Book-Tax Differences, Audit Fee and Modified Audit Opinions

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This article examines whether auditors utilize the information contained in the book-tax differences when auditing firms' financial statements. We find larger book-tax differences associated with higher audit fee and more modified audit opinions. The finding indicates that auditors fully utilize the information in the book-tax differences when auditing firms' financial statements. The results have significant meanings to normalize the information disclosure, to reduce information asymmetry in the securities change and to protect investors' interests.

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Citations


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Auditors issue a modified audit opinion if they disagree with management about the financial statements. In practice this may be unusual as the company will typically make the necessary amendments to the financial statements and disclosures rather than receive a modified opinion. The auditors will also issue a modified opinion if they have not been able to carry out all the work they feel is necessary, or if they have been unable to gather all the evidence they need. Auditors can also modify the audit report without modifying the opinion by adding additional paragraphs to draw users' attention. The audit committee also reviews the audit fee to satisfy itself that it is competitive yet sufficient to ensure a proper quality audit.

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Tax Audit is an audit made compulsory by the Income Tax Act, if the turnover of the assessee reaches the specified limit. Audit means an examination of books of accounts, conducted with the purpose of establishing the fact that the accounting records present a true and fair view. Many people get confused amidst statutory audit and tax audit in this context. While the former is an audit carried out under the Companies Act, the latter is an audit conducted under the Income Tax Act. The statutory auditor presents his report, in which he expresses his opinion on the true and fair view of the final accounts. In addition to this, he ensures the compliance of the financial statements as per the provisions of the act. Definition of Tax Audit. Candidates attempting Audit and Assurance (AA) and Advanced Audit and Assurance (AAA) are required to have a sound understanding of these standards. This article will focus primarily on: the requirements of ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report; how ISA 701 interacts with the other reporting standards (ISA 705 and 706); and the reporting requirements in ISA 570 (Revised), Going Concern. Describe the different elements of the auditor’s report (particularly relevant for AA candidates), determine the most appropriate type of audit opinion in a given scenario, often through an explanation of why a certain opinion is appropriate which will test the application of the candidate’s knowledge. This paper examines whether book-tax differences help explain audit fees. By attesting to the fair representation of financial information, auditors are an impo. Our evidence that large book-tax differences are associated with higher audit fees implies that such book-tax differences represent an observable proxy for earnings quality that affects auditor decisions. Our paper contributes to existing capital market research that examines audit fees and the research that examines market participants’ use of the information in book-tax differences. Keywords: Audit fees, book-tax differences, earnings quality. JEL Classification: M41. Suggested Citation: Suggested Citation.