Continuing Professional Education for Audit Partners and Audit Quality*

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ABSTRACT: This study examines the effect of continuing professional education (CPE) for audit partners on audit quality. In Korea, as in many other countries, certified public accountants are required to attend at least 40 hours of CPE annually to perform external audits. However, the effect of CPE on audit quality is not clear and we are not aware of any prior studies that directly investigate such an effect. Using a unique dataset on the annual CPE hours of audit partners from 2006 to 2015, we fail to find evidence that greater CPE is significantly related to improved audit quality. Through several cross-sectional analyses, we fail to identify any specific circumstances in which greater CPE improves audit quality. Despite important empirical limitations, this study provides practical implications on the role of CPE in determining audit quality. The findings suggest that regulators, professional bodies, and academics need to pay attention to the issue and develop ways to improve the effectiveness of the CPE.

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I. Introduction

Korean regulators, as in many other countries, require certified public accountants (CPAs) to engage in a minimum of 40 hours of continuing professional education (CPE) as a condition for performing external audits each year. The purpose of CPE stated by the Korean Institute of Certified Public Accountants (KICPA) is to foster professional knowledge, promote professional ethics, acquire up-to-date techniques, and develop general capabilities to perform tasks with expertise.\(^1\) This study investigates whether the CPE for auditors, measured by the number of CPE hours that the audit partner attended, is related to audit quality.\(^2\)

Accounting professionals spend considerable time and efforts in the pursuit of CPE (Wessels 2005). Given this high level of investment, the effectiveness of CPE is an important issue. Auditors need to follow up with the constantly changing audit environment and regulations, where an effective CPE program should help CPAs "maintain competency, update their knowledge, improve professional practice, and provide professional growth" (Wessels 2005, 57).

1) The Certified Public Accountant Act and the corresponding Enforcement Decree require the KICPA to govern the overall CPE programs. The detailed requirements for CPE is stated in the bylaws (the 'CPE Regulations') determined by the KICPA and approved by the Financial Services Commission. Additionally, the KICPA either directly provides CPE sessions to the members or indirectly supervises and monitors the CPE provided by audit firms (www.kicpa.or.kr; cyber.kicpa.or.kr). Examples of the CPE contents are provided in the Appendix.

2) Naturally, we would like to investigate the effect of CPE for both partners and other staff auditors who participate in the audit engagement. However, since information on the identity of staff auditors are not available, we are not able to investigate the effect of CPE for other staff auditors. Meanwhile, education for audit partners may be more important than that of the staffs since partners make the final decisions when issuing the audit report and control for the overall audit quality (Ferguson et al 2003). Knowledge spillover from the partner to the members of the audit engagement team may also exist, further increasing the importance of the partners' CPE in enhancing audit quality.