Auditing, Corruption and the Economic Output of Private Firms

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Abstract

I investigate the joint effect of auditing and corruption on the economic output of private firms in emerging markets. Using a sample of private firms from 35 countries between 2008 and 2020, I show that firms that have their financial statements audited are more likely to invest in their assets and new products, but more likely to have inefficient resource allocations such as spending more time in government regulation and having less sales productivity. When informal payments (bribes) are involved, audit negatively affects the firm's investment, but has no impact on resource allocation. I further show that country level institutional quality has a moderating effect on audit-output relation. My findings suggest that the auditing promotes better financial investments, but may lead to higher management inefficiency when considered jointly with corrupting behavior.

Keywords: auditing, economic output, corruption, private firms