

INVESTIGATING THE REGULATION OF AUDIT QUALITY IN CANADA

Following several highly publicized corporate scandals, the collapse of Arthur Andersen in 2002, and the apparent need to restore both auditors' professional legitimacy and investors' confidence in the governance and financial reporting systems, Canada has experienced a significant regulatory transformation with the creation of a series of rules aiming at improving the quality of audited financial information provided to investors by reporting issuers. Since then, the notion of quality has been at the heart of public discussions and of significant interest to both academics (Knechel et al. 2013; Knechel 2016) and practitioners (Deloitte 2017; KPMG 2017).

As pointed by Knechel, Krishnan, Pevzner, Shefchik and Velury (2013, 407), "audit quality is perceived, rather than directly observed", which hints at the importance of individual perceptions about its meaning, scope, and implications. Reflecting the common perception that audit quality is a "three-legged stool" (CPA Canada and CFERF 2017, 1) involving the auditors, management, and the audit committee, the new Canadian rules have specifically affected the work of these stakeholders. For the purpose of my thesis, I will focus on two rules that directly impact auditors and corporate directors sitting on audit committees: National Instrument 52-108, which created the Canadian Public Accountability Board (CPAB) responsible for independently overseeing and inspecting auditors of Canadian reporting issuers; and National Instrument 52-110, which established specific requirements for audit committees regarding their responsibilities around audits and financial reporting matters as well as their structure in terms of minimum size, independence and expertise (Bédard and Compennolle 2014).

Auditors' part in increasing and maintaining quality is quite intuitive considering their role in providing assurance to financial statement users over public companies' financial disclosure (Hay et al. 2014). Audit committees play a key governance role by overseeing the internal control and external audit functions, as well as monitoring the company's financial reporting process (Bédard and Gendron 2010; Cohen et al. 2008). Given this mandate, regulators have given audit committees additional "responsibilities for audit quality" (Bédard and Compennolle 2014, 254) and set higher expectations for audit committee members (Bédard and Gendron 2010). These different regulatory changes are considered as one of the most important changes in the field in decades (DeFond, 2010; Malsch and Gendron 2011). Consequently, one can expect these rules to have affected "the lived experience of organizational actors" (Lawrence et al. 2011, 52) and modified the work and perceptions of individuals who experience them at the forefront: auditors and audit committee members.

My thesis thus aims to investigate the evolution of the Canadian audit regulatory environment from individual actors' standpoints, and answer the following questions: 1) How have Canadian audit firms and auditors practically responded to the implementation of CPAB inspections? 2) How do auditors feel about these new accountability demands materialized through the work of audit regulators, and what is the impact of these accountability systems on auditors' professional identity? 3) How do audit committee members experience their corporate governance role in this new regulatory environment focused on quality; how do they cope in practice with the increased requirements and responsibilities; and what are the challenges they encounter to fulfill their governance responsibilities?

These questions will be answered using qualitative research methods. Such methods "provide rich descriptions of the social world" (Covaleski and Dirsmith 1990, 544), and thus seem especially relevant to study the practical dimensions of regulatory changes, the nature of auditors and corporate directors' perceptions (Malsch and Salterio 2016), as well as "the social and cultural context within which" these individuals evolve (Myers 2013, 5). I mainly collect data via semi-structured interviews with actors involved in the regulatory space, and the collection of public documents pertaining to the issues investigated. Upon interviewees' agreement, I systematically record and transcribe interviews, and then use the Atlas.ti software to analyze the transcripts (Huberman and Miles 1991). So far, I have conducted 27 interviews with audit partners and managers, as well as 21 interviews with corporate directors of Canadian reporting issuers sitting on audit committees.

This program of research will allow me to reach the empirical depth of the Canadian regulation by describing the actors, processes, networks, and tensions embedded in the changes made to the regulatory environment of Canadian reporting issuers. In a context where regulation has increased in order to protect investors, improve the quality of governance mechanisms and enhancing the information provided to capital markets participants, documenting and assessing the value, practicality, outcomes and effectiveness of these new rules seems especially important. In addition, the implementation of new regulation can sometimes lead to practical challenges for regulated entities, which may undermine the expected benefits. My doctoral dissertation will allow to highlight some of these challenges and identify trends and areas of improvement in order to overcome the hurdles encountered by corporate directors and auditors navigating the Canadian governance environment.

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