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Audit Quality During the Global Financial Crisis: The Investors' Perspective.

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Abstract

In response to the concerns raised by the financial media and regulators about the audit quality around the recent global financial crisis (GFC), this study examines whether investors also perceived the audit quality to have declined during the GFC. Based on a sample of US firms over 2003-2009 and using the information content of earnings announcements as the proxy for the investors' perception of the audit quality, we find evidence of an increase in the information content of earnings announcements during the GFC period compared to pre-GFC period. The subsample analysis shows an increase in the information content of earnings announcements for both the non-financial and financial firms. Our results also show that the increase in the information content of earnings announcements is not dependent on auditors' size (Big 4 versus non-Big 4 auditors) or auditors' independence (based on the level of audit, non-audit and total audit fee). Additional tests also reveal that the reported increase in the information content of earnings announcements are not driven by a general decline in the richness of information environment during the GFC. Overall, our results provide a strong evidence of an increase in the perceived quality of audits during the GFC for US firms non-financial and financial firms.

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