Working Paper

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Do IPOs price the risk of audit qualification?

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Abstract:

This paper attempts to analyse the information content of a qualified audit opinion on the pricing of an IPO. To minimise the effect of selection bias, we match the sample of IPOs with an audit opinion and without, based on their propensity scores. Based on classical underpricing, firms with audit opinion were less underpriced as compared to others. As in prior literature, it is possible that the audit opinion helps investors assess and assume risk in a more informed manner. However, based on initial returns, these firms seem to be overpriced. This indicates that rather than signalling more information to the investor, the auditor’s report probably has little information owing to lack of effective and independent oversight by the auditor.

Keywords: Audit Qualification, Underpricing, IPO, Propensity Score Matching