Research Statement

My primary research interests are in the areas of auditing and financial reporting, and in particular, in empirically studying events that lead to different levels of their quality or perceived quality and the corresponding market, company and audit firm outcomes that arise.

In my job market paper, based on the first two essays of my dissertation, I study whether restatement-independent audit oversight mitigates the market’s concern about future reporting risk or impacts the incentives for audit firm turnover. I do this by examining the market reaction at the restatement announcement, the likelihood audit firms turnover after the restatement and the market reaction to audit firm departures when the audit firm engaged at the announcement was not engaged during the restatement period. I refer to these observations as uninvolved. Prior studies either assumed that the audit firm at the time of the announcement had been engaged at some point during the restatement period or had performed filtering criteria that eliminated these observations from the analysis. Perhaps thought to be rare, this occurs in roughly 20% of the restatements every year.¹

Even though a restatement due to a material misstatement may be regarded as an audit failure, one must consider whether the audit firm was engaged during the misstatement period. The type of signal the market may interpret and the outcomes that may arise for this set of companies is not a priori clear. The fact that this occurs for a nontrivial number of restatements and the focus of prior studies has been in identifying consequences under known auditor culpability motivated me to investigate this group of restatements. I find that companies with involved audit firms have incrementally negative abnormal returns around the restatement announcement compared to companies with uninvolved audit firms. Following the restatement announcement, companies with uninvolved (involved) audit firms are less (more) likely to experience turnover and have a positive (no) reaction to audit departures. These findings suggest that audit firm involvement with the restatement period is an informative dimension to the market and is associated with different audit outcomes.

In the remaining essay of my dissertation, I am currently studying the potential spill-over effects that the clients of uninvolved audit firms may experience. My dissertation has benefitted from the comments of the Ph.D Project Annual and Baruch Research Symposium Conferences.

¹ Based on the restatement database from Audit Analytics.
In another working paper, with Emily Shafron, “Is there a Right Time to be Bad? The Effect of Client Misconduct on Audit Outcomes under Audit Time Constraints,” we look at whether the timing of company misconduct unrelated to financial reporting has any impact on the auditing process. We empirically analyze the effect of the timing of misconduct in relation to the auditing process with audit quality and risks proxies. We find preliminary evidence that misconduct not directly related to financial reporting that occurs close to or during the audit period is associated with higher audit fees and higher audit report lag, but not audit impact. While this finding is potentially concerning, we also find preliminary evidence that some of the benefits of more audit work might be realized in subsequent periods.

My goal is to produce research that helps academics, standard setters and accountants further understand the direct and indirect effects of current auditing practices and inform future auditing and financial reporting quality initiatives.