Corporate Governance and Auditing

Academic Year: (2020 / 2021) **Review date: 27-01-2021**

Department assigned to the subject: Business Administration Department

Coordinating teacher: GARCIA OSMA, BEATRIZ

Type: Electives ECTS Credits : 5.0

Year : 2 Semester : 1

REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)

Accounting
The subject is closely related to Accounting Research, students may consider taking that course before this one.

OBJECTIVES

A student that has successfully completed this class should
- Understand the information contained in the financial statements of a company.
- Understand the role of corporate governance and auditing in capital markets.
- Be able to read and understand a research paper on financial accounting, corporate governance and auditing.
- Be familiar with the different research lines in financial accounting, corporate governance and auditing.

DESCRIPTION OF CONTENTS: PROGRAMME

The focus of the course is the analysis of the different research lines in corporate governance and auditing, with special emphasis on their links with financial accounting.

The class is structured around the following key topics, which will be covered with a mix of lectures (by the instructor), readings and class participation.

Topic 1. Accounting, corporate governance and auditing
Topic 2. Corporate boards and committees
Topic 3. Auditing and monitoring
Topic 4. Regulation and enforcement
Topic 5. Managerial incentives and compensation
Topic 6. Market for corporate control and investors¿ activism
... and the international evidence on these issues

Readings

The course is fundamentally article-based. Students are encouraged to read the latest issues of top accounting and finance journals.

For each of the topics covered in the course, there is a list of recommended papers that will be discussed in class. All books and papers are listed below. Mandatory readings are marked with an asterisk (*), and signify that these papers will be discussed in detail in class. This means students must be sure they understand the details of the research question asked, the hypotheses formulated, the tests performed, and how to interpret the findings.

Books
Denis, D.K., and J.J. McConnell. 2005. Governance: An international perspective (Volumes I & II). Elgward Elgar: Cheltenham.
Tirole, J. 2006. The theory of corporate finance. Princeton University Press. New Jersey.

Topic 1. Accounting, Corporate Governance and Auditing
Armstrong, C.S., W.R. Guay, and J.P. Weber. 2010. The role of information and financial reporting in corporate governance and debt contracting. Journal of Accounting and Economics, 50, 179-234. *
Bebchuk, L.A., and M.S. Weisbach. 2010. The state of corporate governance research. Review of Financial Studies, 23, 939-961.

Shleifer, A., and Vishny, R. 1997. A survey of corporate governance. Journal of Finance, 52, 737¿783. *

Topic 2. Corporate boards and committees
Adams, R.B., B.E. Hermalin, and M.S. Weisbach. 2010. The role of boards of directors in corporate governance: A conceptual framework and survey. Journal of Economic Literature, 48, 58-107. *
Armstrong, C.S., J.E. Core and W.R. Guay. 2014. Do independent directors cause improvements in firm transparency? Journal of Financial Economics, 113, 383-403.
Faleye, O., R. Hoitash, and U. Hoitash. 2011. The costs of intense board monitoring. Journal of Financial Economics, 101, 160-181. *
Masulis, R.W., C. Wang, and F. Xie. 2012. Globalizing the boardroom ¿ The effects of foreign directors on corporate governance and firm performance. Journal of Accounting and Economics, 53, 527-554.
Srinidhi, B., F.A. Gul, and J. Tsui. 2011. Female directors and earnings quality. Contemporary Accounting Research, 28, 1610-1644. *

Topic 3. Auditing and monitoring
Chaney, P.K., K.L. Philipich. 2002. Shredded reputation: The cost of audit failure. Journal of Accounting Research, 40, 1221-1245.
DeFond, M.L., and J. Zhang. 2015. A review of archival auditing research. Journal of Accounting and Economics, 58, 275-326.
DeFond, M.L., Lim, C.Y., and Y. Zang. 2016. Client conservatism and auditor-client contracting. The Accounting Review, 91, 69-98. *
Kausar, A., N. Sroff, and H. White. 2016. Real effects of the audit choice. Journal of Accounting and Economics, 62, 157-181.

Topic 4. Regulation and enforcement.
Christensen, H.B., L. Hail, and C. Leuz. 2013. Mandatory IFRS reporting and changes in enforcement. Journal of Accounting and Economics, 56, 147-177.
Fang, V.W., A.H. Huang, and J. M. Karpoff. 2016. Short-selling and earnings management: A controlled experiment. Journal of Finance, 71, 1251-1293. *
La Porta, R., F. Lopez-de-Silanes, A. Shleifer and R.W. Vishny. 1998. Law and Finance. Journal of Political Economy, 106, 1113-1156.
Leuz, C., and P.D. Wysocki. 2016. The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. Journal of Accounting Research, 54, 525-622.

Topic 5. Managerial incentives and compensation.
Bertrand, M., and S. Mullainathan. 2001. Are CEOs rewarded for luck? The ones without principals are. Quarterly Journal of Economics, 116, 901-932.
Chan, L.H, K.C.W. Chen, T.Y. Chen, and Y. Yu. 2012. The effect of firm-initiated clawback provisions on earnings quality and auditor behavior. Journal of Accounting and Economics, 54, 180-196.*
Core, J.E., R.W. Holthausen, and D.F. Larcker. 1999. Corporate governance, chief executive officer compensation, and firm performance. Journal of Financial Economics, 51, 371-406.
Hoitash, R., U. Hoitash, A.C. Kurt. 2016. Do accountants make better chief financial officers? Journal of Accounting and Economics, 61, 414-432. *

Topic 6. Market for corporate control and investors¿ activism.
Amel-Zadeh, A., and Y. Zhang. 2015. The economic consequences of financial restatements: Evidence from the market for corporate control. The Accounting Review, 90, 1-29.
Armstrong, C.S., Gow, I.D., and Larcker, D.F. 2013. The efficacy of shareholder voting: Evidence from equity compensation plans. Journal of Accounting Research, 51, 909-949.
Gompers, P., J. Ishii, and A. Metrick. 2003. Corporate governance and equity prices. Quarterly Journal of Economics, 118, 107-158
Mayhew, B.W., and J.E. Pike. 2004. Does investor selection of auditors enhance auditor independence? The Accounting Review, 79, 797-822. *
Chlaocharia, V., A. Kumar, and A. Niessen-Ruenzi. Local investors and corporate governance. Journal of Accounting and Economics, 54, 42.67. *

LEARNING ACTIVITIES AND METHODOLOGY

The course methodology will consist of the following elements:

- lectures by the coordinator of the course.
- presentation in class of research papers, both by the coordinator and by the students.
- class discussion of research papers on a weekly basis.
- elaboration of a critical reports of the papers presented during the course.
- final exam or preparation of a research proposal on corporate governance and auditing.

Tutorials will be both in person and by email.

ASSESSMENT SYSTEM

Evaluation criteria

- Students should present at least one of the papers considered in the course outline.
- Resolution of a case and discussion in class.
- Weekly written individual comments on papers discussed in class.
- Class participation
- Exam or research proposal

Extraordinary examination: If the student does not obtain the minimum grade to pass in the ordinary examination, the student should resubmit all written pieces: i.e., the weekly comments and the research proposal. Class participation grades cannot be retaken and will be carried forward to this assessment.

% end-of-term-examination:	50
% of continuous assessment (assigments, laboratory, practicals…):	50

BASIC BIBLIOGRAPHY

- Beaver, W.H. Financial Reporting: An Accounting Revolution (3rd Edition), Pearson, 1997
- Tirole, J. The theory of corporate finance, Princeton University Press, 2006

ADDITIONAL BIBLIOGRAPHY

- Angrist, J., Pischke, J. Mostly Harmless Econometrics: An Empiricist's Companion, Princeton University Press, 2009