

Measuring Audit Quality Using Text Analysis: An Empirical Study of Indian Companies

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Abstract : Better audit quality signifies the financial statements of the auditee firm reflect true and fair view of their actual state of affairs, which reduces information asymmetry between management and shareholders, as a result, helps protect interests of shareholders. This study examines the impact of joint audit on audit quality. It is motivated by the ongoing debate where The Institute of Chartered Accountants of India (ICAI), the regulatory body governing auditors, has advocated the finance ministry and the Reserve Bank of India (RBI) for the mandatory use of joint audit in private banks to enhance the quality of audit. Earlier, the Government of India had rejected the plea by ICAI for mandatory joint audits in large companies stating it is not a viable option for promoting domestic firms. We introduce a new measure of audit quality. Drawing from the domain of text analytics, we use relevant phrases in audit reports to gauge audit quality and demonstrate that joint audit improves audit quality. We also, for robustness, use prevalent proxy for audit quality (Big N Auditor, ratio of audit fees to total fees) and find negative effect of joint audit on audit quality. We, therefore highlight that different proxy for audit quality show opposite effect of joint audit.

Keywords : audit fees, audit quality, Big N. Auditor, joint audit

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