

Expectation gap on auditor liability to third parties in China

1. Introduction

There has been a long-standing uncertainty in society about litigations against auditors for misstatements filed by auditees and third parties. Third parties refer to those who come into contact with audited information though they are not part of the auditing contract. Creditors and much of the investor community who make use of audit reports and indirectly form an association with the audit (Cooper and Barkoczy, 1994) are examples of third parties. This uncertainty creates a dilemma relating to the balance of responsibilities expected of the auditor of corporate financial statements. A series of accounting scandals at the beginning of this century (Cullinan, 2004), such as Enron (*Arthur Andersen LLP v. U.S.*, 2005) with Arthur Andersen as its auditor, and Xerox (Securities and Exchange Commission, 2003) with KPMG as its auditor, and the recent financial crisis and related accounting fraud ((Sikka, 2009) brought the issue of audit failure into public awareness again. In response to those scandals, public opinion supported the view that greater liability should be imposed on auditors to force them to take more accountability. For example, in 2002, the US Congress passed the Sarbanes-Oxley Act which significantly increased auditor's responsibilities. At the end of 2011, the EU proposed a wide range of measures to tighten the regulation on the auditing market and auditor behavior (European Union, 2011). This wave of lost confidence in the accountancy profession spread through the world. In China, the power to grant charters to accountancy firms was taken back by the government from the accountancy professional body ((Ministry of Finance, 2002a; 2002b) and the government began to actively monitor the quality of auditing work and directly punish firms and auditors for wrongdoings (Sami and Zhou, 2008)

In contrast, members of the auditing profession claim they are experiencing an unreasonable crisis of liability. They consistently argue that they are the victims of the “deep pocket” strategy (Lennox, 1999; Chung et al 2009) of the parties involved in corporate failure cases and demand that liabilities for auditors be reduced. In 1992, the heads of the six biggest accountancy firms in the United States issued a joint statement (Cook et al, 1992) anticipating that the heavy expenditure of litigation and defensive auditing work would eventually be transferred to the auditee and financial information consumers. They concluded that a “tort tax” will put the whole US economy in a disadvantaged situation. The biggest firms were also concerned that talented graduates might choose not to enter the ever riskier auditing profession. Similar arguments were put forward in other countries, including China (Graham, 1996, 1997; Hilmy, 1999; Li and Chan, 2000; Tang et al, 1999). In Ding (2001), one of the founding fathers of the current Chinese accounting profession and a long-term Secretary-General of the Chinese Institute of Certified Public Accountants (CICPA) wrote,

Do you want to be a millionaire? Please join accounting firms in partnership. Here is the heaven.

Do you want to be expelled, go bankrupt, stay in jail and have to be supported by your wife? Please join accountancy firms in partnership. Here is the hell.

A survey (Li et al, 2000) of 80 Chinese accounting firms found that 34% of them had recently been targeted by lawsuits at least once. The author concluded that the issue of legal liabilities of accountants had reached a very serious level and the liability crisis threatened the existence of the auditing profession.

Both sides of the auditing litigation situation have grounds for their claims. Which side should the legal system or judiciary support? Unfortunately the laws related to auditing negligence are far from certain. The laws have oscillated over time, swinging back and forth in favor of both the claims of auditors and plaintiffs (Latham and Linville, 1998). For example, in the UK, in a 1896 case (*In re Kingston Cotton Mill Company*) the judges held that auditors were “watchdogs” but not “bloodhounds” and could even omit to observe stock taking (Chandler, 2012). But after the *Candler* case in 1951 and *Hedley Byrne* case in 1964, auditors could be held liable to third parties, i.e. those who were not covered by contractual or fiduciary duties. In the 1990 *Caparo* case, judges developed a three-fold test to limit the extent of the third parties, but in the 2003 *Bannerman* case, the extent of the third parties was enlarged again and the chartered accountants in the UK were forced to add a disclaimer in their audit reports (ICAEW, 2001). In China, legal sources of authority are limited (Supreme Court, 2007) in this area. Judicial opinions are in the formative stage and have changed over time (Supreme Court, 1998, 1996).

This study will firstly analyze previous research and typical lawsuits to identify issues affecting the outcomes of auditor litigations and to develop a synthesis of existing principles or solutions to resolve these issues. This framework of issues will then be dissected into questions for field work. Interviews and questionnaire surveys with key stakeholders in the auditing service market will be employed to collect their perceptions. Measurements of these perceptions are then statistically tested to establish expectation gaps. Characteristics of both auditors and non-auditors are used to explain the structure and extent of these gaps.

Extending existing expectation gap literature, this paper focuses on auditor legal liability to third parties and our research instruments come from a framework of issues developed based on typical arguments found in litigation cases.

In the following section a framework of issues is developed after analyzing existing literature, legislation and legal case precedents. The research design for gathering empirical evidence to test the framework is then presented. The results of the tests are presented and finally, some conclusions are drawn on the auditor litigation situation.

2. Literature review

There is a large body of literature that discusses the balance between the duties that auditors are willing to assume and societal expectations of auditor performance (see *Figure 1*).

[INSERT FIGURE 1 ABOUT HERE]

These studies generally found that society's expectations of the auditors' responsibilities and capabilities are typically higher than the services actually delivered by the auditors. This creates different views as to negligent behavior and as to when litigations are appropriate. The solution to this legal gap could lie with a narrowing of performance-expectation gap. This would provide agreed grounds for litigation parties to argue in court.

There is also a body of literature that focuses on the characteristics of auditing failure that leads to litigations. Pierre (1983) and Pierre and Anderson (1984) identified 129 American cases involving accountants during 1960s and 1970s and used a five-stage checklist to examine each case. The frequency distributions of each issue were recorded. Palmrose (1999) built a lawsuit database containing about 1050 lawsuits involving auditors. She (Palmrose, 1987) found that among the 472 cases researched, more than half were connected with

management fraud. Regression models were employed to test the influences of characteristics of auditors, plaintiffs and judges.

On the legal liability of auditors, Stice (1991) developed a model to describe the association between the chance of litigation and auditor groups (Big 8 or not), tenure, and certain accounting ratios. Anderson et al (1998) collected data directly from judges and used regression models to analyze the data. The authors found that in their experimental scenarios, judges allocated less responsibility to auditors when the time distance between audit report and bankruptcy was longer. Gilbertson and Herron (2003) found that different sampling methods (statistical versus non-statistical) might lead to different damages awarded by jurors. In a Chinese setting, Liu (2001, 2004) analyzed the Chinese Supreme Court opinions about auditors' liability to third parties. She pointed out that there was irrationality in the judicial understandings of auditor ability. Zhu (2002) observed that a key issue that judges should consider in auditing litigation was whether the loss suffered by auditing users was too remote from the auditor's reports. A series of empirical research carried out in China reported that, in general, auditors thought the legal responsibilities applied to them were disproportionately heavy. Li et al (2000) undertook a survey focusing on the firms' experiences with litigations, awareness of relevant laws, and staff training about legal risk control. It was found that more than a third of the respondents had been involved in litigation and there was a low level of adoption of risk prevention methods, e.g. pre-engagement screening of clients. Zhao and Li (2007) investigated the auditor's legal liabilities through a questionnaire survey. The authors established a sample of four groups including 60 CPAs, 30 private accountants, 30 judges and lawyers, 30 general public, and obtained 110 usable questionnaires. They examined the reasons for the surge of litigation, how to recognize audit failure, and possible precautions. Consistency, uniformity and consensus remain absent from the issue of auditor liability.

These papers provided insights on issues should be considered in litigations against auditors and the directions of influences of such issues.

3. Hypothesis development

To examine the expectations gaps on legal liability, we have to firstly establish what issues matter. We adapt a strategy of analyzing the principles used by legislators and judges or arguments that have been put forward in actual auditing litigations brought by third parties. Since Chinese cases against auditors are seldom reported, we have used the situation in auditing litigation in the UK as a proxy for the issues likely to happen in China. UK auditors have been subjected to litigations since the late Victorian era and there is a line of well reported cases for further analysis (Chandler and Edwards, 1994; Pittaway and Hammerton, 2007; Reid, 1986).

In the UK, the *Caparo* case set the fundamental principles of current judicial attitude towards auditing negligence involving third parties. In this case, to decide whether auditors owe a party a duty of care, a three-fold test was established: proximity of the relationship between claimants and auditors; foreseeability of the loss; and fairness and justice in allocating liabilities on auditors (Pacini, 2000).

First, the third parties should be close to the auditor and related auditing activity (Stanton, 2012). Generally the usage of the auditing report by these third parties should be foreseeable at the stage of engagement letter formation and auditing field work. For example, a parent company is normally expected to consult the audit reports of its subsidiaries. The usage should fall in the purpose of the auditing service i.e. non-related parties cannot use a due

diligence auditing report not intended for them. The users' should also demonstrate their reliance on an audit report when reaching a certain business decision before they could claim damages caused by such a business decision. This could be established by a "but-for" test which examines whether users will carry out business transactions in the same way with the same results if an audit report without misstatement is provided. Auditor's activities after audit reports could help the evaluation of the proximity between third parties and auditors. For example, if auditors directly supply audit reports to or actively enter into communication with the third parties, such as interpret auditing findings, judges are more willing to accept the third parties' arguments on proximity (Gwilliam, 2004).

Second, the damage claimed by the third parties should be decided reasonably. Only damages with sufficient proximity should be counted (Cartwright, 1996). For the loss of business chance, the possibility of the chance should be measured. If applicable, the average damage or loss of a class of similar business decisions should be used as the base for damage calculation. Victims should mitigate their damage or loss. Sophisticated third parties with knowledge of auditing matters have the duty to exercise their above-average skills. For example, an investment banker in a due diligence case cannot claim they are numerically illiterate. When collusion or deemed collusion are involved, auditors should be held liable joint-and-severally. In other cases, proportionate liability might prevail. Auditors and auditee could reach agreement on the auditor's utmost liability for the auditee's damage or loss caused by the audit report. However, this agreement could not be used against third parties (Morris, 2009).

Third, the regime to distribute liability between auditor and third parties should be fair and justifiable. Auditors only have limited resources and technical means to examine financial

statements and supporting materials. Therefore, it is unrealistic to expect auditors to discover all errors and frauds. Auditors' ability is technically restrained by its risk-based methodology, sampling and professional judgments based on materiality. It is also practically constrained by time limits, pressures from the auditee, and cooperation from auditees and their business partners. Therefore the "true and fair" opinions expressed in the audit reports are on the financial statements as a whole, not on every individual figure in relevant accounts.

Besides the above three main principles, the standard of care is another important issue. Since auditors are required to follow generally accepted accounting standards and auditing standards when carrying out auditing work, these standards would be a natural benchmark of standard of care (Cooper et al 2002; Buckless and Peace, 1993). When a matter is not prescribed in these standards, the Bolam test developed in medical negligence cases should apply. That is to say, an auditor is not guilty of negligence if s/he has acted in accordance with a practice accepted as proper by a responsible body of auditors (*Bolam v Friern Hospital Management Committee*, 1957; Teff, 1998).

All legal principles would be applied to individual cases, whose circumstance, especially the nature of the accused's wrongdoings, would also influence the outcomes of litigation. A typical auditing process generally involves implementing auditing procedures to collect sufficient evidence, which would enable auditors to discover and report errors or fraud. Therefore wrongdoings could happen when auditors fail to carry out proper procedures and gather evidence, or when auditors fail to report their findings. Lacking independence and conflicts of interests are also sources of complaints (Cullinan 2004), although sometimes larger accountancy firms claim they have Chinese wall inside their firms to enable different departments of their firms to serve auditees at the same time (*Bolkiah v KPMG*, 1999).

Accounting and auditing are social instruments and the examination of their developments should be contextualized in their social, economic and legal environment (Ezzamel et al, 2007). The general understanding of the role of auditor, particularly the economic significance of auditing services should also be considered in evaluating auditor legal liability.

The above analysis permits the development of a framework of issues affecting auditor liability to third parties. This comprises proximity between auditors and users; extent of damage; types of wrongdoings; the role of auditors, and the limitation of auditors' technical ability. The first research question is based on this framework,

RQ1 *Do auditors and non-auditors have different perceptions on a framework of issues affecting auditor liability to third parties?*

A working assumption of this study was that the working backgrounds of the respondents determined their general attitudes in terms of a heavier or a lighter liability regime for auditors. Both the plaintiffs and auditors are likely to consider that they have genuine claims that should be supported by the law. Based on this situation, the general hypothesis underlying this study is as follows,

H₀ *Expectation gaps exist between auditors and non-auditors on a framework of issues affecting auditor liability to third parties.*

The characteristics of litigation participants would also influence their perceptions on the audit legal liability regime (Shu, 2000; Narayanan, 1994). An analysis of existing literature

suggests (see *Figure 1*) the following characteristics might be relevant: (1) auditors' position in the hierarchy of the accountancy firms, i.e. those with managerial functions as department managers, firm directors or partners and those who are regular auditors or assistants; (2) auditors' job portfolio, i.e. those who are involved in engagements perceived to be linked with high litigation risk, such as capital verification, and those who are not connected with high risk jobs; (3) auditors' clientele type, i.e. those who are exposed to public listed companies and those without such exposure; (4) lengths of experience; (5) size of auditing firms; (6) levels of local economic development in the area where an accountancy firm is based. Data on these characteristics would help us to answer our second research question as follows.

RQ2 *To what extent can expectation gaps on auditor legal liability to third parties be explained by characteristics of the auditor and non-auditors constituencies?*

4. Research design

Data was collected by interviews and a questionnaire survey with samples of auditors and other stakeholders. Considering the vast geographic coverage of China, rather than using the whole country, a clustering based sampling method was utilized by choosing a typical sub-geographic area as the base for sampling (Cooper and Schindler, 2003). Auditors in China are regulated by the central government and more than thirty provincial level local governments. A province in eastern China with economic development attributes representative of the whole country was identified as the geographic base. 37 interviews were carried out with influential members of the stakeholders groups. These comprised auditors (9), lawyers (5), regulators (6), preparers (3) and academics (2). The rest (12) are users of financial report.

Most of the interviewees were recommended as potential opinion setters by the accounting professional body in that province. The snowballing technique (Bryman, 2008; Rubin and Rubin, 2000) has also been employed to locate interviewees who had deep understanding on this topic, had experience in the policy making process, or had been involved in auditing litigations.

A questionnaire was also developed (available from the authors upon request) and sent to 913 participants (708 to auditors and 205 to non-auditors). All practicing auditors in the selected geographical area were handed a questionnaire when they were attending a compulsory continuing education session. For non-auditors, a random sample was selected from the holders of a business accountant license while they were attending two training sessions. According to Chinese law, such a license is necessary for any job that requires bookkeeping or accounting knowledge (auditors are regulated separately). These license holders provide a good cross section of potential audit report uses, e.g as creditors or investment community workers. Overall, 594 responses were received and 470 (367 from auditors and 103 from non-auditors) were suitable for data analysis. Thus a response rate of 51.48% was achieved.

There is a significant difference between the southern part and the northern part in the province where we carried out our field work. GDP per capita of the south is three times that of the north (National Bureau of Statistics of China, 2010). Of the 367 auditors whose questionnaires were used, 279 are from the relatively rich south part of the sample province and 88 from the poorer north. Most of the respondents (261) of the auditors' group are chartered public accountants. 52 were department managers at the middle tier of the management hierarchy within typical accountancy firms. 36 were firm directors, at the top level of the management structure (*See Figure 2*). Regarding the working experiences of

auditors, the mean value is 8.89 years and the mode is 10 years, which suggests that generally the respondents have been in the industry for long enough to have the ability to provide useful insights. In respect of the main categories of clienteles, serving PLCs for IPO or annual auditing was not the main business of the auditors who were sampled, as this only has a frequency of 13 out of 367 (3.54%). This highlights one of the contributions of this research. The dominant focus of previous papers on auditor or auditing are based on market data and restricted to services involving PLCs. This research will therefore give voices to the other 96.46% of Chinese auditors, whose main clients are SMEs ($302/367 = 82.29\%$), enterprises with foreign investment ($162/367 = 44.14\%$) and public sector organizations ($79/367 = 21.53\%$). On average the firms are quite small in terms of both qualified accountants (median as 10) and total employees (median as 20).

[INSERT FIGURE 2 ABOUT HERE]

There are 103 respondents in the non-auditor group. This is a diverse mix of respondents from a cross-section of the general population (see *Figure 2*). Non-auditor respondents' employers vary in size with employee numbers ranging from 10 to 200,000. On average, the non-auditor respondents have more than 8-year experience working with audited financial information. This is also a good indicator of their ability to comment on auditor's liability and relevant policy choices.

For questionnaire response data, after obtaining descriptive statistics, reliability of scale and normality of distribution were examined by applying the Kolmogorov-Smirnova (K-S) test and by calculating Cronbach's alpha. To compare auditor and non-auditor respon the T-test and Mann-Whitney U test were used for each interval item and aggregated item with Likert

scales. The Chi-square test was applied for categorical items. The aim was to identify similarities and differences in the perceptions of both groups and seek explanations. Further analyses using demographic information were carried out to investigate whether there are subgroups (for example, groups identified by their types of clienteles) within the auditors' group or non-auditors' group. The statistical tools employed for subset discovery included correlation (Pearson r), Mann-Whitney U test, t-test (between samples and repeated samples) and Chi-square test.

5. Results

In this part interview and survey results will be reported according to question clusters in the questionnaire that was used. These correspond to the issues identified and discussed in the hypotheses development section.

5.1 The necessity of audit function

The interview data revealed that the necessity of auditing is generally accepted in China. It is a recognized fact that an auditing service is widely used in China. There is no clear consensus about the added-value or economic relevance of auditing service. However, this does not mean the audit service should not exist at all. This lack of consensus might indicate that the audit service needs to be improved. The exemption of auditing requirement for SMEs was unanimously rejected and this view differs from EU and UK practice (Collis et al, 2004). The reason for this could be that the function of auditing in China is different from that of the auditing in other parts of the world. Auditing requirement is more integrated to the fabric of business regulations (Gul et al, 2009). The idea of financial statement insurance was

dismissed by all interviewees without further consideration. This was partially due to the negative perceptions held of the insurers (Ronen 2002; 2006; Cunningham 2005).

Data from the survey and statistical results are shown in the following table (see *Figure 3*).

[INSERT FIGURE 3 ABOUT HERE]

In short, the auditors and non-auditors generally could not agree with each other about the function of auditing in the economy ($p < 0.001$ for the aggregative item on audit function). Auditors have more positive perceptions (statistically significant) than non-auditors on the general need of the auditing service for the economy; audit reports' effects on reducing information risk; the regulatory function of audit report; the corporate governance function of audit report. Non-auditors have a greater tendencies to accept that, independent auditing could be carved out by an enlarged government auditing service; the independent auditing could be replaced by financial statement insurance; SMEs should be waived the requirements of annual auditing.

5.2 Responsibilities of auditors

Most interviewees agree that annual auditing should be different from forensic accounting or special auditing engagements. Errors should be discovered by the auditor. Although auditors are reluctant to be held responsibility for discovering frauds, other parties want them to do so. As an auditor pointed out,

Let us assume that an enterprise has 100 million of profit, but only 60 million is stated on the books. How can auditor find this out? To examine vouchers? No voucher was produced. To check invoices? No invoice was filed. To confirm with banks? The accounting staff has chosen to do business in cash. If all the accounting cycles are OUT of the system, how can you discover frauds through examinations WITHIN the system? (Interviewee 15)

There was little enthusiasm for whistle blowing and there were doubts about the auditors' function on internal control evaluation. It was believed that annual auditing should have practical boundaries and its core function should be limited. Interviewees argued that auditees or users could always commission an auditor to perform specific investigation if they have particular concerns and they should not expect everything in an annual audit.

The data collected from the survey and statistical results on auditor's duties are as shown in *Figure 4*.

[INSERT FIGURE 4 ABOUT HERE]

In general, for all items on auditor responsibilities including expressing opinion on the fairness of the financial statements, discovering fraud, whistle-blowing and evaluating going concern and internal control, the respondents hold a positive perception (except the one on accounting errors). On the issue of different responsibilities between auditors and preparers, an overwhelming majority of respondents choose the standard expression utilized by current standard form of auditing reports (auditees prepare financial statements and auditors express attestation opinions on financial statements). Comparison between auditors and non-auditors

shows that auditors choose smaller scores for most items of auditors' responsibilities, except the valuation of going concern. There is no significant difference on auditor's responsibility on overall evaluations of trueness and fairness of audited financial information between auditor and non-auditor, which shows the universal acceptance of this concept. Non-auditors are much less likely to accept the standard expression about auditors' and preparers' responsibilities. The respective weights are 10.9 against 1.81. Subset testing shows auditors from less developed area are more cautious in accepting the responsibility of evaluating going concern, while auditors with clients of public listed companies are more ready to assume the responsibilities related to fraud discovering and reporting.

5.3 Technical ability of auditors

The evidence from the interviews supports the view that there are substantial limitations to the auditors' ability to discover error and fraud because of institutional design (auditors' performance relies on the auditees' cooperation) and the limits of the auditor's technical tools (such as sampling, professional judgments based on materiality). An academic interviewee claimed,

The auditing system is not scientific; it runs counter to human nature. Nobody wants to hire somebody to hurt himself. Auditing is like the turnstile of your garden door, which could stop a gentleman, but not a thief. (Interviewee 23)

Furthermore, a preparer stated,

Certainly I provide different sets of accounting records and files to different inspectors, such as auditor or tax man. You cannot claim that I am trying to deceive anyone. I provide what they ask. I mean they have to ask in a specific way, such as the daily reports from the cafeteria. I never take bluffs, such as “I want all financial records”, too seriously. If you want something, you have to ask. It is the auditors’ problem if they failed to demand right records. I think it is perfectly legitimate for me to do so. (Interviewee 28a)

In the survey, perceptions of the respondents vary on different aspects of auditors’ ability, although among all clusters of items tested, auditors and non-auditors showed considerable amount of consensus on auditor ability (5 out of 10 item groups). Respondents are more confident on auditors’ general capability in respect of finding errors, fraud discovery, and internal control valuation. They are less confident on the issues that auditees have more controlling powers, such as providing unlimited access to books and records. There is a general recognition of restrictions of auditor incentives because the auditees control the fee payment and non-auditing service granting. The auditors tend to be more cautious about the issues outwith their control but they are more confident on technical concerns as compared with non-auditors. Non-auditors are much more willing to hold extreme perceptions on the assurance levels provided by auditor reports while auditors’ perceptions are more moderate. Auditors from the developed areas reported more pressure from their auditees. The results are listed in *Figure 5* below.

[INSERT FIGURE 5 ABOUT HERE]

5.4 Categories of liabilities and plaintiffs

The interviewees generally rejected the idea of establishing categories of eligible plaintiffs. However, the idea that a substantial connection between audit reports and business decisions needs to be present to constitute a prima facie case was generally accepted. A lawyer stated,

I do not think establishing categories of eligible parties is a good idea. If that is the case, before substantial contents could be debated, everyone would have to debate their category recognition first. However, to define the recognition, the substantial contents have to be considered. This will cause confusing and litigation cost will be increased. (Interviewee13)

A judge agreed,

It might be better to give everyone an opportunity to lay a case before a law court. Otherwise larger auditing firms with dominant power might bully the small plaintiffs away from the justice process. It is difficult for them to bully a judge, isn't it? (Interviewee 22)

Across the interviewees, there was a general tendency among auditors and information users to doubt the real effects of audit reports on business. However, the opinions of lawyers and other professionals are somewhat different. A banker discussed the effect of audit reports,

The audit report is just one of the documents to support loan facilities. We use our own professional judgment. The accounting environment is in chaos, but our bank has

to make profit every year and could not wait for a cleaned accounting environment to provide true information. Instead we pay more attention to so called second source of debt-payment, such as mortgage or guarantee. My bank has particular interests in transaction finance which binds a certain transaction, such as sales contract, with the loan facility, rather than relying on the general financial health of the borrower.

(Interviewee 10)

In the survey, generally, across all of the research participants, the administrative liability and self-regulatory liability attract positive recognition, while civil liability and criminal liability attract negative recognition. The ranking of eligible plaintiffs is as follows (most votes first): shareholders as a collective; creditors; clients; shareholders as individuals; regulators; any information users; potential investors; employees of auditees; consumers; and analysts. A high portion of participants had direct or indirect experience with litigations against auditors.

Statistical tests show that non-auditors are more willing to recognize all the liability forms. Auditors from smaller firms are less willing to be submitted to the self-regulatory discipline process. Auditors who have listed company clients are more likely to accept a wider range of eligible plaintiffs. Auditors from the economically less developed areas are more likely to hold negative views on civil liability. The results are contained in the following table (see *Figure 6*).

[INSERT FIGURE 6 ABOUT HERE]

5.5 Wrongdoings

The majority of the interviewees agreed that merely the existence of damage was not a basis for convicting the auditors. There also had to be wrongdoings. Main auditing wrongdoings were currently perceived to be failures regarding performing procedures prescribed by auditing standards although the importance of gathering appropriate evidence was also recognized. This is reflected in the following two typical quotations.

A preparer and former auditor stated,

Procedures are easy to follow and we can even develop a computer system to force auditors to go through every necessary step. Evidence is much more important.

Superficial box-ticking will not generate substantial evidence to support the ultimate judgment on the financial statements. (Interviewee 19)

In respect of the reason why auditors did not comply with procedures, an interviewee suggested,

Sometimes the auditing fee is of such a small figure. I don't believe it could cover the minimum cost to perform all the compulsory auditing procedures. Auditor must have skipped most auditing processes and jumped to the reporting stage. (Interviewee 03)

Overall, responses in the survey reveal a positive recognition of the items related to auditor's wrongdoings regarding auditing procedures and evidence, management of audit project and conflict of interests. There are significant difference between auditors and non-auditors for

conduct associated with reporting errors and fraud discovered during the auditing process, lack of independence, conflicts of interests, and failure to discover errors and fraud. In the view of the non-auditors group, misconduct related to reporting would more likely lead to litigation than misbehavior related to failure to discover errors and fraud. Within the auditors group, those practicing in the developed areas are more likely to give higher level of recognition of the risk caused by the failure of reporting errors and fraud compared to those from less developed areas. Auditors exposed to the stock market are more likely than those who do not carry out engagements with listed companies to recognize the potential litigation risk caused by insufficient evidence (which would mean a lack of support for the auditors' opinions in audit reports). The results are shown in *Figure 7*.

[INSERT FIGURE 7 ABOUT HERE]

5.6 Doctrines for the establishment of a duty of care

The interview data did not support any clear direction on the issues concerning the fault principle, mental attitude of auditors, plaintiff's due care, causality, burden of proof and time bar. This further illustrates that, in China, both the law and public opinion in this area are still in a process of developing. However, a large portion of interviewees agreed that the auditors' liability should be greater when there is evidence of intentional breach of law and/or collusion between auditors and auditees (Moore and Scott, 1989). A substantial number of interviewees also insisted that auditors have a duty to discover and report errors or fraud. It is therefore difficult for the auditor to justify themselves by arguing that their failure to discover and report an error or fraud is an action in good faith. As a regulator observed,

There is no need to examine the mental attitude of auditors. They are not allowed to stand quietly beside errors and frauds. If an auditor does not take actions required by the standards to fight with errors and frauds, he is willingly committing wrongdoings. His action or omission itself is sufficient in this situation. (Interviewee 08)

The results from our survey have shown a positive recognition among both auditors and non-auditors on the doctrines about proximity between audit report and damage, ability of plaintiffs and burden of proof. Our research participants' opinions are consistent across the tested items. However, auditors and non-auditors are significantly different on the issues comprising the limitation of use of audit reports, collusion, duties of plaintiff, burden on non-auditors, time bar and economic effects of liability. The directions of these differences show that auditors are seeking greater protection. Tests on subsets reveal following results: auditors without managerial functions are more likely to recognize the plaintiffs' duty based on extra information; auditors of listed companies are willing to take more burdens of proof, but have stronger feelings on gross negligence and collusion; auditors from the less developed cities are more ready for the options of permission of use and collusion, and less willing on known purpose and negligence, compared with auditors from developed areas. The data is shown in *Figure 8*.

[INSERT FIGURE 8 ABOUT HERE]

5.7 Standard of care

Interviewees supported the view that auditing standards could be used as a persuasive benchmark to distinguish acceptable and unacceptable auditing practice. However, there was

no general consensus about whether complying with auditing standards could provide a safe harbor for auditors. An auditor said,

The auditing standards are built on hundreds of years [sic] of auditing success and failure. The auditors plan and implement their practice according to the standards. It is the natural guideline to measure whether they have behaved properly. (Interviewee 05)

In contrast, there was a small portion of interviewees who did not agree that auditing standards should have such a function. An auditor insisted,

Besides the standards from the profession, there should be a public standard. Only the People's Congress could represent the public. Some auditing standards are so general and do not have any substantial meaning. If disputes happen, finding out the meaning of these standards would turn to be a huge task. Then why shall we use them if they are not helping to solve cases and they are the problem? A case by case methodology might be proper. I think the Western style jury system has some reasons to exist for so many years. Generalization is not necessarily good. (Interviewee 06)

In the survey, generally, the technical authority of the accountancy bodies is recognized by our respondents. However they are more suspicious of the technical capability of law courts and the executive branch of government on the standard of care. The waiver on compliance is generally positively accepted. Comparison between auditors and non-auditors shows that auditors are more willing to recognize the waiver on compliance, to choose the average auditor as a benchmark and the accountancy bodies as the standard setter. Tests on subsets

reveal that auditors with listed company clients are more likely to choose auditing standards as a benchmark and are less willing to accept the option of average auditor, in comparison with auditors who do not have listed company clients. Auditors from the developed south are more willing to choose the legislature to set the standard and independent committees to evaluate compliance, in contrast to auditors from the less developed north, who prefer the accountancy bodies as the judge of compliance. The results are shown in *Figure 9*.

[INSERT FIGURE 9 ABOUT HERE]

5.8 Damage

The interviewees were of a view that damage counts should be limited to direct damage, and indirect damage should be strictly limited. The idea of capping auditor liability attracted both support and opposition. Interviewees' opinions were also split on how any cap could be set (by certain amount, certain percentage of auditing fee, or by contractual negotiation). For the allocation of liability, it seems the supplemental joint-and-several method gained comparatively more support. This contest in views is exemplified in the following two quotes from auditor interviewees.

It is wrong to set a cap. Capping is a kind of gambling. Actually I think the accountancy firms in limited liability should be changed to a form with unlimited liability, such as partnership. That's the nature of the attestation service. (Interviewee 17)

If a bank does not like an audit report with a 3-million cap, it could insist on another one with a 10-million limit. However, if the bank accepts the audit report, it will be bound to agree the cap. (Interviewee 06)

Concerning the issue of damage, our research participants in the survey, in general, prefer to limit the coverage to the degree that only direct damage should be included although non-auditors are less keen about this restriction than auditors. Most respondents agree with the idea of capping liability. But, again, auditors are keener on this action. The most popular choices on the means of capping are fee-based calculation and negotiation. In respect of the allocation of liability between auditors and auditees, most respondents do not prefer the option of joint-and-several. Auditors are particularly fond of the supplementary joint-and-several liability.

Tests for subsets shows auditors with managerial roles prefer the auditing team members or the direct wrongdoer to pay for the damage. Auditors from the less developed areas are keener for the capping than those from the developed area, and they are more likely to prefer the fee-based capping. The data is shown in *Figure 10*.

[INSERT FIGURE 10 ABOUT HERE]

6. Discussion and conclusion

The practice of auditing has assumed an increasingly prominent profile in Chinese society as China has progressively become more open to international influence. This research relates to one fundamentally important aspect of auditing practice, the litigation of Chinese auditors. A

range of issues relating to this topic, drawn largely from Western experience, have been investigated and the results indicate that they are, for the most part, also pertinent to the Chinese situation. However, among interested Chinese parties, the degree of agreement on the resolution of these issues varies. The views of auditors are quite distinct from those of non-auditors for the great majority of the issues researched (see *Figure 10*) i.e. on the nature of audit function, auditor responsibilities, ability and liability, wrongdoings, legal doctrines in the establishment of duty of care and the measurement of the standard of care. A gap also exists in China on many areas where expectations differ markedly between those involved in auditing and those using audited information.

[INSERT FIGURE 11 ABOUT HERE]

For the most part the robustness of the survey results are enhanced by the views expressed by the interviewees although, in general, the survey respondents' ratings appear more extreme. This could be explained by the fact that interviewees are mostly opinion setters who have more experience and are more familiar with the liability issue.

The results obtained are generally consistent with the findings from classical studies (Cohen, 1977; Porter, 1993; Humphrey, 1993) on the audit expectations gap existing in the West. In respect of role of audit, auditors' responsibilities and auditors' technical abilities the gap are generally similar. However, there are also some distinct Chinese characteristics to the identified audit gap. For example, there was a universal non-elastic demand for an auditing service. There was also a tendency to allocate heavier liability on auditor when auditing failures occur without considering whether auditors have committed wrongdoings. In China, auditing is viewed more as a compulsory regulation tool than a corporate governance

apparatus rooted in an economic rationale. This created a particular distortion in the interaction between auditors and non-auditors. Auditors considered that audit liability was imposed on them without full consideration being taken of the limitations inherent in auditing techniques. They were compelled to assume responsibilities they could not reasonably assume within the constraints of a practical level of audit cost. Among the non-auditors, dual standards are apparent. Although they recognize the importance of the audit function, audit users quickly resolve to demand absolute protection of draconian proportions when they are put into the situation of being a claimant against the auditor. Their views do not reflect potential long term damage that could be done to the viability of the auditing profession and the economy it serves (Yu, 2001). It is likely that their stringent views in this respect are related to the information asymmetry and generally weak investor protection environment which still exists in China (Abdel-khalik, 1999; Hao, 1999).

Other factors contribute to an explanation of the Chinese audit expectations gap. First, the culture of accounting has traditionally been very prescriptive (Chong and Vinten, 1998; Ge and Lin, 1993; Lin and Chan, 2000). It has been at the very extreme end of the rule based continuum and directly opposed to a principles based approach. Procedural rules are central to practice and complete accuracy in rule compliance is expected. It is natural, given the close relationship between accounting and auditing, that familiarity with inflexible, rule based accounting practices could lead to similar expectations for auditors. If so, those with experience of accounting would have little sympathy for auditors when audit opinion differs from reality. Second, Chinese legal culture could also be an important influence on the gap. In China, judges dominate the trial system (Xu et al, 1997). This differs from the adversarial system in the UK and US where litigants need to find arguments to not only justify their own claims, but also to falsify their opponent's claims. When the judge dominates the justice

system, justice is expected to come from the judge rather than from the interaction between litigation parties. There is a lack of chance for elaborated negotiation between accused auditor and non-auditor litigants and subsequent convergence of opinions. The third is the non-native nature of the audit service in China. Although there were previously similar but less well developed audit functions in China, modern auditing was, essentially, a foreign import to the country. The level to which it is integrated into local systems varies. Moreover, the speed of auditing development in China has been extremely fast and relatively short-lived (around 20 years). This speed of implementation (Yee, 2009) has resulted in many issues being resolved in ways that lack consensus among participants.

Can the gaps be narrowed? The above results provide some indications of potential for this to be achieved. It was found that auditors, in areas of higher economic development, were more reasonable in their recognition of the extent of auditor liability. Therefore, the expectation gap might narrow as the Chinese economy develops. It is also apparent from the empirics that the more interaction experience between auditors and audited information users, the more reasonable perceptions users hold on auditor liability. Therefore, along with the maturity of Chinese audit information users, different aspects of the gap may converge. In addition, the results show that auditors working in companies with a stock market listing are more moderate in their views of auditor liability issue. Therefore, it might be expected that the gap will narrow with the maturity of Chinese stock market.

The existence of an audit expectation gap has implications for the operation of an auditing regime. One implication of this research for Chinese legal policy makers is the need to encourage a healthy and constructive tension between auditors and non-auditors. This can be productive in promoting auditors to improve their work although its existence can also

promote uncertainty in auditor liability. Rather than applying a coercive imposition of auditor liability, a natural occurring gap provides opportunity for constructive negotiation between two parties and as a result consensus might emerge as both sides recognize the characteristics of the others' position. For policy makers to explicitly take sides in support of the existing position of either party could be problematic as it would leave a legacy of extreme dissatisfaction. This could, on the auditor side, restrict participation and enhance "work to rule" while on the non-auditor side it could restrict use and reliance on audited information. For auditors, improving auditing quality to a level at least in compliance with international auditing standards is likely to be a prerequisite for future reconciliation of the interested parties' views as this could help audit information users to build up confidence of the audit profession and reduce the tendency to rely on an extreme liability regime.

An expectation gap is a dynamic phenomenon. Further research tracking changes and trends overtime in its nature is required. This could utilize the survey and interview methods adopted in this study. However, of supplementation of these empirics with analyses of unfolding litigation cases against Chinese auditors could provide valuable insights into how auditor liability actually develops in the Chinese context.

Research	Location	Methods	Remarks
Chandler, et al, 1993	UK	Historical	Expectation gaps rooted in the history of modern auditing
Koh and Woo, 1998		Literature review	Reviewed definition of the expectation gap, its nature and structure, and ways to reduce it
Lowe, 1994; Frank, et al 2001; Charron & Lowe, 2008	US	Experiment	Gaps between auditors and jurors or judges
Humphrey, et al, 1992	UK	Conceptual analysis	Traced the historical development of expectation gap and responses from the auditing profession
Humphrey, et al, 1993	UK	Survey	Contained a factor analysis on different aspects of audit activity, such as diagnosing problems, being even-handed
Hassink, et al, 2009	The Netherlands	Survey	Fraud detection gaps among business managers, bankers and auditors
Wang & Zhou, 2005	China	Mail survey	Fraud detection
Zhao 2007	China	Conceptual analysis	Reset auditing objectives to serving corporate governance
Lin & Chen, 2004	China	Mail survey	Gaps exist on role of auditor, fraud detection and independence
Sikka, et al, 1998	Mainly UK	Conceptual analysis	As a social practice, nature of audit is subjected to continuous challenge. Expectation gap cannot be narrowed.
Porter, et al, 2012	UK and New Zealand	Longitudinal, survey	From 1999 to 2008, in UK reasonableness and deficient performance gaps narrowed

(Figure 1, to be continued)

(Figure 1, continued)

Research	Location	Methods	Remarks
Porter, 1993	New Zealand	Opinion survey	Divided the gap between perceived performance of auditor and society's expectation of auditor into three parts: deficient performance, deficient standard and unreasonable expectations
Chowdhury, et al, 2005	Bangladesh	Interview	Public sector, perceptions between members of Parliament and government auditors
Cohen, 1977 and AICPA, 1977	US	Large scale official inquiries, hearing of evidence	Confirmed the existence of gaps in various aspects of auditing practice

Figure 1 Literature on audit expectation gap

Auditor (367)	Qualified accountants (partner level 36, manager level 52)	261
	Pre-qualification	106
	Richer South	279
	Poorer North	88
Non-auditor(103)	Preparers of financial statements	58
	Internal auditors	17
	Financial information users, for investment decisions	18
	Financial information users, for banking purpose	17
	Financial information users, for corporate legal service purpose	8
	Financial information users, for other business management functions	14

Note: The total of these subgroups is larger than 103 since some non-auditors falls into more than one group.

Figure 2 Distribution of survey sample

Item	Description	G	N	Mean	Mid	K-S	α	T-test		Mann-Whitney		H ₀
						p		T	p	U	p	
V211	Economic benefit of auditing	1	364	4.20	3	0.000	0.729	4.327	0.000	14439.00	0.000	Yes
		2	102	3.65	3							
V212	Financial statements insurance	1	361	4.02	3	0.000		1.981	0.049	15774.50	0.023	Yes
		2	100	3.85	3							
V213	Government auditing as a replacement	1	366	3.99	3	0.000		2.339	0.021	15453.50	0.006	Yes
		2	100	3.77	3							
V214	Information risk reduction	1	362	3.85	3	0.000		2.743	0.007	15506.50	0.002	Yes
		2	102	3.57	3							
V215	Regulatory function	1	364	3.82	3	0.000		3.416	0.001	14907.50	0.000	Yes
		2	102	3.46	3							
V216	Corporate governance function	1	364	3.66	3	0.000		3.062	0.003	15402.00	0.002	Yes
		2	102	3.32	3							
V23	SMEs waived from auditing	1	366	3.86	3	0.000	4.942	0.000	13002.50	0.000	Yes	
		2	103	3.34	3							
AUDFUN	Aggregated audit function	1	367	27.15	21	0.000	5.500	0.000	12001.50	0.000	Yes	
		2	103	24.60	21							

Note 1: Item numbers, such as V211, V212, are for the convenience of reviewers to refer items to the questionnaire. We intend to delete this column in publication. This also applies to Figures 4-10.

Note 2: G: Group, 1 for Auditors and 2 for Non-auditors; Mid: the middle of the measurement scale; K-S: Kolmogorov-Smirnova for normality with Lilliefors significance correction; α : Cronbach's alpha for reliability; related critical value is 0.7.

Figure 3 Role of auditor

Item	Description	G	N	Mean	Mid	K-S		T-test		Mann-Whitney		H ₁
						p	α	T	p	U	p	
V311	Accounting errors discovery	1	352	1.97	3	.000		-3.991	0.000	13771.5	0.000	Y
		2	103	2.38	3							
V312	Fraud discovery	1	365	2.92	3	.000		-7.812	0.000	11161.5	0.000	Y
		2	103	3.63	3							
V313	Internal control system evaluation	1	362	3.15	3	.000		-3.135	0.002	14948.0	0.002	Y
		2	102	3.50	3							
V314	Whistle-blowing	1	367	3.10	3	.000	.578	-4.068	0.000	13628.5	0.000	Y
		2	100	3.55	3							
V315	Going concern evaluation	1	366	3.66	3	.000		1.987	0.049	16749.0	0.042	Y
		2	103	3.44	3							
V316	Opinion on true-and-fair	1	367	3.78	3	.000		0.451	0.653	17966.0	0.321	N
		2	103	3.73	3							
AUDRES	Aggregated auditor responsibility	1	344	18.5349	18	.000		-5.087	0.000	10953.0	0.000	Y
		2	100	20.3300	18							

Item	Description	Group	NO	YES	Odds	χ ²	p	H ₀
V324	Division of duty: auditees prepare and auditors examine	1	30	327	10.9	45.18	0.00	Y
		2	36	65	1.81			

Subset			
Item	Description	Criteria	Sig.
V312	Fraud discovery	Types of Clienteles	Y
V315	Going concern evaluation	Economy development level	Y

Notes: X²: after continuity correction. Subset: CLIENTELE refers to whether the auditors perform engagements involving public listed companies; ECONOMY refers to the economy development level in the geographic base where auditors practice.

Figure 4 Auditor responsibilities

Item	Description	G	N	Mean	Mid	K-S	α	T-test		Mann-Whitney		H_0
						p		T	p	U	p	
V411	Capacity on errors and fraud discovery	1	358	3.00		.000		-1.416	.159	16168.5	.085	N
		2	101	3.18								
V412	Capacity on internal control evaluation	1	356	3.14		.000		-.552	.582	16826.5	.465	N
		2	99	3.20								
V413	Access to accounts	1	356	2.24		.000		-4.317	.000	12882.0	.000	Y
		2	97	2.77								
V414	Discovering transactions not recorded in accounts	1	359	2.14		.000		-5.444	.000	12239.5	.000	Y
		2	101	2.70								
V415	Using sampling	1	357	3.22		.000		1.087	.279	16681.5	.280	N
		2	100	3.10								
V416	Reliability of sampling	1	358	2.40	3	.000	0.529	-4.489	.000	12660.5	.000	Y
		2	98	2.91								
V417	Using materiality	1	356	3.31		.000		3.690	.000	13708.5	.000	Y
		2	100	2.93								
V418	Co-operation between auditors and auditees	1	358	2.90		.000		-.166	.868	17631.5	.807	N
		2	100	2.92								
V431	Influence of fee payment	1	358	2.58		.000		-.640	.523	17659.5	.585	N
		2	102	2.66								
V432	Influence of non-auditing service	1	354	2.86		.000		1.709	.089	16398.5	.127	N
		2	102	2.68								

Subset			
Item	Description	Criteria	Sig.
V431	Influence of fee payment	Economy development level	Y
V432	Influence of non-auditing service	Economy development level	Y

Figure 5 Ability of auditor

Item	Description	G	N	Mean	Mid	K-S	α	T-test	Mann-Whitney		H ₀	
						p		T	p	U		p
V511	Civil liability	1	351	2.81	3	.000	.861	-4.341	.000	74824.5	.000	Yes
		2	97	3.28	3							
V512	Criminal liability	1	342	2.56	3	.000		-6.185	.000	69244.0	.000	Yes
		2	96	3.26	3							
V513	Administrative liability	1	352	3.11	3	.000	-5.485	.000	74045.0	.000	Yes	
		2	97	3.67	3							
V514	Self-regulatory liability	1	347	3.16	3	.000	-5.961	.000	71949.5	.000	Yes	
		2	99	3.76	3							

Item	Description	G	NO	YES	Odds
V521	Auditee	1	179	170	0.95
		2	58	43	0.74
V522	Regulator of auditee	1	224	125	0.56
		2	66	35	0.53
V523	Individual shareholder	1	201	148	0.74
		2	62	39	0.63
V524	Potential investor	1	266	83	0.31
		2	68	33	0.49
V525	Collective shareholder	1	128	221	1.73
		2	45	56	1.24
V526	Creditor	1	148	201	1.36
		2	43	58	1.35
V527	Consumers	1	317	32	0.10
		2	86	15	0.17
V528	Analysts	1	323	26	0.08
		2	84	17	0.20
V529	Auditee's employee	1	309	40	0.13
		2	83	18	0.22
V5210	Any user	1	257	92	0.36
		2	68	33	0.49
V531	Direct experience of litigation	1	318	34	0.11
		2	81	16	0.20
V532	Indirect experience of litigation	1	58	293	5.05
		2	41	57	1.39

Figure 6 Categories of liabilities and claimants

Item	Description	G	N	Mean	Mid	T-test		Mann-Whitney		H ₀
						T	p	U	p	
V615	Fail to report	1	348	3.18	3	-2.405	.017	13825.5	.021	Y
		2	93	3.45						
V616	Lack of independence	1	349	3.37		-2.134	.034	14425.5	.032	Y
		2	95	3.59						
V619	Conflicting interests	1	339	3.30		-2.260	.024	13297.5	.008	Y
		2	94	3.54						
V611-4	Failure on auditing techniques integrated	1	325	3.40		4.870	.000	10440.5	.000	Y
		2	93	2.91						
V614	Evidence sufficiency (subset)	No plc	316	3.44		-3.335	.005	1456.5	.044	Y
		plc	13	3.92						
V615	Fail to report (subset)	South	267	3.27	2.951	.003	8515.0	.002	Y	
		North	81	2.91						

	Item	Description	T-test (repeated samples)				Wilcoxon signed rank			
			N	Mean	Mid	T	p	V611-4 < V615	V611-4 > V615	p
Non-auditors (between items)	V615	Reporting	88	3.45	3	5.228	.000	41	8	.000
	V611-4	Discovering	88	2.92						

Note: Failure on auditing techniques integrated include: fail to evaluate internal control, lack of auditing procedures, fail to properly collect sufficient auditing evidence

Figure 7 Auditor wrongdoings

Item	Description	G	N	Mean	Mid	T-test		Mann-Whitney		H ₀
						T	p	U	p	
V711	Known purpose of usage	1	347	3.72	3	3.376	.001	13326.5	.001	Y
		2	94	3.30	3					
V712	Known identification of user	1	345	3.63	3	3.928	.000	12285	.000	Y
		2	95	3.23	3					
V713	Explicit permission of usage	1	340	3.28	3	4.159	.000	11724	.000	Y
		2	93	2.85	3					
V718	Collusion required	1	347	3.63	3	2.994	.003	13290	.003	Y
		2	94	3.26	3					
V721	Mitigation by user's extra expertise	1	337	3.17	3	2.136	.033	13910	.038	Y
		2	95	2.93	3					
V722	Mitigation by user's extra information	1	340	3.39	3	2.235	.026	14259	.039	Y
		2	96	3.17	3					
V732	Burden of proof on plaintiff	1	336	3.88	3	4.353	.000	10480	.000	Y
		2	86	3.37	3					
V74	Time bar on filing cases	1	345	3.79	3	6.382	.000	9983	.000	Y
		2	96	3.07	3					
V75	Economic effects of liability	1	350	3.73	3	7.536	0.00	9292	.000	Y
		2	98	2.92	3					

Item	Description	Group	N	Mean	Mid	T-test		Mann-Whitney		Sig.
						T	p	U	p	
V722	Mitigation by user's extra information	non-managerial	245	3.47	3	2.293	.024	7753.500	.024	Y
		managerial	75	3.20	3					
V716	Gross negligence required	no plc	308	3.94	3	-2.001	.046	1465	.025	Y
		with plc	13	4.31	3					
V718	Collusion required	no plc	310	3.60	3	-2.182	.030	1244	.030	Y
		with plc	12	4.17	3					
V731	Burden of proof on auditor	no plc	290	2.71	3	5.297	.000	1106.5	.005	Y
		with plc	13	1.92	3					
V711	Known purpose of usage	south	268	3.87	3	6.013	.000	6409	.000	Y
		north	79	3.22	3					
V713	Explicit permission of usage	south	261	3.18	3	-4.498	.000	7088.5	.000	Y
		north	79	3.62	3					
V715	Negligence required	south	254	3.20	3	2.320	.022	7800	.027	Y
		north	74	2.92	3					
V718	Collusion required	south	265	3.54	3	-4.323	.000	8754.5	.003	Y
		north	82	3.91	3					

Figure 8 Doctrines on duty of care

Item	Description	G	NO	YES	Odds	χ^2	p	H ₀
V813	Average auditor	1	233	127	0.55	5.709	.017	Y
		2	78	22	0.28			
V823	Professional body setting standards	1	110	252	2.29	19.62	.000	Y
		2	55	45	0.81			
V824	Legislature setting standards	1	284	78	0.27	13.08	.000	Y
		2	60	40	0.66			

Item	Description	G	N	Mean	Mid	K-S	T-test	Mann-Whitney		H ₀	
						p	T	p	U		
V84	Waiver of liability on compliance	1	363	4.01	3	.000	7.960	.000	9400.000	.000	Y
		2	99	3.14	3						

Item	Description	Group	NO	YES	Odds	χ^2	p	Sig.
V811	Standards from professional bodies	no plc	120	201	1.675	6.048	.014	Y
		with plc	0	13	Inf.			
V813	Average auditor	no plc	204	117	0.57	5.779	.016	Y
		with plc	13	0	0			
V824	Legislature setting standards	south	209	68	0.33	5.555	.018	Y
		north	75	10	.13			
V833	Independent committees judging malpractice	south	151	128	0.85	4.237	.040	Y
		north	58	28	0.48			
V834	Professional bodies judging malpractice	south	121	157	1.30	5.128	.024	Y
		north	25	61	2.44			

Note: χ^2 , after continuity correction

Figure 9 Standard of care

Item	Description	G	N	Mean	Mid	K-S	T-test	Mann-Whitney			
						p	T	p	U	p	H ₀
V911	Direct damage	1	352	3.67	3	.000	3.333	.001	14013.5	.000	Y
		2	99	3.30	3						
V912	Indirect damage	1	333	3.90	3	.000	4.684	.000	9672.5	.000	Y
		2	85	3.38	3						

Item	Description	G	NO	YES	Odds	Response	χ^2	p	H ₀
V921/2	capping	1	38	310	8.15	86.1%	10.961	.001	Y
		2	24	73	3.04				
V9232	Capping according to auditing fee	1	139	200	1.43	54.8%	26.596	.000	Y
		2	68	27	0.39				

Item	Description	G	NO	YES	Odds	χ^2	p	H ₀
V9413	Auditor and auditing firm share compensation	non-managerial	213	37	0.17	7.018	.008	Y
		managerial	57	23	0.40			
V9414	Auditors directly connected to fault pay compensation	non-managerial	174	76	.44	6.076	.014	Y
		managerial	43	37	.86			
V921	No capping	south	231	38	.16	11.118	.001	Y
		north	79	0	0			
V9232	Capping according to auditing fee	south	123	138	1.12	16.5	.000	Y
		north	16	62	3.875			

Note: V912: In the questionnaire, the question is worded as “no indirect damage should be awarded”; χ^2 , after continuity correction

Figure 10 Damage

Clusters	Item groups tested	Significant differences
Audit function	8	7
Auditor responsibility	7	5
Auditor ability	10	5
Categories of liabilities and plaintiffs	7	5
Wrongdoings	10	7
Doctrines for duty of care	13	9
Standard of care	4	2
Damage	6	3

Note: Item groups are counted at the sub-headings level.

Figure 11 Summary of results

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