

How Auditors and Short Sellers Respond to Financial Statement Fraud Disclosures

Financial statement fraud (FSF) poses risks to businesses by threatening investor's confidence and capital markets



The researchers examined auditors' consideration of audit risk information included in the public disclosure of FSF and its impact on audit fees



Literature review and equation analysis revealed:



Positive association between audit fees and FSF disclosures



Auditors calculate their audit fees based on ongoing FSF challenges and the level of short interest



No significant interaction between FSF disclosure and audit fees affecting the level of short interest



Short sellers do not consider increased audit fees linked with the public disclosure of alleged FSF



Auditors do not influence short sellers' investment decisions in analyzing the business risk of alleged FSF



Short sellers influence auditors' judgment when assessing audit risk and effort

Analysis of FSF, audit fees, and short interest levels can help clarify the interactions between auditors and short sellers in cases of suspected fraud