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Performance Comparisons Among Audit Firms

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ABSTRACT:

The issue of audit reporting for financially distressed firms continues to be of interest to the public and legislators. But, many previous studies have consistently shown that auditors fail to issue a going-concern opinion to more than 50 percent of bankrupt firms one year prior to bankruptcy. The Enron and Anderson failure, in late 2001 and early 2002, respectively, led to the enactment of the Sarbanes-Oxley Act (SOX) in July 2002. Audit firms now claim that they have become much more conservative with respect to client retention and acceptance decisions because the risks associated with auditing significantly increased after the enactment of SOX. The primary purpose of this study is to provide a basis for a proper evaluation of auditors' performance. We accomplished this objective by comparing auditors' audit accuracy rates, issuing a going-concern modified opinion to bankrupt firms within approximately 15 months prior to bankruptcy, between pre- and post-SOX periods. Our research results are mixed between Big 4 and Non-big 4 auditors. Non-big 4 auditors have significantly improved their performance, but Big 4 auditors' performance is disappointing.