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Effect of audit quality and accounting and finance backgrounds of audit committee members on firms' compliance with IFRS for goodwill impairment testing

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Abstract

Purpose

The purpose of this paper is to examine the effect of audit quality on firms' compliance with IFRS for goodwill impairment testing and disclosure. Differences in the compliance among the clients of Big-4 auditors and between the clients of Big-4 and non-Big-4 auditors are examined. This study also examines the effect of audit committee (AC) members' accounting and finance backgrounds on firms' compliance with IFRS for goodwill impairment testing and disclosure.

Design/methodology/approach

Different univariate tests, multivariate regressions and fixed effect panel regressions have been used to examine the hypotheses. The sample includes 911 firm-year observations for the period of 2006-2009.

Findings

A statistically significant difference in compliance levels has been found between the clients of Big-4 and non-Big-4 auditors. The compliance levels of the clients of Big-4 auditors have also been found to be significantly different. The findings also suggest that AC members' accounting and finance backgrounds are positively associated with firms' compliance with IFRS for goodwill impairment testing and



Practical implications

The findings of this study have important implications for researches in accounting, finance and corporate governance that usually consider Big-4 auditors vs non-Big-4 auditors as a proxy for audit quality. The results also reinforce the importance of developing institutional mechanisms such as high-quality auditing or corporate governance (AC members’ expertise) to encourage firms’ compliance with IFRS.

Originality/value

Firms’ compliance with IFRS for goodwill impairment testing is not essentially the same for the clients of all Big-4 auditors in Australia, suggesting that the quality of services provided by Big-4 auditors significantly differ from one another in enforcing their clients to compliance with IFRS. The lax enforcement on the part of auditors and the regulatory inaction in this regard may point to teething difficulties and systematic deficiencies in the move towards the impairment regime and fair value accounting. The findings also bear an important message for the move towards the harmonization of accounting practices.

Keywords

- Audit quality
- Audit committee members’ accounting and finance background
- Big-4 auditors
- Goodwill impairment
- IFRS36/AASB-136

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