

Client Importance and Audit Quality under Civil Law versus Common Law Societies

Authors : Kelly Grani Yuen

Abstract : Accounting scandals and auditing frauds are perceived to be driven by aggressive companies and misrepresentation of audit reports. However, local legal systems and law enforcements may affect the services auditors provide to their "important" clients. Under the civil law and common law jurisdictions, the standard setters, the government, and the regulatory bodies treat cases differently. As such, whether or not different forms of legal systems and extent of law enforcement plays an important role in auditor's Audit Quality is a question this paper attempts to explore. The paper focuses on the investigation in Asia, where Hong Kong represents the common-law jurisdiction, while Taiwan and China represent the civil law jurisdiction. Only the ten reputable accounting firms are used in this study due to the differences in rankings and establishments of some of the small local audit firms. This will also contribute to the data collected between the years 2007-2013. By focusing on the use of multiple regression based on the dependent (Audit Quality) and independent variables (Client Importance, Law Enforcement, and Press Freedom), six different models are established. Results demonstrate that since different jurisdictions have different legal systems and market regulations, auditor's treatment on "important" clients will vary. However, with the moderators in place (law enforcement and press freedom), the relationship between client importance and audit quality may be smoothed out. With that in mind, this study contributes to local governments and standard setters' consideration on legal reform and proper law enforcement in the market. Perhaps, with such modifications on the economic systems, collusion between companies and auditors can finally be put to a halt.

Keywords : audit quality, client importance, jurisdiction, modified audit opinions

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