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Auditor Litigation Risk and Corporate Disclosure of Quarterly Review Report

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The U.S. Securities and Exchange Commission (SEC) recently made timely reviews of quarterly financial statements mandatory for all registrants. The objective is to improve corporate quarterly reporting. However, formal review reports are not required to be *included* in 10-Q filings, and may not even be issued by auditors. *A priori*, one would expect these reports to be useful to investors if they imply added auditor diligence or if they contain modifications to the standard report. We find that only 5.7 percent of the companies in our sample attached the auditor's review report in their 10-Q filings. Also the majority of these reports are "clean," suggesting that clients may not be disclosing the reports when they are modified. After controlling for factors such as auditor type, agency costs, capital market transactions, and company size, we find a significant negative association between auditors' litigation risk and disclosure of the review report. In addition, we find that the disclosure of the review report is associated with auditor type and company size.

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