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Auditor economic incentives and going-concern opinions in a limited litigious Continental European business environment: empirical evidence from Belgium

Dr Ann Vanstraelen

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Abstract

Theory predicts that auditor reporting behaviour may be influenced by the perceived consequences of disclosing going-concern uncertainty in the audit report (DeAngelo 1981, Watts and Zimmerman 1986). Krishnan and Krishnan (1996) and Louwers (1998) have addressed this issue empirically in a US context. The results of Krishnan and Krishnan (1996) suggested that one of the important factors in the auditor's opinion decision is the risk of litigation. The purpose of this study is to examine the relationship between auditor economic incentives and the propensity to issue going-concern

opinions in a limited litigious business environment, Belgium. In spite of the low risk of litigation and the fact that most Belgian companies are privately held, various regulations have been put into effect to safeguard audit quality in Belgium. However, the results suggest that the auditor's going-concern opinion decision in Belgium is associated with factors relating to the perceived consequences of disclosing a going-concern opinion. Specifically, the results suggest that auditors in Belgium are significantly less likely to issue going-concern opinions to clients that pay higher audit fees, and when the audit firm has lost a relatively high proportion of its clients in the preceding year. The auditor's going-concern opinion does not appear to be significantly influenced by the length of the auditor-client relationship, year of the auditor engagement period, and auditor type. The results of this study are to some extent different from the study by Louwers (1998), in which none of the incentive variables related to the auditor's loss function was significant.

Related Research Data

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A Reexamination of Auditor versus Model Accuracy within the Context of the Going-Concern Opinion Decision*
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Model Predictions and Auditor Assessments of Going Concern Status
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