



NEWSLETTER

ACCOUNTANCY DOCTORAL PROGRAM

Issue 3

October 2008

This is our third issue of the newsletter for Baruch's Doctoral Program in Accountancy. A key objective of the newsletter is to inform peers and faculty members about our doctoral students' recent accomplishments. Through this newsletter, we hope to encourage faculty members to play an active role in the development of our doctoral program by serving in dissertation committees, supervising position papers, and collaborating on research papers with our doctoral students.

If you are keen to collaborate with our doctoral students, please do not hesitate to reach out to me.

Recent Honors, Achievements and Accomplishments

➤ Publications

- *Auditing: A Journal of Practice and Theory* (Forthcoming, 2009)

Robert Pawlewicz "The Impact of Regulation on Auditor Fees: Evidence from the Sarbanes-Oxley Act"
co-authored with Alope Ghosh

Abstract: We examine the changes in fees paid to auditors around the Sarbanes-Oxley Act (SOX, 2002). Audit fees are expected to increase after SOX due to both increased audit effort and potentially increased auditor legal liability. Our results indicate an economically large increase in audit fees following the enactment of SOX. Controlling for other determinants, we find that audit fee levels went up by approximately 74 percent in the post-SOX period. In contrast, non-audit fees declined significantly over the same period. Total fees went up during this period because the increase in audit fees offset the decline in non-audit fees. Additionally, we find that the Big 4 audit firms increased audit fees significantly more (42 percent more) than their smaller counterparts. Further, we find that while small and large audit firms discount fees on initial engagements to attract new clients for the pre-SOX period, only small audit firms continue to offer fee discounts for the post-SOX years.

➤ Presentations at Academic Conferences

- 2008 *Symposium on Auditing Research at University of Illinois—Urbana-Champaign*

Elisabeth Peltier Wagner "Pricing of Risky Initial Audit Engagements"
co-authored with Alope Ghosh and John Elliott

Abstract: This study analyzes the pricing of auditors' business risk in the first year of an audit engagement. We posit that reportable events from the prior auditor's tenure that are disclosed in the 8-K auditor change filing provide reliable information about the level of business risk for the incoming auditor. We hypothesize that for clients perceived as risky, the incoming auditor charges a fee-premium for bearing the higher risk. Our evidence is consistent with this expectation. Using a large sample of US publicly disclosed fee data from 2000-2006, we find that audit fees are about 4% lower for firms in the first year of an audit engagement compared to continuing engagements, which is consistent with incoming auditors low-balling or fee-discounting to attract new clients. More importantly, rather than receiving a fee discount, firms that report problems in the 8-K auditor change filing pay a fee premium. Finally, fee discounting appears to be eliminated by the second year of the engagement for clients without problems while auditors of more risky clients continue to charge a fee premium for the first three years of the engagement.

-
- 2007 *Annual Meetings of the American Accounting Association*

Bo Zhang "Earnings Dilution, Incentive Compensation, and Capital
Structure"
co-authored with Rong Huang and Carol Marquardt

Abstract: Corporate finance theory suggests that earnings dilution from stock issues is irrelevant in firm valuation, yet survey evidence reveals that CFOs regard it as the primary factor in equity issue decisions. One explanation for this apparent paradox is that executive compensation is tied to earnings per share (EPS). We provide strong empirical support for this argument. Using cash-based incentive compensation as a proxy for managers' sensitivity to EPS, we find that firms' target leverage ratios and likelihood of debt issuances are more positively associated with cash-based than equity-based incentive compensation; these associations are intensified when annual bonuses are explicitly based on EPS performance.

Degree Progress Report:

- *Comprehensive Examination*

The following two doctoral students successfully completed the written requirement of the comprehensive examination in September 2008

-
- Catherine Tao Chen
 - Elisabeth Peltier Wagner

- *Position Paper Defense*

The following doctoral students successfully completed their position paper defense

Rob Pawlewicz "The Economic Consequences of Regulation G: Changes in Earnings Announcement Timing and Investor Responses"

Advisors: Donal Byard (Chair)
Carol Marquardt
Aloke Ghosh

Elisabeth Peltier Wagner "Pricing of Risky Initial Audit Engagements"

Advisors: Aloke Ghosh (Chair)
John Elliott
Rong Huang

- Third-Year Doctoral Students Working Towards Their Position Paper

Hakyin Lee Topic: Audit Reporting Lags
Advisor: Aloke Ghosh

Ping Wang Topic: Debt Covenant Disclosures
Advisors: Masako Darrough & Joe Weintrop

Bo Zhang Topic: Earnings Management
Advisor: Carol Marquardt