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## Evidence on the Relation Between Audit and Earnings Quality. Do Clients of Higher Quality Auditors Provide Better Financial Reporting?

By Anonym

Grin Publishing. Paperback. Condition: New. This item is printed on demand. Dimensions: 8.3in. x 5.8in. x 0.1in. Seminar paper from the year 2017 in the subject Business economics - Accounting and Taxes, grade: 1, 3, language: English, abstract: This paper studies the relation between audit and earnings quality. It examines whether firms audited by a Big 4 member engage in higher earnings management activities as proxied by the magnitude of discretionary and absolute accruals, as well as an income smoothing measure. The author predicts that large auditors have higher competencies and incentives to deliver a higher quality audit. Therefore, their clients are expected to reveal less sophisticated earnings management and thus higher earnings quality. The results do not support this relation. Since standardsetters have been concerned about managers use of discretion to manage earnings in their financial reports, an increasing amount of empirical research was conducted to address this issue, additionally to regulation. While independent auditors (aim to) assure that these statements are in accordance with legal compliance, the actual audit quality can be grasped as the contingency that the auditor exposes and discloses an anomaly in their clients financial reports. Whereas numerous audit scandals threaten the trustworthiness of well-known large...



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