

The Effect of Book-Tax Conformity on Audit Quality: Evidence from Canada

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Abstract : This paper investigates the effect of Book-tax conformity on audit quality regarding the proxies of audit fees, auditors' industry specialization and audit report lag. Using a sample of Canadian firms listed on the Toronto Stock Exchange spanning the years 2006- 2016, we applied an Ordinary Least Squares (OLS) regression to test hypotheses of this research. The authors find that higher Book-tax conformity leads to lower audit fees. They also provide evidence that there is a negative association between Book-tax conformity and auditors' industry specialization, whereas there is a positive association between Book-tax conformity and audit report lag. Overall, the findings are prominent to better understanding the effect of Book-tax conformity on audit quality and are relevant for academic researchers, practitioners, and regulators. As the paper investigates the relationship of Book-tax conformity and audit quality using a sample of Canadian firms, it brings original insights regarding the importance of audit fees and Book-tax conformity. In addition, it considers the role of auditor's industry specialization in the relation between audit quality and Book-tax conformity by considering a sample listed on the Toronto Stock Exchange. This paper contributes to the existing literature by highlighting the Canadian setting, to our best knowledge. In addition, our results are prominent to the auditing literature as they introduce a different determinant of auditors' industry specialization and audit report lag.

Keywords : audit fees, auditors' industry specialization, audit report lag, book-tax conformity

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