

DeZoort, F.T., Hermanson, D.R., and Houston, R.W. (2003). Audit Committee Support for Auditors: The Effects of Materiality Justification and Accounting Precision. *Journal of Accounting and Public Policy* 22 (2): 175-199.

ABSTRACT

This study evaluates whether the auditor's materiality justification and the precision of the accounting issue affect audit committee members' support for the auditor in an auditor-management disagreement. Audit committee members participated in an experiment with materiality justification (i.e., auditor provides "quantitative-only" versus quantitative and "qualitative," consequences-oriented materiality justification) and accounting precision (i.e., precise versus imprecise accounting issue in dispute) manipulated between participants. Audit committee members provided greater support for the auditor when the auditor's materiality justification included both quantitative and consequences-oriented factors (i.e., the interruption of an earnings trend) and when the accounting issue was subject to precise measurement. In addition, more experienced audit committee members and those who are CPAs were more supportive of the auditor.

From a public policy perspective, the results suggest that (a) regulators should require auditors and audit committees to discuss qualitative aspects of materiality (e.g., consequences) for all unrecorded auditor-proposed adjustments; (b) regulators and standard setters should seek to enhance auditor testing of accounting estimates and consider requiring greater disclosure of estimate ranges; and (c) current regulatory efforts to enhance audit committee financial expertise are supported by our findings.