

Audit Quality and Properties of Analyst Earnings Forecasts

Bruce K. Behn; Jong-Hag Choi; Tony Kang

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Under the assumption that audit quality relates positively to unobservable financial reporting quality, we investigate whether audit quality is associated with the predictability of accounting earnings by focusing on analyst earnings forecast properties. The evidence shows that analysts' earnings forecast accuracy is higher and the forecast dispersion is smaller for firms audited by a Big 5 auditor. We further find that auditor industry specialization is associated with higher forecast accuracy and less forecast dispersion in the non-Big 5 auditor sample but not in the Big 5 auditor sample. Overall, our results suggest that high-quality audit provided by Big 5 auditors and industry specialist non-Big 5 auditors is associated with better forecasting performance by analysts.

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