

# ASSESSING EARNINGS QUALITY: NUWARE, INC.

Auditor Independence and Earnings' Quality: Evidence for  
Market Discipline vs. Proscriptive Regulation

James Brown  
Montana State University

Dino Falaschetti  
Montana State University

Michael Orlando  
Federal Reserve Bank of Kansas City

September 1, 2006

Abstract

Introduction

Theory

Methodology

Empirical Result

Conclusion



# ASSESSING EARNINGS QUALITY: NUWARE, INC.

Auditor Independence and Earnings' Quality: Evidence for  
Market Discipline vs. Proscriptive Regulation

James Brown  
Montana State University

Dino Falaschetti  
Montana State University

Michael Orlando  
Federal Reserve Bank of Kansas City

September 1, 2006



Abstract

Conclusion

Empirical Result

Methodology

Theory

Introduction

**Auditor Independence and Earnings' Quality: Evidence for  
Market Discipline vs. Proscriptive Regulation**

**James Brown  
Montana State University**

**Dino Falaschetti  
Montana State University**

**Michael Orlando  
Federal Reserve Bank of Kansas City**

**September 1, 2006**



Abstrack

The image features a dark, starry background with numerous small, glowing square and rectangular particles in shades of cyan and white. A large, thick, pink circular ring is centered on the page. The word "Abstrack" is written in a stylized, pink, cursive font across the center of the circle. There are also some faint white lines and a small grey shape in the upper right corner.

Received research largely argues against auditor independence influencing the quality of earnings' reports, but encounters several difficulties in doing so. Addressing these difficulties, we build additional confidence that auditor independence improves earnings' quality, though any such effect appears to be small. Moreover, our research facilitates a more careful inference from audit fee data about the efficacy of Sarbanes-Oxley's restriction on consulting for audit clients. Here, we develop more defensible evidence that moving past the Securities and Exchange Commission's (SEC's) fee disclosure mandates to proscribe non-audit services diminished financial market opportunities.