

Audit Quality in Turmoil: Regulatory Compliance and Global Snow Shocks^{*}

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Abstract

We investigate how unexpected environmental shocks reveal hidden costs of regulatory oversight. Using a novel dataset of global snow events and exploiting variation in regulatory oversight across jurisdictions, we find that auditors subjected to regulatory oversight experience a significant increase in audit deficiencies when affected by severe snowfall. This effect occurs despite the general improvement in audit quality associated with regulatory oversight. This negative impact is amplified by snowfall intensity, the recency and frequency of regulatory inspections, and the stringency of local regulatory oversight. The study provides novel insights into the unintended consequences of stringent regulatory compliance pressure during operational challenges as well as the real impact of an environmental factor (snow shocks) on audit quality.

Keywords: Environmental Shocks, Auditing, Global Environment, Regulatory Oversight, Compliance Costs

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