

Christiane Strohm

United States and European Union Auditor Independence Regulation

**Implications for Regulators
and Auditing Practice**

With a foreword by Prof. Dr. Christoph Watrin

Deutscher Universitäts-Verlag

Table of Contents

Table of Contents.....	IX
List of Tables.....	xm
List of Figures.....	XV
List of Equations.....	xvii
List of Abbreviations.....	XIX
Chapter I. Introduction.....	1
A. Motivation and Objective.....	1
B. Empirical Studies.....	5
C. Structure of Dissertation.....	15
Chapter II. Auditor Independence Risk.....	17
A. Definitions of Auditor Independence.....	17
B. Economic Changes: The Market of Audit and Non-Audit Services.....	19
1. Industry Exposure.....	19
2. Joint Provision of Audit and Non-Audit Services.....	20
3. Auditor as an Opportunistic Agent.....	21
C. Auditor Independence Risk Models.....	22
1. Introduction.....	22
2. Threats to Auditor Independence.....	23
a) Incentives.....	23
b) Opportunities.....	26
c) Integrity.....	26
d) Interrelationships.....	27
3. Safeguards to Auditor Independence Threats.....	28
Chapter III. Prior Research on Auditor Independence.....	31
A. Taxonomy.....	31
B. Auditor Independence and Incentives.....	31
1. Self-interest Threats.....	31
2. Self-Review Threats.....	33
3. Advocacy Threats.....	35
4. Familiarity or Trust Threats.....	36
5. Intimidation Threats.....	37
6. Summary of Research on Auditor Incentives.....	37
C. Auditor Independence and Opportunity.....	39
1. Client Characteristics.....	40

2. Audit Program Judgments.....	41
3. Summary of Research on Auditor Opportunity.....	42
D. Auditor Independence and Integrity.....	43
1. Cultural Differences.....	43
2. Interpretation of Laws and Regulation.....	43
3. Auditor Resistance.....	44
4. Summary of Research on Auditor Integrity.....	45
E. Discussion and Main Research Questions.....	46
Chapter IV. Auditor Independence Regulation.....	49
A. Regulation of the United States of America.....	49
1. Introduction.....	49
2. Public Company Accounting Oversight Board.....	50
3. Rules Regarding Auditor Independence.....	53
B. Regulation of the European Union.....	55
1. Introduction.....	55
2. Commission Recommendation.....	57
3. Proposal for a Revised 8* Directive.....	59
a) Introduction.....	59
b) Public Oversight over the Audit Profession.....	59
c) Auditor Independence Requirements.....	62
C. Comparison of United States and European Union Regulation.....	63
1. Requirements.....	63
2. Rules-Based versus Principles-Based Approach to Regulation.....	65
D. Germany's Reaction towards the Sarbanes-Oxley Act and the European Recommendation and Proposal.....	68
Chapter V. Task Complexity and Hypotheses Development.....	73
A. Introduction.....	73
B. Task Complexity of Regulation.....	74
1. Framework of Task Complexity.....	74
2. Safeguarding Quality of Regulation.....	77
3. Task Complexity and Decision Making Quality.....	80
C. Knowledge.....	82
1. Definition and Characteristics of Knowledge.....	82
2. Effect on Decision Making Quality.....	83
D. Task Motivation.....	84
1. Negative Moderator: Monetary Incentives.....	84
2. Positive Moderator: Litigation Risk.....	85

3. Audit Firm's Decision Making.....	86
E. Summary.....	88
Chapter VI. Empirical Studies on Auditor Independence Regulation.....	91
A. Experiment on Regulation Approach and Knowledge.....	91
1. Participants.....	92
2. Research Design and Procedures.....	92
3. Results.....	99
a) Decision Making Quality and Safeguarding Effects.....	99
b) Manipulation Check.....	102
4. Discussion.....	103
B. Experiment on Regulation Approach and Audit Firm-Client Characteristics.....	105
1. Participants.....	105
2. Research Design and Procedures.....	105
3. Results.....	115
a) Decision Making Quality and Safeguarding Effects.....	115
b) Additional Exploratory Factor Analysis.....	118
c) Manipulation Checks.....	121
4. Discussion.....	123
C. Regulation Approach and Educational Knowledge Effects.....	125
1. Research Design.....	126
2. Results.....	127
3. Discussion.....	130
D. Regression Analysis to Identify Significant Fee Threats.....	131
1. Research Design and Procedures.....	131
2. Results.....	134
3. Discussion.....	136
Chapter VII. Consequences from the Empirical Findings for the European Capital Market.....	139
A. Evaluation of the Conceptual Principles-Based Approach.....	139
1. Introduction.....	139
2. National Auditor Independence Regulation of Germany, France and the United Kingdom.....	140
3. Effects of Auditor's Impaired Independence on the European Capital Market.....	145

- B. Experiment on Transparency Effects on Perceived Auditor
 - Independence Risk.....147
 - 1. Proposed Transparency Report.....147
 - 2. Participants.....153
 - 3. Research Design and Procedures.....153
 - 4. Results.....158
 - 5. Discussion.....164
- Chapter VIII. Conclusions and Future Research.....167
 - A. Implications for European Union Regulation.....167
 - B. Main Contributions.....176
 - C. Limitations and Future Research.....177
- Appendices.....180
- Bibliography.....215