
Economic Policy Uncertainty, Financial Reporting Quality, and Audit Fees: Examining the Role of Industry Characteristics and International Accounting Standards

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Abstract

Using a large international sample, the author investigated the effects of economic policy uncertainty (EPU) on financial reporting quality (FRQ) and audit (AF). For this analysis, he used the Baker et al. (2016) EPU index and find a negative association between EPU and FRQ. Furthermore, that this impact was found to be more pronounced for firms operating in sensitive industries and less pronounced for firms that report under the International Financial Reporting Standards (IFRS). However, for firms operating in sensitive industries, reporting under IFRS does not weaken the impact of EPU on FRQ. The results also showed that the EPU is negatively associated with audit fees. Furthermore, the interaction term between IFRS and the EPU is positively associated with AF while the interaction term between the EPU and firms operating in sensitive industries is negative. The present study has important implications for policymakers, investors, auditors, and capital markets, as it provides strong evidence of the impact of the EPU on FRQ and AF. In addition, it enriches the literature by examining the influence of IFRS and industry characteristics on the interaction between EPU, FRQ, and AF

Key words: financial reporting; uncertainty; IFRS; sensitive industry; audit fees;

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