



UNIVERSITY
OF ALBERTA

CPA Speaker Series - Business Analytics

**Maria Ibanez,
Northwestern University**

Friday, October 25, 2024

10:00 AM - 11:30 AM

Location: BUS 4-06

Second-versus Third -party Audit Quality: Evidence from Global Supply Chain Monitoring

ABSTRACT

Capitalizing on the superior credibility and flexibility and potential lower cost of external assessments, many global buyers are relying less on their own employee ("second-party") auditors and more on thirdparty auditors to monitor and prevent environmental and social misconduct in supply chains. Despite ingrained assumptions that third -party auditors' greater independence reduces bias and improves audit quality, there are concerns that this trend risks eroding audit quality. Drawing on agency theory for a more nuanced understanding of auditor incentives and on data from a global fashion brand, we find third-party auditors indeed less effective, especially as a given factory's region exhibits more reported corruption or less potential oversight by second -party auditors. Global buyers can bolster third-party-audit quality by increasing the presence of second-party auditors in a given region, emphasizing such deployment in more corrupt regions, and rotating amongst third -party audit firms. Our findings can inform better -designed monitoring not only of suppliers, but also of other business partners that create risks for brands, such as franchisees, distributors, vendors, and purchasing agents.

Department of Accounting & Business Analytics
Alberta School of Business
College of Social Science & Humanities
Business Building, University of Alberta, Edmonton, AB, Canada T6G 2R6

