An experimental study of users’ responses to qualified audit reports in China

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Abstract
This paper presents the results of an experimental study on users’ responses to the qualification of audit reports in China. By employing the type of audit report (e.g., unqualified vs. qualified auditor opinion) as a manipulated variable in the experiment, we found mixed responses from the participants 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, no significant difference was found in users’ investment or credit decisions with respect to their exposure to the financial statements accompanied by an unqualified or a qualified auditor opinion. The study findings suggest that the U.S.-style qualified audit reports have fairly limited “information content” to users in the present Chinese auditing environment and that there is a need to further improve Chinese auditing standards and practices. In addition, the study provides some insights into recent auditing developments in China.
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1. Introduction
The purpose of an audit report is to communicate the outcome of the auditor’s review of the financial statements. Under Generally Accepted Auditing Standards (GAAS), auditors

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must express an opinion following their audit work (AICPA, 1988; Geiger, 1994; GAO, 1996). Although four kinds of audit report can be issued, the unqualified (standard) and qualified audit reports are most commonly applied in practice (AICPA, 1988; Carcello and Palmrose, 1994; McCartney, Hines and Henderson, 1999). The main difference between these two types of audit report is the use of the “except for” phrase to qualify an auditor’s opinion. The qualification of an audit report indicates the auditor’s reservations regarding specific items or events, such as a departure from Generally Accepted Accounting Principles (GAAP), a restriction of the scope of audit work that prevents an auditor from performing the audit procedures required by GAAS, or an uncertainty as to continuance of the client’s operation (Carmichael, Messier, Mutchler, Pany and Sullivan, 1995; Geiger, Raghunandan and Rama, 1998; Konrath, 1999; Taylor and Glezen, 1994). Although the two types of audit report (unqualified and qualified opinions) are defined with specific auditing meaning or implications by the profession, their actual effects on users’ decisions have long been debated in the auditing literature (Bailey, Bylinski and Shields, 1983; Bamber and Stratton, 1997; Fargher and Wilkins, 1998; Frost, 1994; Lim, 1997). In general, a qualified audit report is regarded as an indicator of relatively unclean financial statements and would have “information content” for users to understand and use such statements (Bamber and Stratton, 1997; Buchman and Collins, 1998; Chan and Walterm, 1996; Cloyd, Frederickson and Hill, 1998; Fields and Wilkins, 1991; Frost, 1994; Hopwood, McKeown and Mutchler, 1989; Konrath, 1985; Louder, Khurana, Sawyers, Cordery, Johnson, Lowe and Wunderle, 1992; Seipel and Tunnell, 2000).

The auditing function was restored in China in the early 1980s after more than 30 years of suspension (see Note 2). To date, independent audits performed by certified public accountants (CPAs) remain under development in the country as auditing standards and procedures are being established and modified continuously. In recent years, Chinese auditors have adopted the U.S.-style qualification of audit reports according to the Chinese Independent Auditing Standards issued by the Chinese Institute of Certified Public Accountants (CICPA). We thus conducted an experimental study on the impact of the qualified auditor opinions on users’ investment and credit decisions contextual to the current Chinese auditing environment. We found that the qualified auditor opinion would, to a marginal extent, affect users’ assessment of the credibility of financial statements, e.g., it was mainly credit and loan officers who perceived the financial statements accompanied by a qualified auditor opinion as having a relatively low degree of credibility. However, this study did not obtain sufficient evidence that the qualification of audit reports would generate significant “information content” to Chinese users’ investment or credit decisions. The study findings reveal a need to improve the format and wording of audit reports in order to better communicate auditors’ opinions to financial statement users in China, and to more effectively transfer auditing standards and procedures from developed to less developed economies.

This study is one of few research efforts on the development of auditing in China. It contributes by updating the knowledge of Chinese auditing standards and practices. Our findings will assist readers, business investors and professionals in North America and other Western countries, in particular, to understand the specific institutional setting and recent changes in Chinese auditing as well as the rising role of the accounting profession in China’s transition towards a market-oriented economy. Through a comparison of the similarity and difference in users’ understanding and utilization of the varied formats of audit report under the Chinese
auditing environment and in the industrialized world, this study could also promote the internation-alization of Chinese auditing standards and practices and facilitate the economic cooperation between China and other countries following China’s recent entrance to the World Trade Organization (WTO).

Section 2 of this paper provides a review of related auditing literature. A brief account of the recent developments in Chinese auditing as well as the study hypothesis to be examined will then be presented. The design and administration of the experimental study are outlined thereafter, followed by data analysis and discussion. A short section of concluding remarks ends the paper.

2. Relevant literature

An audit conducted by independent professionals consists of the examination of the financial statements. Audit reports are a means of conveying auditors’ opinions to financial statement users and other interested parties who rely upon audit reports to assess the credibility of the financial statements (Arens and Loebbecke, 1999; Geiger, 1994; GAO, 1996; Holt and Moizer, 1990). In current auditing practice in North America and other industrialized countries, auditors may express different kinds of opinions on client’s financial statements based on their audit results (AICPA, 1988; Konrath, 1999). Under a normal situation, when auditors have performed the necessary auditing procedures required by GAAS and have been satisfied that the financial statements are in conformity with GAAP while accounting procedures are being adopted in a consistent manner, an unqualified opinion (standard audit report) will be issued. However, an auditor may qualify his or her opinion if a certain departure from GAAP in a client’s accounts is discovered, if there is a restriction in the scope of audit work to be performed, or if an auditor has some doubt about the client’s going-concern (AICPA, 1988; Holt and Moizer, 1990; Konrath, 1999; Sharma and Sidhu, 2001). Auditors must issue an adverse opinion when the financial statements depart substantially from GAAP. If an auditor is unable to obtain the necessary evidence to express his or her opinion due to significant uncertainty around the audit engagement, a disclaimer of opinion will then be rendered (AICPA, 1988; Blacconiere and DeFond, 1997; Holt and Moizer, 1990; McCartney et al., 1999).

The credibility of financial statements affects the decisions made by investors and creditors and has an impact on firms’ stock prices or on their costs of capital (Bamber and Stratton, 1997; Cloyd et al., 1998; Lennox, 1999; Robertson, 1988; Teoh, 1992). Because of the potentially high costs associated with a violation of GAAP, most firms are unwilling to accept an adverse auditor opinion or a disclaimer of opinion. They would have to adopt their auditors’ recommendations to modify the financial statements in order to comply with GAAP. Therefore, the most commonly seen audit reports in practice are either the unqualified or qualified auditor opinions (Arens and Loebbecke, 1999; Bamber and Stratton, 1997; Fleak and Wilson, 1994; Loudder et al., 1992; Melumad and Ziv, 1997). In fact, according to a survey published by AICPA in 1996, a considerable portion of audit reports issued by auditors in the U.S. consists of qualified reports (Farrell and Franco, 1998).

Fields and Wilkins (1991) argue that a motive for auditors to issue a qualified opinion is to prevent or minimize the potential litigation that may be launched by external users alleging
auditors’ negligence. With a qualified opinion, auditors send a message expressing moderate doubt of client’s accounts. In other words, the qualification of audit report provides “the basis for an auditor’s claim that the users were warned about an unusual risk” (Faragher and Wilkins, 1998).

Nonetheless, whether a qualified report can effectively convey the auditor’s opinion to financial statement users is an issue being debated continuously in the literature (Bartov, Gul and Tsui, 2000; Carmichael et al., 1995; Melumad and Ziv, 1997). Some earlier studies conclude that the qualification of audit reports has no “information content” since there is no substantial difference in the responses of financial statement users and market participants towards the unqualified or qualified audit opinions (Epstein and Geiger, 1994; Johnson, Pany and White, 1983; Mednick, 1986; Robertson, 1988). Other researchers contend, however, that a qualified opinion does contain “information content” to financial statement users. For instance, Dopuch, Holthausen and Leftwich (1986) found that the qualified auditor opinions caused fluctuations of abnormal returns in stock trading as the qualifications “either impose costs on clients receiving the qualified opinions, or provide negative information about the clients” (p. 94). This view has been echoed by other studies (Kelly and Mohrweiss, 1989; Teoh, 1992; Teoh and Wong, 1993). Lougher et al. (1992) argue that “disclosure of unexpected qualification registered adverse market reactions.” In addition, Chan and Walterm (1996) compared multi-period financial data for two groups of firms who had received unqualified or qualified auditor opinions. They found that firms receiving the qualified reports were significantly less profitable and liquid and had significantly more debts than the control group in the year of qualification. Frost (1994) also found that there was a negative move in share prices for firms who received a qualified opinion for the first time, especially low-risk firms. Such findings have been confirmed by other studies in more recent years (Faragher and Wilkins, 1998; Seipel and Tunnell, 2000). Hence, some researchers suggest that the qualification of audit reports could be regarded as an indicator of “unclean” accounts and may affect users’ assessment and use of the financial statements (Blackwell, Noland and Winters, 1998; Hathely, Innes and Brown, 1991; Lim, 1997). Seipel and Tunnel concluded from their investigation of the changes in the stochastic dominance characteristics of firms’ stock performance that a qualified audit report might “signal to the market that the quality of the firm as an investment has decreased” (2000, p. 33).

Miller, Reed and Strawser (1993) intended to explain the mixed empirical evidence on the “information content” of qualified auditor opinions. They contended that markets react to various sources of information and that stock price movement is not simply influenced by auditors’ opinions. Thus, a control of confounding factors is necessary when studying the effects of the qualification of audit reports. They then examined the differences in the perceived impact of the qualified opinions on bank loan officers. Using the type of audit report as a manipulated variable (e.g., unqualified vs. qualified opinion), they found significant between-group differences in the loan officers’ perceptions of the credibility of financial statements, the responsibility of management and auditors, and the firms’ risk. Bamber and Stratton (1997) also made use of loan officers as study subjects to investigate the “information content” of qualified auditor opinions in a controlled experimental setting and concluded that the qualification of audit reports influenced the loan officers’ risk assessments, credit-granting decisions, and interest rate premium on the loans to be offered.
In sum, the effectiveness of a qualified audit opinion in communicating the nature and outcome of audit engagement has long been debated by those who set professional standards and by academic researchers in North America and other industrialized countries. Although mixed study results are available in the literature, a majority of the studies, the more recent ones in particular, suggest that the qualification of audit reports indicates increasing risk or reflects auditor’s relative doubt of client’s accounts, and thus has “information content” that may affect users’ evaluation and utilization of the financial statements (Fargher and Wilkins, 1998; Melumad and Ziv, 1997; Seipel and Tunnell, 2000; Sharma and Sidhu, 2001).

3. Study background and hypothesis

With public (state) ownership of the means of production and a highly centralized economic administration adopted right after the founding of the People’s Republic in 1949, the Chinese government exercised direct control over all economic activities. Auditing work, both public accounting and government auditing, was suspended nationwide in the early 1950s. Although the government restored the audit systems in the early 1980s as a response to the demands for enhancing economic supervision in the course of wide-ranged economic reforms, the audits performed by Chinese CPAs remain under stringent government administration. The great majority of CPA firms in China were initially set up, or sponsored, by various governmental departments or authorities (Lin, 1998; Xiao, Zhang and Xie, 2000). In practice, audits were mainly required to serve the government’s business administration and taxation control. Under the so-called “sponsorship structure,” most CPA firms had to maintain close personnel and financial links with their sponsoring government departments or agencies. Chinese auditors thus lacked independence and were not responsible for negligence or audit failure under the umbrella of governmental sponsorship (Li and He, 1999; Lin, 1998; Xiang, 1998). In fact, Chinese auditors acted as the agents of various governmental authorities (e.g., the public finance, taxation, state-owned property administration, state auditing, and other industrial administration) to provide attestation services to fulfill the specified procedural requirements for converting the state-owned enterprises (SOEs) into joint ventures with foreign capital or listed companies. Until the mid-1990s, the main tasks of audit engagements performed by Chinese CPAs were to assure compliance with the government’s administrative policies and regulations and to protect the state’s interests in business entities (Tang, Chow and Cooper, 2000; Tang, Chow and Law, 1999; Xiao et al., 2000). Under such circumstances, auditing practices were far from standardized since no auditing standards were in place before the mid-1990s.

The Chinese government has, however, gradually reduced its direct involvement in the administration of business operations in pace with the progress of economic reforms. Increasing economic diversification and a rapid growth of the market-oriented economy have significantly expanded the stakeholder groups of business entities. Independent audits have become important as non-governmental users demand more reliable financial information to assist their decision-making. It is thus imperative to improve the public accounting system in China. In recent years, CICPA has launched a series of reforms to standardize auditing practices and speed up the process of establishing Chinese auditing standards. Delinking of accounting firms from their government sponsors was implemented. A set of independent auditing standards
has been formulated in three batches since late 1995, with technical support from the “Big 5”
international accounting firms (Xiao et al., 2000). The GAAS that prevails in the industrialized
world has been selectively adopted while auditor independence is now stressed in the Chinese
auditing standards. Changes have been introduced in auditing procedures, including adoption
of the U.S.-style audit reporting standards. The four types of audit report are now incorpo-
rated into the Chinese auditing standards. For instance, it is specified in the Chinese Auditing
Standards No. 7—Audit Reports that:

“Article 20—Based on the audit conclusions drawn, the CPA should issue an audit report
with one of the following audit opinions: (1) an unqualified opinion; (2) a qualified opinion;
(3) an adverse opinion; or (4) a disclaimer of opinion.”
Article 22—A qualified opinion should be expressed when the CPA concludes that client’s
financial statements, as a whole, are fair except for one of the following cases:

(1) the client refuses to adjust the treatment of material accounting transactions, or to re-
classify the presentation of individual items in the financial statements, which is not in
accordance with the requirements of the Accounting Standards for Business Enterprises
or other relevant financial and accounting laws and regulations promulgated by the State;
(2) audit evidence cannot be obtained as required in the Independent Auditing Standards,
due to a significant limitation on the audit scope on certain aspects; or
(3) the application of individual material accounting treatments is not consistent.

If a CPA prepares an audit report with a qualified opinion, an explanatory paragraph should
be added before the opinion paragraph. The CPA should use professional language such as
‘except for the matters mentioned above,’ or ‘except for the previously disclosed matters
awaiting determination,’ etc. in the opinion paragraph. (CICPA, 1995)

The Chinese auditing standards went into effect on January 1, 1996. Nevertheless, audit
reports other than the standard form (unqualified opinions) did not appear in practice until late
1996 as Chinese auditors were reluctant to issue non-standard audit reports in order to please
their clients and the sponsoring government authorities (Xu, 1998).

However, the Chinese auditors are exposed to greater risk in public practice due to increasing
diversification of business ownership and continuing deregulation of governmental business
administration. Challenges or legal lawsuits have emerged against auditors for their negligence
or audit failures. In particular, in 1996 the Supreme People’s Court of China held auditors
liable for losses sustained by the interested parties who had relied upon the untruthful financial
statements and audit reports.5 This unprecedented court ruling evoked growing public concerns
about the auditor’s responsibility for fraud detection and reporting in China (Li and He, 1999).
Consequently, Chinese auditors had to implement procedural changes in auditing practice in
order to minimize their exposure to lawsuits and legal liability. The U.S.-style qualification of
audit report appeared subsequently and has increased steadily in recent years.6

There is, however, no discussion in Chinese auditing literature on whether the newly adopted
changes in audit reporting could effectively convey auditors’ opinions to financial statement
users. Doubtless the qualification of audit reports is not merely a technical change in the
auditing procedures; it should have profound implications for auditing development in China.
The adoption of the new format and wording of the audit report can be interpreted as the Chinese profession’s attempt to standardize auditing procedures and control the risk exposure of auditors. Nonetheless, it is necessary and worthwhile to empirically investigate the responses of Chinese investors and creditors towards the qualification of audit reports. In addition, analysis of the effects of qualified auditor opinions may prompt the Chinese auditing profession and the government regulatory authorities to improve Chinese auditing standards in response to the needs of the audit beneficiaries.

Following the mainstream viewpoints concerning the nature and implications of the qualification of audit reports prevailing in North America and other industrialized countries, we posit that the change in the format and wording of audit reports, brought about by the enforcement of recently established independent auditing standards in China, may not only represent a precautionary procedure against potential legal liability by Chinese auditors, but may also have an impact on users’ evaluation and use of the financial statements in the current course of China’s move towards a market-based economy. In particular, the qualified auditor opinions are a significant departure from the wording of former audit reports that had emphasized the legal responsibility of Chinese auditors to certify, from a perspective of a governmental agent, compliance with government regulations. Nonetheless, the actual effects of the qualification of audit reports depend upon the users’ comprehension and acceptance. The primary hypothesis to be investigated in this study is thus specified as follows:

H1. The qualification of an audit report has “information content” relevant to the decisions of financial statement users in the current auditing environment in China.

More specifically, the utility of an audit report is determined by whether it could provide reasonable assurance of the credibility of financial statements and assist users in making rational economic decisions. The qualified auditor opinions can be regarded as the auditors’ reservations about the “cleanness” of the financial statements. Such a message should be recognized by financial statement users if the qualification of an audit report has “information content.” Therefore, the primary hypothesis is supplemented by two sub-hypotheses to facilitate data analysis:

H1.1. A qualified auditor opinion, in contrast to an unqualified opinion, has a negative impact on users’ assessments of the credibility of the financial statements.

H1.2. A qualified auditor opinion, in contrast to an unqualified opinion, has a negative impact on users’ investment and credit decisions.

4. Methodology and data

An experimental research approach was employed in this study. The main rationale is that this study method enables researchers to manipulate the independent variable and measure its effects on the dependent variable while having all other variables that may confound such a relationship eliminated or controlled (Zikmund, 1994, p. 242). To examine the relationship between audit reports and users’ perceptions of the “information content,” it is logical to
manipulate the type of audit report (e.g., qualified or unqualified opinion) and test its impact on users’ investment or credit decisions while keeping confounding variables under control. In addition, we anticipated that the experimental approach is relatively productive since the personal interview and mailing survey methods are currently not popular in China. Also, it is difficult to conduct a direct observation of the association between audit reports and users’ investment or credit decisions through stock market reactions owing to the unavailability of a reliable financial database in the country at present.

4.1. Experiment instrument

We adopted an experimental design similar to those that have been applied by some researchers in North America and other industrialized countries to study the “information content” of the qualification of audit reports (Bamber and Stratton, 1997; Gul, 1987; Houghon, 1983; Johnson et al., 1983; LaSalle and Anandarajan, 1997). We have both investor and creditors in our experiment since they are the main beneficiaries of the financial statements and audit reports (SFAC No. 1, FASB, 1978). In our study design, a case of a hypothetical Chinese firm seeking funding for business expansion by either selling a portion (10%) of its equity-interest to an outside investor, or obtaining a 10-year loan of RMB ¥150 million (1US$ = RMB ¥8.25) from a bank or other financial institution was developed. Based on the specified total equity of the firm, the amount involved in the investment or the credit decision is roughly the same. The case package contained information about the firm’s business background (such as its ownership structure, industry, main products, and existing market share), key financial data and ratios for the most recent 2 years, and an audit report on its financial statements. The case materials were adapted from the annual report of a real Chinese listed firm in order to ensure their relevance to the participants. The experiment instrument was prepared in Chinese to ensure its understandability since all participants were working and studying in mainland China. The instrument had been reviewed by a small group of participants who worked as financial managers of business entities and loan officers from financial institutions in a 2-day seminar on corporate financial management held by a local authority in the Shenzhen Special Economic Zone. Minor modifications were made before the finalization of the instrument. The English translation of the experiment instrument is presented in the Appendix.

4.2. Experiment participants

Participants in the experiment consisted of business managers and credit or loan officers from banks and other financial institutions. They were asked to assess the credibility of the audited financial data and recommend either an investment (purchasing a portion of the equity-interest of the hypothetical firm) or a credit (granting the long-term loan) decision based on the information provided in the case package. Participants were directed by written instructions to recommend the investment or credit decision according to their own job experience, e.g., business managers (including corporate financial managers) should make an investment recommendation while credit and loan officers make the loan-granting recommendation. In addition, each respondent was asked to identify his/her job-specification in the profile data section to ensure proper grouping of the respondents for data analysis. Due to the difficulty of selecting a
large sample, we chose the students of Executive MBA programs at four key Chinese universities located in Shanghai, Guangzhou, and Xiamen, as the surrogates for investors and creditors. These part-time EMBA students worked at business enterprises in varied industries (e.g., manufacturing, telecommunication, commercial and trading, transportation and construction) and banks or other financial institutions across the country. They must have had work experience of at least 5 years before their admission to the EMBA programs.7

4.3. Data collection

The experiment was carried out in a regular seminar section of the EMBA program at each of the four universities. Two hundred and sixty-four persons participated in the experiment. All

Table 1
Profile data of the respondents

<table>
<thead>
<tr>
<th>Job specifications</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business executives</td>
<td>140</td>
<td>65.1</td>
</tr>
<tr>
<td>Credit and loan officers</td>
<td>75</td>
<td>34.9</td>
</tr>
<tr>
<td>Total</td>
<td>215</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>152</td>
<td>70.7</td>
</tr>
<tr>
<td>Female</td>
<td>63</td>
<td>29.3</td>
</tr>
<tr>
<td>Total</td>
<td>215</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Work experience</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Junior level (&lt; 6 year)</td>
<td>45</td>
<td>20.9</td>
</tr>
<tr>
<td>Middle-level (6–15 year)</td>
<td>53</td>
<td>24.7</td>
</tr>
<tr>
<td>Senior-level (&gt;15 year)</td>
<td>117</td>
<td>54.4</td>
</tr>
<tr>
<td>Total</td>
<td>215</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comprehension of audit reports</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited</td>
<td>62</td>
<td>29.3</td>
</tr>
<tr>
<td>General</td>
<td>135</td>
<td>62.8</td>
</tr>
<tr>
<td>Sufficient</td>
<td>17</td>
<td>7.9</td>
</tr>
<tr>
<td>Total</td>
<td>214</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Use of audit report</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seldom</td>
<td>73</td>
<td>34.2</td>
</tr>
<tr>
<td>Generally</td>
<td>117</td>
<td>54.6</td>
</tr>
<tr>
<td>Widely</td>
<td>24</td>
<td>11.2</td>
</tr>
<tr>
<td>Total</td>
<td>214</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Use of financial statements</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seldom</td>
<td>48</td>
<td>22.5</td>
</tr>
<tr>
<td>Generally</td>
<td>116</td>
<td>54.2</td>
</tr>
<tr>
<td>Widely</td>
<td>50</td>
<td>23.2</td>
</tr>
<tr>
<td>Total</td>
<td>214</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* One participant had only filled in the profile questions 1–3. Thus, the sum of total respondents for profile questions 4–6 is 214 instead of 215.
participants received the same information package except for different types of audit report, i.e., a standard (unqualified) report or a qualified report in terms of restriction in the scope of audit work and uncertainty of inventory valuation (e.g., no physical count and valuation verification of the specific electronic inventory for a main subsidiary located in another part of the country).\(^8\) Roughly an equal number of case packages with the unqualified and qualified auditor opinion were distributed. To prevent a potential demand effect in the experiment, none of the participants was informed of the difference in the auditor opinion contained in the case package. The experiment was stringently monitored at the four experiment sites to ensure each participant completed the case exercise independently. At the end of the experiment, a debriefing was conducted to clarify any inquiries about the experiment for the purpose of reliability check. The participants expressed no particular confusion arising from the information and the experiment requirements contained in the experiment instrument.

The participants’ assessments of the credibility of the audited financial data were expressed in a 7-point scale from “not reliable” to “very reliable.” Their investment or credit decisions were expressed in a 5-point scale from “definitely not recommended” to “definitely recommended.”

The demographic data, presented in Table 1, were utilized for data sorting or regrouping for statistical analysis. Initially 36 of the returned experiment instruments were dropped because those participants did not complete the information about their job-specifications and could not satisfy our subject-selection criterion of investors and creditors.\(^9\) Another 13 of the completed cases were excluded due to substantial missing data, resulting in 215 useable experiment instruments. Among them, 140 are business managers or financial controllers and 75 work at banks and other financial institutions. One hundred and fifty-two of the participants are male and 63 are female. More than half of the respondents have work experience of over 15 years.

### 5. Results

Descriptive statistics regarding the participants’ credibility assessment and investment/loan decision scores are presented in Table 2. Overall, the group means of the credibility assessment for participants who received the unqualified or qualified audit report were 4.360 and 3.924, respectively (the measuring scale is 1–7 from “not reliable” to “very reliable”). Based on the results of both independent-sample \(t\)-tests and nonparametric Mann–Whitney tests,\(^{10}\) the two groups’ means are statistically significant only at 0.10 level. The data demonstrate that

<table>
<thead>
<tr>
<th></th>
<th>Unqualified group ((n = 109))</th>
<th>Qualified group ((n = 106))</th>
<th>(t)-statistic ((p)-value)</th>
<th>MW Z-score ((p)-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credibility assessment</td>
<td>4.3600 (1.2916)</td>
<td>3.9245 (1.3015)</td>
<td>1.887 (0.089)*</td>
<td>−1.651 (0.092)*</td>
</tr>
<tr>
<td>Investment/credit decision</td>
<td>3.4954 (1.1436)</td>
<td>3.3018 (1.2045)</td>
<td>1.208 (0.229)</td>
<td>−1.206 (0.229)</td>
</tr>
</tbody>
</table>

\(^*\)The significant level at \(p = 0.10\).

The measuring scale for the credibility assessment is 1–7, from “not reliable” to “very reliable,” and for the investment/credit decision is 1–5, from “definitely not recommend” to “definitely recommend.”
the qualification of audit reports in terms of restriction of audit scope relating to inventory valuation, on the aggregated level, has a marginal effect on assessing the credibility of financial data. In other words, the respondents perceived financial data accompanied by a qualified auditor opinion as less credible than those accompanied by an unqualified opinion. This finding provides weak support for hypothesis H1.1 that the qualification of an audit report has a negative impact on the credibility of financial statements.

Regarding users’ investment or loan decisions in respect of the use of different kinds of audit report, Table 2 reveals that the means for the two groups of respondents, who received the unqualified or qualified audit report, were 3.495 and 3.301, respectively, with no statistically significant between-group difference. Thus, hypothesis H1.2 could not be supported. In other words, we obtained no convincing evidence that in the current auditing environment in China, users’ investment or credit decisions would be different when responding to an unqualified or a qualified auditor opinion.

We then grouped the respondents into business managers and loan officers by job-specification. We tested whether there was any significant difference in the responses of the two subgroups with respect to the qualification of audit report. Relevant descriptive statistics are presented in Table 3. The variance relating to the credibility assessment is fairly marginal within the business managers group. In contrast, the credit and loan officers more strongly perceived the qualified auditor opinion as having a negative impact on the credibility of financial statements (significant at a 0.05 level). Nevertheless, the participants of the two subgroups were fairly consistent in their investment or loan decisions with respect to the qualified auditor opinion. The results suggest that the qualification of audit reports would not have a significant impact on the decisions made by investors or creditors even though it may affect their assessment of the credibility of financial statements.

Table 4 lists the descriptive statistics of the experiment data sorted by the participants’ work experience. The grouping criterion for the junior- , middle-, and senior-levels was less than 6 years, 6–15 years, and greater than 15 years, respectively, with the sample-size for each subgroup being 45, 73, and 97. One-way ANOVA testing indicated that there were certain statistically significant differences in the perceptions of the effect of the qualified auditor opinion among the three subgroups sorted by job seniority (significant at 0.05 level for the
Table 4
Descriptive statistics for job-seniority subgroups

<table>
<thead>
<tr>
<th></th>
<th>Unqualified group, means (S.D.)</th>
<th>Qualified group, means (S.D.)</th>
<th>t-statistic (p-value)</th>
<th>MW Z-score (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credibility assessment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior-level (n= 18; 27)</td>
<td>3.944 (1.241)</td>
<td>3.777 (1.282)</td>
<td>1.213 (0.232)</td>
<td>0.901 (0.369)</td>
</tr>
<tr>
<td>Middle-level (n = 27; 26)</td>
<td>4.370 (1.363)</td>
<td>3.385 (1.233)</td>
<td>2.412 (0.042)**</td>
<td>-1.882 (0.046)**</td>
</tr>
<tr>
<td>Senior-level (n = 64; 53)</td>
<td>4.437 (1.283)</td>
<td>4.283 (1.302)</td>
<td>1.037 (0.302)</td>
<td>-0.938 (0.348)</td>
</tr>
<tr>
<td>One-way ANOVA (p-value)</td>
<td>1.033 (0.357)</td>
<td>3.103 (0.039)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment/credit Decision</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior-level (n = 18; 27)</td>
<td>3.389 (1.148)</td>
<td>3.185 (1.140)</td>
<td>0.406 (0.371)</td>
<td>-1.224 (0.221)</td>
</tr>
<tr>
<td>Middle-level (n = 27; 26)</td>
<td>3.481 (1.014)</td>
<td>2.962 (1.183)</td>
<td>1.720 (0.091)*</td>
<td>-1.675 (0.096)*</td>
</tr>
<tr>
<td>Senior-level (n = 64; 53)</td>
<td>3.531 (1.208)</td>
<td>3.585 (1.199)</td>
<td>-0.240 (0.811)</td>
<td>-0.193 (0.847)</td>
</tr>
<tr>
<td>One-way ANOVA (p-value)</td>
<td>0.110 (0.896)</td>
<td>2.743 (0.069)*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The measuring scale for the credibility assessment is 1–7, from “not reliable” to “very reliable,” and for the investment/credit decision is 1–5, from “definitely not recommend” to “definitely recommend.”

*The significant levels at \( p = 0.10 \) level.

**The significant levels at \( p = 0.05 \) level.

The table indicates that respondents in the middle-level group reacted most sensitively to the qualification of audit reports since the between-subgroup (unqualified vs. qualified opinion) \( t \)-statistics and MW Z-scores are statistically significant for the credibility assessment and investment/loan decision scoring means. In other words, the participants with middle-level job positions had a

Table 5
Descriptive statistics for subgroups by familiarity with audit report

<table>
<thead>
<tr>
<th></th>
<th>Unqualified group, means (S.D.)</th>
<th>Qualified group, means (S.D.)</th>
<th>t-statistic (p-value)</th>
<th>MW Z-score (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credibility assessment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited comprehension</td>
<td>4.387 (1.263)</td>
<td>4.030 (1.304)</td>
<td>1.124 (0.226)</td>
<td>-0.964 (0.262)</td>
</tr>
<tr>
<td>General comprehension</td>
<td>4.203 (1.324)</td>
<td>3.914 (1.384)</td>
<td>1.864 (0.109)</td>
<td>-1.486 (0.114)</td>
</tr>
<tr>
<td>Sufficient comprehension</td>
<td>4.500 (0.982)</td>
<td>3.714 (1.246)</td>
<td>2.853 (0.003)**</td>
<td>-2.412 (0.007)**</td>
</tr>
<tr>
<td>One-way ANOVA (p-value)</td>
<td>1.668 (0.188)</td>
<td>2.469 (0.084)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment/credit decision</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited comprehension</td>
<td>3.290 (1.064)</td>
<td>3.212 (1.262)</td>
<td>-0.214 (0.868)</td>
<td>-0.202 (0.894)</td>
</tr>
<tr>
<td>General comprehension</td>
<td>3.516 (1.012)</td>
<td>3.328 (1.123)</td>
<td>0.648 (0.241)</td>
<td>-1.224 (0.224)</td>
</tr>
<tr>
<td>Sufficiently comprehension</td>
<td>3.500 (1.132)</td>
<td>3.142 (1.174)</td>
<td>1.962 (0.096)</td>
<td>-1.646 (0.103)</td>
</tr>
<tr>
<td>One-way ANOVA (p-value)</td>
<td>1.362 (0.464)</td>
<td>0.945 (0.434)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The measuring scale for the credibility assessment is 1–7, from “not reliable” to “very reliable,” and for the investment/credit decision is 1–5, from “definitely not recommend” to “definitely recommend.”

*The significant levels at \( p = 0.10 \) level.

**The significant levels at \( p = 0.01 \) level.
relatively better understanding of the difference between the unqualified and qualified opinion and responded to the qualification of audit reports more cautiously than their counterparts at the junior- and senior-levels.

The application of U.S.-style qualification of audit reports in China is a relatively new event. Users’ assessment and use of audited financial statements may also depend upon their familiarity with, or comprehension of the audit reports and financial statements. We also re-sorted the data into three subgroups, i.e., limited comprehension, general comprehension, and sufficient comprehension. As illustrated in Table 5, one-way ANOVA testing reveals significant between-group differences only for the credibility assessment in the means of the three subgroups. However, the difference comes mainly from the responses within the sufficient comprehension group with respect to the unqualified versus qualified auditor opinion. No significant differences were found either within or between the other two subgroups. The number of respondents in the “sufficient comprehension” group is very small and accounted for only 7.9% of the total respondents. Therefore, it is not appropriate to infer that users’ familiarity with audit reports had a significant effect on their understanding and use of the audited financial data in the decision-making process.

6. Analysis and discussion

This study found mixed results regarding whether qualification of audit reports has “information content” to users in the present auditing environment in China. We obtained evidence that a qualified auditor opinion had a negative impact on users’ assessment of the credibility of financial data, or that it may lead users to perceive the financial statements as relatively less credible. But this perception is mainly from the credit and loan officers. The qualification of audit reports has little effect on business managers’ assessment of the credibility of financial statements. However, no significant difference was found regarding the influence of the qualification of audit reports on Chinese users’ investment or loan decisions. Thus, the primary hypothesis of this study can only be partially and weakly supported.

Various explanations are available. First, this study demonstrates that the content and meaning of different forms of audit report may not have been fully understood by financial statement users in China. Although the Chinese auditing profession has introduced the U.S.-style qualified opinion as a new form of audit reporting with specific professional meaning, a majority of users (business managers in particular) could not tell the difference between an unqualified (standard) report and a qualified audit report. Even though the credit and loan officers demonstrated a better understanding of the implications of a qualified opinion in assessing the credibility of financial statements, this pattern may be due to their greater exposure in daily work to the financial statements and audit reports of various business entities. Nonetheless, this may not mean that they could fully understand the nature or implications of the qualification of audit reports. In fact, as indicated by the demographic data listed in Table 1, only 7.9% of the respondents claimed that they could sufficiently understand the meaning or implications of audit reports while the rest claimed as having only a general or limited understanding of audit reports. However, as illustrated in Table 5, the familiarity with audit reports is, at the moment, not a sufficient condition for understanding the difference between an unqualified
and a qualified auditor opinion because there is no significant variance in the group means of the participants who acknowledged “limited comprehension” or “general comprehension” of audit reports. Even among the fairly small portion of the respondents who claimed “sufficient comprehension,” no significant difference was found in their investment or loan decisions corresponding to the two types of auditor opinion. Thus, the qualified auditor opinions have currently little “information content” to financial statement users in China.

Second, our study findings also reveal that the role of auditing in China remains limited since audit reports have not been seriously utilized in Chinese users’ investment and loan decisions. In addition to being no substantial difference in users’ responses to the qualification of audit reports, the study found that a considerable portion of the respondents had rarely relied upon the financial statements in making business and financial decisions. As shown in Table 1, 54.2% of the respondents reported that their use of financial statements was only general, and 22.5% of them, including both business managers and loan officers, claimed they rarely used financial statements in their daily work. In addition, about 34% of the total respondents expressed that they seldom used audit reports. The majority of this experiment’s participants were business and financial managers, securities analysts, and credit and loan officers with work experience at relatively senior-levels. Their views may reflect the general attitudes of financial statement users in the country. This result may indicate that the positive role of the independent auditing (public accounting) has not been fully recognized in China. A main reason could be due to the persistent influence of the governmental administration of business operations in past decades under the traditional centrally planned economy. Funding for business enterprises (both capital investments and bank loans) was mainly determined by the government’s policy needs, while accounting information had long been ignored in business and financing decisions (Lin et al., 1998). Furthermore, independent auditing was suspended for over 30 years before the early 1980s, and the capital market has not yet been fully developed in China. To date, most Chinese investors and creditors remain accustomed to the decision-making process that seldom relies upon accounting numbers and audit services. Based on the findings of this experimental study, we may infer that a considerably large number of Chinese investors and creditors do not, or cannot, fully recognize the positive role of independent auditing in business or financing decisions. As a result, the new form of qualified audit report introduced in China since late 1996 might not have achieved the expected effect.

Another possible explanation is that the adoption of the western-style qualification of audit reports may be difficult for Chinese users to understand or interpret. In particular, the “except for” qualification phrase is relatively remote to Chinese financial statement users. The issue here is not just the technical jargon of audit reporting, but also the differences that stem from varied languages and cultures prevailing in the West and China. For example, the qualified expression is not popular in Chinese writing (Li and He, 1999). The existing western-style qualified auditor opinion or related reporting procedures may not be effective to communicate the audit outcomes to users and other interested parties in China. Although it is admirable that the Chinese auditing profession has tried to promote a harmonization of Chinese auditing practices with those prevailing in the West, a simple adoption of the Western auditing standards or procedures might not necessarily achieve a desirable outcome in China owing to significant social, economic, and cultural differences. Adaptation in terms of the specific conditions in China should be made in Chinese auditing practices.
Our study findings have some positive implications for auditing development in China. Since a large percentage of users have only a limited understanding of, or make seldom use of audit reports at present, the Chinese auditing profession or the governmental regulatory authority should make a greater effort to promote users’ awareness of the positive role of independent auditing as China moves towards a market-oriented economy. Furthermore, Chinese auditors should enhance the public’s awareness of the nature, meaning, and implications of the audit report in order to improve the relevance and usefulness of independent audits to users’ investment and credit decisions.

This study also found that the participants in the middle-level experience group responded differently, to substantial extent, to the qualification of audit reports contrasting to their counterparts in the junior and senior groups. The explanation may be that those participants in the middle-level group completed their education after the commencement of China’s economic reforms in the early 1980s. They have obtained the knowledge of auditing and other modern management sciences and had 6–15 years of work experience. These persons were relatively familiar with the role or utility of the financial statements and audit reports. However, it is interesting to note that there is no significant difference in the responses of the participants with work experience at senior-level towards the unqualified or qualified auditor opinion. This may be because most respondents in the senior group were trained in the centrally planned economy during the past few decades and lacked the knowledge or comprehension of contemporary accounting and auditing. Nonetheless, the senior-level respondents hold key positions in Chinese businesses and financial institutions today. It is certainly imperative to upgrade their knowledge and application of accounting, auditing, and other management sciences in order to improve business management and operating efficiency in China.

7. Study limitations

With the existing experimental design, only the primary effect between the qualification of audit report (independent variable) and users’ responses (dependent variable) was tested. No specific examination on the potential interactive effect within the dependent variables (e.g., users’ credibility assessment and investment/loan decision) was performed. Investors and creditors may have different concerns in decisions making which may confound their utilization of audit reports. Also, specific job capacities of individual respondents within either the business manager or loan officer subgroup may affect the respondents’ understanding and use of audit reports. These issues have not been investigated in detail in this study due to certain limitations in the experimental design and data availability. The related issues are worthy of exploration in future studies.

Although a few profile questions on the comprehension and use of audit reports and financial statements are incorporated in our experimental instrument, the respondents had not been directly asked whether they have performed similar investment/loan decision in their daily work. The external validity of the experiment may be affected if the participants lacked of the expertise in the specialty area. Thus, caution is necessary in the inference of the findings of this study.
Notes

1. Before 1989, the “subject-to” phrase was commonly used to qualify auditor opinions in the U.S. and other Western countries. However, the AICPA recommended in ASA No. 58 (1988) to replace the “subject-to” with the term of “except for.” Some academics contend that there is no substantial difference between the two terms (Taylor and Glezen, 1994, p. 885).

2. In the early 1950s, the auditing function (both governmental auditing and public accounting) was entirely suspended in China and replaced by direct governmental supervision of business activities throughout the country.

3. The difference between a qualified opinion and an adverse opinion lies mainly in the magnitude of the financial statements’ departure from GAAP. A qualified report may be issued if an auditor is convinced that the deviation from GAAP is not substantial. However, an adverse opinion must be issued if the financial statements depart substantially from GAAP.

4. For instance, the American Institute of Certified Public Accountants conducted a survey of 600 SEC registered firms in 1995 and found that about a half of those firms received non-standard audit reports. The qualified opinions accounted for a majority of the non-standard audit reports that had been issued.

5. This ruling was made by the Supreme People’s Court of China in its Judicial Interpretation No. 56 (1996) as a reply to the People’s High Court of Sichuan Province regarding the case of Oriental Trading Company versus Taiyuan Nanjiao Chemical Plant. Deyang Accounting Firm, the defendant’s auditor, was sued by the plaintiff for the untruthful verification of the capital contributions made by the defendant. This case had a profound impact on the legal liability of auditors in China. Lawsuits against Chinese auditors rose sharply and more auditors were held liable by local courts in recent years as a result of the ruling of the Supreme People’s Court. This development has forced Chinese auditors to be more cautious in public practice.

6. According to a recent survey conducted by the China Securities Regulatory Commission (CSRC), about 7.6% of listed companies had received qualified audit reports for their financial statements of 1999, a substantial increase from the 4.0% in 1998 (see Chinese CPA Journal, June 2000, 22).

7. There are two kinds of MBA program offered by Chinese universities; one is the regular MBA and the other is EMBA. The EMBA programs at the key Chinese universities are currently offered jointly with overseas institutions, including direct lecturing by overseas professors from partnering universities. Thus, the admission requirement and tuition fees for EMBA are substantially higher (three to five times) than the regular MBA programs. At present mainly business managers at the middle and senior ranks with relatively long work experience are able to study in the EMBA programs.

8. It should be pointed out that certain differences exist for the conditions of issuing a qualified auditor opinion in China and the U.S. Even though the Chinese auditing standards are a close copy of the U.S. GAAS. For instance the auditor’s doubt about a client’s going-concern is an important reason for the qualification of audit reports
in the U.S. but this is not required in the Chinese auditing standards. As specified by Article 22 of the Chinese auditing standards No. 7, the restriction of audit scope is a main reason for the qualification of audit report in China. Therefore, we incorporated the restriction of audit scope relating to lack of physical inventory for a main subsidiary in the design of the experimental instrument.

9. A possible reason is that the 36 respondents may not work as business managers or bank/loan officers so that they would not fill in the question on job-specification as specified in the profile section of the experimental instrument. We had to exclude them in data analysis since our study interest is of the reaction of the investors and creditors to the qualification of audit reports.

10. The *t*-test was applied to identify the statistical significance of the group means for the participants’ credibility assessment and decision scores (assuming either equal or unequal variances) as the population standard deviations were unknown. The Mann–Whitney test was conducted as it allows the testing of group difference when the population is not normally distributed (Berenson and Levine, 1989).

11. The grouping criterion coincides with the work experience requirement of the government’s accreditation programs for various professional designations in China, e.g., economists, accountants, engineers, asset appraisers, etc., at the junior-, intermediate-, and senior-levels.

Acknowledgments

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Appendix

Experiment instrument (English translation)

Part I. Objectives

This exercise intends to analyze the use of financial reports in making investment or credit decisions. Assume that Blue Sky Company is a listed company in China. It plans to raise funds for business expansion through either selling 10% of its equity interest to an investing partner or borrowing a 10-year loan of RMB¥150 million from a bank or financial institution. You are required to evaluate the company’s financing project through the perspective of either a potential investor or a bank loan officer, and make a recommendation on whether or not to invest in Blue Sky Company or to approve its loan application.
Part II. Case materials

Part II.1. Background of the company

Blue Sky Company was originally a SOE and restructured into a stock company 3 years ago. Currently, a government agency at the provincial level holds 65% of the Company’s equity with the remaining shares being held by other institutional or individual investors. The Company engages mainly in manufacturing telecommunication facilities and other electronic products. The Company has now obtained a market share of 24.3 and 8% for its products in regional and national markets, respectively.

Part II.2. Financial data

The Company’s key financial data for the most recent 2 years are summarized below:

<table>
<thead>
<tr>
<th>Key financial data of Blue Sky Company (at BMR¥10,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
</tr>
<tr>
<td>Sales revenues</td>
</tr>
<tr>
<td>Operating profits</td>
</tr>
<tr>
<td>Other gains (losses)</td>
</tr>
<tr>
<td>Profit after taxes</td>
</tr>
<tr>
<td>Earnings per share</td>
</tr>
<tr>
<td>Current assets</td>
</tr>
<tr>
<td>Current liabilities</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>Total liabilities</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
</tr>
</tbody>
</table>

Part III. Auditors’ opinions about the company’s financial statements

Two types of auditor opinion, i.e., an unqualified and a qualified opinions, were set separately in the experiment instrument by random distribution. The participants were not informed of the difference.

Unqualified opinion

We have conducted an independent audit of the financial statements of Blue Sky Company, including its balance sheet on December 31, 1999 and the statement of profit or loss and the statement of cash flows for the period ending December 31, 1999. We conducted our audit in accordance with the Chinese Independent Auditing Standards.

In our opinion, those financial statements have presented fairly, in all material aspects, the company’s financial position and operating results, and those statements have complied with the requirements as specified in the government’s accounting regulations or standards on a consistent basis.

(signed by a Chinese CPA firm)
Qualified opinion

We have conducted an independent audit of the financial statements of Blue Sky Company, including its balance sheet on December 31, 1999 and the statement of profit or loss and the statement of cash flows for the period ending December 31, 1999. We conducted our audit in accordance with the Chinese Independent Auditing Standards.

In our opinion, except for no physical count and valuation verification of specific electronic inventory at a main subsidiary located in another part of the country, those financial statements have presented fairly, in all material aspects, the company’s financial position and operating results, and those statements have complied with the requirements as specified in the government’s accounting regulations or standards on a consistent basis.

(signed by a Chinese CPA firm)

Part III.1. Investment or loan decision

1. Please assess the reliability of Blue Sky Company’s financial data by circling a number that most appropriately reflects your opinion.

   Not reliable       2       3       4       5       6       7 Very reliable

2. Would you recommend either investing in Blue Sky Company or granting a long-term loan to the company? (Please circle the most appropriate number from the perspective of your own work experience as a business manager or a loan office, i.e., you should make investment recommendation if you hold a business management position, and make loan recommendation if you hold a credit or loan position at a bank or other financial institution.)

   Definitely not recommend     2       3       4       5 Definitely recommend

Part III.2. Demographic data

The following demographic data are collected to facilitate data sorting and statistical analysis. For each item, please insert a tick next to the description that best fits you. Participants in this exercise will be anonymous and data pertinent to any specific personal or business identity will not be disclosed.

1. Type of job: Business manager [ ]; Credit & loans officer [ ]

2. Gender: Male [ ]; Female [ ]

3. Work experience: Less than 6 years [ ]; 6-15 years [ ]; More than 15 years [ ]
4. Your understanding of the auditor’s opinion:
   Limited comprehension [ ]; General comprehension [ ]; Sufficient comprehension [ ]

5. Your use of audit reports:   Seldom use [ ]; Generally use [ ]; Widely use [ ]

6. Your use of financial statements: Seldom use [ ]; Generally use [ ]; Widely use [ ]

References


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