How to reach non-academic audiences with your research, my experience at the PCAOB

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AAA Panel - March 18, 2022
Lesson 1: The Value of the Data

Regulators, tasked with solving market problems can gain tremendous insight by pooling together data that can be analyzed to understand a broad phenomenon. This problem cannot be easily solved by individual market participants.

The implications of research findings can influence:

1) standard setting initiatives
2) disclosure initiatives (i.e., should something be disclosed or not?)
3) problem identification (i.e., what should be included or excluded from an agenda)
4) post implementation reviews
5) risk factors that point to regulatory oversight focus
Example: Value of the data


Main Finding: After controlling for a client’s scale (i.e., size) looser materiality values are associated with more restatements.

**Implications for Regulators:**

1) Target oversight on those w/ loose materiality
2) Revise principle-based standards on setting materiality
3) Disclose auditor materiality

**Implications for Practitioners:**

1) Revise internal guidance on setting materiality
2) Increase oversight of this audit step (e.g., EQR, national office, partner, etc.)
3) Sell the value of a more precise audit – justify fees
Lesson 2: The Power of Description

Non-academics place tremendous value and interest in understanding how the world works. The descriptive elements of my research papers have received the most attention from outsiders.

1. There are many unstated assumptions that underlie policy making
2. Evaluate and think carefully to identify what unstated assumptions exist
3. Our research has the power to speak to those unstated assumptions
Example Unstated assumptions: Materiality thresholds as percent of pretax income

Figure 1.

Mode = 5% (approximately 14%)
Lessons 3: Think creatively about how to convey your findings in a picture

- Pictures are worth a thousand words. Non-academics cannot follow our two-dimensional tables.

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<th>Dependent Variables:</th>
<th>(1) Restatement (in t)</th>
<th>(2) Restatement (in t post FYE)</th>
<th>(3) Restatement (in t+1)</th>
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Examples of Lesson 3: Graphs and Charts

![Graph 1: Bar Chart](image1)

- **Concurrent Restatements**: 0.0, 0.5, 1.0, 1.5, 2.0, 2.5, 3.0, 3.5, 4.0, 4.5, 5.0, 5.5, 6.0, 6.5, 7.0, 7.5, 8.0, 8.5, 9.0, 9.5, 10.0
- **5th and 95th Percentiles**

![Graph 2: Line Chart](image2)

- **Pretax Income**
- **Net Income**
- **Revenue**
- **Gross Margin**
- **Equity**
- **EBITDA**
- **Assets**

(numbers are in percent)

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**Figure 2: The Audit Adjustment Disposition Process**

1. Auditor sets quantitative materiality.
2. Auditor plans audit procedures and may start gathering evidence (compliance testing).
3. Client provides financial statements to auditor.
4. If no audit adjustments are identified, audit team reviews draft financial statements, client, and opinion.
5. If management records all audit adjustments, go back to step 3.
6. Management reviews draft financial statements, client, and opinion.
7. Auditor revises financial statements for quantitatively assessed adjustments for areas considering tolerable error and qualitative materiality.

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**Figure 3: Distributions**

- **Firm 1**
- **Firm 2**
- **Firm 3**
- **Firm 4**
- **Firm 5**
- **Firm 6**
- **Firm 7**
- **Firm 8**

Percentage Applied to Revenue

(numbers are in percent)
Can we expand our narrow definition of impact?

• Defining impact as the number of academic citations is encouraging insular behavior
• What will this hold for the future?
• What ways can we measure impact beyond academic citations?
• Should we encourage or require this?

Bottom line...
Valuing communications with non-academics maximizes our value
Lesson 4: Focus on economical significance

Regulators want to know how much the impact is! They do not care about statistical significance.

Examples:

- We find that restatements are approximately 6 percentage points higher for audit engagements whose materiality judgements are in the loosest quintile.
- Waiving net income adjustments exceeding materiality is associated with a 12 percentage point increase in restatements.
- Large waived audit adjustments (above sample median) correspond with 6% to 9% increase in next period hours and 6-8% increase in future fees.