

Do Ownership Structure and Audit Quality Impact Default Risk? Empirical Evidence from Indian Listed Companies

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Abstract

This study investigates the impact of firm-specific qualitative factors: quality of auditor's report, ownership structure and the nature of the audit firm in predicting default risk for listed companies in India. Through logistic regressions, this paper extends prior empirical work by modelling and testing the impact of these three variables on a dataset of 60 defaulted companies with 'D' ratings and 60 solvent companies with 'AAA' and 'AA' ratings. The empirical findings largely support the hypothesis that the quality of audit firm and audit report do impact default risk. The findings reveal that defaulted firms have a high concentration of promoter's ownership stake compared with non-defaulted firms. The predictive ability of the logit model increases when macro variables and accounting ratios are added as predictors. This study contributes in highlighting the significance of audit quality and ownership in predicting corporate failures in India.

Key words: Qualitative, Auditors, Ownership, Default.