal guarantees relating to the practice of PA roles and responsibilities.

JIAR-2022-002

Collusive Public Corruption and Patterns of Corporate Investment

Moon Kyung Cho
A.R. Sanchez, Jr. School of Business
Texas A&M International University
5201 University Boulevard, Laredo, TX 78041, United States

ABSTRACT

This study examines how public corruption in the US for the time period 1976-2019 influenced patterns of corporate investment decision-making about intangible and tangible capital. The analysis reveals that for firms located in more corrupt states, investment in intangible capital (R&D) was lower, investment in tangible capital (CAPEX) was higher, and total investment overall was significantly lower. The negative and significant relationship between public corruption and R&D was cyclical, whereas the positive relationship between public corruption and CAPEX progressively disappeared over the four decades of the study period. These results are robust to the inclusion of a series of firm, industry, and state characteristics, instrumental analysis, and an alternative proxy for the perception of public corruption. On the whole, the analysis reveals a pervasive and persistent impact of collusive (cost-reducing) public corruption on differential investment decision-making about innovation and marginal productivity in the developed equity market, such as the US.

JIAR-2022-001

Does the MD&A Disclosure of Fraudulent Firms Comply with the Sincerity Principle?: Evidence from Manufactures in Japan

Masumi Nakashima. Ph.D.
Professor of Accountancy
Bunkyo Gakuin University

Yuka Nose
Bunkyo Gakuin University

Hiromi Ujiie
Bunkyo Gakuin University

Shota Yoshida
Bunkyo Gakuin University

ABSTRACT

This study presents a fraud-detection method that uses both quantitative and qualitative information to provide more reliable fraud detection. First, it examines whether the tone of MD&A information provided by fraudulent firms differs from the tone of MD&A disclosure provided by non-fraudulent firms. That is, this study tests whether the MD&A disclosure of fraudulent and non-fraudulent firms is consistent with their financial fundamentals by relying on the sincerity principle. Second, it examines whether fraudulent firms that engage in earnings management implement tone management. This study contributes to the literature in several ways. First, while fraud-detection methods have focused on using a single piece of quantitative or qualitative information, this study presents a fraud-detection method that uses both types of information. Second, this study is the first in Japan to present a model for detecting fraud based on the relationship between tone and financial fundamentals using MD&A disclosures. The results derived from this study show that when the words of MD&A information are uncorrelated with financial fundamentals, the possibility of fraud is high. Thus, we are able to provide a reason why managers may know both the post-restated financial fundamentals and the pre-restated window-dressing figures and, consequently, fail to write logically.