AUDITOR INDEPENDENCE: A MARKET-BASED MODEL CONTROLLING INDEPENDENCE DECISIONS

A submission to The Hon. Ian Campbell
in respect of his review of the Report
"The Independence of Australian Company Auditors"

by

Keith A. Houghton

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INDEPENDENCE DECISIONS

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Financial reports provide value-relevant information on companies to equity, debt and other markets. Financial reports are the representations of the management of those companies. Audits of financial reports add value by providing a competent and independent attestation of the validity of these representations. This lowers the "information risk" for the users of this information. Audit firms operate in a highly competitive environment. There is significant evidence that they are active rivals in respect of audit pricing and competency for undertaking audits. There is little or no observable evidence that audit firms compete in respect of independence.

The issues that relate to audit independence are complex. One dimension of independence relates to the auditor's identification of the client. Some auditors mistake the person or persons who have the power to hire or fire the auditor as being the client of the audit. The ultimate client of an audit is the shareholder.

The second issue is that independence and threats to independence are frequently subtle and difficult to observe and measure. Hence controlling the decisions that relate to them cannot rely on crude definitions and imprecise measures. Formal legislative or regulatory processes for ensuring audit independence are unlikely to succeed in establishing the presence of a threat to independence other than when the threat is gross, extreme or easily measured.

The third issue is that independence is rarely tested. When it is tested, it is sometimes found to be lacking. Because independence is difficult to observe, the market tends to accept its existence as a matter of trust. When this trust is thought to be misplaced, the market can react in a swift and sometimes exaggerated way. Additionally, where the quality (both competence and independence) of an audit is tested (often in the circumstance of a corporate failure), auditors frequently have good defences as to their competency but rarely do they have equally convincing defences for the objectivity of their decision making or the independence of their audit.

Threats to independence can include factors that are as easy to measure as the joint supply of audit and auditor provided non-audit services (APNAS). However, they may include circumstances that are more subtle, including the intertwining of several factors that in combination cause a threat to independence.

The ultimate objectives of this model for controlling auditor independence are to:

(1) enhance independence decisions;

(2) remove decision making from those who have a commercial or vested interest in the outcome of the independence decision;

(3) provide a legislative framework where independence is as crucial to audit markets as competence; and

(4) provide a framework within which audit firms compete on the quality of their independence as much as their competence and price.

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1.0 INTRODUCTION

Over many decades the corporate community and regulators in many jurisdictions are seen to react forcefully after high profile company failures occur. Where these company failures are linked also to real or perceived audit failure, corporate regulators, politicians, the community and the accounting profession react frequently as well, suggesting and even demanding change in and over the audit profession. Some of the implemented changes over time have enhanced the quality of auditing but we continue to see unsignalled corporate failures occurring, prompting an ongoing perception that the audit process is not capable of delivering a product that is of value to the market. In past years this perception of lack of capability surrounding the audit product has been described as an "expectations gap", which arises in part because what is expected by participants in the market is not realistic. However, there remain instances where people who have a clear understanding of audit processes and realistic expectations of outcomes from an audit raise concerns about the quality of auditing. That is to say, there is not just an "expectations" problem but a real or rationally perceived problem with outcomes from audits. This perception is exemplified in the USA by the collapse of ENRON in late 2001 and in Australia by the failure of HIH Insurance early in 2001.

1.1 The Audit

An audit is a service provided by professional accountants. The demand for this service is, in many instances, compulsory due to legislative or other regulatory requirement, but sometimes it is voluntary and is the choice of either management or others (including stock- or debt holders). Financial reports of a company are the representations of the management and directors of that company. An audit is an attestation of these representations by management and assesses the truth and fairness (or in the minds of

and balances that produce these financial reports do not extend to a critical professional independent review of these documents in the absence of audit. Such a review ought be undertaken by persons who are, (1) expert in the field and, (2) able to thoroughly investigate the company with a right of access unparalleled by anyone other than those who are internal to the management of the company. Only where this attestation process is both competent and independent of the management of the entity does it add to the market's perception that the financial reports are both valid and reliable. Financial information that is perceived to be more valid and reliable means that the information provided has lower risk. Therefore, financial reports that have attached to them a competent and independent audit have lower information risk in the market; lower risk results in higher stock price. Audits do, therefore, add value to a company and have the potential to affect stock price.

Extending the example to that of two identical companies: one company has an audit provided by an audit firm that has a reputation for high quality auditing and the other is audited by one that has a reputation for providing an adequate audit. The stock price difference between these two companies would not be as large as that existing for companies with a competent, independent audit and no audit at all, but there would still be a price difference in the stock prices traded by the two companies, other things being equal. Hence, we can conclude that differing audit quality levels have differential value adding effects. In addition, and perhaps most importantly, the quality difference in the audit converts to a price differential in the shares traded on the stock market.

Similarly, those that trade in the debt of audited companies will attach a different risk premium between companies that are audited and unaudited and those that are audited by what is seen as a high quality auditor and those that are not at that level of quality. Evidence of price premiums for different auditors and their consequential effect on the various markets has been demonstrated in the auditing research literature (e.g. Craswell, Francis and Taylor, 1995).

the decision about the acceptable price of the audit more difficult than in many other markets for goods.

Put another way, the qualities of an audit have to be experienced to be understood. Even after it has been experienced, it is not easy to observe all the qualities of an audit and indeed only those most intimately involved with the auditor may be able to observe key characteristics of the quality of an audit.

Those intimately involved with the audit (e.g. those involved in the finance function or with the audit committee of an auditee may each have some opportunity to observe the characteristics of an audit) will have some opportunities to observe aspects of competence. However, even in these circumstances it is possible that those closely involved with the audit may not be able to observe the characteristics that relate to independence. There are only rare instances where such people are aware of auditor independence threats and can observe how the auditor deals with them. Therefore, relative to competency levels, quality of independence is difficult to observe even in the most intimate of circumstances. There is a presumption by auditees and those interested in the audit process that independence exists, but its existence is taken on trust rather than having any substantive underlying evidence for belief in it. If this trust disappears or is eroded in any way, the outcome is likely to involve scepticism and, as a consequence, the outcome in terms of depleted value attributed to audit will be more exaggerated than would otherwise be the case.

2.2 Competing on Competency

As can be observed in the brochures of many accounting firms, from their web sites and particularly in their tender documents, the audit firms compete vigourously in respect of competency. We observe that certain firms have specifically expert partners or that they have enhanced experience and competency in respect of a particular industry class or classes. They also compete on different types of audit technology, different data bases of industry or general economic information, particular information system flows or research capability. They can also compete on access to world class expertise in other

fees earned from each auditee may not represent a threat by itself; when linked together, they do potentially pose a significance fee dependence threat in combination.

The presence of degree of subtly can not be over-emphasised. It can also mean that possible threats may not become actual ones. For example, even the joint supply of audit and APNAS is not *necessarily* a threat to independence but rather it is how that arrangement is used in the relationship between auditor and auditee that converts the potential to an actual compromise of the independence of the auditor. Creating observability and measurement of this actual threat is a major challenge.

2.4 Testing Auditor Competence and Independence

It is often said that audits are usually successful and auditors, in general, perform their function in a professional and diligent manner. It is my view that the great majority of auditors are intelligent, diligent and professional people who seek to produce a competent independent audit.

In the vast majority of cases it is my belief that competent independent audits are produced, however, it is difficult to verify this because it is rare for the independence (and indeed competence) of an audit to be rigourously tested. The only circumstance where a comprehensive examination of the qualities of an audit occurs in a public arena is when an auditee suffers severe financial distress[2]. In the circumstances of corporate failure there are incentives for persons outside the organization to rigourously test the competence and independence of the audit. Given the hundreds of business failures each year, it is important to note that only in a small minority of these failures that an auditor is (even) alleged to have not completed a competent independent audit. In some of these circumstances these allegations are not followed through. It is possible that there is no follow-through either because of the significant costs of litigation or other action or because there is some compromise or settlement on the part of the auditor and/or the auditor's insurance company. In some cases there is significant follow-through. Through this process a number of these cases end in settlement and/or judgement against the

Ramsay Report, 2001). There is some merit in this argument. With regard to competency issues, there is merit in ensuring that there is a floor or base below which no individual may practise as company auditor. Generally, this is the model used in much of the developed world. The means by which these competencies are assessed varies between jurisdictions but usually it operates to ensure that those who have inadequate expertise and/or inappropriate experience are precluded from entering the supply side of this market.

Such legislation and/or regulation is effective in ensuring that there is a minimum standard applied to those who seek to supply this market. However, there is no legislation or regulation that precludes competency quality differences above this minimum. Eliminating the variations in the quality of competencies would be economically inefficient and anticompetitive. What we observe in most marketplaces are incentives to enhance the competency above that minimum. In some cases the competencies observed are at very high levels. Competency enhancements include (1) hiring and rewarding of particularly expert people, (2) development of technologies that enhance the audit process, (3) establishment of data sets that facilitate benchmarking, and (4) the use of global networks of research information, to mention but a few.

This variation in competency comes about because of the existence of competition and the incentives that exist for especially competent audits. The competitive marketplace is the driver of this variation in competency and it is not the outcome of a regulatory or legislative requirement beyond professionally or regulatory mandated base proficiencies.

In respect of regulating or legislating for independence, the challenges can be seen as: (1) efficiency, (2) effectiveness, and (3) completeness.

3.1 Regulating Independence: Effectiveness – Timeliness

If there is to be regulation or legislation in respect of matters of independence or threats to independence, I predict that there will be significant costs and problems with inefficiencies.[5] I also believe that such regulation will inevitably lead to issues with the

3.3 Regulating Independence: Efficiency

As previously noted, independence is subtle, difficult to observe and often hard to measure. Thus, it can be difficult to efficiently regulate the presence of independence. Even if it can be effectively regulated, deciding on the threat, its measurement etc. can cause economic inefficiencies.

This is illustrated within the case of the joint supply of audit and non-audit services in Section 4.0.

3.4 Regulating Independence: Completeness

Even if threats to independence can be identified, defined and measured in such a way that they can be subjected to legal or regulatory intervention, threats to independence change and new threats emerge. A decade ago the joint supply of audit and non-audit services was not an independence threat but it is now. If legislation in respect of auditor independence had been put in place at that time the joint supply threat would most likely have not been identified as an independence threat. Thus that legislation would now be seen as incomplete.

Also, as many threats are NOT identified or easily measured, the likelihood of legislation being comprehensive is low.

Moreover if auditor independence is enforced via a legal or regulated means, it is possible, even likely, that those in various stakeholder groups might erroneously conclude that the "problem" is fixed when it is not. The evidence of the absence of a complete 'solution' would not be seen until the inevitable next round of corporate failures.

The section that follows (Section 4.0) is a discussion of one of the current issues under debate (the joint supply of audit and APNAS). This issue is used to illustrate some of the costs of regulation and/or legislation and some of its benefits.

can be undertaken quickly and efficiently. The threat to independence however is potentially considerable. The threat lies not only in the heightened fee dependence of the auditor, but also in the fact that the auditor may learn something about the organization from the consulting activity which should feed back into the audit process. However, there may be reluctance to do so since it may highlight deficiencies in the auditor it may pose a threat to the integrity and independence of the audit. To counter this threat to independence, it is common for auditors to appoint different persons to undertake consulting activities as opposed to audit work. Where there is a separation of duties in this way, it in fact undermines the efficiency of joint supply since the knowledge spill-over is systematically removed by the use of what is referred to in the auditing profession as "Chinese walls".

On a more pragmatic level, the management of the auditee frequently seeks to use the auditor as the consultant of first choice because of favourable interpersonal relationships built up between management and auditor. This preference for the use of the audit firm may be due to the firm's familiarity with the client but also because management values the firm's pre-existing knowledge of operations since this generates shorter engagement times and therefore lowers costs.

Consequently, for both theoretical and practical reasons, an auditor might be seen as the preferred supplier of consulting services. The cost to the auditee (and perhaps the auditor), however, is potentially substantial. If an auditor is, or is seen to be, non-independent then the value of the audit is reduced or negated. The cost of not having an independent audit is not borne by the management of the auditee directly but by the stockholders and others that directly use the audit opinion to add a level of integrity to the representations of management in the financial report. Indirectly the management may suffer because the market may regard the financial information produced as encompassing high information risk and consequently share prices will be traded down and the premium for risk will rise in debt markets and the like. Given that there are instances where joint supply does not pose an independence threat (so therefore there is no cost to joint supply) and there are efficiencies in knowledge spill-over or in lead time,

the quality of both governance and the financial information provided by them. In addition, some auditees that have many stakeholders or are sensitive to issues of the integrity of the financial information (e.g. deposit-taking institutions in the finance industry) may also choose to have very low levels of APNAS compared to the audit fee. These actions are economically rational as companies in these situations seek to have and be seen to have highly independent auditors. So it is natural that there will be variation between individual auditees and auditees within a particular industry, reflecting their different economic and commercial circumstances.

4.2 Potential Economy Effects of the Preclusion of Joint Supply of Audit & APNAS

Prohibiting the joint supply of audit and APNAS can have three potential substantial commercially adverse consequences. The first of these possible consequences is that should joint supply be banned, accounting firms may choose to withdraw from the market for audit services and allow others who have reputations for lower quality audits to become the only suppliers in the market. If this were to occur the immediate effect would be, on average, to lower the quality of audits as the enhanced expertise and audit technologies would no longer be available. In the longer term, one would expect market equilibrium to return and premium suppliers, whether from the original smaller group of such organizations or from a new group of niche audit suppliers, to emerge. However, if there were a demand for a premium audit product, one would expect that there would be market response that would ensure the supply of it. Nevertheless, in the shorter term there may be an absence of premium suppliers, which would cause substantial economic and commercial cost. Therefore, if the banning of joint supply were to happen, this would need to be managed very carefully over a period of several years.

An additional cost of the banning of joint supply may relate to the availability of expertise. Imagine if an audit firm had as its client a major insurance organization. A substantial part of the audit involves having expertise that is of an actuarial nature. Let us assume that for the purpose of the audit, the audit firm must use these actuarial services for a period of 1,500 hours or approximately three-quarters of a one-person year. If that expertise resides within the accounting firm then some other productive activity must be

unqualified or clean opinions is not seen as particularly substantive. Put another way, clean audit opinions bring little new information to the market.

There has been much debate about the wording of audit opinions and during the past several years some changes in the wording in some jurisdictions has occurred. Generally audit reports are homogenised and fall into one of a small number of categories but are uninformative in respect of many of the processes and underlying judgements and decisions that go towards the final product. They are completely devoid of any representations of either the competency or independence of the auditor; the two pillars upon which auditing is based. By and large, they generally describe the processes and framework within which the audit is conducted.

Given that auditing is based on competency and independence, I recommend that the audit opinion should not be silent on what are the competencies and level of independence of an auditor. It is recognised that auditors vary in both competency and independence (given a minimum floor level). Therefore, those who seek to rely on the audit output (the opinion), should be provided with a visible sign of these attributes so that if and when necessary, the auditor can be seen to be accountable for those qualities (competency and independence).

In the absence of detailed information about the competencies and independence of the auditor, audit markets are forced to rely on a generalised market reputation of the auditor. This provides advantages for those auditors already possessing market reputations. The difficulty is that the market is not fully and **contemporaneously** informed about changes to the reputation of an auditor or an audit firm or of the fact that this average reputation does not apply to each and every audit case. Different audit partners and audit offices etc, even within the same firm, give rise to differences in the competency or independence of a particular audit. Given that audit firms compete for audit contracts, the representations made *ex ante* to win a specific audit contract should be made available to the public *ex post.* This will mean that the auditor can be held accountable for the

engagement partner (and review partner if one exists) have been in place within the audit. For example, if the appointment of the auditor were by way of full tender where both the qualities and cost of the audit were considered, this would be added information assisting the reader of the financial report to understand the quality of the auditor. If, however, the auditor were to be appointed by way of personal recommendation from a member of the management or the board of directors, then this would also be useful information to readers. Perhaps on each occasion an auditor is appointed or reappointed, the criteria used for the appointment could also be disclosed in the annual report, possibly as part of the director's report or perhaps as an attachment to the audit report. This disclosure is envisaged to be primarily the responsibility of the audit firm but it needs to be reviewed for consistency by the audit committee and/or the board of directors of the auditee. Several of the foregoing suggestions provide ideas for a model of auditor independence.

6.0 A MODEL TO CONTROL AUDITOR INDEPENDENCE

Typically in advanced economies one observes boards of directors that have policy control of auditees. Conventionally these boards comprise both "internal" directors (those holding various executive positions within the auditee) and "external" or independent directors (often made up of former CEOs from other organizations, external lawyers, others expert in the industry or in related industries, even former audit partners and the like). Some of these individuals are truly independent directors, others have been described as "grey" (that is to say they are somewhere between being part of management or have commercial dealings with the company and those who are truly independent of the management of the organization). Capital market research has shown that companies with strong corporate governance in the form of a significant proportion of their boards comprising truly independent directors have been rewarded in the form of increased share price. That is to say, the market for information (including the capital market) rewards organizations that have good quality control processes that are independent of the internal management of the organization.

2. The Board can deal with commercially sensitive issues without those issues becoming public or accessible by competitors.

3. The quality control processes of the board can be observed by the market. That gives rise to the possibility that accounting firms would compete in the market on the basis of having good quality control procedures for independence, not only for competence or price.

4. Extremely subtle or difficult to access and measure issues can be dealt with sympathetically yet conclusively and matters where there are conflicting arguments can be dealt with without reference to crude measures.

5. Reward structures within audit firms could take account of decisions made by the board in achieving equity across partners responsible for practice growth.

Such a Board would be different from an externally imposed board where I suspect only extreme, crude or easily measured independence issues would come before it and then probably only *ex post* after some crisis has occurred or independence had been compromised. The existence of such a Board can (and should in the minds of many) be supported, protected and monitored by the appropriate corporate regulatory agency.

6.1 Firms Without the Critical Mass to Establish an Independence Board

There will be instances, possibly many cases, where smaller audit firms will not have sufficient critical mass to establish an Independence Board comprising at least three expert external persons. It is also possible that the number of expert persons available in the market, at least in the short term, would be limited and that organizations would not be able to compete for the appropriate quality people to establish such Boards internally. Either because of the paucity of expert persons or because of the absence of critical mass, it is necessary to put in place an alternative procedure for these audit firms.

Independence Boards. These Boards should be able to deal with contemporaneous threats or perceived threats to independence in a highly confidential yet timely fashion. Their decisions should be seen as authoritative and conclusive. Rewards to this Board should not be linked to the profitability of the firm and indeed structures may well be set up to ensure that there is some distance between the audit firm and the payment of the fixed fee income to the members. One option is that each of the accounting firms set up a trust fund with an appropriate amount of capital and from interest or other revenue within that trust fund. As indicated earlier, there should be a panel of not less than three persons to remove any possibility of individual bias. Decisions should be made by a simple majority vote. In the case of a three-member panel, it would be two persons. Importantly, the names and qualifications of those persons who become members of the Board should be made publicly available. For example, each of the firms should publish the names and credentials of its members on their web site and information about those members should be available for each audit tender and audit engagement. Where a member of the panel is appointed, any previous associations with that firm or other firms should be disclosed. Where an audit Independence Board member resigns or the term is not renewed and a change in personnel takes place, the reason for that resignation or non-renewal should also be made public. Audit Independence Board members should sit for a maximum of (say) five years in any one firm and that period should be rotated such that no more than one-third of a panel retires in any one year. This ensures ongoing understanding of the processes and allows a sense of "corporate history" in decision making. Persons should not be permitted to move from one Board to another for some stipulated time to ensure commercial confidentiality of the prior audit firm is not breached. In addition considerable care will need to be given to understanding the legal liability of these Board members. In particular the extent to which they can and will be held liable for subsequent evidence of absence of independent judgements within the audit firm.

6.4 Long Term Sustainability of the Model

One of the advantages of a model such as this, which relies on the internal dynamics within the market for audit services rather than a regulated or legislated means of

accounting firm and in some cases it may have been undertaken within the audit division of the firm. Irrespective of where the work is performed, the use of an audit engagement to generate fee revenue for non-audit work, particularly if audit personnel remuneration is influenced by this work, immediately gives rise to a potential threat to the independence of the audit process. This is a situation not adequately recognised as a threat in the recent IFAC Section 8 "Independence" revision nor in the re-exposure of Statement F1 by the accounting bodies.

Put bluntly, use of the audit process to lever additional revenue is seen by some as a potentially questionable practice and throws open substantial questions with regard to the integrity and independence of the audit. There is a fine line, however, between using the audit process to generate revenue and identify issues that the client may then choose to deal with by outsourcing consultancy. At the very least however, Independence Boards set up within firms would need to review the incentive structures within each of the firms and make decisions as to whether these incentive structures require adjustment to remove any possibility of perceived threats to independence in the audit process.

6.7 Development within Audit Firms: Changing the Culture of Independence

A critical issue in respect of independence is not only the threats to independence but also the ability to recognise a potential ethical dilemma as it relates to independence, rather than just dealing with it when one occurs. Put more bluntly, if a member of the audit firm, be it a partner or employee, recognises a threat to independence before it becomes an actual issue to be dealt with, then many potential threats to independence are unlikely to become actual threats and ethical dilemmas can be avoided. To achieve this, substantial education needs to be put in place both within the firms and across the profession more generally. Such an education process would also probably be useful within the auditee, particularly to audit committee members and possibly more widely to the board of directors.

It is recommended that an education program be set up which includes not only the principles underlying ethical dilemmas relating to auditor independence, but also

limited to the person or persons who could dominate or significantly influence the auditor choice decision. This confusion between those who in a practical or logistical sense make the auditor choice decision and those that are the client is, to my mind, endemic in the auditing profession. This confusion may be an underlying cause of the issues now confronting the auditing profession. It is my belief that this issue is not, in the vast majority of instances, a conscious confusion of the identification of the underlying client. Rather it is an unconscious one. For many years the culture of the audit firms has changed and moved away from its roots (of being an audit firm) to becoming a full-service business consultant practice. An unforseen effect of this is a change in the culture on independence. The trend to providing assurance on subject matters other than financial reports (eg corporate governance statements, internal controls etc) is likely to exacerbate this trend.

7.0 THE WAY FORWARD

While there are many possible alternative ways to proceed, the above discussion suggests one model that warrants consideration.

7.1 The Role of Regulators and Legislatures

While the focus of the model proposed is essentially a market-based solution, it is crucial that the appropriate legislative and regulatory framework exist. Without this framework it seems likely that the model would potentially revert to the style of market presently in place. The essential framework requires as a minimum the existence of some compulsion for all auditors of at least listed (publicly traded) corporations to access an Independence Board. That is to say, one further component for qualifying to undertake company audits is the ability to access a recognized Independence Board. This compulsion equates with the requirement on the part of the audited corporation in many jurisdictions to establish an audit committee of the board of directors of a company.

The second regulatory or legislative requirement is a form of approval for and/or registration of Independence Boards. Ideally such Boards should be registered with a

ensure confidentiality of information provided to the Board, and sensitivities of both auditor and auditees.

7.4 The Auditees

The proposed model does not call for auditees to establish their own quality control procedures in respect of independence of their auditor. However it is inevitable with new disclosures and new information available to auditees that some audit related decisions will need to be considered with greater rigour and frequency than is the case currently. Inevitably the work of the audit committee will become more burdensome and auditees need to acknowledge this change in workload. Perhaps the most specific recommendation regarding auditees is that the workload of audit committees must now include an assessment (ongoing in nature) of the independence of the auditor. Additionally, especially if suggestions such as those presented here are not universally accepted, audit committees should evaluate as far as possible the procedures in place within the audit firm to make independence related decisions.

8.0 SUMMARY OF RECOMMENDATIONS

The thrust of this model includes the following characteristics:

1. The regulatory changes required to implement do not involve directly defining and limiting behaviour of audit firms in respect of real or perceived audit independence threats.

2. The regulatory framework be changed to require auditors entitled to undertake company (and related) audits (in the Australian context, those with the designation "Registered Company Auditor") to not only demonstrate certain levels of competence, but also to have access to a registered Independence Board.

3. The appropriate corporate regulator be empowered to approve and register Independence Boards for use by company auditors.

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BIOGRAPHICAL DETAILS

Keith A. Houghton is a Fellow of The Institute of Chartered Accountants of Australia (with practicing certificate) and a Fellow of the CPA Australia. He holds degrees from the University of Western Australia, the University of Melbourne and the London School of Economics and Political Science in the University of London. He is presently Fitzgerald Professor of Accounting at the University of Melbourne, Australia; a position he has held for the past twelve years. He recently completed a period as Visiting Professor of Accounting in the PhD program at the University of Texas at Austin. Prior appointments include positions in academe and the business community. He is and has been a consultant and adviser to a number of accounting firms, commercial organizations and public sector entities including public sector audit authorities. Much of this work has related to audit quality and financial information and has involved the provision of expert evidence (both for the plaintiff and defence) in litigation and commercial arbitration.