



Ralf Ewert Joins CAR: Quantitative Accounting Research a Strong Focus in Graz

Ralf Ewert has accepted the chair of accounting and auditing at the University of Graz. The University now boasts three full professors with an emphasis on quantitative (predominantly analytical) research in accounting. This gives Graz a strong edge in this field of research with no other university in a German-speaking country offering such concentrated research power in this area. Accounting research has been identified as a core competence of the university and this new appointment underlines its importance. Former professors such as Karl Lechner, Peter Swoboda and Anton Egger established a strong reputation for accounting and finance both in academia and practice. Students graduating in business from the university are well-reputed and sought-for for their accounting skills. The establishment of CAR renews the emphasis of this research discipline.

Wayne Landsman Teaches CAR Students Cutting Edge Empirical Research Methodology in Accounting

In its endeavour to provide students from the University of Graz with worldwide cutting edge knowl-



edge from leading researchers in accounting, CAR has succeeded in bringing Wayne Landsman to Graz for the second time. Professor Landsman is currently the KPMG Distinguished Professor of Accounting at the Kenan-Flagler Business School, University of

North Carolina at Chapel Hill. He graduated Magna cum Laude in economics from Princeton University and earned his MBA, MS in statistics and Ph.D. in business from Stanford University. His research interests include pensions, employee stock options, asset securitization, and fair value accounting. Wayne Landsman was also president

of the Financial Accounting and Reporting Section of the American Accounting Association and served on the Financial Accounting Standards Advisory Council.

The seminar held by Professor Landsman is jointly organized with the Vienna University of Business Administration and Economics. The focus of the seminars is largely methodological and will focus on recent empirical research in accounting and financial reporting.

Research News: The Economics of Audit Regulation

Accounting and Auditing are currently subject to numerous regulatory changes in the international arena. The novelty of these changes makes it difficult to assess their effects. Empirical data is hard to come by which makes economic modelling the tool of choice in order to derive conclusions about the likely effects of proposed changes. Such models serve to reveal hidden effects and interactions between individual measures.

Analysing the effects of proposed new regulation concerning non-audit services and third party auditor liability on audit quality using game-theoretic models is a focus of Ralf Ewert's recent research. The relation between non-audit services and audit quality is often analysed in the framework of either principal-agent models or in models based on quasi-rent theory. Empirical research oftentimes shows no clear evidence that a simultaneous offering of auditing and non-auditing services to the same client impairs auditor independence. Ewert argues that this non-congruence between the predictions of analytical and empirical research results leaves much to be desired and sees this as an important avenue for future accounting research.

Third party liability is seen as another regulatory means of ensuring audit quality. Ewert who recently wrote a report for the European Commission on the subject notes that while there are reasons to believe that extending auditor liability increases audit quality there are also reasons to be cautious about it. One argument states that in an already highly concentrated audit market third party litiga-



tion enabled by high auditor liability standards risk bankrupting another auditor. This would further increase market concentration and thus be detrimental to audit quality. Clients would also have to compensate auditors for the increased risk of litigation thus increasing the price level for audits. The Commission's response therefore centres on public oversight as a means of assuring audit quality. Regular inspections should drive audit quality while third party liability complements these efforts. Ewert points out that from a theoretical point of view the Commission's approach may be justified. It is, however, necessary that the public receives information about the actual outcome of the inspections. He suggests that especially in Germany and Austria – where liability may be extremely hard to realize for claimants - a moderate increase in third party liability is an option to be pursued.

To know more:

Ewert, Ralf and London Economics (2006): Study on the Economic Impact of Auditors' Liability Regimes, Final Report to EC-DG Internal Market and Services, Brussels/London.

Ewert, Ralf (2004): Audit Regulation, Audit Quality, and Audit Research in the Post-Enron Era - An Analysis of Non-Audit-Services, in: The Economics and Politics of Accounting, Eds.: A. Hopwood, C. Leuz und D. Pfaff, Oxford, 239-263.

Ewert, Ralf and Wagenhofer, Alfred (2003): Aspekte ökonomischer Forschung und Anwendung auf Ausschüttungsbemessung und Unabhängigkeit des Prüfers, Betriebswirtschaftliche Forschung und Praxis 55, 603-622.

Ewert, Ralf, Feess, Eberhard and Nell, Martin (2000): Prüfungsqualität, Dritthaftung und Versicherung, Betriebswirtschaftliche Forschung und Praxis 52, 2000, 572-593.

Symposium Current Trends in Accounting and Financial Reporting

On October 22, CAR hosted the Symposium Current Trends in Accounting and Financial Reporting at the University of Graz' Meerscheinschlössl. Contemporary subjects of discussion such as the stewardship role of accounting and auditing regu-

lation were discussed in a historic as well as contemporary economic context. Salvador Carmona from Instituto de Empresa, Madrid, opened the Symposium with a talk covering five millennia. Carmona noted that the registering of commercial transactions – the earliest forms of what we call accounting – are as old as written history. He reviewed stunning archaeological findings indicating the presence of early accounting techniques in ancient Mesopotamia and Egypt. By comparing the two civilizations – Mesopotamian civilization being dominated by small city-states while Egypt was an empire ruled by a god-king – he emphasized the importance of context for the analysis of accounting practice. Carmona concluded that accountability, in the sense of rendering an account to oneself as well as to others, has historically always been an important purpose of accounting.

The following presentation, by Graeme Dean from the University of Sydney, Australia, also examined history's role in resolving current accounting dilemmas. He drew on the history of the 20th century to seek insights into the functions of accounting. In particular, Dean spoke about accounting in hyperinflationary environments and unexpected company failures. The lessons learned from these historical precedents make him critical of recent forays into fair value accounting. He also underlined the importance of the dual role of accounting, respectively decision support and accountability.

In contrast to his two preceding speakers, Ralf Ewert from the Center for Accounting Research focussed mostly on the very timely issue of audit regulation. He examined a recent EU directive on statutory audit which in many points mirrors the US Sarbanes-Oxley Act and contains provisions on issues such as the duties of independent auditors, public oversight and competition in the international audit markets. Ewert developed an economic model to analyse the effects of limitations to auditor liability. He concluded that such limitations are justified and indeed are already in place in Austria and Germany. However, he criticized the prevailing regime in these countries since liability is limited to claims brought by the audited firm itself. He argued for an extension of the liability towards third parties. Inspections by a public authority could also enhance audit quality.

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