The independent influence of CFOs on firms' financial reporting

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Certificate of Original Authorship

I, Michelle Spiller, declare that this thesis, is submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the Business School at the University of Technology Sydney.

This thesis is wholly my own work unless otherwise referenced or acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

This document has not been submitted for qualifications at any other academic institution.

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Abstract

This thesis provides evidence on two research questions regarding the independent influence of CFOs on firms' financial reporting. Chapter 2 examines the effect of relative CFO power on financial reporting integrity and Chapter 3 investigates changes in financial reporting integrity surrounding routine versus non-routine CFO turnover. The primary proxy for financial reporting integrity is the recognition of non-current asset impairments in response to indicators of impairment which remains a key focus area of regulatory scrutiny and inquiry.

Based on a sample of 1,781 Australian firm-years over the period 2007 to 2015, the evidence in Chapter 2 illustrates that firms record less timely non-current asset impairments (in the presence of adverse economic circumstances and worsening financial performance) as the degree of relative CFO power increases. 463 Australian CFO changes between 1 July 2007 and 30 June 2015 are examined in Chapter 3 which finds that new CFOs use asset write-offs as a vehicle to engage in 'big bath' accounting in the year of a non-routine appointment. The results in Chapter 3 also indicate that (irrespective of the nature of the CFO change) CFOs bias earnings upward in the period prior to their departure. The results are consistent with respect to a number of sensitivity tests and alternative proxies for financial reporting integrity.

While CFOs, therefore, have the capacity to exert independent influence over firms' reported results the balance of findings suggest that CFOs act in self-interest. In other words, CFOs' financial reporting decisions are opportunistically motivated by their own compensation and career incentives and the personal costs they face. The evidence in this thesis is, therefore, contrary to the view that CEO pressure is a primary driver of CFOs' involvement in earnings manipulation.