

Directors' duties of care and the value of auditing*

Suman Banerjee[†], Mark Humphery-Jenner[‡]

This version: December 2015

Abstract

This paper uses court's decision in ASIC v Healy (The Centro Case) as a natural experiment through which to empirically examine, and demonstrate, the importance of strengthening directors' duties of care. The Centro decision strengthened directors' duties of care by requiring them to make an independent assessment of auditors' reports, rather than merely relying on auditors' statements. It also required them to have a base level of financial literacy and to look for, and notice, obvious issues, especially ones that are important in the context. The paper assesses the impact of the Centro case by analyzing whether Centro increased the market value of auditing expenditure. The results are positive: the strengthened directors duties are associated with higher CARs for firms that spend more on auditing. Further, after Centro, auditing expenditure had a more positive relationship with market values. Overall, the results demonstrate the importance of strengthening directors' duties of care.

Keywords: Audit committee; Financial Reporting; Duty of care; Corporations Act Section 180; Companies Act Section 174; Centro; ASIC v Healey

JEL Classification codes: G00, G10, G14, G39

* This paper benefited from presentations at UNSW Law School, Nanyang Business School, Singapore, and University of Wyoming. We are grateful for feedback from Dimity Kingsford Smith, Jun-koo Kang, Vikram Nanda, Ronald Masulis, Thomas Noe and Lei Zhang.

[†] University of Wyoming. Email: sbanerj1@uwyo.edu

[‡] UNSW Business School, UNSW Australia. Email: mlhj@unsw.edu.au

Download English Version:

<https://daneshyari.com/en/article/5069477>

Download Persian Version:

<https://daneshyari.com/article/5069477>

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