

# China-Related Research in Auditing: A Review and Directions for Future Research\*

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## 1. Introduction

Academic research concerning independent audits of financial statements, including the economic incentives and relations surrounding audit contracts and audit processes, is relatively new. Prior to the mid-1970's, auditing was viewed as a purely practical activity, governed by technical rules largely set by the profession itself. But of course, auditing is a professional *business* practiced in the broader economy. As such, auditors are subject to economic incentives and the discipline of markets and regulations in which they operate. Moreover, the incentives facing auditors are unusually complex. An independent audit of financial statements is valuable to both existing and potential shareholders and to creditors who do not contract directly with the auditor. Rather, an auditor usually transacts with the legal entity (the company) and interacts extensively with the entity's management whose assertions in the financial statements are the task of the auditor to verify. In addition, neither the quality of an audit nor the auditor's work effort involving complex judgments concerning the nature, extent, and timing of evidence to be collected are directly observable, even to the company's management. Finally, auditors are subject to a considerable amount of professional and government regulation, and these regulations vary by country. Despite such complexities, auditing is a thriving business world-wide and high quality audits are widely recognized to be critically important to the proper functioning of capital markets. These characteristics and complexities contribute to making auditing an interesting and important research area.

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In a recent working paper, Lesage and Wechtler (2009) summarize and perform a content analysis of 3,143 abstracts of auditing research papers from 25 academic journals that publish in the English language from the year of commencement of each journal up to 2005. Among other interesting findings, they report that prior to 1977 less than 20 auditing research papers per year were published in this large group of journals and that these papers largely dealt with technical audit practice issues and auditing education. The field began to change in the last years of the 1970's when publication rates first exceeded 20 papers per year and topics began to change to emphasize behavioural experiments in auditing and the use of statistical methods in audit practice. These two research themes continued to dominate in the 1980's while the number of published papers increased dramatically to 744 in that decade (rising from 35 papers in 1980 to about 100 papers in 1989). From about 1990, the research themes again changed to emphasize economic issues, including auditing markets, audit pricing, litigation against auditors, corporate governance, earnings management, and issues in international auditing. Meanwhile, the volume of research papers continued to grow peaking (in the authors' data period) at about 160 published papers in 2002. Our impression is that this growth in the volume of research has continued unabated and that economic research themes continue to dominate the academic auditing literature.

While the Lesage and Wechtler paper provides a useful global overview of the development of auditing research, little is known about how auditing research from a Chinese perspective has developed and evolved. Our goal is to provide this perspective by first summarizing the papers that have appeared in international journals that deal with Chinese auditing issues. Having described the 'state-of-the-art' of Chinese auditing research, we then identify some research opportunities and offer suggestions for further work in this interesting, important, and growing research area.

## 2. Overview of Chinese Auditing Research

The accounting profession in China has achieved remarkable progress since its reestablishment in the 1980s. Similar to the global growth of auditing research, an increasing body of studies on China-related auditing issues has been published in recent years in a variety of internationally refereed accounting journals. We focus our review on studies of the public accounting profession, external auditing, and audit committees in Mainland China.<sup>1</sup> Appendix A presents a list of 33 international accounting journals

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<sup>1</sup> Auditing research based on Hong Kong, Taiwan, or Macau data is not included. We exclude three publications (Chan and Chow, 1997; Chan and Mo, 2000; and Chan and Mo, 2002) on tax audits in China because such audits are conducted by Chinese tax authorities rather than external auditors. However, we include in our review a few studies (eg, Kachelmeier and Shehata, 1997; Chan, Lin and Mo, 2003) that deal with the corporate accounting control and errors which have implication for external auditors.

among which we searched for publications of China-related auditing research.<sup>2</sup> Appendix B chronologically lists the 40 identified publications with full references. Although we have tried to select China-related auditing studies from as many international accounting journals as we reasonably could, the reviewed publications are by no means exhaustive. Nonetheless, we are confident that the body of searched studies consists of the majority of international publications on China-related auditing issues. Table 1 presents the by-journal and by-year distributions of published studies that we identified. That table indicates that China-related auditing research has been published in a variety of established international accounting journals, and the number of publications appears to be rapidly increasing in recent years. Because of their additional unique perspectives on auditing in China, we supplement our sample with a number of papers we are aware of that are either published in other journals,<sup>3</sup> are currently forthcoming (eg, Chen, Su, and Wu, 2009, 2010; Chen, Sun and Wu, 2010), or that have circulated at international conferences (eg, Firth, Mo and Wong, 2005b; Chan and Wu, 2008). Therefore, nearly 50 studies on China-related auditing issues are reviewed.

**Table 1. China-Related Auditing Research Published in International Accounting Journals**

*Panel A: By-Journal Distribution*

	Number of publication*
<i>Accounting, Auditing and Accountability Journal</i>	2
<i>Accounting Horizons</i>	1
<i>Accounting, Organizations and Society</i>	1
<i>Auditing: A Journal of Practice and Theory</i>	4
<i>Contemporary Accounting Research</i>	1
<i>Corporate Governance: An International Review</i>	2
<i>Critical Perspectives on Accounting</i>	1
<i>International Journal of Auditing</i>	5
<i>Journal of Accounting and Economics</i>	2
<i>Journal of Accounting and Public Policy</i>	2
<i>Journal of Accounting, Auditing and Finance</i>	2
<i>Journal of International Accounting, Auditing and Taxation</i>	3
<i>Journal of International Accounting Research</i>	2
<i>Journal of International Financial Management and Accounting</i>	2

<sup>2</sup> We also searched among 25 international finance journals but found no publications on China-related auditing issues. For more details about the literature searching process, see Li and Wu (2009).

<sup>3</sup> For example, we include in our review a number of early commentaries on China-related auditing issues published in the commencing stage of *China Accounting and Finance Review* (Tang, 1999; Trotman, 1999; Wallace, 2000). The Firth, Mo and Wong (2005a) study published in *Journal of Business Ethics* is also included in our review as the study is among the few that empirically examines auditor legal liability in China.

	Number of publication*
<i>Review of Accounting Studies</i>	1
<i>The Accounting Review</i>	1
<i>The British Accounting Review</i>	1
<i>The International Journal of Accounting</i>	7**
Total (1978-2007)	40

*Panel B: By-year Distribution*

	Number of publication*
1996	1
1997	1
1999	2
2000	4
2001	4
2003	4
2004	1
2005	2
2006	2
2007	4
2008	10**
2009 (cutoff end of May 2009)	5
Total	40

\* *The number includes all publications that we identify since the inception of a specific journal (covered in the list as shown in Appendix A) through to May 2009.*

\*\* *The number includes one discussion paper and one reply paper.*

From this literature, we identify a number of topics and issues in China-related auditing research. These include: (1) the development of the Chinese public accounting profession, (2) auditing standards in China, (3) the audit firm disaffiliation program, (4) demand for auditing and auditor choice, (5) attributes of audit quality, (6) auditor reporting, (7) audit pricing, (8) auditor legal liability and sanctions, (9) users' response to auditing and auditor information, (10) cultural and ethical perspectives on auditing, and (11) audit committees. Since the number of papers is not too large, we next review these individual studies to provide a sense of the research questions, methods, and findings of this variety of research papers.

### **3. Development of Public Accounting Profession in China**

Tang (1999) discusses issues affecting the development of the Chinese accounting profession, including the independence of Chinese CPAs, professional competence, professional ethics, the setting of accounting standards, and the legal liabilities of Chinese CPAs.

Hao (1999) describes the changes in the organization and regulation of accounting practitioners in China during the twentieth century and argues that the professionalisation process of the public accounting profession in China is very different as compared to the West, and that the Chinese government maintains a dominating influence over the Chinese accounting profession.

Extending Hao (1999) by using a political and ideological perspective, Yee (2009) examines and explains the circumstances leading to the re-emergence of the public accounting profession in China in the early 1980s. Her analysis highlights the authoritative and dominant role assumed by the Chinese state in the whole societal set-up through effectively exercising its political and ideological leadership.

Tang, Chow and Lau (1999) provide an overview of the historical development of the State-owned enterprise (SOE) audits in China and discuss the challenges facing such audits. They conclude that, with ownership of the SOEs being further diversified and the operation of the SOEs being increasingly market-oriented, SOEs need a non-government third party to verify their financial statements to meet the information needs of various stakeholders in the SOEs.

#### *Early Research Agenda, Framework, and Opportunities*

Graham (1996) identifies a number of auditing research issues in China. As he points out, these issues arise in the current economic environment, but are heavily influenced by political, cultural and historical circumstances. Organizational, technical and economic issues are identified that likely impact the practice of auditing in China.

Wallace (2000) analyzes the accounting profession in China using a six-way framework: (1) legal environment; (2) political environment; (3) technological environment; (4) market setting; (5) self-disciplinary and external regulatory environment; and (6) intra-firm (organizational) considerations. Using the United States as a basis for comparison, he describes unique aspects of Chinese developing markets within these dimensions of the profession and identifies a number of research opportunities.

Davidson and Chang (2001) report on a survey of Chinese auditors and accounting academics concerning the importance of a number of auditing topics. They find that Chinese auditors are very concerned about their professional responsibilities and legal liabilities, and are more concerned with the traditional audit approach rather than the newer risk-based audit approach.

Trotman (1999) outlines possible research questions suited to China for each of the three areas of audit judgment research including policy capturing, group decision making, and factors affecting auditor performance and auditor judgments. Table 2 summarizes the opportunities and research questions that he suggests for each of these areas. He concludes that the changing role of the audit profession in China provides an excellent opportunity to further incorporate the distinctive institutional, economic, and social features of audit settings into research designs. However, it is important to articulate how these factors vary within China and hypothesize and test how these differences are likely to impact on auditor judgments.

**Table 2. Opportunities Identified by Trotman (1999) for Audit Judgment Research in China**

<b>Research Areas</b>	<b>Opportunities</b>	<b>Research questions (and possible implications)</b>
Policy capturing	Given the newness of audit judgments in China it is likely that in the early years of development there may be relatively low levels of consensus.	To consider the level of consensus between auditors on some of the key judgments. Understanding the areas in which consensus is low may help audit firms to concentrate their training and review resources.
Group decision making	Cultural differences between Chinese auditors and those from Western cultures are likely to have significant impact on the effect of environmental factors such as perceived riskiness, the effect of budget pressure, and business risk. It is also likely that cultural differences will result in different reviewer-specific characteristics.	To investigate some of the specific research questions outlined by Rich, Solomon, and Trotman (1997) (see Trotman (1999, 56-57) for details), particularly to study the cultural impact on the review process. Great insight will be achieved about how the review process and/or audit teams will vary between the cultures.
Determinants of judgment performance (knowledge and memory)	The development of new audit approaches in China, and the extensive training that is likely to be involved, could provide a unique setting for longitudinal studies of audit judgment.	To investigate the changes in knowledge structure as Chinese auditors gain experience in a different audit environment. The rate of learning can also be compared between new auditors and auditors with experience in different types of audit environments. To study the acquisition of knowledge in environments with different incentives, cultural backgrounds, and institutional frameworks.
Determinants of judgment performance (other environmental and motivational factors)	Most of the few previous studies about the effect of other environmental and motivational factors on judgment performance have been conducted in US. Given that results could be highly sensitive to the culture in which they are conducted, cross-cultural research is warranted.	To study how the effect of accountability, prior involvement, time pressure, and incentives on judgment performance may vary across cultures. To test how the decision aids developed in a US audit environment would perform in the local environment prior to their formal introduction.

## 4. Chinese Auditing Standards

### *The Development of Auditing Standards*

Chinese independent auditing standards (CIAS) have been promulgated since 1995. Xiao, Zhang and Xie (2000) identify various factors that motivated the setting of the CIAS. They also discuss some major features of the Chinese audit market that would significantly hinder the further development of the audit profession (and particularly the effectiveness of auditing and accounting standards) in China.

Lin and Chan (2000) further describe the framework of the CIAS and make a comparison of the CIAS and the technical pronouncements issued by the International Federation of Accountants (IFAC). They find that the Chinese standards most closely resemble international standards and guidelines in a number of important dimensions. Although Lin and Chan (2000) document a few differences between the then CIAS and the IFAC technical pronouncements, recent efforts have been made to update the CIAS to be significantly convergent with International Standards on Auditing (ISAs). For example, in December 2005 the Chinese Auditing Standards Board (CASB) and the International Auditing and Assurance Standards Board (IAASB) released a joint statement<sup>4</sup> in which the CASB stated that the fundamental principle of drafting Chinese auditing standards was to improve the Chinese auditing standards system and to accelerate its convergence with the ISAs (Simnett and Sylph, 2006).

### *The Consequences of Auditing Standards*

A number of studies have explored the consequences of adopting new auditing standards in China. DeFond, Wong and Li (2000) find that the frequency of modified opinions increased nine-fold subsequent to the adoption of the first batch (ie, the Jan. 1996 batch) of auditing standards, which suggests increased auditor independence. However, the increase in modified reports was followed by a decline in audit market share among large auditors (who have the greatest propensity to issue modified reports). The authors conjecture that this 'flight from audit quality' results from a limited demand for truly independent auditors in China. They conclude that government regulation alone is insufficient to create financial markets that foster auditor independence.

Sami and Zhou (2008a) investigate the impact of the implementation of the first (ie, Jan. 1996) batch of Chinese auditing standards on the information environment. They measure the improvement in accounting disclosure and information environment from both the market perspective (trading volume, price volatility, and stock price synchronicity) and the accounting perspective (non-core earnings). They find that following the adoption of new auditing standards, companies experience a significant

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<sup>4</sup> Available at [www.ifac.org/Downloads/joint\\_statement\\_december\\_2005.pdf](http://www.ifac.org/Downloads/joint_statement_december_2005.pdf).

increase in trading volume and price volatility, a significant decrease in earnings management, and a significant decrease in price synchronicity reflecting more capitalization of firm-specific information relative to general market information.

In another market-perspective study, Zhou (2007) examines the impact of implementing the first and second (ie, Jan. 1996 and Jan. 1997) batches of auditing standards in China on information asymmetry measured by the bid-ask spread. The sample consists of 210 firms whose financial statements were never audited under any auditing standards prior to the adoption of the new auditing standards in China (experimental group), and 61 firms whose financial statements were prepared with international accounting standards and were audited with international auditing standards (control group). She finds that for both of the two batches of auditing standards, the firms in the experimental sample experienced significant reductions in their bid-ask spreads subsequent to the adoption of the new auditing standards. In contrast, such a change in bid-ask spread is not observed in the control group. She concludes that auditing regulation can permanently reduce long-run information asymmetry risk in an emerging capital market.

In his discussion of Sami and Zhou (2008a), Haw (2008) expresses a number of concerns, which are generally echoed by Sami and Zhou (2008b). First, researchers face a difficulty in research design to tease out the effect of new auditing standards from many other concurrent institutional and economic developments (particularly in a transitional economy like China), all of which likely affected the information environment and stock market performance in the test period. Another difficulty arises from the lack of proper incentives for Chinese managers and auditors as well as weak corporate governance structures in China (similar to views expressed in DeFond, Wong and Li, 2000; Xiao, Zhang and Xie, 2000). Thus, the documented empirical evidence in Sami and Zhou (2008a) would suggest an indirect linkage between the new auditing standards and the information environment, rather than 'causality'. Haw (2008) calls for additional research that could shed more light on how new auditing standards affect the monitoring role of an audit, the quality of auditing, auditor litigation, and the enforcement of audit standards.

## **5. The CPA Firm Disaffiliation Program**

Besides the development of Chinese auditing standards, another fundamental institutional change in the Chinese auditing market is the CPA firm disaffiliation program around 1997-1999. Chinese CPA firms were established and initially owned by government or other sponsoring bodies. This situation has caused much concern regarding auditor independence in China. A program to disaffiliate CPA firms from their sponsoring body began in 1997. Yang, Tang, Kilgore and Jiang (2001) hypothesize that disaffiliated CPA firms face a higher degree of market risk than affiliated firms, and therefore act more independently. They find that the number and percentage of non-

standard opinions has increased dramatically since 1997 and attribute this change to the disaffiliation program.

While Yang, Tang, Kilgore and Jiang (2001) provide some, largely descriptive evidence on this issue, Gul, Sami and Zhou (2009) provide a more comprehensive analysis of the effect of the audit firm disaffiliation program in China. They find that the likelihood of receiving qualified audit opinions by public companies significantly increased after the disaffiliation program. This result holds not only for companies previously audited by affiliated auditors, but also for companies previously audited by nonaffiliated auditors. The authors also find that in the post-disaffiliation period, companies have lower non-core operating income than in the pre-disaffiliation period. These results suggest that it was the disaffiliation program, but not the act of auditor disaffiliation itself that improved auditor independence. Furthermore, they find that the increase in the likelihood of issuing qualified audit opinions is greater for small auditors compared with large auditors, which suggests that audit quality of large and small audit firms tended to converge as a result of the disaffiliation program.

## **6. Demand for External Auditing and Auditor Choice**

### *Demand for External Auditing*

A number of non-Chinese studies have explored the determinants or consequences of a voluntary demand for external auditing (eg, Chow, 1982; Blackwell, Noland and Winters, 1998; Carey, Simnett and Tanewski, 2000). Haw, Qi and Wu (2008) supplement this line of research by investigating the determinants and consequences of the voluntary demand for semi-annual financial audit by some listed Chinese companies<sup>5</sup>. Based on a sample of 2,458 semi-annual interim reports released by listed Chinese firms from 1996 to 1999, they find that the choice of voluntary auditing is positively associated with the percentage of tradable shares, profitability, and company size. They also find that the earnings response coefficients of audited firms are higher than those of unaudited firms, especially when the auditing is voluntary. Their findings are consistent with the notion of management voluntarily purchasing external auditing to enhance the credibility of accounting numbers.

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<sup>5</sup> Although the auditing of interim reports is mandatory for a subset of listed Chinese firms in circumstances that are specified by Chinese regulators, a number of firms voluntarily acquire auditing services for their interim reports.

### *The Impact of Political Institutions on Auditor Choice*

The corporate ownership structure in the Chinese transitional economy is characterized by the dominance of government (or state) owners. Chan, Lin and Zhang (2007) use agency theory to test whether the demand for quality-differentiated audits by listed Chinese companies is systematically associated with changes in ownership structure. They find that a decrease in government held shares and a corresponding increase of institutionally held shares leads to a general increase in the demand for higher-quality audits in Chinese stock markets. The authors do not find that individual shareholders play a significant role in a firm's auditor-choice decision. They conclude that the introduction of large institutional blockholders can have a beneficial effect on the average quality of audits in a transitional economy.

Wang, Wong and Xia (2008) analyze how political and economic institutions affect the choice of auditors in China. Using a sample of firms covering the period from 1993 to 2003, they find that local SOEs are more likely than non-state firms to hire small local auditors. In addition to local SOEs, central SOEs are also more likely than non-state owned firms to hire small local auditors in regions where political and economic institutions are less developed, but this tendency of local and central SOEs to hire small local auditors is significantly attenuated in regions with more developed economic and political institutions.

### *The Impact of Client Opportunistic Incentives on Auditor Choice*

In a US study of forced auditor changes following the Arthur Andersen (AA) demise, Blouin, Grein and Roundtree (2007) find that while clients with higher accruals are more likely to follow a former AA audit team to a new audit firm, such clients do not report significantly more aggressive accruals in the first post-switch year as compared with their non-follower client counterparts. Using data from a similar forced audit firm change setting from the Chinese stock market (where the identities of audit engagement partners are also publicly available), Chen, Su, and Wu (2009) refine the measurement of the auditor switch effect by explicitly identifying audit engagement partners. Consistent with Blouin, Grein and Roundtree (2007), they find that: (1) clients with greater earnings management activities are more likely to follow their former audit partners to a new audit firm, and (2) aggressive follower clients (ie, those that were in the highest earnings management quartile prior to the forced auditor switch) who are audited by former partners, do not report abnormally high earnings management items in the first post-switch year. However, the authors also find that (3) while new audit firms are more likely to rotate former partners in the auditing of follower clients in the first post-switch year, a large number of these partners return to their former clients in subsequent years, and (4) the financial reporting of aggressive follower clients who are audited by former partners becomes significantly more aggressive in the second and third post-switch years. These findings indicate that the former partner conservatism as suggested by

Blouin, Grein and Roundtree (2007) may be temporary in nature, and former partners may adopt a strategic approach to auditing follower clients to realize the opportunistic benefits of maintaining a close partner-client relationship.

In another study of voluntary auditor changes, Chen, Su, and Wu (2010) examine auditor-client relationships following the high-profile merger of a local Chinese audit firm, Da-Hua CPAs, with a Big 4 firm, Ernst & Young, to create EYDH in early 2002. Of the 46 domestically listed clients Da-Hua had at the time of the merger, 30 switched to other audit firms during 2002-04. This large loss of clients could be attributed either to a lack of post-merger managerial and cultural congruence between EYDH and certain clients, or to a lack of demand for high quality audits. Chen *et al.* examine 11 (13) switching clients in 2002 (2004) as early (late) switchers. Although their archival analyses suggest that the switching decisions of early switchers are more likely to be explained by common factors such as changes in client structural characteristics, post-merger client portfolio management by EYDH, and client-auditor friction over accounting treatments, late switchers do not differ from late non-switchers in terms of these factors. However, the authors find some evidence that late switchers follow their audit partners to a local audit firm mainly for greater discretion over financial reporting. Further, semi-structured focused interviews revealed that late switchers found it difficult to adapt to EYDH's practices which, in their view, were less cooperative and too risk averse. Overall, the results of this paper are consistent with the notion that clients switch from Big 4 to local audit firms mainly to obtain more lenient audit treatments.

### *The Impact of Corporate Governance on Auditor Choice*

Lin and Liu (2009) examine the impact of internal corporate governance mechanisms on the auditor choice decisions made by IPO firms becoming listed in China during the 'bear market' period of 2001-2004. The authors use three variables to proxy for internal corporate governance mechanisms, ie, the ownership concentration, the size of the supervisory board (SB), and the duality of board chairman and CEO. They find that firms with more dominant controlling shareholders, with a smaller size of SB, or in which the board chairman and CEO are the same person, are less likely to hire a high-quality auditor (measured as a Chinese Top-10 or Big 4 auditor). The authors suggest that when the benefits from lowering capital raising costs are trivial, firms with weaker internal corporate governance mechanisms are inclined to choose a low-quality auditor so as to capture and sustain the gains from opaqueness in financial reporting.

## **7. Auditor Attributes Perceived as Important to Audit Quality**

Chen, Shome and Su (2001) conducted a questionnaire survey (with 149 usable responses) on the attributes perceived as being important to audit quality. The survey was administered to auditors from a local CPA firm and a Big 5 firm operating in

Shanghai, as well as to subjects who functioned as regulators. The authors found that the regulators group appeared to be the most distinct, suggesting that auditors and regulators have different views with respect to factors that are most important in determining audit quality. Local and Big 5 auditors were the closest among all comparison pairs, although their views differed on some dimensions.

Chow, Ho and Mo (2006) survey 102 experienced Chinese auditors (from Big 4 affiliates and local audit firms) regarding several components of the audit process. These include the extent to which Chinese audit firms employ structured audit processes, the firms' evaluation of potential clients, factors that impact audit firm risk assessment, and the stringency of the reporting standards that firms seek to impose on clients. The authors find that: (1) consistent with prior studies and expectations, the two types of firms have substantially different clienteles; (2) Big 4 firms have substantially higher structure in their audit approaches than the local firms; (3) the firms are remarkably similar in terms of the factors that they consider to be important in the client acceptance decision; and (4) there is a substantial overlap in the factors viewed by the two types of audit firms as having the biggest impacts on the difficulty of risk assessment and the stringency of accounting/reporting standards imposed on clients.

## **8. Auditor Reporting**

### *General Analysis*

Chen, Su and Wang (2005) present a descriptive analysis of the rapidly developing Chinese auditing environment and the high percentage of modified audit opinions (MAOs) issued in the period between 1995 and 2000. From 1995 to 2000, more than 15% of the annual reports of listed companies received MAOs every year, which is high compared with that in many other countries, such as the US, with more mature stock markets. Given that issuing MAOs requires auditors to withstand client pressure to deliver a normal, 'clean' opinion, there must be mechanisms in China to motivate auditors to issue MAOs. The authors' analysis of the Chinese auditing environment suggests that government regulations through licensing and disciplinary actions, self-protection considerations, and poor earnings quality are the main reasons for auditors to issue MAOs. They also find that weak corporate governance is another factor contributing to the large number of MAOs in China.

### *Political and Other Institutional Influences on Auditor Reporting*

Chan, Lin and Mo (2006) examine whether auditor opinions are affected by political and economic influences from governments. They use auditor location (local versus non-local auditors) to capture such influences from local governments in China. Based on data from China's stock markets for the period 1996-2002, the authors find that local

auditors, who have greater economic dependence on local clients and are subject to more political influence from local governments than non-local auditors, are more likely to report favorably on local government-owned companies. Moreover, they find that local government-owned companies that switched from a non-local auditor to a local auditor after receiving a qualified opinion can succeed in opinion shopping.

Prior studies from other countries demonstrate that audit opinions provide strong signals to investors/debt holders warning of firms' possible default. Ting, Yen and Chiu (2008) examine this relationship within the Chinese stock market, and explore whether there was any significant shift in this relationship following the entry of Qualified Foreign Institutional Investors (QFIIs) after 2002. It can be expected that the role of audit opinions grows in importance when foreign investors are allowed to enter the market. Using Chinese stock market data from 1999 and 2005, the authors find that audit opinions began providing signals of potential default risk only after QFIIs entered the market (ie, during 2003 and 2005). This phenomenon even exists among companies without QFII ownership during 2003-05. Their findings imply that market maturity could prompt auditors' decisions to become more conservative, and that institutional investors serve to play a monitoring role.

Chen, Sun and Wu (2010) examine how the legal and regulatory changes in China affect the relationship between client economic importance and audit quality. At the individual auditor level, they find that the propensity to issue modified audit opinions (MAOs) is negatively correlated with client importance from 1995 to 2000. However, from 2001 to 2004, when the institutional environment became more investor friendly, the propensity to issue MAOs is positively associated with client importance. These findings are corroborated by an analysis of regulatory sanctions. The authors' results suggest that institutional improvements prompt auditors to weigh the costs of compromising audit quality over the economic benefits gained from important clients. Another finding of the study is that the impact of client importance on audit decisions appears to be different at the individual auditor and office levels.

### *The Impact of Organizational Form on Auditor Reporting*

Analytical research suggests that limiting the liability of accountants poses a threat to audit quality. However, there is little existing empirical evidence to support this argument. Firth, Mo and Wong (2005b) investigate this issue by examining the association between the legal forms of Chinese CPA firms (unlimited liability versus limited liability) and the reporting conservatism of auditors. Based on a sample of 2,767 Chinese listed company audits from the period 2000 to 2002, the authors find that to compensate for higher risk and liability exposures, auditors in unlimited liability partnership firms are more likely to have a higher threshold for issuing clean audit reports, and thus are more conservative in their reporting. In addition, they find that a client that switches its auditor from a limited liability firm to a partnership firm is more likely to receive a modified report.

### *The Relationship between Earnings Management and Auditor Reporting*

Chen, Chen and Su (2001) investigate the empirical relationship between earnings management induced by profitability regulation and modified audit opinions (MAOs) in the Chinese stock market during 1995 and 1997. They find a significant association between receiving MAOs and reporting profits marginally above the target levels specified in stock de-listing and rights offering regulations. Their findings illustrate a trade-off between expected benefits and costs of avoiding MAOs made by corporate managers in a transitional economy.

### *The Effect of Corporate Ownership and Governance on Auditor Reporting*

Firth, Fung and Rui (2007) examine how ownership, a two-tier board structure, and auditors, affect the informativeness of earnings for companies listed in China. Using the audit opinion as one of their three proxies for the informativeness of earnings and using data from 1998 and 2003, the authors find some evidence that the type of dominant shareholder, the size of the supervisory board, and the percentage of independent directors have an impact on the frequency of modified audit opinions.

### *The Audit Firm Size Effect on Auditor Reporting*

Unlike developed audit markets, the emerging Chinese auditing market is much less concentrated. Taking advantage of this market structure, Li, Song, and Wong (2008) using Chinese data from 2001 to 2003, document a continuous relation between audit firm size (measured either by total assets audited, total sales audited, or total audit fees) and the issuance of modified opinions. The authors' results suggest that the positive audit firm size effect is not specific to audit markets that are dominated by a few large audit firms (such as Big 4 auditors). They conclude that increasing concentration of the audit market represents a positive development in emerging markets.

Using a sample of audit firm mergers in China's audit market during 1999 and 2006, Chan and Wu (2008) examine the change in auditor independence (measured by the frequency of modified audit opinions, MAOs) following audit firm mergers as a result of a change in aggregate audit firm quasi-rents (DeAngelo, 1981) that are exposed to risk (ie, quasi-rents at stake). The exogenous nature of the audit firm merger setting suggests that their study has fewer potential confounding effects of auditor competence, audit firm brand name, and the self-selection problem than may exist in previous studies. The authors hypothesize that auditors become more independent in the post-merger period only if the mergers increase their aggregate quasi-rents at stake. Separating tests for two types of audit firm mergers in China (the first one with an increase in aggregate quasi-rents at stake and the second type with little change in quasi-rents at stake), the authors observe more MAOs after mergers, but only for the first type of merger. Moreover, within the first type of mergers, the post-merger increase in the propensity of MAOs is

positively associated with the magnitude of the expected change in aggregate quasi-rents at stake. The authors' findings are consistent with the notion that auditor independence is a positive function of aggregate auditor quasi-rents at stake.

### *The Impact of Modified Audit Opinions on the Timing of Earnings Announcements*

Using data during 1995-1999, Haw, Park, Qi and Wu (2003) examine the impact of auditor reporting on the corporate financial reporting process in China. Consistent with prior literature, they find that modified audit opinions delay the announcements of both positive and negative earnings surprises. They also document a significant interaction effect between audit opinions and earnings surprises, ie, positive earnings surprises with modified audit opinions are announced significantly later than unqualified negative earnings surprises.

## **9. Audit Pricing**

Chinese listed companies have been required to publicly disclose audit fees since their 2001 annual reports. Given that audit pricing studies have been much developed for many years and in many countries since Simunic (1980), and audit fee data in the US have also been available to researchers since 2001, we cannot find in established international accounting journals simple replications of audit pricing models using Chinese stock market data. However, we do find that a limited number of extant China-related audit pricing studies take advantage of unique institutional settings in China.

In addition to a statutory audit, Chinese companies with foreign investments (B-share companies) are required to undergo a supplementary audit. Although the Big 4 have a reputation for high-quality audits in both statutory and supplementary markets, the degree of competition in the two markets is very different. Taking advantage of this unique binary structure of the audit market, Chen, Su and Wu (2007) compare the pricing practices of the Big 4 in the competitive statutory market and the less competitive supplementary market. Using audit fee data during 2000 and 2003, they find that the Big 4 earn a significant fee premium in the less competitive supplementary market, but not in the competitive statutory market. They suggest that the Big 4 audit fee premium is more likely to be attributable to their dominant market position than to their reputation in the emerging Chinese markets, in which the usual audit-quality benefits for investors and managers are either absent or minimal.

Using more recent Chinese B-share audit market data (ie, during 2005 and 2006), Wang, O and Iqbal (2009) find that the Big 4 earn audit fee premiums both in statutory and supplementary markets, which is inconsistent with Chen, Su and Wu (2007) who document a Big 4 audit fee premium only in the supplementary market but not in the statutory market. The authors attribute the different findings as likely being caused by the market movement towards high quality audit firms despite the fact they charge

higher prices. They also document that both industry specialized and non-specialist Big 4 auditors earn fee premiums in both statutory and supplementary markets, while industry specialized Big 4 auditors earn additional fee premiums in the statutory market but not in the supplementary market as compared to non-specialist Big 4 firms. Finally, they find that second tier auditors (ie, BDO and Horwath) do not earn fee premiums either from reputation or industry specialization. A concern with this study is that the industry expertise of auditors is measured only within the portfolio of B-share companies, while the actual development of audit firm industry specialization arises from the larger client portfolio that is not confined to this market segment.

## **10. Auditor Legal Liability and Regulatory Sanctions**

Although it is a crucial issue, there have been few published studies regarding auditor legal liability in the emerging Chinese market. Among the few such papers, Firth, Mo and Wong (2005a) analyze enforcement actions issued by the China Securities Regulatory Commission against auditors in 72 fraudulent financial reporting cases involving listed companies in China during 1996 and 2002. The authors find that auditors are more likely to be sanctioned by the regulators for failing to detect and report material misstatement frauds, rather than disclosure frauds. Further analysis of the material misstatements indicates that auditors are more likely to be sanctioned for failing to detect and report revenue-related frauds rather than asset-related frauds. Their results suggest that Chinese regulators believe auditors have the responsibility to detect and report frauds that are egregious in nature, transaction-based, and related to accounting earnings.

## **11. Users' Responses to Auditing and Auditor Information**

### *Users' Response to Modified Audit Opinions*

Chen, Su and Zhao (2000) examine the market reaction to the initial announcement of modified audit opinions (MAOs) by companies listed on the Shanghai Stock Exchange over a three-year period (1995-97) and provide empirical evidence of the economic impact of auditors' reports in the Chinese emerging market. After controlling for the effect of changes in accounting earnings and other concurrent announcements, the authors find: (1) MAOs are associated with significantly negative market returns, and investors do not show a negative market reaction to MAOs until the second year; (2) no difference in market reaction between GAAP- and non-GAAP-related MAOs is observed; and (3) no difference in market reaction between a qualified opinion and an unqualified opinion with explanatory notes is observed either. They conclude that auditor reports have value relevance and that independent auditing as an institution

plays an important role in the emerging Chinese stock market.

Lin, Tang and Xiao (2003) experimentally explore users' responses to the qualification of audit reports in China. By employing the type of audit report (eg, unqualified vs. qualified auditor opinion) as a manipulated variable in the experiment, they find mixed responses from the participants (comprising 215 part-time Executive MBA students) towards the perceived impact of a qualified audit report on users' understanding and use of the financial statements. In general, Chinese users, credit and loan officers in particular, perceived a qualified auditor opinion as having a somewhat negative impact on the credibility of financial statements. However, they find no significant difference in users' investment or credit decisions between an unqualified-opinion and a qualified-opinion financial statement. Their findings suggest that the US-style qualified audit reports have fairly limited 'information content' to users in the (then) Chinese auditing environment.

### *Market Response to Higher Quality Auditors*

Gul, Sun and Tsui (2003) investigate whether the higher quality (top-ten) auditors in the Shanghai Stock Exchange affect the positive association between a change in earnings per share and cumulative abnormal return (CAR). Using the data for 659 listed companies during 1996 and 1997, they find that the positive market reaction to a reported increase in earnings is stronger for firms audited by high quality auditors. The authors conclude that audit quality is playing an important role in China, and that investors in the Shanghai market differentiate between high quality versus lower quality auditors.

Using a more recent and broader set of data (3587 A-share company observations during 2002 and 2004), Lin, Liu and Wang (2009) also find that larger (ie, top-ten) audit firms have a positive (negative) impact on earnings response coefficients (ERCs) for firms with positive (negative) abnormal earnings. In addition, they find that switching to a larger (smaller) auditor has a positive (negative) impact on ERCs for firms with positive abnormal earnings. Similarly, for firms with negative abnormal earnings, switching to a larger (smaller) auditor has an alleviating (exacerbating) impact on ERCs. Consistent with Gul, Sun and Tsui (2003), their findings suggest that higher quality auditors are differentiated by investors in the Chinese stock market.

### *Expectation Gap between Auditors and Users*

The audit 'expectation gap' is an important issue associated with the independent auditing function and has significant implications on the development of auditing standards and practices. Through a questionnaire survey (with 198 usable responses), Lin and Chen (2004) find a rising 'expectation gap' with respect to audit objectives, auditor's obligation to detect frauds, third-party liability of auditors, and the impact of government sponsorship on the credibility of audit services.

## 12. Cultural and Ethical Perspectives on Auditing

### *Cultural Influence on the Demand for Accounting Control*

Firms expend costly resources on audit-based monitoring schemes to improve interdivisional coordination. Kachelmeier and Shehata (1997) investigate the premise that the effectiveness of and demand for audit-based monitoring may be sensitive to societal factors. Although viewing their study more as a general investigation of cross-cultural accounting control issues than as a specific study of Canada, Hong Kong, and the PR China, they use experimental data from China (and Hong Kong as well) as the jurisdiction with high collectivist orientation, whereas they use data from Canada as being a country with a high individualism orientation. They find that when the internal information system aggregates decisions and ensures anonymity, choice patterns among the three countries are similar. But when decisions are not anonymous, there is a much higher degree of group cooperation and a lower demand for auditing in Hong Kong and the PRC than in Canada.

### *Cultural Influence on the Magnitude of Accounting Errors*

Based on the accounting errors detected in 80 foreign enterprises of different cultures operating in China, Chan, Lin and Mo (2003) examine the impact of different cultural dimensions (ie, power distance and individualism) on audit-detected accounting errors. They find that both large power distance and individualism are significantly and positively associated with the magnitude of errors. Their findings are useful to alert auditors to be aware of large power distance enterprises (eg, with centralization of power in a few individuals, management override of controls, and less competent personnel), and of enterprises from an individualist culture (eg, those characterized by higher personnel turnover and more reliance on accounting numbers for individual performance evaluation).

### *Cultural Influence on (Perceived) Auditors' Ability to Resist Client Pressure*

Based on a sample of 93 auditors from China and the United Kingdom (UK), Lin and Fraser (2008) experimentally examine the effect of specificity of accounting standards, level of auditor tenure, provision of management advisory services (MAS), and degree of audit market competition on perceptions of auditors' ability to withstand client pressure in audit conflict situations. They expect auditors in low power distance and high individualism cultures (like the UK) to be more resistant to client pressure than their peers in cultures characterized by high power distance and low individualism (like China). Consistent with the expectation, they find that UK auditors perceive specificity of accounting standards, auditor tenure, MAS, and competition as less likely to affect decisions as to whether or not to accept clients' preferred accounting treatments than do their Chinese counterparts.

### *The Impact of Ethical Culture on Auditor's Ethical Judgment and Behavior*

Shafer (2008) conducts a questionnaire survey (with 128 usable responses) to examine the ethical culture or climate in Chinese CPA firms. The author finds that compared with auditors employed by international firms, auditors employed by local firms judged questionable actions as more ethical and indicated a higher likelihood of committing similar actions. He also finds that perceptions of the ethical climate in one's organization, has a significant effect on intentions to commit ethically questionable acts.

### **13. Audit Committees**

Chinese regulators have introduced the independent director system and audit committees (ACs) to listed companies since 2002 in order to improve corporate governance and promote stock market reform in China.

Chambers (2005) compares the practice, rules, and enforcement of audit committees between UK and China. He finds that the responsibilities of audit committees in the UK and China are broadly similar, though UK guidance gives their audit committees a bigger role with respect to risk management and operational control. As to the compliance of corporate governance guidance, the UK is more market driven, whereas China is characterized by regulatory enforcement. Another difference is a requirement for a majority of audit committee members to be independent in China as compared with a requirement for all committee members to be independent in the UK.

Lin, Xiao and Tang (2008) conduct a questionnaire survey (with 259 usable responses) to investigate the perceptions of the roles, responsibilities and basic characteristics of audit committees (ACs) in the current business environment in China, from the perspectives of investors/creditors, independent directors (AC members), company officers and external auditors. They find that various groups of stakeholders have generally accepted the ceremonial roles and responsibilities of ACs in terms of lifting the image of good corporate governance, enhancing communication between the board of directors and auditors, and mediating conflict between management and auditors. However, the more concrete AC oversight roles and responsibilities for improving internal control, rules compliance, sound corporate financial reporting and auditing processes have not been fully recognized at present, particularly by company management and independent directors. In addition, the study reveals that actual AC operations in practice are ineffective even though a large portion of Chinese listed companies have set up ACs.

## 14. Summary of Existing Research

As shown by this overview, the existing body of Chinese auditing research is both large and varied. Influenced strongly by both local regulators and international investors and practitioners, the current auditing environment in China reflects factors that are both unique to China and common to international practice. Besides early studies whose main purpose was to increase our knowledge about the development of the Chinese auditing profession, many more recent publications contribute to the auditing literature in a more general way. A variety of topics and issues raised in early research agendas and frameworks (eg, Graham, 1996; Wallace, 2000) have been addressed by subsequent studies, and many unique institutional factors (such as political and governmental impact on auditor choice and auditor practices, and an evolving audit market with many audit firm mergers) have been incorporated into existing studies. Empirical analyses of archival data, and questionnaire surveys, are the major methodologies that have been used by researchers of China-related auditing issues. However, behavioral experimental and analytical modeling studies as suggested by Trotman (1999) and Chen and Schipper (2008) are very scarce. While further studies on China-related auditing issues are warranted, the question remains as to how researchers might best proceed, the topic to which we now turn.

## 15. Some Directions for Future Research

Targeting research using archival, questionnaire, or laboratory-created data from one country to a broader audience of academic journals and readers in other countries presents both unique opportunities and challenges. Obviously, the paper itself should be well-crafted at a technical level, but – to be publishable in a major journal – the paper should also be interesting and relevant to a broader audience. The general strategy for doing this is to find interesting issues, address a research question that is difficult or impossible to answer using data readily available in other countries, and to exploit institutional features of the local (here Chinese environment) that are different from other countries but where other factors are sufficiently similar so as to avoid massive *ceteris paribus* problems. The paper by Chen, Su, and Zhao (2000) described earlier is a good example of the successful application of this research strategy. Here the authors examined the impact of audit opinions modified because of client GAAP violations on share prices of securities listed on the Shanghai Stock Exchange. The basic research question – do GAAP opinion qualifications matter to investors – is certainly interesting and could not be addressed in the US (or in most other countries) because securities regulators normally do not allow companies to file financial statements that do not conform with GAAP. Indeed the Shanghai Exchange has since changed its own rules to preclude such filings. To be a successful test of the impact of qualified audit opinions on share prices, the authors also had to assume that auditors in China were credible and

that the Shanghai Stock Exchange was informationally efficient to a reasonable degree. If there were major *ceteris paribus* problems – for example, the Shanghai Exchange was not informationally efficient or if Chinese audits lacked basic credibility with investors – then the hypothesis test could not have been performed. Rather, the research would have been seen as purely descriptive of an unusual environment, and much more difficult to publish in a major international journal.

We believe that there are a number of other topics in auditing that could exploit this general research strategy. For example, a Chinese auditor's legal liability to investors is quite limited. How does this fact affect the level of auditor effort and audit fees in the Chinese environment relative to countries where legal liability is more stringent? As another example, the quality distinction between Big 4 and non-Big 4 audits is well established in the international auditing literature. However, in China the market share of the Big 4 firms is quite low. This raises the question of what factors determine audit quality differences (if any) among the large set of audits performed by non-Big 4 firms? This interesting issue has already been pursued by Chinese researchers documenting the importance of the distinction (for example) between local non-Big 4 firms and non-local, non-Big 4 firms. More research on the determinants of audit quality differences among non-Big 4 audit firms would help us understand the nature of audit markets in the many other countries – not just China – where Big 4 market dominance is limited. Another issue that seems worth investigating is the nature of financial reporting fraud and the factors that increase the likelihood of such fraud in China. While fraudulent financial reporting has been studied using US data, the sample firms are identified through SEC sanctions and are limited in number. A larger, non-US based sample would help us to better understand this interesting and important issue.

To conclude, we believe that there is no shortage of topics for interesting research on auditing in China. As the Chinese economy continues to grow in global importance, we expect that issues related to the development of this economy – including the evolution of financial reporting and audits of financial statements – will be of considerable interest to international accounting journals and their readers.

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- Wallace W. A., 2000. Identifying research questions on regulation and the accounting profession in China. *China Accounting and Finance Review* 2 (2), 20-46.

## **Appendix A: A List of International Accounting Journals That Were Searched for Publications on China-Related Auditing Issues**

*Abacus*

*Accounting and Business Research*

*Accounting and Finance*

*Accounting, Auditing and Accountability Journal*

*Accounting Horizons*

*Accounting, Organizations and Society*

*Advances in International Accounting*

*Asia-Pacific Journal of Accounting and Economics*

*Auditing: A Journal of Practice and Theory*

*Behavioral Research in Accounting*

*Contemporary Accounting Research*

*Corporate Governance: An International Review*  
*Critical Perspectives on Accounting*  
*European Accounting Review*  
*International Journal of Auditing*  
*Journal of Accounting and Economics*  
*Journal of Accounting and Public Policy*  
*Journal of Accounting, Auditing and Finance*  
*Journal of Accounting Literature*  
*Journal of Accounting Research*  
*Journal of Business Finance and Accounting*  
*Journal of Information Systems*  
*Journal of International Accounting, Auditing and Taxation*  
*Journal of International Accounting Research*  
*Journal of International Financial Management and Accounting*  
*Journal of Management Accounting Research*  
*Management Accounting Research*  
*Review of Accounting Studies*  
*Review of Quantitative Finance and Accounting*  
*The Accounting Review*  
*The British Accounting Review*  
*The International Journal of Accounting*  
*The Journal of the American Taxation Association*

## **Appendix B: Chronicle of International Publications on China-Related Auditing Issues**

### **Year 1996**

Graham, Lynford E. 1996. Setting a research agenda for auditing issues in the People's Republic of China. *The International Journal of Accounting* 31 (1): 19-37.

### **Year 1997**

Kachelmeier, Steven J. and Mohamed Shehata. 1997. Internal Auditing and Voluntary Cooperation in Firms: A Cross-Cultural Experiment. *The Accounting Review* 72 (3): 407-431.

### **Year 1999**

Hao, Zhen Ping. 1999. Regulation and organisation of accountants in China. *Accounting, Auditing and Accountability Journal* 12 (3): 286-302.

Tang, Qingliang, Chee W. Chow, and Amy Lau. 1999. Auditing of state-owned enterprises in China: historic development, current practice and emerging issues. *The International Journal of Accounting* 34 (2): 173-187.

### **Year 2000**

Chen, Charles J. P., Xijia Su, and Ronald Zhao. 2000. An emerging market's reaction to initial modified audit opinions: Evidence from the Shanghai Stock Exchange. *Contemporary Accounting Research* 17 (3): 429-455.

DeFond, Mark L., T. J. Wong, and Shuhua Li. 2000. The impact of improved auditor independence on audit market concentration in China. *Journal of Accounting and Economics* 28 (3): 269-305.

Lin, Kenny Z. and K. Hung Chan. 2000. Auditing Standards in China: A comparative analysis with relevant International Standards and Guidelines. *The International Journal of Accounting* 35 (4): 559-577.

Xiao, Jason Zezhong, Yikuan Zhang, and Zhihua Xie. 2000. The making of Independent Auditing Standards in China. *Accounting Horizons* 14 (1): 69-89.

### **Year 2001**

Chen, Charles J. P., Shimin Chen, and Xijia Su. 2001. Profitability regulation, earnings management, and modified audit opinions: Evidence from China. *Auditing: A Journal of Practice and Theory* 20 (2): 9-30.

Chen, Charles J. P., Anamitra Shome, and Xijia Su. 2001. How is audit quality perceived by Big 5 and local auditors in China? A preliminary investigation. *International Journal of Auditing* 5 (2): 157-175.

Davidson, Ronald A. and Stanley Chang. 2001. The importance of auditing topics to Chinese auditors. *International Journal of Auditing* 5 (2): 127-139.

Yang, Lloyd, Qingliang Tang, Alan Kilgore, and Yi Hong Jiang. 2001. Auditor-government associations and auditor independence in China. *The British Accounting Review* 33 (2): 175-189.

#### **Year 2003**

Chan, K. Hung, Kenny Z. Lin, and Phyllis Lai-lan Mo. 2003. An empirical study on the impact of culture on audit-detected accounting errors. *Auditing: A Journal of Practice and Theory* 22 (2): 281-295.

Gul, Ferdinand A., Sunny Y. J. Sun and Judy S. L. Tsui. 2003. Audit quality, earnings, and the Shanghai Stock Market reaction. *Journal of Accounting, Auditing and Finance* 18 (3): 411-427.

Haw, In-Mu, Kyungjoo Park, Daqing Qi, and Woody Wu. 2003. Audit qualifications and timing of earnings announcements: Evidence from China. *Auditing: A Journal of Practice and Theory* 22 (2): 121-146.

Lin, Z. Jun, Qingliang Tang, and Jason Xiao. 2003. An experimental study of users' responses to qualified audit reports in China. *Journal of International Accounting, Auditing and Taxation* 12 (1): 1-22.

#### **Year 2004**

Lin, Z. Jun, and Feng Chen. 2004. An empirical study of audit 'Expectation Gap' in the People's Republic of China. *International Journal of Auditing* 8 (2): 93-115.

#### **Year 2005**

Chambers, Andrew D. 2005. Audit Committees: practice, rules and enforcement in the UK and China. *Corporate Governance: An International Review* 13 (1): 92-100.

Chen, Shimin, Xijia Su, and Zhenglin Wang. 2005. An analysis of auditing environment and modified audit opinions in China: Underlying reasons and lesson. *International Journal of Auditing* 9 (3): 165-185.

#### **Year 2006**

Chan, K. Hung, Kenny Z. Lin, and Phyllis Lai-lan Mo. 2006. A political-economic analysis of auditor reporting and auditor switches. *Review of Accounting Studies* 11 (1): 21-48.

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#### **Year 2007**

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Zhou, Haiyan. 2007. Auditing standards, increased accounting disclosure, and information asymmetry: Evidence from an emerging market. *Journal of Accounting and Public Policy* 26 (5): 584-620.

#### **Year 2008**

Li, Chuntao, Frank M. Song, and Sonia M. L. Wong. 2008. A continuous relation between audit firm size and audit opinions: Evidence from China. *International Journal of Auditing* 12 (2): 111-127.

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**Year 2009**

Gul, Ferdinand A., Heibatollah Sami, and Haiyan Zhou. 2009. Auditor disaffiliation program in China and auditor independence. *Auditing: A Journal of Practice and Theory* 28 (1): 29-52.

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