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Abstract Abstract
After SAS No.58 on January 1, 1989, several studies examine the relation between accounting accruals and modified audit opinions (Francis and Krishnan, 1999; Bartov et al., 2001; Bradshaw et al., 2001). Most evidence shows that accounting accruals is positive to modified audit opinions; however, firms with modified opinions have unusual accruals not just for firms with earnings management. For example, for firms of poor performance or liquidity-motivated survival tactics, going-concern (GC) opinions are often contemporaneously associated with large negative accruals (Butler et al., 2004). In Taiwan, SAS No.33「financial statement audit report」is instituted according to SAS No. 58. SAS No.33 changes conditions of qualified opinion and adds modified audit opinions. We use the structure of Butler et al. (2004) to examine the relation between abnormal accruals and modified audit opinions after SAS No.33, and investigate the relation between types of modified audit opinions and abnormal accruals considering firms' financial conditions.
We use regression analysis to examine the relation between abnormal accruals and modified audit opinions after SAS No.33 in Taiwan's listed firms from 1999 to 2004. The findings of this study show that firms with abnormal accruals tend to receive modified opinions of going-concern opinions and such companies have large negative accruals. Overall, we find no evidence to support inferences in previous studies that firms with modified audit opinions of going-concern opinions have bigger abnormal accruals than those with clean opinions. Our results support that firms with modified audit opinions and large negative accruals are likely due to severe financial distress rather than consequences of earnings management. the statement. The results are robust for using matched sample.
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