

[ScienceWatch Home](#)[Inside This Month...](#)[Interviews](#)[Featured Interviews](#)[Author Commentaries](#)[Institutional Interviews](#)[Journal Interviews](#)[Podcasts](#)[Analyses](#)[Featured Analyses](#)[What's Hot In...](#)[Special Topics](#)[Data & Rankings](#)[Sci-Bytes](#)[Fast Breaking Papers](#)[New Hot Papers](#)[Emerging Research Fronts](#)[Fast Moving Fronts](#)[Research Front Maps](#)[Current Classics](#)[Top Topics](#)[Rising Stars](#)[New Entrants](#)[Country Profiles](#)[About Science Watch](#)[Methodology](#)[Archives](#)[Contact Us](#)[RSS Feeds](#)

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2008 : November 2008 - New Hot Papers : Hollis A. Skaife

NEW HOT PAPERS - 2008

November 2008



Hollis A. Skaife talks with *ScienceWatch.com* and answers a few questions about this month's New Hot Paper in the field of Economics & Business.



Article Title: The discovery and reporting of internal control deficiencies prior to SOX-mandated audits

Authors: Ashbaugh-Skaife, H;Collins, DW;Kinney, WR

Journal: J ACCOUNT ECON

Volume: 44

Issue: 1-2

Page: 166-192

Year: SEP 2007

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(addresses have been truncated)

SW: Why do you think your paper is highly cited?

Our study was one of the first studies to investigate a contentious section of the Sarbanes-Oxley Act of 2002 that requires publicly traded firms to assess and disclose the effectiveness of their internal control over financial reporting.

SW: Does it describe a new discovery, methodology, or synthesis of knowledge?

Our study describes and provides new evidence on the economic determinants of weak internal control over financial reporting.

SW: Would you summarize the significance of your paper in layman's terms?

Our paper explains the internal control reporting requirements of the Sarbanes-Oxley Act of 2002, and identifies and documents the firm characteristics that are associated with the existence and reporting of internal control problems, which can reduce the reliability of firms' financial reporting.

SW: How did you become involved in this research, and were there any problems along the way?

We became interested in this topic because of the debate in the popular press over the costs and benefits of Section 404 of the Sarbanes-Oxley legislation. Early on, it became clear that in order to gain a better understanding of the cost/benefit trade-offs we needed to understand the underlying causes of internal control problems. One problem we faced is that firms' classifications of the severity of control problems were not consistent across firms, due in part to the lack of clear regulatory guidelines.

"Section 404 reporting continues to be debated in the financial press."

SW: Where do you see your research leading in the future?

In subsequent studies, we investigate the effects of internal control weaknesses reported under Section 404 of the Sarbanes-Oxley Act on the quality of firms' financial reporting and cost of equity capital. We anticipate extending this line of research to the smallest public companies that have yet to report under the Section 404 requirements.


SW: Do you foresee any social or political implications for your research?

Section 404 reporting continues to be debated in the financial press. Our research provides insights into the benefits associated with firms having effective internal control over financial reporting.

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Keywords: Sarbanes-Oxley Act of 2002, Section 404 Sarbanes-Oxley.

 PDF

[back to top](#) 

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