



European Accounting Review >

Volume 16, 2007 - [Issue 2](#)

3,268 160

Views | CrossRef citations to date | Altmetric

0

Original Articles

External Auditors, Audit Committees and Earnings Management in France

Charles Piot & Rémi Janin

Pages 429-454 | Published online: 29 Jun 2007

📄 Cite this article 🔗 <https://doi.org/10.1080/09638180701391030>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

📄 Full Article

📊 Figures & data

📖 References

🗨 Citations

📊 Metrics

📄 Reprints & Permissions

Read this article

🔗 Share

We Care About Your Privacy

We and our 909 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting I Accept enables tracking technologies to support the purposes shown under we and our partners process data to provide. Selecting Reject All or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the Show Purposes link on the bottom of the webpage. Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device

I Accept

Reject All

Show Purpose

accounting conservatism is consistent with the lower litigation risk offered by the French Civil Code (vs. the US Common Law system), which is likely to eliminate the deep pockets incentive for investors.

Acknowledgements

We thank the Research Alliance on the New Economy, funded by the Social Sciences and Humanities Research Council of Canada, as well as the Chair in Governance and Forensic Accounting at HEC Montreal, for their financial support. We are also grateful to workshop participants at the 28th EAA Congress in Gothenburg, the 25th Congress of the Francophone Accounting Association in Orléans, the Third International Conference on Governance and Forensic Accounting at HEC Montréal and the CERAG-Finance Group for their comments. Special thanks to C. Richard Baker, Claude Laurin and Călin Gurău for fruitful suggestions on previous drafts. Two anonymous reviewers have also contributed to the quality of this paper.

Notes

1. See, for example, Becker et al. (1998), Klein (2002a), Kim et al. (2002), and

2. The evidence in this paper demonstrates that the demand for forensic audits is stronger in countries with a stronger legal system.

3. It is important to note that the mandate of the forensic auditor is not to prove the company's financial statements are correct, but to provide an opinion on whether the company's financial statements are

4. The forensic auditor's role is to provide an opinion on whether the company's financial statements are

5. The methodology used for estimating abnormal accruals does not apply to financial companies.
6. Some authors (Peasnell et al., [2000b](#), Xie et al., [2003](#)) posit that only the short-term component of accruals can actually be manipulated, and as such keep only these in their model. We prefer considering also the long-term component of accruals, because of the importance placed on provisions for risks and charges in the French accounting system. The indirect formula, based on balance sheet and income statement items, is preferred given that cash flow statements are not systematically supplied in the French Diane database at the time of our study. The items used in this formula are the ones prescribed by the French accounting format, replicated in Diane. English translations of these items are recommended by the authors so that the reader may be able to appreciate the equivalent in an Anglo-Saxon accounting system.
7. Long-term deferred expenses constitute amortisable entries in French financial statements; as such, they are added to the amortisable fixed assets.
8. If this coefficient is expected to be positive for industries where companies have a structural need for working capital, it should be negative for industries in which companies post a surplus in working capital.
9. The initial 102 listed companies were classified into 54 industries. Of the resulting 162 industries, 102 were used to estimate the model. The remaining 60 industries were excluded because of a lack of observations.
10. The audit opinion. The audit opinion is classified into two categories: "clean" and "modified". The audit opinion is classified into two categories: "clean" and "modified".
11. Early company formation. The early company formation variable is defined as the number of listed companies in the sample that were founded before 1980. The early company formation variable is defined as the number of listed companies in the sample that were founded before 1980. Mazars & BDO are the two main audit firms (Mazars & BDO) and are fairly close to each other.
12. We have used a sample of 100% of the observations, which severely limits the power of statistical tests.

13. The question of the shareholder linkage is not addressed in detail in the Viénot Reports of 1995 and 1999. The Bouton Report ([2002](#), p. 10) stipulates that 'Beyond a threshold of 10% in capital or in voting rights, it is suitable that the board, based on the report of the nomination committee, should systematically inquire into the independent qualification, taking into account the capital structure of the company and the potential for conflicts of interest.' By default, all the directors who hold more than 10% of the capital or voting rights are not considered to be independent; the same applies to the representatives of other companies that pass one of these thresholds.
14. The results reported are potentially biased by the arbitrary dichotomy used. It is also possible that the relation between a high tenure and a loss in audit quality is not linear. Furthermore, considering only the tenure of the leading auditor inevitably causes a loss of information. In order to integrate the joint-auditorship, these tests were replicated with the average tenure of co-auditors, and the results were insignificant.
15. Given the strong contingency between the presence of an audit committee ($AC = 1$) and the presence of a committee independent in majority ($ACInd50 = 1$), hypotheses H3 and H4 are tested separately.
16. This control variable is included only when abnormal accruals are derived from the Jones Model. The control for cash flows is endogenous when the CFO Model is used.
17. Regression results on audit quality are significant.
18. See studies on the detection of earnings management.
19. The regression results have been tested by other regressions exhibiting similar results.
20. T. Brédart, 2010, 'As a whole, the results are not likely to be biased by the selection of companies from the business database'.



Related Research Data

Earnings Management and the Long-Run Market Performance of Initial Public Offerings

Source: The Journal of Finance

Factors Related to Auditor-Client Disagreements over Income-Increasing Accounting Methods*

Source: Contemporary Accounting Research

The Effect of Audit Committee Expertise, Independence, and Activity on Aggressive Earnings Management

Source: Auditing A Journal of Practice & Theory

Board Monitoring and Earnings Management: Do Outside Directors Influence Abnormal Accruals?

Source: SSRN Electronic Journal

Accounting Accruals and Auditor Reporting Conservatism*

Source: Contemporary Accounting Research

Earnings Management During Import Relief Investigations

Source: Journal of Accounting Research

Evidence from Auditors about Managers' and Auditors' Earnings-Management Decisions

Source: SSRN Electronic Journal

Agency costs and audit quality: evidence from France

Source: European Accounting Review

Earni

Source

The P

Contr

Source

Audit

Source

Co

S

Caus

Enfor

Source

Theor

Source

Laws

Source

The Effect of Audit Quality on Earnings Management*



Source: Contemporary Accounting Research

Cross-sectional estimation of abnormal accruals using quarterly and annual data: effectiveness in detecting event-specific earnings management

Source: Accounting and Business Research

Nothing like the Enron affair could happen in France (!)

Source: European Accounting Review

Exploring the Term of the Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation?

Source: The Accounting Review

Auditor Conservatism, Asymmetric Monitoring, and Earnings Management*

Source: Contemporary Accounting Research

Auditor size and audit quality

Source: Journal of Accounting and Economics

Auditor Reputation and Model of Governance: A Comparison of France, Germany and Canada

Source: International Journal of Auditing

Earnings management and corporate governance: the role of the board and the audit committee

Source: Journal of Corporate Finance

Economic Determinants of Audit Committee Independence

Source: The Accounting Review

On financial contracting

Source: Journal of Financial Economics

Exigences des codes de bonne conduite des commissaires aux comptes

Source:

The P

Source:

The e

Source:

C

S

Audit

Source:

Audit

Source:

Audit

Source:

Acco

Source: Journal of Accounting and Economics

Source: Journal of Accounting and Economics

The Relation between Auditors' Fees for Nonaudit Services and Earnings Management

Source: The Accounting Review

Law and Finance

Source: Unknown Repository

A Theory of Corporate Scandals: Why the USA and Europe Differ

Source: Oxford Review of Economic Policy

Legal Determinants of External Finance

Source: The Journal of Finance

Detecting earnings management using cross-sectional abnormal accruals models


Source: Accounting and Business Research

Qualité de l'audit et gouvernement d'entreprise : le rôle et les limites de la concurrence sur le marché de l'audit

Source: Comptabilité - Contrôle - Audit

The Role of Market Forces in Assuring Contractual Performance

Source: Journal of Political Economy

Linking provided by 

Related research

People also read

Recommended articles

Cited by
160



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright © 2024

Accessibility

Registered
5 Howick Place

Wiley & Francis Group
a John Wiley & Sons business

