

Audit quality and earnings management for Taiwan IPO firms

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Purpose

This paper investigates the relationship between audit quality (as measured by auditor size and industry specialization) and earnings management (as measured by unexpected accruals) for Taiwan IPO firms.

Design/methodology/approach

First uses unexpected accruals in the modified Jones model to measure earnings management in the IPO process. Then uses auditor type (big five versus non-big five) and industry specialist to measure audit quality. The hypothesis predicts that Taiwanese firms with higher quality auditors engage less in earnings management in the IPO process. The sample consists of 367 new issues between 1999 and 2002 from the *Taiwan Economic Journal* database.

Findings

It is found that big five auditors are related to less earnings management in the IPO year in Taiwan. This shows that higher quality auditors constrain earnings management for Taiwan IPO firms.

Research limitations/implications

The finding shows that high quality auditors constrain earnings management and provide more precise information. This is important, given that management has incentive to engage in earnings management in the IPO process to garner greater proceeds and at-issue earnings management is negatively related to post-issue earnings performance and stock returns.

Practical implications

The research might be of interest to investors in IPO firms, given that at-issue unexpected accruals are opportunistic.

Originality/value

Keywords: [Quality audit](#), [Earnings](#), [Taiwan](#)

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