



# Faculty of Business Administration

**SEMINAR SERIES No. 11/1112**

*Accounting*

## **“Effects of Accruals Quality on Audit Hours and Audit Fees”**

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### **Abstract**

We investigate whether auditors take into account accruals quality, a proxy for the information risk associated with earnings, by adjusting their audit effort. Accruals quality tells investors about the mapping of accounting earnings into cash flows. Poor accruals quality weakens this mapping and thus increases this information risk. We find a negative relationship between accruals quality and audit hours/fees, indicating that auditors increase their audit efforts by modifying audit procedures and substantive tests and charge higher fees for the increased information risk. In addition, we find that both innate accruals quality and discretionary accruals quality are negatively related to audit hours and fees but that innate accruals quality is more likely to influence audit hours and fees than discretionary accruals quality. The results indicate that auditors respond to the information risk associated with accruals quality but that their response varies according to the source of accruals quality.

**Date:**           **January 13, 2012 (Friday)**

**Time:**           **15:00 – 16:00**

**Venue:**          **ILG 131 (University Library)**

**ALL ARE WELCOMED**

## **A Short Biography of Professor Soo Young Kwon**

Prof. Kwon is Full Professor at Korean University and Director at the Center for Accounting and Tax, IBRE. He is now visiting Hong Kong Polytechnic University. Prof. Kwon got his Ph.D. in Accounting at Washington University in 1991. Before joining Korea University in 1993, he was an assistant professor at the University of Utah. Prof. Kwon's research interests include auditing, earnings quality, earnings forecast, etc. His research works are published in top accounting journals such as *The Accounting Review*, *Review of Accounting Studies*, and *Journal of Accounting Auditing & Finance*.