

Audit Opinion Prediction Before and After the Dodd-Frank Act

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In 2010, the Dodd–Frank Wall Street Reform and Consumer Protection Act was made into law in order to combat problems caused by the 2008 stock market crash. Our paper proposes to examine whether the Dodd-Frank Act’s reform of federal financial regulation is successful in improving the prediction of audit qualification with financial variables. Through the use of the DirectEdgar database, financial information was compiled on forty-seven randomly selected industries from 2008 to 2009, before the act, and from 2011 to 2012, after the act. A logit model is developed with the dependent variable indicating whether the firm received a qualified opinion, and the independent variables including publicly available financial variables. The findings suggest that Altman’s Z-score is negatively associated with auditor qualified opinion and such negative relationship is more pronounced in the post act period. In addition, the predictive accuracy of the estimated model is improved in the post act period. The findings of this project shed light on the benefits of the Dodd–Frank Act.