

The Voluntary Audit of Semi-Annual Consolidated Financial Statements Decision and Accounting Conservatism

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Abstract : This paper investigates the relationship between voluntary audit (hereafter, VA) of semi-annual consolidated financial statements decision and accounting conservatism. In general, there are four kinds of auditors' assurance services, which include audit, review, agreed-upon procedure and compliance engagements base on degree of assurance. The VA work by auditors may not only have the higher audit quality but an important signal of more reliable information than the review work. In Taiwan, The listed companies must prepare the semi-annual consolidated financial statements and with auditors' review before 2012, but some of the listed companies choose the assurance work from review to audit voluntarily. Due to the adoption of International Financial Reporting Standards, the listed companies were required to prepare the second quarterly consolidated financial statements which should be reviewed by auditors since 2013. This rule will change some of the assurance work from audit to review by auditors, and the information asymmetry maybe increased. To control the selection bias, we use two-stage model to test the relationship between VA decision and accounting conservatism. Our empirical results indicate that the VA decision and accounting conservatism have a significant positive relationship in firms with family-controlled. That is, firms with family-controlled are more likely to do VA and to prepare more conservative consolidated financial statements to reduce the information asymmetry, meaning that there is a complementary effect between VA and accounting conservatism for firms with more information asymmetry. But on the contrary, we find that the VA decision and accounting conservatism have a significant negative relationship in firms with professional managers-controlled, meaning that there is a substitution effect between VA and accounting conservatism for firms with less information asymmetry. Finally, the accounting conservatism of consolidated financial statements decrease after the adoption of IFRSs (International Financial Reporting Standards) in Taiwan. It means that the disclosure and transparency of consolidated financial statements had be improved.

Keywords : voluntary audit, accounting conservatism, audit quality, information asymmetry

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