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The Morning Risk Report: Audit Competition Can Have Unintended Results

By STEPHEN DOCKERY

Mandating auditor competition could have the unintended consequence of encouraging companies to seek out more favorable opinions, undermining auditor independence, according to a recent study published in an accounting journal.

The U.S. has taken numerous regulatory steps to increase auditor competition and a European Union audit directive goes online in June that seeks to do much the same thing. But a study published by professors from Trinity University, the University of Missouri and Texas A&M in **The Accounting Review** said their findings suggest caution when mandating audit competition. “Our finding that internal control opinion shopping is more likely in competitive audit markets informs the continuing debate regarding the pros and cons of increased auditor competition,” the study said. “Specifically, our results suggest that there may be negative unintended consequences associated with higher levels of audit market competition.”

The study was based on seven years of market data using large corporate databases. The authors said their study was the first documentation of audit shopping after the passage of the Sarbanes-Oxley law in 2002, which was enacted to reform corporate accounting practices. “In short, our findings suggest that opinion-shopping pays; that concern over internal controls has become a major factor in motivating it; that companies engage in it to a significant degree; and that competition among auditors increases its prevalence,” said co-author Michael S. Wilkins of Trinity University.

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