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Research Note

Corporate Risk Disclosure and Audit Fee: A Text Mining Approach

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Abstract

The aim of this study is to introduce an innovative text mining approach to assess firms' risks using Natural Language Processing (NLP) techniques. We use

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Notes

1 Unstructured data refer to information that either does not have a pre-defined data model or is not organized in a pre-defined manner. It is typically text-heavy and often includes multimedia content. While some files may have an internal structure, they are still considered unstructured because the data do not fit in a database (Feldman & Sanger, [2007](#)). In contrast, structured data like spreadsheets are easily searchable by basic algorithms. Therefore, it is more difficult to analyze unstructured textual documents than structured ones.

2 The number of observations drops by 10,266 due to the calculation of RESTPROB and ACCR. In untabulated analysis, we re-run our tests excluding these two variables and the results still hold.

3 In the regression model, we control for the difference between the industry median and the given year's median. The industry code in a given year is measured as the court's decision to remain in the industry. The quality of the audit is measured as the number of audit hours per client.

4 In addition, we recalculate the number of sentences in the audit report. The number of sentences is calculated as the number of sentences in the audit report.

5 Follow-up audit is defined as the audit that had a 404 audit in the initial year of the 404 audit, that is, the fiscal year ending on or after

15 November 2004. Then, we trace back one year to obtain ICMW in year 2003. In untabulated tests, our main results presented in Table 5 remain almost identical no matter we code ICMW using IC weakness under SOX 302 in 2003 or for the entire sample period.

6 For example, one standard deviation of increase in financial risk for a median firm is related to increase in audit fee by \$18,256 ($\$1,005,504 \times 0.001 \times 18.156$).

7 The insignificant coefficient on the hazard risk could be the results of imprecise estimation due to the low variance of independent variables.

Additional information

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