

LIMPERG COURSE 'ECONOMICS OF AUDITING'

20-24 October 2025 (KU Leuven)

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Course Objectives

The overarching objective of this course is to provide students with insights into the economic foundations and aspects of financial statement auditing and assurance. Auditing and assurance services are economic goods that are demanded, produced, and supplied in the audit market at equilibrium prices. In this course, we will focus on a number of economic topics related to auditing and assurance. These include a discussion of the (economic) nature of auditing, the production and pricing of auditing services, audit market structure and auditor competition, economic incentives of audit partners, and the economics of audit regulation. We cover these topics through the reading and discussion of academic papers related to these topics.

Course Requirements

The course objectives will be realized through interactive teaching and group discussions. A solid preparation is essential to enable the learning process. Students should carefully read all papers and be prepared to discuss them. They will also complete mandatory assignments (see below). More elaborate guidance for the assignments is provided in the Appendix at the end of the syllabus.

Each session deals with a different topic. For each topic, a theoretical introduction to the topic will be provided by one of the faculty members, followed by a discussion of a number of papers (3 papers per session). Students will present and discuss these papers in class. For each paper, one student *presents* and another student *discusses* the paper (see Individual Assignment). After the presentation, the paper is discussed by the entire class. In addition, students submit at least three questions/remarks per paper on the day preceding the respective session.

Finally, on the last day of the course, we offer students the opportunity to present their own work in progress and receive feedback from the instructors and fellow students. This could be a research proposal or a working paper. **The only requirement is that it should be a project related to auditing.** Students who wish to make use of this opportunity (it is optional!) are requested to (1) let the course coordinator know by October 1 the latest and (2) submit their paper to us by October 15 the latest. Students not presenting are prepared to comment on the proposals/papers. One session during the last day of the course will also be devoted to the publication and review process.

Individual assignments (Sessions 1-8):

- **Paper presentations:** Per paper, one student prepares a presentation containing a brief (PowerPoint) summary which should take no longer than 5 minutes to present, followed by a discussion of the paper's strengths and weaknesses, which should take about 10 minutes. The students who present and discuss a paper also prepare questions for the audience in addition to their own discussion. See the separate document for student allocation to papers.
- **Discussion questions/remarks:** All students prepare and submit at least three questions/remarks for each paper that will be discussed. These questions/remarks are submitted by a google form (link will be provided to the participants) to the instructors on the day preceding the respective class.

Due date: the day (preceding) the respective class.

Assessment

Completion of the following mandatory course components leads to a pass for this course:

- Individual assignments
- Active participation during all sessions

Course Timetable

In sessions 1-8 students will present and discuss the papers as described above. For each topic, the instructor gives a 20-minute introduction and summary of the topic from an economics perspective; the rest of the time the students discuss papers related to the topic. There are three papers to be discussed per session. For each session, there are also one or two background papers that the students are encouraged to read in advance.

45 minutes per paper:

- One student provides a short summary of the main aspects of the paper (+/- 5 minutes), discusses the main strengths and weaknesses of the paper (+/- 10 minutes), and raises questions for the audience. The presentation should last about 15 minutes.
- After this presentation, all other students are asked to share their discussion questions (30 minutes).

Schedule per day:

9.30-12.30	Morning session
12.30-14.00	Lunch break
14.00-17.00	Afternoon session

Timeline sessions 1-8 (block of 3 hours):

0.00-0.20	Theoretical introduction by instructor
0.20-1.05	Paper 1
1.05-1.50	Paper 2
1.50-2.15	Break
2.15-3.00	Paper 3

DAY 1 – MORNING	
SESSION 1: THE NATURE OF AUDITING	
Content	<ul style="list-style-type: none"> – Auditing/assurance as an economic good; what do auditors sell? – Characteristics / attributes of an auditing service: Credence / experience good characteristics of auditing – What does a good audit look like?
Papers for discussion	<p>Causholli, M. and W.R. Knechel (2012). “An Examination of the Credence Attributes of an Audit”. <i>Accounting Horizons</i> (December): 631-655.</p> <p>Ciconte, W., Leiby, J. and M. Willekens (2024). Where does the time go? Auditors’ commercial effort, professional effort, and audit quality. forthcoming in: <i>Journal of Accounting Research</i>.</p> <p>Hope, O. K., Langli, J. C., & Thomas, W. B. (2012). Agency conflicts and auditing in private firms. <i>Accounting, Organizations and Society</i>, 37(7), 500-517.</p>
Background reading	<p>Knechel, W.R. (2021). “The Future of Assurance in Capital Markets: Reclaiming the Economic Imperative of the Auditing Profession”. <i>Accounting Horizons</i> 35 (1): 133-151</p> <p>Aobdia, D., Siddiqui, S., & Vinelli, A. (2021). Heterogeneity in expertise in a credence goods setting: evidence from audit partners. <i>Review of Accounting Studies</i>, 26(2), 693-729.</p> <p>Weber, J., Willenborg, M., & Zhang, J. (2008). Does auditor reputation matter? The case of KPMG Germany and ComROAD AG. <i>Journal of Accounting Research</i>, 46(4), 941-972.</p>
DAY 1 – AFTERNOON	
SESSION 2: AUDIT QUALITY – financial information	
Content	<ul style="list-style-type: none"> – What is audit quality? – How to measure audit quality?
Papers for discussion	<p>DeAngelo, L. E. (1981). Auditor size and audit quality. <i>Journal of accounting and economics</i>, 3(3), 183-199.</p> <p>Che, L, Hope, O-K., & Langli, J.C. (2020). How Big-4 Firms Improve Audit Quality. <i>Management Science</i>. 66 (10), 4552-4572.</p> <p>Dekeyser, S., Gaeremynck, A., Knechel, W. R., & Willekens, M. (2021). The impact of partners' economic incentives on audit quality in Big 4 partnerships. <i>The Accounting Review</i>, 96(6), 129-152.</p>
Background reading	<p>Knechel, W.R., G.V. Krishnan, M. Pevzner, L.B. Shefchik and U.K. Velury (2013). Audit Quality: Insights from the Academic Literature. <i>Auditing: A Journal of Practice & Theory</i> 32 (1): 385-421.</p> <p>Knechel, W. R. (2016). “Audit Quality and Regulation”. <i>International Journal of Auditing</i> 20:215-223.</p> <p>DeFond, M., & Zhang, J. (2014). A review of archival auditing research. <i>Journal of accounting and economics</i>, 58(2-3), 275-326.</p>

DAY 2 - MORNING	
SESSION 3: THE PRODUCTION AND PRICING OF AUDITING SERVICES	
Content	<ul style="list-style-type: none"> – Theory (production function, cost function) – Efficiency
Papers for discussion	<p>Simunic, D. A. (1980). 'The Pricing of Audit Services: Theory and Evidence'. <i>Journal of Accounting Research</i>. Vol. 18 (1):161-190.</p> <p>Bell, T., M. Causholli, and W.R. Knechel (2015). "Audit Firm Tenure, Non-audit Services, and Internal Assessments of Audit Quality". <i>Journal of Accounting Research</i> (June): 461-631.</p> <p>Eulerich, Marc, Adi Masli, Jeffrey Pickerd, and David A. Wood. "The impact of audit technology on audit task outcomes: Evidence for technology-based audit techniques." <i>Contemporary Accounting Research</i> 40, no. 2 (2023): 981-1012.</p>
Background reading	<p>Hay, D., W.R. Knechel, and N. Wong (2006). "Audit Fees: A Meta-Analysis of the Effect of Supply and Demand Attributes". <i>Contemporary Accounting Research</i> (Spring): 141-192.</p> <p>Causholli, M., De Martinis, M., Hay, D., & Knechel, W. R. (2010). Audit markets, fees and production: Towards an integrated view of empirical audit research. <i>Journal of accounting literature</i>, 29, 167-215.</p> <p>O'Keefe, T. B., Simunic, D. A., & Stein, M. T. (1994). The production of audit services: Evidence from a major public accounting firm. <i>Journal of accounting research</i>, 32(2), 241-261.</p>

DAY 2 – AFTERNOON	
SESSION 4: AUDIT MARKETS STRUCTURE AND COMPETITION BETWEEN AUDITORS	
Content	<ul style="list-style-type: none"> – The nature of auditor competition – Various competition theories/ scenarios – Product differentiation
Papers for discussion	<p>Gerakos, J. and C. Syverson (2015). "Competition in audit markets: Policy implications". <i>Journal of Accounting Research</i> 53(4): 725-775.</p> <p>Dekeyser, S., Gaeremynck, A., Knechel, W. R., & Willekens, M. (2021). Multimarket contact and mutual forbearance in audit markets. <i>Journal of accounting research</i>, 59(5), 1651-1688.</p> <p>Numan, W. and M. Willekens (2012). 'An empirical test of spatial competition in the audit market'. <i>Journal of Accounting and Economics</i>. 53: 450-465.</p>
Background reading	<p>Willekens, M., Dekeyser, S., Bruynseels, L., & Numan, W. (2023). Auditor market power and audit quality revisited: effects of market concentration, market share distance, and leadership. <i>Journal of Accounting, Auditing & Finance</i>, 38(1), 161-181.</p>

DAY 3 - MORNING	
SESSION 5: ECONOMIC CONSEQUENCES OF AUDITING	
Content	<ul style="list-style-type: none"> • Auditing and debt & equity markets • Auditing as a signaling function • Auditing and spillovers
Papers for discussion	<p>Lisowsky, P., Minnis, M., & Sutherland, A. (2017). Economic Growth and Financial Statement Verification. <i>Journal of Accounting Research</i>, 55(4), 745-794.</p> <p>Gil Soo Bae, Seung Uk Choi, Dan S. Dhaliwal, Phillip T. Lamoreaux. (2017). Auditors and Client Investment Efficiency. <i>The Accounting Review</i>, 92 (2), 19–40.</p> <p>Cai, Y., Y. Kim, J. C. Park, and H. D. White. (2016). Common auditors in M&A transactions. <i>Journal of Accounting and Economics</i>, 61 (1), 77–99.</p>
Background reading	<p>Lamoreaux, P.T., Mauler, M. & Newton, N. J. (2020). Audit Regulation and Cost of Equity Capital: Evidence from the PCAOB's International Inspection Regime. <i>Contemporary Accounting Research</i>, 37(4), 2438-2471.</p> <p>Jing Gong, Jayanthi Krishnan, Yi Liang. (2022). Securities-Based Crowdfunding by Startups: Does Auditor Attestation Matter?. <i>The Accounting Review</i> (1), 97 (2): 213–239.</p>
DAY 3 – AFTERNOON	
SESSION 6: AUDIT PARTNERS AND AUDIT TEAMS	
Content	<ul style="list-style-type: none"> – Effects of partners characteristics on the audit outcome – Effects of audit team characteristics on the audit outcome
Papers for discussion	<p>Cahan, S. F., Che, L., Knechel, W. R., & Svanström, T. (2022). Do audit teams affect audit production and quality? Evidence from audit teams' industry knowledge. <i>Contemporary Accounting Research</i>, 39(4), 2657-2695.</p> <p>Christensen, B. E., Newton, N. J., & Wilkins, M. S. (2021). How do team workloads and team staffing affect the audit? Archival evidence from US audits. <i>Accounting, Organizations and Society</i>, 92, 101225.</p> <p>Knechel, R. W., Vanstraelen, A., & Zerni, M. (2015). Does the identity of engagement partners matter? An analysis of audit partner reporting decisions. <i>Contemporary Accounting Research</i>, 32(4), 1443-1478.</p>
Background reading	<p>Doxey, M. M., Lawson, J. G., Lopez, T. J., & Swanquist, Q. T. (2021). Do investors care who did the audit? Evidence from Form AP. <i>Journal of Accounting Research</i>, 59(5), 1741-1782.</p> <p>Kallunki, J., Kallunki, J. P., Niemi, L., Nilsson, H., & Aobdia, D. (2019). IQ and audit quality: Do smarter auditors deliver better audits? <i>Contemporary Accounting Research</i>, 36(3), 1373-1416.</p>

DAY 4 - MORNING	
SESSION 7: ECONOMICS OF AUDIT REGULATION	
Content	<ul style="list-style-type: none"> • Economic reasons for regulation • Types of regulations: ex ante vs. ex post • Precision in auditing standards <p>Economic consequences of audit regulation</p>
Papers for discussion	<p>Dutillieux, W., Francis J. R. and M. Willekens (2016). The Spillover of SOX on Earnings Quality in Non-U.S. Jurisdictions. <i>Accounting Horizons</i> 30 (1): 23-39.</p> <p>Lennox, C., & Li, B. (2012). The consequences of protecting audit partners' personal assets from the threat of liability. <i>Journal of Accounting and Economics</i>, 54(2-3), 154-173.</p> <p>Duguay, R., Minnis, M., & Sutherland, A. (2020). Regulatory spillovers in common audit markets. <i>Management Science</i>, 66(8), 3389-3411.</p>
Background reading	<p>Langli, J.-C. and M. Willekens (2018). The Economics of Auditor Regulation: Theory, Practice and Research Opportunities. In: Sasson, A. (eds.) <i>At the Forefront, Looking Ahead: Research-Based Answers to Contemporary Uncertainties of Management</i>.</p> <p>Willekens, M. and D. A. Simunic (2007). Precision in Auditing Standards: Effects on Auditor and Director Liability and the Demand and Supply for Audit Services. <i>Accounting and Business Research</i> 37(3): 217-232.</p>
SESSION 8: ESG Assurance	
Content	<ul style="list-style-type: none"> – What are ESG reports? – Why are they important? <p>Future and current developments on ESG Reporting</p>
Papers for discussion	<p>Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. <i>The Accounting Review</i>, 91(6), 1697-1724.</p> <p>Asante-Appiah, B., Lambert, T.A. (2023). The role of the external auditor in managing environmental, social, and governance (ESG) reputation risk. <i>Review of Accounting Studies</i>, 28, 2589–2641.</p> <p>Lu, M., Simnett, R., & Zhou, S. (2023). Using the same provider for financial statement audit and assurance of extended external reports: Choices and consequences. <i>AUDITING: A Journal of Practice & Theory</i>, 42(1), 125-154.</p>
Background reading	<p>Cohen, J. R., & Simnett, R. (2015). CSR and assurance services: A research agenda. <i>Auditing: A Journal of Practice & Theory</i>, 34(1), 59-74.</p>

DAY 5	
SESSION 9: THE REVIEW AND PUBLICATION PROCESS	
<u>Content</u>	<ul style="list-style-type: none"> – General debate about the review and publication process – Students receive a first-round paper (of an eventually accepted paper) together with the round 1 reviewer comments. – In class: show how the authors responded + eventually further rounds of revision. – Insights in the review process: examples from good and bad reviewer comments
SESSION 10: PRESENTATION OF RESEARCH PROPOSALS BY STUDENTS	
<u>Content</u>	Students are given the opportunity to present their own research proposals and get feedback from the faculty and fellow students.

Appendix: Additional Guidance for Individual Assignment

Paper presentation

For each paper, one student presents and discusses the paper. They prepare a PowerPoint presentation of about 15 minutes.

Presentation

Students spend max. 5 minutes on providing a brief summary of the paper:

- a. What is the research question being addressed by the study?
- b. Why is the question interesting or important to the profession?
- c. What is theoretical foundation for the paper and hypotheses?
- d. What are the hypotheses or expectations of the authors?
- e. What is the source of the data used in the study?
- f. What is the general approach taken for examining the research question?
- g. What were the key findings of the study?

Discussion

Students spend max. 10 minutes discussing the main strengths and weaknesses of the paper.

- a. Strengths of the paper: what do you think are the most important strengths of the paper (contribution/methodology/theory).
- b. Weaknesses of the papers (limitations/caveats): what are the inherent limitations or weaknesses of the paper? Suggestions to address these weaknesses (in future research)?

Questions for the audience

Students conclude their presentation by raising questions for the audience that serve as a starting point for the group discussion.