

## Summary of Paper: [The Effect of Alleged Financial Statement Fraud on Audit Fees and Short Interest](#)

### **What is this Study About?**

This study explores how auditors respond to accusations of financial statement fraud (FSF) by analyzing if audit fees increase for companies accused of fraud, especially when these companies face ongoing FSF challenges indicated by high short interest.

### **What are the major findings of the study?**

The researchers establish a positive correlation between audit fees and the disclosure of FSF, suggesting that auditors charge higher fees to companies accused of fraud due to increased audit risk. This association is even stronger in cases with high short interest, indicating that auditors consider ongoing FSF challenges as reflected by the level of short interest when setting their fees. Interestingly, the study notes that short sellers do not seem to alter their decisions based on the increased audit fees, implying that they may not consider audit fees and audit risk in their analysis of the business risk associated with alleged FSF.

### **Why is the study important?**

This research provides insights into how auditors and short sellers respond to alleged FSF, highlighting the dynamic between audit fees, short interest, and FSF disclosure. It emphasizes the role of short sellers and short interest in determining audit fees in the face of FSF allegations and how this influences auditor behavior. Moreover, the study's implications extend to policy, practical, and educational realms, offering guidance for auditors, short sellers, and forensic accountants in handling FSF. It contributes to the ongoing discourse on enhancing financial reporting integrity and investor protection in capital markets.