



Department SEMINARS

"Do Knowledge-Firms Pay
More Audit Fees Than
Physical-Firms?"

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Bentley University of Boston

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3:30 PM

Seminar Room Bruguier Pacini, DEM



A B S T R A C T

The shift from a physical economy to a knowledge economy has been a defining feature of economic evolution in the U.S. over the past few decades marked by a fundamental change in economic activities, production processes, and the role of intangible assets. While prior research has examined the implications of this shift to investors and analysts, there is little research on what the shift to the knowledge economy means for auditing. We examine whether physical-firms and knowledge-firms have different audit outcomes, such as audit pricing, audit quality, auditor's business risk, and audit report lag. We find that on average, knowledge-firms pay about 13.31 percent more in audit fees (about \$420,000) than physical-firms. Further, knowledge-firms have lower audit report lag, suggesting higher audit efficiency. Knowledge-firms are associated with higher earnings quality; however, both ex ante litigation risk and the risk of overvaluation are higher for knowledge-firms, suggesting higher business risk. Collectively, to the best of our knowledge, ours is one of the first studies to provide empirical evidence on additional costs imposed on knowledge-firms.

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