

Auditor Type and Audit Quality Differences in Nonprofit Healthcare Organizations – U.S. Evidence

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Abstract

The purpose of this paper is to explore audit quality in nonprofit healthcare organizations by investigating differences in audit report outcomes. Specifically, we examine the relationship between auditor type and auditor-disclosed internal control exceptions in Circular A-133 audits of U.S. nonprofit healthcare organizations. Our findings indicate audits of nonprofit healthcare organizations conducted by the Big Four CPA firms carry a lower likelihood of disclosing internal control exceptions (i.e., reportable conditions and material weaknesses) than are audits conducted by smaller CPA firms. This challenges the general contention from prior studies that the Big Four firms are better audit quality providers and indicates that the alleged superiority of Big Four firms in terms of audit quality may not be generalizable to all industry sectors.

Keywords – Audit quality, Auditor type, Circular A-133, Nonprofit healthcare, Single Audit Act