

Auditor Response to Negative Media Coverage of Client Environmental, Social, and Governance Practices

Jenna J. Burke, University of Colorado Denver
Rani Hoitash, Bentley University
Udi Hoitash, Northeastern University

Forthcoming in *Accounting Horizons*

Research summary

We use new data to examine auditor response to negative media coverage of client environmental, social, and governance (ESG) practices. This coverage can be indicative of an increased risk of material misstatement, which is an important assessment in client retention and pricing decisions. Specifically, media criticism can threaten a client's financial condition, as well as reveal management effectiveness and integrity issues that are further compounded by negative attention and related financial problems. We therefore predict that auditors will notice and incorporate media-provided ESG information in their risk response, which has not been examined by prior research. Supporting this prediction, we find that ESG-related negative media coverage of an audit client is associated with a higher likelihood of auditor resignation and increased audit fees. This response is incremental to the issues that underlie this media coverage. Overall, these findings identify an additional economic incentive for companies to avoid poor ESG practices.

Published online here: <https://doi.org/10.2308/acch-52450>

Full article available here: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2791570