ABSTRACT

One important role of audit committees is to protect external auditors from dismissal following the issuance of an unfavorable report. We examine auditor dismissals following new going-concern reports that Big Six firms issued between 1988 and 1999. Our findings suggest that audit committees with greater independence, greater governance expertise, and lower stockholdings are more effective in shielding auditors from dismissal after the issuance of new going-concern reports. In addition, we find that the relation between audit committee independence and auditor protection from dismissal has grown stronger over time. Finally, independent audit committee members experience a significant increase in turnover rate after auditor dismissals. These findings, coupled with those from Carcello and Neal (2000), suggest that when affiliated directors dominate the audit committee, management often can (1) pressure its auditor to issue an unmodified report despite going-concern issues, and (2) dismiss its auditor if the auditor refuses to issue an unmodified report.

Key Words: Audit committee characteristics, Auditor dismissals, Going-concern reports

Data Availability: The data are available from public sources. A list of sample firms is available from the second author.