



ELSEVIER

Available online at www.sciencedirect.com

ScienceDirect

The International Journal of Accounting 51 (2016) 51–56

**The
International
Journal of
Accounting**



Discussion of “Do Reviews by External Auditors Improve the Information Content of Interim Financial Statements”

Andrei Filip

ESSEC Business School

Received 19 October 2015

Available online 23 February 2016

Abstract

Kajüter, Klassmann, and Nienhaus (forthcoming) investigate a topical and challenging question: “How do investors and other stakeholders use and react to the reviewed interim financial statements?” In this discussion I show that the research question is timely, relevant, and important. I discuss what the paper shows and what it does not show. I highlight the underlying question “should reviews of interim financial statements be mandatory?” and link it to a joint-question, “should interim financial statements be mandatory?” Finally I address avenues for future research.

© 2016 University of Illinois.

JEL classifications: M40

Keywords: Interim review; Interim financial reporting; Information content; Abnormal return volatility; Abnormal trading volume

1. Introduction

According to the agency theory, financial reporting is useful to mitigate information asymmetry between principals and agents, transforming internal information to outside information (Jensen & Meckling, 1976). To mitigate the principal–agent relationship, shareholders rely on auditors to assess management’s activity since shareholders are not directly involved in the business and cannot directly observe the monitoring process. A particular case which has been widely debated concerns the request of reviewing interim

E-mail address: filip@essec.edu.

<http://dx.doi.org/10.1016/j.intacc.2016.01.002>

0020-7063/© 2016 University of Illinois.

financial statements. In fact, several countries are actually considering (if they have not already decided) requiring mandatory review of public firms' interim financial statements by an external auditor. The real trade-off between the costs and benefits related to this additional requirement is not that clear, and such a trade-off represents a potentially fruitful area of research.

Kajüter, Klassmann, and Nienhaus (2016; hereafter KKN) investigate if the review of interim financial statements by external auditors impacts their information content. To this end, they investigate a sample of 690 observations from German listed firms over the period 2006–2011. In fact, Germany is an interesting research setting as interim financial statements are mandatory for Prime Standard firms, but the review of such reports by external auditors remains voluntary. Therefore, firms can voluntarily decide whether to buy a review or not. The empirical findings suggest that reviewing interim financial statements leads to higher abnormal return volatility and abnormal trading volume. However, they find no significant evidence on the relationship between the review of the interim reports and earnings quality and hence conclude that “the increase in information content is largely driven by a signaling effect of the review rather than by an increase in earnings quality” (abstract).

The topic under analysis is timely, relevant, and important. It is timely because it represents one of the key accounting policies under discussion worldwide. It is relevant because, given the lack of empirical data, prior literature offers few insights into the relationship between interim financial statements and investors' needs. In particular, this paper contributes to the understanding of the usefulness of the reviews of interim financial statements by showing that the equity market still reacts to the auditors' work. Finally, the topic is important as the implications can be of great usefulness for the regulators who envisage ways to improve the information content within the audit report. At the same time, the paper raises several questions that are worth exploring to provide future evidence on this topic.

The remainder of this discussion proceeds as follows. Section 2 discusses what the paper shows and what it does not show. Section 3 addresses avenues for future research, while Section 4 concludes.

2. What does the paper show (and what does it not show)?

In this section I start by briefly highlighting my reading of the paper and focus on the contribution the paper makes to the literature. I also try to frame the paper from the theoretical point of view and draw the big picture. By doing so, I highlight two critical

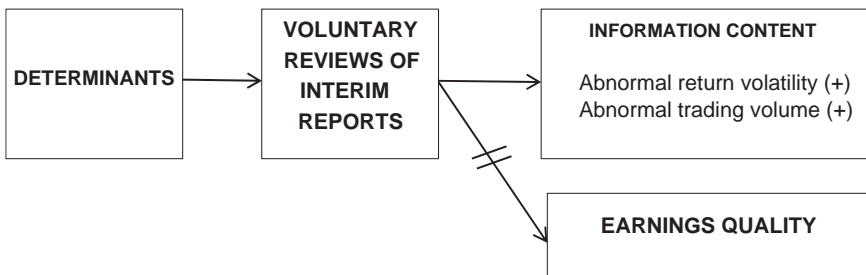


Fig. 1. What does KKN show?

Download English Version:

<https://daneshyari.com/en/article/1004832>

Download Persian Version:

<https://daneshyari.com/article/1004832>

[Daneshyari.com](https://daneshyari.com)