

**Client Identification, Professional Identification, and Social Bond with  
Work Associates:  
How They Influence Auditors' Fair Value Materiality Judgments**

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This dissertation is dedicated to my beloved parents for their unconditional love,  
support, and encouragement

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## **List of Abbreviations**

AICPA	American Institute of Certified Public Accountants
ANOVA	Analysis of variance
ASBE	Accounting Standards for Business Enterprises
AUASB	Auditing and Assurance Standards Board of Australia
CICPA	Chinese Institute of Certified Public Accountants
CPA	Certified Public Accountants
CSRC	China Securities Regulatory Commission
FASB	Financial Accounting Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
MOF	Ministry of Finance
PCAOB	Public Company Accounting Oversight Board of the United States
SEC	Securities and Exchange Commission of the United States

## Abstract

Given the worldwide adoption of International Financial Reporting Standards (IFRS), auditors are increasingly required to assess their clients' fair value measurements and provide assurance that the fair values are free from material misstatements. However, fair value measurements are subjective and require extensive professional judgments. Evidence shows that fair value audit is one of the most significant challenges for auditors and is implicated in audit failures, substantial corporate collapses, and global financial crises. Indeed, there are increasing calls from standard setters, regulators, and researchers for more research into factors that influence auditors' evaluation of clients' fair value measurement. Responding to these calls, this thesis examines relevant situational and individual factors that influence auditors' fair value materiality judgments. This thesis invokes theoretical models in the auditing literature, such as those of Hurtt et al. (2013) and Nolder and Kadous (2018), which highlight the importance of both situational and individual factors in understanding auditors' judgments and decision making. The situational factor examined in this thesis is *outcome imprecision*, which refers to the degree of variability of possible misstatements and is manipulated at two levels by providing auditors with either a *precise* or *imprecise* range of possible misstatements on fair value. The individual factors are auditors' *client identification*, *professional identification*, and *social bond* with work associates, and these are measured by using well-established, reliable, and valid scales in management and business. Specifically, this thesis provides empirical evidence on the joint effect of these three factors on auditors' fair value materiality judgments in two situations, namely when the possible misstatement is *precise* and when it is *imprecise*. China was chosen as the national context for this thesis because of China's significant economic and social influence in global business, and importantly there are concerns about the audit quality of Chinese companies. In addition, fair value measurements are an important and challenging issue for auditors, audit firms, regulators, and researchers in the Chinese context. Given the emerging nature of such research, providing causal evidence is particularly important in extending existing studies. Therefore, a between-subject experiment was conducted among Chinese professional auditors. The findings support the hypotheses that when the possible misstatement is imprecise, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether: their *client identification* is high or low; their *professional identification* is high or low; and their *social bond* with work associates is high or low. The findings also support the hypotheses that when the possible misstatement is precise, auditors with high (low) *professional identification* are more (less) likely to consider that the misstatement is material and request an audit adjustment; and that auditors with high (low) *social bonds* with work associates are more (less) likely to consider that the misstatement is material and request an audit adjustment. However, the findings show that when the possible misstatement is precise, auditors with high (low) *client identification* do not significantly differ in their judgments on fair value materiality. This thesis contributes to the auditing literature by demonstrating the importance of taking into account both situational and individual factors when examining auditors' judgments. It contributes to the global convergence of accounting and auditing practice, and the findings will benefit global standard setters, national regulators, audit firms, and organizations in enhancing the audit quality of fair value measurements.

**JEL code:** M42

**Keywords:** Auditors' fair value materiality judgments; Outcome imprecision; Client identification; Professional identification; Social bond; China.



## **Statement of Candidate**

The work presented in this dissertation has not been submitted for a higher degree to any other university or institution. The source of information used and the extent to which the work of others has been utilized is acknowledged in the dissertation. Ethics Committee approval has been obtained (Reference Number: 5201954079279).

**Sookie Siqi Zong**

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# CHAPTER 1.

## INTRODUCTION: AUDITORS' FAIR VALUE MATERIALITY JUDGMENTS

### 1.1 Introduction

Given the increasing global convergence of accounting and auditing standards and practice, fair value measurement is a critical and controversial issue (Bratten, Gaynor, McDaniel, Montague, and Sierra, 2013; Christensen, Glover, and Wood, 2012; Griffith, Hammersley, and Kadous, 2015; Glover, Taylor, and Wu, 2016; Bewley, Graham, and Peng, 2018). Fair value is defined in International Financial Reporting Standard (IFRS) 13 *Fair Value Measurement* as ‘the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date’ (IFRS, 2013). More than 140 countries have adopted IFRS, and 25 of these require accountants to use fair value as the basis for measuring assets and liabilities (IFAC, 2018). Moreover, accountants and auditors are required to extensively exercise their judgments in applying fair value, particularly in the absence of reliable market prices (Griffin, 2014). IFRS 13 provides a three-level hierarchy of fair value measurement: ‘Level 1 inputs are quoted prices in active markets for identical assets or liabilities (e.g., a share of common stock in a large publicly traded company), which is the most reliable evidence of fair value, and should be used whenever this information is available (Christensen et al., 2012; Chung, Goh, Ng, and Yong, 2015; Ochi, 2017). Level 2 inputs are observable but do not meet the criteria for Level 1 (e.g., quoted prices in active markets for similar items), and Level 3 inputs are unobservable but based on the best information available’ (e.g., a piece of machinery that is customized for the use of the entity, and therefore has no active market or identical asset to observe the value). IFRS 13 requires ‘preparers to give the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs’. Since fair value measurements for which observable market prices are not available are inherently imprecise, values of Level 3 assets can only be estimated based on models and subjective assumptions, which allows significant room for professional judgments and leads to fair value measurement uncertainty (IASB, 2018; PCAOB, 2018b). In fact, the International Accounting Standards Board (IASB) clearly proposes the concept of ‘measurement uncertainty’ for matters such as Level 3 unobservable inputs and concludes that measurement uncertainty is a factor that impacts faithful representation (IASB, 2018).

Researchers have also raised concerns about inconsistencies in accountants' and auditors' fair value judgments (Griffith et al., 2015; Glover et al., 2016; Cannon and Bedard, 2017). Implementing fair value has resulted in extensive debates and controversy (Bell and Griffin, 2012; Bratten et al., 2013; Griffith et al., 2015; Cannon and Bedard, 2017). Indeed, empirical evidence suggests that fair value is one of the major reasons for corporate collapses, audit failures, poor-quality financial reporting, and financial crises both internationally and in China (Dechow, Myers, and Shakespeare, 2010; Jiraporn, Kim, and Mathur, 2008; Kothari and Lester, 2012; Laux and Leuz, 2009; Peng and Bewley, 2010). As a result, researchers have called for more rigorous research into various factors that influence fair value measurement (He, Wong, and Young, 2012; Macve, 2015; Griffin, 2014; Cannon and Bedard, 2017; Kachelmeier and Van Landuyt, 2017). Moreover, regulators and global standard setters, including the IASB, the Financial Accounting Standards Board (FASB), the International Auditing and Assurance Standards Board (IAASB), and the Public Company Accounting Oversight Board (PCAOB) have also called for more rigorous research into fair value (IFRS, 2018; FASB, 2018; IAASB, 2018a; PCAOB, 2019).

In the auditing context, auditors are required to assess their clients' fair value measurements and provide reasonable assurance that the fair values are free from material misstatements. A misstatement is defined as 'the difference between the auditor's estimate and management's estimate' (IFAC, 2010, pp. 494–495). Misstatements, including omissions, are considered to be 'material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements' (IFAC, 2009, p. 314). When auditors deem misstatements to be material, clients are required to adjust fair values before presenting them in their financial statements (IFAC, 2016). Given that fair value measurements are extensively subjective and unobservable,<sup>1</sup> fair value audit poses extensive challenges to auditors (Cannon and Bedard, 2017; Griffith et al., 2015; Glover et al., 2016).

Evidence shows that one of the major reasons for low audit quality is that auditors experience significant difficulties with fair value estimates (PCAOB, 2018a; Bratten et al., 2013; Griffith et al., 2015; Cannon and Bedard, 2017). For example, the IASB (2018) suggests that 'some areas of IFRS 13 Fair Value Measurement present implementation challenges, largely in areas

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<sup>1</sup> 'Unobservable inputs are inputs used in fair value accounting for which there is no market information available, which instead use the best information available for pricing assets or liabilities. In which case, the determination of fair value of assets involves heavily the subjective assumptions of management. (Penman, 2007).

requiring judgment'. Moreover, the PCAOB (2018a) concludes that 'Accounting estimates ... including those based on fair value measurements ... are some of the areas of greatest risk in the audit, requiring additional audit attention and appropriate application of professional skepticism. Auditing accounting estimates (including fair value measurements) has proven challenging for auditors'. International auditing standards setters and regulators have made great efforts to enhance the audit quality of fair value measurement. For example, the revised ISA540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*<sup>2</sup> specifies that 'more robust requirements and detailed guidance to foster audit quality.' The PCAOB recently amended auditing standards relating to fair value measurement, including AS 2501, which particularly addresses the risks of material misstatements relating to fair values and emphasizes the importance of applying auditors' professional judgment (PCAOB, 2018a; PCAOB, 2019).

Fair value materiality judgment is selected for examination in this study because materiality forms the basis for the auditor's opinion about whether the financial statements as a whole are free from material misstatement, which requires auditors to exercise professional judgment (IFAC,2008). However, prior research suggests that, under existing auditing standards, auditors find it difficult to determine what constitutes reasonable assurance on high-uncertainty estimates, in particular, fair value measurements (IAASB,2018a; IAASBb; Bell and Griffin, 2012; Christensen et al., 2012; Griffin, 2014). Theoretical models designed to improve auditors' judgments and actions have identified relevant 'situational' and 'individual' factors (Nolder and Kadous, 2018). Situational factors include social and contextual elements such as firm culture, audit task, auditing standards, firm methodology, and client pressure, while individual factors include personal traits, motivation, knowledge, and ability.

The situational factor examined in this study is *outcome imprecision*. Prior research shows that high uncertainty of fair value valuations in the absence of reliable market prices often results in *outcome imprecision* (Nelson, Smith, and Palmrose, 2005; Christensen et al., 2012; Cannon and Bedard, 2017). *Outcome imprecision* refers to the degree of variability in the range of possible outcomes from which managers choose a recognized fair value amount (AUASB, 2015). Imprecision is the range of possible outcomes from which preparers select an amount

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<sup>2</sup> In June 2018 the IAASB approved ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, as a final standard. The revised ISA will be effective for audits of financial reporting periods beginning on or after 15 December 2019 (IFAC, 2018).

to recognize in the body of the financial statements (Griffin, 2014). A narrow range of variability refers to a situation in which a possible outcome is precise, while a wide range of variability refers to a situation in which a possible outcome is imprecise. Evidence shows that auditors are more likely to request that clients adjust fair values when the possible misstatement is imprecise (Griffin, 2014; Kachelmeier and Van Landuyt, 2017).

There have been calls from standard setters and regulators for researchers to examine the influence of *outcome imprecision* on auditors' judgments (IAASB, 2008; PCAOB, 2009; IFAC, 2018). This thesis extends prior research on several fronts. First, to the best of my knowledge, it is the first research that has been conducted to examine the impact of outcome impression on auditors' fair value materiality judgments. Second, the thesis employs the experiment research method, which allows the causal relationship between *outcome imprecision* and its impact on auditors' fair value materiality judgments to be established. Third, while auditors' judgments are best examined situationally (Nolder and Kadous, 2018), in practice, both situational and individual factors are present and interact; this thesis responds to issues in audit practice and examines whether and how the interaction between the situational factor, namely, *outcome imprecision*, and individual factors, namely auditors' *client identification*, *professional identification*, and *social bond* with work associates, influence auditors' fair value materiality judgments. Moreover, unlike prior research that examines *outcome imprecision* in Anglo-American settings, this thesis provides insights into how *outcome imprecision* influences auditors' fair value materiality judgments in the unique cultural environment of China. Consistent with prior research such as Griffin (2014), *outcome imprecision* is operationalized at two levels by providing auditors with either a precise or imprecise range of possible misstatements on fair value.

In auditing research, an extensive number of studies have examined various issues related to fair value measurement (Christensen et al., 2012; Mayorga and Sidhu, 2012; Griffith et al., 2015; Glover et al., 2016). However, prior research has not rigorously examined the various situational and individual factors that influence auditors' fair value materiality judgments. Auditors must be familiar enough with their clients and clients' management to plan and perform an effective and efficient audit (AICPA, 2020). However, the conflict between (1) auditors' need to be familiar with the client in order to perform the audit, versus (2) the threat to objectivity as a result of this familiarity, has led critics to argue that it is not possible to expect auditors to exercise objective, unbiased judgment (Bazerman et al., 2006; Bamber and

Iyer, 2007; Bauer, 2014; Svanberg, Öhman, and Neidermeyer, 2018; PCAOB, 2018a). There are increasing concerns that close relationships with clients threaten auditors' independence and their ability to exercise the appropriate level of professional skepticism (Carey and Simnett 2006; PCAOB, 2009; Stefaniak, Houston, and Cornell, 2012; Herda and Lavelle, 2015a; Christensen, Omer, Shelley, and Wong, 2018).

Researchers have suggested the importance of identifying various approaches to enhance auditor independence and professional skepticism, particularly with respect to fair value measurement. This issue is particularly critical in countries such as China, a relationship-based society that focuses on collectivism, relationships, and harmony within communities (Liu, Wang, and Wu, 2011; Fan, Woodbine, and Scully, 2012; Law, 2017). These Chinese cultural values are not compatible with the key concept of independence and skepticism that underpins the accounting profession in Anglo-American countries (Patel and Epstein, 2006; Wu and Patel, 2014; Ying, Patel, and Pan, 2020). An important question that requires further examination is how auditors manage and balance the tension between professional requirements, their clients, and their work associates, particularly in hierarchical cultural contexts that value collectivism and harmonious relationships. As noted, there have been extensive calls by global and national standards setters, regulators such as the PCAOB in the United States and the Institute of Certified Public Accountants in China, audit firms, and researchers to examine various antecedent factors that influence auditors' fair value materiality judgments to improve audit quality (PCAOB, 2009, 2018a; Bratten et al., 2013; Griffin, 2014; Glover et al., 2016).

This thesis responds to these calls and extends the literature by providing experimental evidence on the joint effect of *client identification*, *professional identification*, and *social bond* with work associates on auditors' fair value materiality judgments in two situations, namely when the possible misstatement is precise and when it is imprecise. This thesis is underpinned by social identity theory and is selected for examination because prior research in accounting and psychology indicates that social identification affects auditors' judgments in consistent and predictable ways. Specifically, auditors' objectivity and judgments are affected by the extent to which they are 'attached' to a particular group, such as the audit profession or their audit client (Bamber and Iyer, 2007; Stefaniak and Cornell, 2011; Olsen and Gold, 2018). Given the emerging nature of this strand of research, an experimental research design is selected to provide causal evidence to gain better insights into factors that will improve audit quality in fair value measurements.

### 1.1.1 Theoretical Framework

Figure 1 illustrates the theoretical framework underpinning the thesis. As shown in Figure 1, the manipulated situational factor examined is *outcome imprecision*, which is the degree of variability of possible misstatements (Griffin, 2014). A wide range of variability refers to a situation in which possible misstatement is precise, while a narrow range of variability refers to a situation in which possible misstatement is imprecise. Prior research shows that high uncertainty in fair value valuations in the absence of reliable market prices often results in *outcome imprecision* (Nelson et al., 2005; Christensen et al., 2012; Cannon and Bedard, 2017). Evidence also shows that auditors are more likely to request clients to adjust fair values when the possible misstatement is imprecise (Griffin, 2014).

Social identity theory originated from Tajfel and Turner's (1986) research, and Hogg and Turner (1987) in particular is concerned with how human interaction is shaped by interpersonal and intergroup associations. Social identity encompasses both the effects of identifying with a particular group as well as the 'emotional significance attached to that membership' (Greene, 1999, pp. 393). Individuals who identify strongly with a particular group by more closely aligning themselves mentally with that group show enhanced group commitment, and are more likely to suppress their disagreement with questionable group actions, behave unethically on behalf of the group, or give the group the undue benefit of the doubt (Ashforth and Mael, 1989; Ashforth, Harrison, and Corley, 2008). Drawing on social identity theory, two specific identifications are particularly relevant to audit research: *client identification* and *professional identification* (Bamber and Iyer, 2007; Stefaniak et al., 2012; Svanberg and Öhman, 2015; Bauer, 2014; Broberg, Umans, Skog, and Theodorsson, 2018). *Client identification* reflects an auditor's perception of oneness with a client organization (Warren and Alzola, 2009; Bamber and Iyer, 2007; Bauer, 2014). Social identity theory reflects auditor–client relationships that evolve over prolonged interaction as the auditor internalizes the client's norms and values, in addition to relationships that develop rapidly because the auditor perceives the client to share common norms and values or a common fate and common goals (Pratt, 1998; Rousseau, 1998; Stefaniak et al., 2012; Herda and Lavelle, 2015a). Prior studies show that auditors who identify with a client more are more likely to acquiesce to the client's preferred position (Bamber and Iyer, 2007; Bauer, 2014). While *client identification* may pose a threat to auditor objectivity, auditors' *professional identification* may offset this threat (Bauer, 2014). *Professional identification* is the extent to which an auditor experiences a sense of oneness with the profession and commitment to and acceptance of the requirements for the independence and



ethical values of the profession (Hamilton and Monson, 2011; Herda and Lavelle, 2015b; Broberg, Umans, Skog, and Theodorsson, 2018). King (2002) argues that auditors' affiliations with accounting groups (e.g., engagement teams, audit firms, the profession) can protect the former from this unconscious bias. *Professional identification* should promote professional behaviour and objectivity on the part of auditors (Keune and Johnstone, 2012). Bauer (2014) posits that inducing *professional identification* reduces the impact of client bias on auditor judgments. When client and professional goals conflict, it is not desirable for auditors to possess a strong client identity (Bamber and Iyer, 2007) because a strong client identity can exacerbate the conflict auditors experience between serving their client's self-interest and providing objective attestations about the fairness of financial statements (Bauer, 2014). Individuals with multiple identities tend to rely more heavily on the strength of one identity over another, depending on contextual or environmental factors that activate one identity more than the other (Haslam and Ellemers, 2005). This thesis extends that literature by providing empirical evidence of the impact of *client identification* and *professional identification* on auditors' fair value materiality judgments. *Client identification* and *professional identification* are measured on the Organizational Identification Scale, which was developed by Mael and Ashforth (1992) and Wan-Higgins, Riorand, and Griffeth (1998); and applied in auditing research by Bamber and Iyer (2007), Svanberg and Öhman (2015), and Broberg et al. (2018).

Prior studies suggest that Chinese people are socially and psychologically dependent on their work associates and concerned with maintaining harmony within the audit firm by pleasing members of their firms (Patel, Harrison, and McKinnon, 2002; Ying and Patel, 2016; Ying et al., 2020). Work associates may impose social influence on auditors to follow and conform to their expectations (Johanson, 2000; Brink et al., 2016; Ying, Patel, and Pan, 2019). *Social bond* is therefore selected to capture the influence of the strength of the relationship between auditors and their work associates on auditors' judgment and decision making. Wilson (1995, p. 339) defines *social bond* as 'the degree of mutual personal friendship and liking shared by the buyer and seller.' *Social bond* recognizes the influence of personal or emotional elements on business relationships (Mavondo and Rodrigo, 2001; Guan et al., 2016). In this thesis, *social bond* refers to the subjective sense of interpersonal closeness or connectedness towards work associates (Kadous, Leiby, and Peecher, 2013), and is measured using a five-item scale adapted from Mavondo and Rodrigo (2001). The measurement was later used by Barns, Leonidou, Sim and Leonidou (2015) to develop scales to measure the unique Chinese business relationships that are rooted in traditional Chinese cultural values.

This thesis extends prior research by addressing the tensions between auditors' individual factors, namely auditors' professional requirements (*client identification* and *professional identification*), and *social bond* with work associates, and their interaction with a manipulated situational factor, namely *outcome imprecision*. Moreover, it extends the research of Nolder and Kadous (2018) by examining auditors' judgment in a particularly judgment-laden area, namely fair value materiality judgments, in the unique environment of China (see Figure 1).

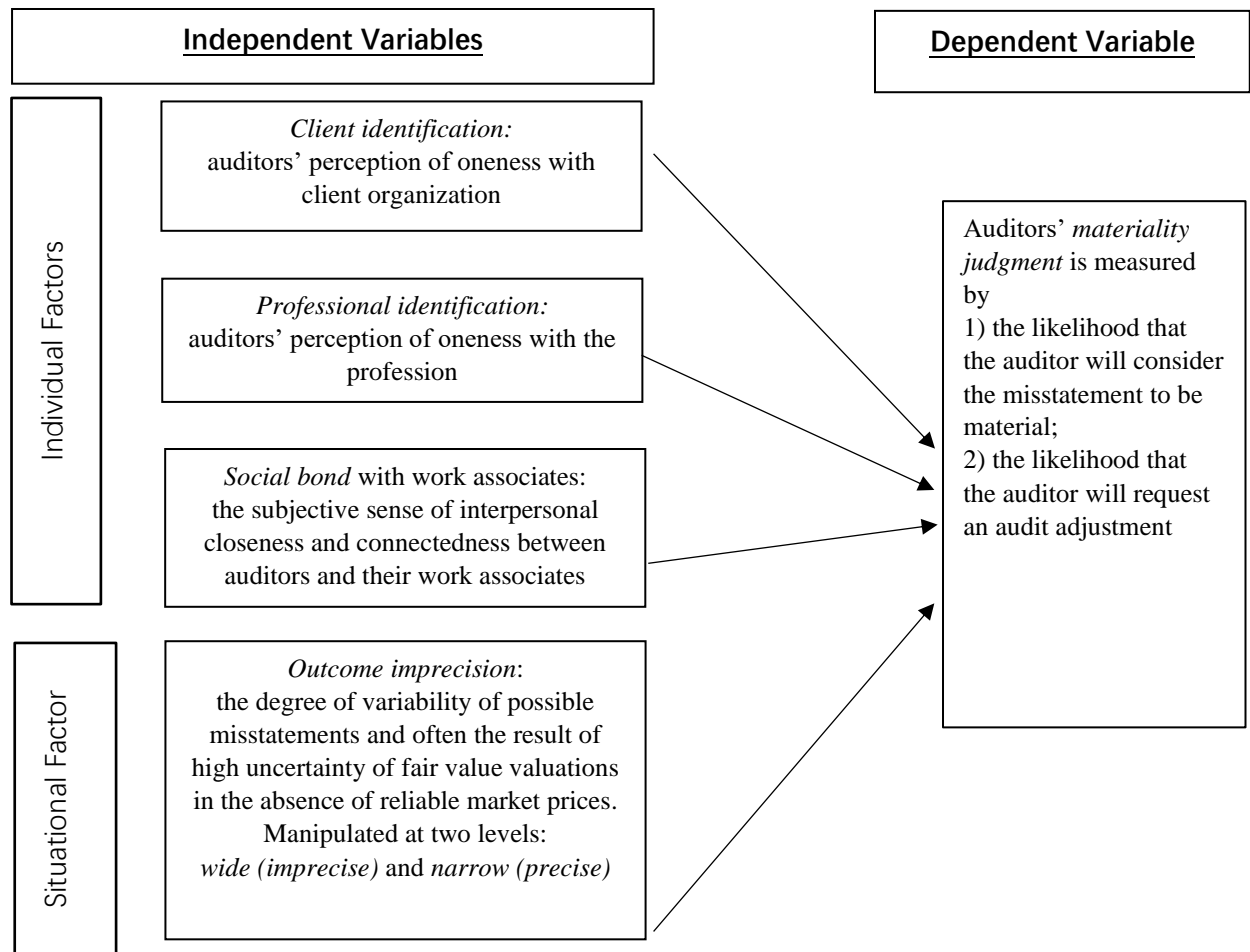


Figure 1. Theoretical Model: Client Identification, Professional Identification, Social Bond with Work Associates and Auditors' Fair Value Materiality Judgments in Two Situations, Precise and Imprecise

## 1.2 Aims and Objectives

This thesis aims to provide experimental evidence on relevant situational and individual factors that affect auditors' fair value materiality judgments in the unique setting of China.

Drawing on prior auditing literature, the objectives of the thesis are:

1. to examine whether and how an important situational factor, namely *outcome imprecision*, interacts with important individual factors, namely auditors' *client identification*, *professional*

*identification*, and *social bond* with work associates, to influence auditors' fair value materiality judgments in China;

2. to provide strong causal experimental evidence to show inferences about cause and effect. To this end, a between-subject quasi-experiment was conducted to investigate how the strength of auditors' *client identification*, *professional identification*, and *social bond* with work associates impact auditors' fair value materiality judgments in two situations, namely, when the range of possible misstatement is precise and when the range of possible misstatement is imprecise;

3. to develop and test the following hypotheses:

### **The joint effect of client identification and outcome imprecision on auditors' judgments**

H1a. *When their client identification is high, auditors are less (more) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise).* This hypothesis is not supported.

H1b. *When their client identification is low, auditors are more (less) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise).* This hypothesis is supported.

H2a. *When the possible misstatement is imprecise, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether their client identification is high or low.* This hypothesis is supported.

H2b. *When the possible misstatement is precise, auditors with high (low) client identification are less (more) likely to consider the misstatement to be material and to request an audit adjustment.* This hypothesis is not supported.

	<b>Low CI</b>	<b>High CI</b>
<b><i>Precise</i></b>	More likely	Less likely
<b><i>Imprecise</i></b>	More likely	More likely

### **The joint effect of professional identification and outcome imprecision on auditors' judgments**

H3a. When their professional identification is high, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether the possible misstatement is imprecise or precise. This hypothesis is supported.

H3b. When their professional identification is low, auditors are more (less) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise). This hypothesis is supported.

H4a. When the possible misstatement is imprecise, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether their professional identification is high or low. This hypothesis is supported.

H4b. When the possible misstatement is precise, auditors with high (low) professional identification are more (less) likely to consider the misstatement to be material and to request an audit adjustment. This hypothesis is supported.

	Low PI	High PI
<i>Precise</i>	Less likely	More likely
<i>Imprecise</i>	More likely	More likely

### **The joint effect of social bond and outcome imprecision on auditors' judgments**

H5a. When their social bond with work associates is high, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether the possible misstatement is precise or imprecise. This hypothesis is supported.

H5b. When their social bond with work associates is low, auditors are more (less) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise). This hypothesis is supported.

H6a. When the possible misstatement is imprecise, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether their social bond with work associates is high or low. This hypothesis is supported.

H6b. When the possible misstatement is precise, auditors with a high (low) social bond with work associates are more (less) likely to consider the misstatement to be material and to request an audit adjustment. This hypothesis is supported.

	Low SB	High SB
<i>Precise</i>	Less likely	More likely
<i>Imprecise</i>	More likely	More likely

### 1.3 Selection of China

An extensive number of studies in auditing research have examined fair value measurement in Anglo-American countries, such as the United States and Australia (Christensen et al., 2012; Mayorga and Sidhu, 2012; Griffith et al., 2015; Glover et al., 2016). Fair value measurement research in China has largely focused on the convergence and implementation of fair value measurement (e.g., Peng and Bewley, 2010; He et al., 2012; Nie, Collins, and Wang, 2013; Zhang and Andrew, 2016). However, prior research has not examined how situational and individual factors influence auditors' judgment and decision making with regard to fair value measurement. The determinants of fair-value-related reporting choices vary by context and are not yet well understood (Sellhorn and Stier, 2019). While limited prior research has examined various situational and individual factors that influence auditors' fair value materiality judgments, to the best of my knowledge, this is the first study that examines a range of relevant auditors' individual factors in the same model to study auditor's fair value materiality judgments.

China is an appropriate national context for this project for several reasons. First, since 1978 the Chinese economy has moved from being wholly state-planned to a 'socialist market economy' (a unique combination of market autonomy and techno-scientific administrative regulation under the Communist Party's overall direction), and it is already the second-largest economy in the world (IMF, 2018; World Bank, 2019; Macve, 2020). However, a string of accounting scandals at many publicly traded Chinese companies has sparked deep concern about the quality of Chinese firms' financial reporting. For example, in 2020 April, the US Securities and Exchange Commission (SEC) launched an investigation into Luckin Coffee for fabricated financial figures. Another two US-listed Chinese companies, New York Stock Exchange-listed TAL Education Group and Nasdaq-listed video-streaming company iQiyi, are also under scrutiny for allegedly inflating their financial data (Forbes, 2020; Bloomberg, 2020). Moreover, the PCAOB (2018a) has expressed concerns over its 'inability to obtain timely access to relevant documents' and 'impair(ed) ability to conduct inspections of audits of public companies with China-based operations'. Thus, stakeholders are faced with increased uncertainty about the reliability of financial reports and the quality of audits.<sup>3</sup> Concerns

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<sup>3</sup> Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Office of the Secretary, PCAOB 6 (6 September 2018): 'We are particularly concerned about PCAOB-registered firms located in China

surrounding the audit quality of Chinese companies have been further fuelled by the rule that limits the percentage of foreign-qualified partners and requires the Big 4 accounting firms to appoint Chinese citizens to head their mainland operations (PCAOB, 2009; PCAOB, 2019). The shift to domestic auditors highlights the importance of understanding Chinese auditors' judgment and decision-making processes.

Second, China is a relationship-based society, and its core cultural values of interdependence and harmony are often argued to be incompatible with the underlying market-driven assumption of fair value (Zhang, Andrew, and Rudkin, 2012; He et al., 2012; Xu, 2014; Balfoort, Baskerville, and Fülbier, 2017). These cultural values may lead to concerns about audit quality and the ability of auditors to make objective professional judgments, particularly when auditing fair value measurements that require auditors to exercise extensive judgments (Patel and Psaros, 2000; Schultz and Lopez, 2001; Karaibrahimoglu and Cangarli, 2016). This thesis experimentally addresses those concerns by providing empirical evidence through an examination of the impact of auditors' perceived *client identification*, perceived *professional identification*, and perceived *social bond* with work associates on their fair value materiality judgments.

Third, prior literature shows that litigation is the single most important factor that motivates managers and auditors to improve financial reporting quality (Ball, 2001; Uskul, Sherman, and Fitzgibbon, 2009). However, Chinese auditing operates in a very different environment from that in Anglo-American countries (Chen, Sun, and Wu, 2010; Lisic, Silveri, Song, and Wang, 2015). In China, auditors operate in an environment that is almost devoid of investor litigation and which lacks traditional corporate governance mechanisms (DeFond, Wong and Li, 2000; Gul, Ng, and Tong, 2003; Gul, Kim and Qiu, 2010). Despite an increase in litigation against managers and auditors in recent years, the auditing industry is mostly regulated by the government's use of warnings, fines, withdrawal of certificates, and other sanctions (Firth, Mo, and Wong, 2005; Chen et al., 2010; Lisic, Silveri, Song and Wang, 2015). In the Chinese context, Keune and Johnstone (2012) find that auditors' desire to protect their reputations enhances audit quality. Indeed, just as regulatory sanctions damage auditors' reputation,

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for at least four reasons: (1) since 2010 the PCAOB has actively sought without success inspections of China-based audit firms and the mainland affiliates of the Big Four accountancies—Deloitte, KPMG, PricewaterhouseCoopers and EY; (2) many of the China-based audit firms do significant work on audits of major U.S. companies doing business in China; (3) the recent surge in the number of Chinese companies listed on U.S. stock exchanges; and (4) most of the Chinese companies listed on U.S. stock exchanges in recent years have a variable interest entity structure that is highly complex and might include risks that some investors and auditors may not fully understand or appreciate'.

penalties and sanctions improve auditor independence and substitute for a litigious environment to encourage high-quality auditing (Defond et al., 2000; Zhang et al., 2012). The changes taking place in the regulatory and legal environment in China are expected to significantly affect auditors' judgment and decision making, especially in a judgment-laden area such as auditing fair value (Chen et al., 2010). By examining auditors' fair value materiality judgments in China, the thesis also responds to recent calls to examine auditing issues concerning accounting estimates including fair value in an environment other than an Anglo-American one (PCAOB, 2009, 2018a; Chan, Peng, Xue, Yang and Ye, 2016).

Moreover, Chinese auditors are faced with a unique tension between the increasing professionalism induced by regulatory pressure and institutional improvement, and dependence on important clients (Wu and Patel, 2014; Deng and Macve, 2015; Ying and Patel, 2016). Specifically, unlike in developed Anglo-American economies in which the Big 4 audit the majority of listed companies, concentration in the Chinese audit market for listed companies is rather low (Chen et al., 2010; Chan et al., 2016). Fierce competition indicates that dependence on an important client could be more obtrusive in China, resulting in compromised audit quality (Deng and Macve, 2015).

Additionally, there are calls from standard setters and regulators for more studies on fair value in complex and emerging markets, such as China, to gain insight into various situational and individual factors that influence auditors' fair value materiality judgments (PCAOB, 2009; PCAOB, 2018a; IASB, 2018). This study provides holistic insights into how various situational and individual factors influence Chinese auditors' materiality judgments in auditing fair values.

## **1.4 Selection of Variables**

### **1.4.1 *Client identification***

Drawing on social identity theory, the first individual factor, namely *client identification*, is selected as a variable to examine auditors' fair value materiality judgments. Prior research shows that *client identification* is likely to result in auditors subordinating their judgment to the client, resulting in compromised auditor objectivity (Herda and Lavelle, 2015a; Herda and Lavelle, 2015b; Stefaniak et al., 2012; Svanberg and Öhman, 2015). For example, Svanberg et al. (2018) show that client-identified auditors tend to acquiesce to the client's preferred accounting position. Auditors can be influenced on material accounting issues by their client's charismatic leadership behaviours, and in some circumstances may develop a client-inspired view of the client's accounting and internal control, potentially impairing their objectivity



(Sweeney and Pierce, 2011; Bamber and Iyer, 2007; Stefaniak et al., 2012; Bauer, 2014; Svanberg and Öhman, 2015). Based on the social psychology and organizational behaviour literature, by addressing the impact of social identification on behaviour, the thesis provides the basis for focusing on how *client identification* may influence the fair value materiality judgment of auditors in China.

#### **1.4.2 Professional identification**

The second individual factor examined in the thesis is auditors' *professional identification*. While *client identification* may pose a threat to auditor objectivity, *professional identification* may offset this threat by promoting professional behaviour and objectivity (Gibbins and Trotman, 2002; Bamber and Iyer, 2007; Keune and Johnstone, 2012). Social identity theory suggests that multiple identities can exist relatively independently of each other (Bamber and Iyer, 2007). The role of multiple group memberships and identification is a critical component of auditor independence theory and theories that do not recognize the existence of these multiple groups will fall short in predicting auditor independence (Warren and Alzola, 2009; Bauer, 2014). For instance, one may theorize that individual differences in perceived autonomy are desirable for auditing positions because judgments must be free from client influence. However, while acting autonomously from the clients' perspective, the auditor must also conform to professional bodies, standards, and ethical codes of professional conduct (Warren, 2003; Ying and Patel, 2016). This tension has direct implications for assertions regarding individual differences because the same attribute that predicts resistance from client influence (*client identification*) may also cause resistance from professional bodies (*professional identification*) (Bauer, 2014). For example, in the US context, King (2002) finds that impaired objectivity arising from client familiarity is mitigated when auditors identify with a group of auditors. Bamber and Iyer (2007), also in the United States, find that auditors with stronger client identities agree with the client more but the authors also find that agreement with the client decreases as professional identity strength increases. Bauer (2014) finds that when *professional identification* salience is not heightened, stronger *client identification* causes auditors to view their clients more favourably and to permit greater flexibility in their clients' accounting choices.

Prior auditing literature argues that auditors make 'appropriate' decisions when the audit task is unambiguous, but when it is ambiguous, auditors are more likely to agree with the client's preference for resolving the audit issue (Kadous, Kennedy, and Peecher, 2003; Bauer, 2014).



Specifically, Kadous et al. (2003), in studying the effect of quality assessment and directional goal commitment, suggest that when the auditor's goal is to accept client-preferred accounting methods (i.e., auditors with strong *client identification*), they tend to exploit ambiguity in reporting standards to justify those methods. Auditors who have a high commitment to directional goals will exploit the ambiguity surrounding the quality of various methods when making quality assessments, with the result that the client-preferred method will be deemed best, or at least of a high enough relative quality to be used. However, auditors are less likely to be influenced by client preferences as audit issue ambiguity decreases. Consistent with psychology and organizational behaviour research, Bamber and Iyer (2007) show that, when an audit issue is ambiguous, auditor agreement with the client *increases* as client identity strength increases and *decreases* as professional identity strength increases. Bauer (2014) also suggests that when the audit task is ambiguous, stronger *client identification* causes auditors to view their clients more favourably and to permit greater flexibility in their clients' accounting choices, provided that *professional identification* salience is not heightened.

Fair value measurement is a considerably ambiguous audit task because of the pervasiveness of unobservable inputs (level 3 inputs, see earlier discussion). Therefore, examining auditors' professional judgment in the fair value context provides meaningful insights for understanding the impact of *professional identification* and its interaction with *client identification* on complex audit tasks. While *professional identification* is critical in understanding auditors' judgments and decision making, to the best of my knowledge, there is no research that has examined its impact on fair value materiality judgments in China.

Given the wide diffusion of Anglo-American professionalism, it is crucial to examine the application of the imported concept of *professional identification* in countries such as China, where the development of the auditing profession has taken a different path and has been shaped by contextual influences unlike those in Anglo-American countries (Wu and Ying, 2016; Ying and Patel, 2016; Ying et al., 2020). This study fills the void by experimentally examining the relationship between *professional identification* and Chinese auditors' fair value materiality judgments.

### **1.4.3 Social bond**

Another relevant individual factor examined in the thesis is auditors' *social bond* with work associates. *Social bond* is selected in this study to capture the influence of the strength of the

relationship between auditors and their work associates on auditors' judgment and decision making. *Social bond* encompasses elements of social interaction, friendship, and closeness (Kachelmeier and Van Landuyt, 2017). In this thesis, *social bond* refers to auditors' subjective sense of interpersonal closeness or connectedness with their work associates (Berscheid, 1994; Feng and MacGeorge, 2006; Kadous, Leiby, and Peecher, 2013). There is an enduring and strong relationship between strong *social bonds* and relationship commitment (Wilson and Mummalaneni, 1986; Morgan and Hunt, 1994; Mavondo and Rodrigo, 2001). Prior studies have largely examined the role of *social bonds* in Anglo-American countries where social interaction is deemed to be less important in business relationships (Du et al., 2015; Law, 2017). This study extends this research by providing empirical evidence for the relationship-based society of China, where *social bonds* are considered to be an integral part of business (Liu et al., 2011). Given the core Chinese cultural values of interdependence and harmony, prior research suggests that it is important to holistically examine how the strength of *social bonds* influences auditors' judgments (Du et al., 2015; Ying and Patel, 2017; Zheng, Patel, and Evans, 2019).

China is a collectivist, relationship-based society in which avoidance of conflict and maintenance of harmonious interpersonal relationships are emphasized (Wu and Patel, 2014; Ying and Patel, 2016; Ying et al., 2020). The significant trait of collectivism leads to the protection of the reputation of one's own group and an enhanced relationship with work associates and the firm (Earley, 1993; Gundlach, Zivnuska, and Stoner, 2000; Ozdemir and Hewett, 2010). When auditor–client conflict is present, for example, if there is a need to make adjustments to the financial statements, then Chinese auditors would inevitably take into account the interests and reputation of their work associates and firm when forming their judgments. Therefore, the *social bond* between auditors and their work associates is critical in understanding auditors' fair value materiality judgments in China. Nevertheless, the majority of studies on auditors' judgment and decision making focus on the impact of the *social bond* between the auditor and their client (e.g., Ye, Carson, and Simnett, 2006; Kerler and Killough, 2009; Guan et al., 2016; Bhattacharjee and Brown, 2018). This study fills a gap in the research by providing experimental evidence on the impact of *social bonds* between auditors and work associates on their fair value materiality judgments.

## **1.5 Contribution and Implications**

Extant studies by and large only examine the impact of individual factors on auditors'

judgments and decision making in isolation and do not develop theoretical models to provide holistic insights into auditors' fair value materiality judgments. To the best of my knowledge, this thesis is the first research that provides empirical evidence on the joint effect of *client identification*, *professional identification*, and *social bond* with work associates on auditors' fair value materiality judgments in two situations, namely when the possible misstatement is precise and when it is imprecise.

Prior studies of auditors' judgments and decision making are largely based on data collected from surveys or questionnaires (e.g., Bamber and Iyer, 2007; Garcia-Falieres and Herrbach, 2015; Herda and Lavell, 2015a; Broberg et al., 2018), and these provide evidence on the association between auditors' judgment-making processes and the factors that influence such processes. This thesis contributes to the extant audit literature by providing empirical evidence on the causal relationship between selected situational and individual factors, and auditors' fair value materiality judgments in an experimental setting.

While auditing fair value has been the subject of much research, auditors' judgment and decision making with regard to fair value measurement remains understudied. The findings of this study have implications for various standard setters, regulators, and researchers by providing insights into auditors' materiality judgment making behaviours in the unique setting of China. The study is relevant to researchers examining the influence of situational and individual factors on auditors' fair value materiality judgments. Deeper knowledge of these factors allows standard setters, regulators, and researchers to better understand and address problems related to fair value judgments.

## **1.6 Organization of the Thesis**

The remainder of this thesis is organized as follows. Chapter 2 discusses the research background and presents a review of the literature on fair value in China and auditors' fair value materiality judgments. Chapter 3 develops the hypotheses. Chapter 4 describes the method. Chapter 5 reports on the data and the results. Chapter 6 presents conclusions and limitations.

## **CHAPTER 2.**

### **BACKGROUND**

#### **2.1 The Audit Profession in China**

Economic reform in China began in 1978 after about 30 years of central economic planning and tight government control which had developed since the founding of the People's Republic of China. Prior to 1978, there had been no need for Certified Public Accountants (CPAs) or for audit firms (Adhikari and Wang, 1995). Accounting regulations were promulgated in the form of 'accounting rules', a centrally determined manual with detailed, rigid journal entry requirements, and prescribed reporting formats. Thus, there was no need for accountants and auditors to exercise their professional judgment (Zhou, 1988; Ding and Su, 2008; Deng and Macve, 2015).

Public accounting as a profession was revived in 1980 when the government issued the first regulation for practicing accountants to meet the urgent need for independent accounting services created by direct foreign investments (DeFond et al., 2000; Macve, 2020). Under this regulation, the first Chinese CPA firm was established in Shanghai in January 1981, and the CPA examination commenced in 1991 (Xiang, 1998). New CPA firms were soon established in other cities. Most accounting firms in China have traditionally been affiliated with government agencies (DeFond et al., 2000). The Chinese government wields administrative influence over the licensing of accounting firms, qualifying exams, and firms' day-to-day operations through agencies such as the Ministry of Finance (MOF) and the Chinese Institute of Certified Professional Accountants (CICPA) (Winkle, Huss, and Chen, 1994; Xiang, 1998; Lin and Chan, 2000). The CICPA was established as a subsidiary unit of the MOF, and its personnel and financial budgets are administered by the MOF (Liu et al., 2011). The MOF delegates to the CICPA administrative responsibility for the registration of CPAs and certified public accounting firms, the conducting of professional examinations, and the management of training programs.

The demand for independent accounting services greatly intensified when China's two stock exchanges (in Shanghai and Shenzhen) were established in the early 1990s (Xiao, Zhang, and Xie, 2000; Deng and Macve, 2015). While in the United States and the United Kingdom, for example, the profession has developed 'from the bottom up' over more than a century and a half, the Chinese profession, in just over 20 years, has effectively been created 'from the top

down’; however, the new professional body has remained ‘under the guidance of the Ministry of Finance (MoF) and the State Council’ (Deng and Marve, 2013). The MOF, through the CICPA, regulates auditing practice via Independent Auditing Standards (IAS). The new auditing standards provide auditors with detailed rules for independent behaviour, and the credible threat of penalties for non-compliance provides auditors with strong incentives to follow them (DeFond et al., 2000; DeFond, Gao, Li and Xia, 2019). Both the content and the framework of these Chinese auditing standards are based largely on generally accepted International Standards on Auditing (ISA), and China achieved full convergence with IFRS and Independent Auditing Standards (IAS) with effect from 2007 and 2011 respectively (Deng and Marve, 2015; Defond et al., 2019).

China’s development of the accounting profession could be viewed as ‘a long game’ with three broad stages of development. First, from 1978, the focus was on laying the foundations by bringing in foreign expertise (DeFond et al., 2000; Deng and Macve, 2013; Deng and Macve, 2015). Second, from 1995, the emphasis was on building a unified profession and developing the capability to challenge foreign competitors (Suzuki et al., 2007; Reich and Lebow, 2014; Deng and Marve, 2015). Third, and currently, the goal has been to turn foreign competitors into ‘Chinese’ firms. This strategy has broadly matched the ambitions of Anglo-American firms, especially the Big 4 (Deng and Marve, 2015). Indeed, their strategy worldwide has generally been to establish a presence that is initially managed by expatriates (who are expensive to maintain and compensate), but with the longer-term aim of ‘naturalizing’ and ‘localizing’ the firm so that it is eventually run by local nationals. This process would normally require 20 to 30 years or more of building up sufficient numbers of sufficiently experienced local partners who, as far as possible, have acquired sufficient ‘tacit’ knowledge and internalized the firm’s culture (Deng and Marve, 2015; Defond et al., 2019; Macve, 2020).

Taken together, the adoption of the new auditing standards, the government’s strict enforcement of audit regulations, and the promulgation of new reporting regulations are expected to impact professionals’ behaviour in the Chinese audit markets (Defond et al., 2000; Ding and Su, 2008; Chen and Zhang, 2010; Wu and Patel, 2014; Macve, 2020). Nevertheless, while the government has a regulatory framework in place for building a credible auditing profession, there are several institutional characteristics that impede the supply of, and demand for, independent audits in China. These impediments include perverse management incentives created by government ownership of listed companies; the absence of a demand for independent auditors as a signaling device in the domestic IPO market; the initial government

ownership of both audit firms and the listed companies they audit; the limited size and expertise of China's auditing profession; and the absence of shareholder litigation (Defond et al., 2000; Ding and Su, 2008; Chen and Zhang, 2010). Therefore, the Chinese audit profession provides a unique context in which to examine auditors' judgment and decision making.

## 2.2 Fair Value in China

Global convergence to IFRS has been the IASB's major objective since its establishment in 2001. More than 140 countries now require the use of IFRS (IFAC, 2018). While advocates claim that IFRS is neutral and free from bias, unaffected by country-specific characteristics and values, researchers have put significant effort into understanding country-specific characteristics and their potential impact on IFRS convergence (Hellmann, Perera, and Patel, 2010; Chand, Cummings, and Patel, 2012; Fülbier and Klein, 2015; Balfoort et al., 2017). It has been suggested that 'IFRS are cultural artifacts, reflecting a specific Western<sup>4</sup> context: a market-oriented financial reporting environment' (Balfoort et al., 2017, p. 353). Of particular interest to this study is how, in a non-Western context such as China, country-specific cultural and contextual factors influence the adoption of fair value measurement contained in IFRS.

The traditional Chinese accounting and auditing system supported its communist political commitment (Zhang et al., 2012). Prior to the introduction of fair value, the historical cost-based accounting system was dominant in China (Bewley et al., 2018). There was little or no space for exercising professional judgment in financial statement auditing (Piotroski and Wong, 2012). However, given the pressure placed on China to join the World Trade Organization and expand its global business, China adopted IFRS, which contains wide-ranging fair value measurements and requires extensive accountants' and auditors' judgments. The Chinese Accounting Standards for Business Enterprises (ASBEs) converged with IFRS in January 2007 (IFRS, 2018). The ASBEs consist of a new Basic Standard and 38 specific ASBEs, 17 of which specifically adopt fair value as either an initial or subsequent recognition and measurement method<sup>5</sup> (Bewley, Graham, and Peng, 2018; Defond et al., 2019). The adoption of fair value in China is a profound departure from previous practice, and has significant repercussions for the Chinese auditing profession (Defond et al., 2000; Chen, Sun

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<sup>4</sup> 'The term Western is used in this study to denote a cluster of countries which are dominated by British or North-American education and beliefs. Western is thus a term referring especially to the English-speaking "Trans North-Atlantic" countries of Canada, USA, UK and Australia, all being of Anglo-Saxon and Celtic cultural origins and of the First-World' (Balfoort et al., 2017, p. 350).

<sup>5</sup> In January 2014 the Chinese MOF released ASBE 39 *Fair Value Measurement*, which became effective on 1 July 2014 for entities adopting ASBEs.

and Wang, 2002; Ding and Su, 2008; Deng and Macve, 2015). In particular, China's accounting and auditing professions are highly inefficient in implementing fair value (Marve, 2015). Moreover, Wu and Patel (2014) show that Chinese accounting professionals are reluctant to exercise professional judgments, which are at the core of reporting and auditing fair values.

Prior fair value studies in the context of China are largely based on archival capital market research examining market inefficiencies, which failed to challenge the market-driven concept of fair values (Zhang and Andrew, 2016). The superiority of fair value accounting over historical cost accounting has gained broad-based acceptance among accounting professionals and standard setters (e.g., Barth, 1994; IASB, 2006; Cherry, 2009; Mosso, 2009; Cristea, 2017). However, the theoretical basis supporting such acceptance assumes that fair value will be implemented in well-functioning capital markets and financial reporting environments, and most empirical evidence supporting this acceptance uses data from developed economies (e.g., Ball, 2001; Barlev and Haddad, 2007; Penman, 2007; Danbolt and Rees, 2008; Niu and Xu, 2009; So and Smith, 2009). There is limited empirical evidence and a lack of discussion on whether emerging economies such as China are capable of adapting to fair value (Chen et al., 2002; Peng and Bewley, 2010). However, He et al. (2012, p. 539) note that 'China's institutions are in many respects *incompatible* with fair value accounting' and further conclude that 'China business transactions are often carried out within social and political networks, which benefit little from fair value accounting and corporate transparency in general.' Moreover, Balfoort et al. (2017) point out that fair value accounting originated in market-oriented environments, the regulatory systems of which do not accommodate practices where there exists a presumed relationship between buyers and sellers. Indeed, China is recognized as a *relationship-based* society, which differs profoundly from Anglo-American settings where fair value studies have been largely conducted (Law, 2017). Researchers now recognize the importance of studying the influence of situational and individual factors on auditors' fair value judgments in China. For example, Du et al. (2015) emphasize that business in China is largely conducted according to personal relationships, namely *social bonds*, which poses great difficulty for Chinese auditors in maintaining professional independence and making appropriate judgments when auditors are affiliated with their clients. This study aims to provide holistic insights into how various situational and individual factors influence Chinese auditors' materiality judgments in auditing fair values.



### 2.3 Auditors' Fair Value Materiality Judgments

The concept of materiality is important for enabling auditors to ensure that financial statements provide reliable and relevant information to users (ISA 540; IFAC, 2008). Auditors are required to extensively exercise their judgment to decide whether errors or misstatements are *material* (IFAC, 2008). Materiality is defined as 'Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions users make on the basis of the financial statements' (IAS, pp. 1.7, 2015). However, ISA 320 *Materiality in Planning and Performing an Audit* does not include a definition of materiality. Perhaps the most important reason for this is that the principle of materiality is first and foremost a financial reporting, rather than an auditing, concept. Also, professionals' interpretation and judgment of materiality differ in various parts of the world (ICAEW, 2017). There are no *bring-line* criteria to guide auditors' judgments on materiality. ISA 320 does, however, highlight some keywords and phrases in relation to materiality in the context of an audit. These include: *misstatements* (including omissions), which could influence the decisions of users of financial statements, and *judgment* (i.e., there is not a single right answer) based on surrounding circumstances including the size and nature of the misstatement (IFAC, 2018). Auditors' understanding of materiality is thus a matter of professional judgment and is influenced by their perception of the needs of a reasonable person who will rely on the financial statements (i.e., provide additional details and use references).

Materiality judgments are more controversial when auditors audit high uncertainty accounting estimates, such as fair value (Christensen et al., 2012; Cannon and Bedard, 2017). For example, Christensen et al. (2012) argue that 'the convergence of relatively recent events [fair value] is placing an increasingly difficult, and perhaps in some cases unrealistic, burden on auditors' (pp. 127). Moreover, He et al. (2012) discuss challenges posed to auditors due to the volatility in financial statements arising from implementing fair value. Furthermore, Cannon and Bedard (2017) provide engagement-level evidence on the processes and outcomes of audits that challenge fair value measurement. Kachelmeier and Van Landuyt (2017) suggest that auditors should look beyond technical factors that influence their judgments. In addition, PCAOB (2019) inspections continue to identify deficiencies in both large and small audit firms in auditing fair value, raising concerns about auditors' application of professional skepticism. Indeed, fair value measurements generally involve subjective assumptions and measurement uncertainty; fair value is therefore often the area of greatest risk in an audit, requiring additional audit attention and appropriate application of professional skepticism (IFAC, 2018; PCAOB, 2019;



Griffin, 2014; Griffith et al., 2015). The continuing controversy over the usefulness and verifiability of high-uncertainty fair value estimates centres primarily on estimates pertaining to assets that are not traded in active markets. These include estimates involving the use of level 2 and level 3 inputs in both the IASB's and the FASB's fair value hierarchy in fair value measurement (Bell and Griffin, 2012). However, despite the importance of fair value measurements and the difficulty inherent in auditing them, we know relatively little about how auditors form judgments of such estimates (Griffith et al., 2015).

## **2.4 Outcome Imprecision**

Prior research shows that estimation uncertainty, such as *outcome imprecision*, poses 'increasingly difficult, and likely unrealistic, burden on auditors' (Christensen et al., 2012, p.127). *Outcome imprecision* reflects 'the degree of variability in possible future audit outcomes' (Griffin, 2014, pp.1166-1167). A wide range of variability refers to a situation in which possible misstatement is *precise*, while a narrow range of variability refers to a situation in which possible misstatement is *imprecise*. Prior research suggests the importance of accounting estimates, such as fair value measurement, and the difficulty inherent in auditing them (Martin, Rich, and Wilks, 2006; Griffin, 2014; Griffith et al., 2015; Kachelmeier and Van Landuyt, 2017). Indeed, *outcome imprecision* increases audit task complexity and poses real challenges to auditors in obtaining reasonable assurance for whether the financial statement is free from material misstatement (Christensen et al., 2012; Cannon and Bedard, 2017; Griffith et al., 2015). However, little is known about how auditors form their judgments in this complex, judgment-laden setting where imprecision is explicit and varies simultaneously when fair values are measured.

A limited number of studies provide evidence on how *outcome imprecision* influences auditors' materiality judgments. Nelson et al. (2005) initiated the investigation on the imprecision of misstatement, pointing out that, due to uncertainty aversion, imprecise audit outcomes are more likely to lead to audit adjustment. Griffin (2014), consistent with Nelson et al. (2005), show that auditors tend to require clients to make adjustments when misstatements are imprecise. Furthermore, Griffin (2014) reveals that imprecision critically influences how auditors assess the reasonableness of subjective fair value estimates (level 3 inputs). This study aims to provide empirical evidence from a large and emerging market—China—concerning the impact of *outcome imprecision* on auditors' judgment in the process. Specifically, *outcome imprecision* is manipulated at two levels by providing participants with a narrow (precise) range or a wide

(imprecise) range of possible misstatements. The present study addresses a research gap in the literature by examining various factors that influence auditors' materiality judgments in auditing fair values. Of interest is whether auditors respond differently in forming their fair value materiality judgments when faced with different levels of imprecision.

## **2.5 Client Identification**

Researchers and regulators have long expressed concerns over client-identified auditors' allowance of client-preferred financial reporting (e.g., Bamber and Iyer, 2007; Warren and Alzola, 2009; Svanberg et al., 2018). Auditors often spend a significant amount of their time with clients in the joint production of financial statements (Antle and Nalebuff, 1991; Francis, 2011). The auditor–client setting differs from typical seller–buyer relationships because the auditor and client must collaborate, and one of the intended users of the audit service is a third-party financial statement user (Herda and Lavelle, 2012). Auditors must understand the client's business and get to know client management when planning and conducting an audit (AICPA, 2020). Furthermore, auditors need information provided by the client and the cooperation of management to carry out the audit (Rennie, Kopp, and Lemon 2010). In sum, auditors must work with clients towards the common goal of issuing audited financial statements. Within this unique service exchange environment, auditors may begin to identify with clients by perceiving themselves as at one with their clients (Herda and Lavelle, 2015).

Prior research suggests that *client identification* in auditors leads to client-preferred behaviour because of the difficulty of self-criticism, whereby criticizing the client equates mentally to criticizing oneself (Svanberg and Öhman, 2015). However, this is not the only negative impact. Another effect of identifying with a social entity is the trust that emerges in groups as a byproduct of social identity (Braithwaite, 1998), causing group members to match their self-interest to the group's interest. Although not formally a group member, the client-identified auditor experiences a psychological merging of self and group. Perceiving oneself as part of a community causes a shift from person-based trust to group-based trust (Tanis and Postmes, 2005). For example, Gunz and Gunz (2007) argue that individuals bound by rules of professional conduct, such as lawyers (and accountants; Gunz and Gunz, 2008b), are expected to provide advice that is not influenced by the nature of the professional–client relationship. Bazerman et al. (1997) argue that, whether through expectation or regulation, the desired objectivity and independence is difficult for an auditor to uphold because all individuals, including auditors, are susceptible to unintentional judgment bias due to self-serving biases.

This bias can result from a close auditor–client relationship (Bazerman et al., 1997; Bazerman and Moore, 2011) or a strong client identity (Bamber and Iyer, 2007). In the auditor–client context, *client identification* may foster an automatic trust in client management, thereby impeding the auditor’s professional skepticism on a questionable accounting issue (Bauer, 2014). This may cause auditors to subordinate judgment to the client resulting in compromised auditor objectivity (Herda and Lavelle, 2015). Indeed, prior studies in the accounting literature find that *client identification*, client ingratiation, and auditor trust in the client may lead to client-favourable decisions under certain conditions. Of particular relevance to the current research, Bamber and Iyer’s (2007) survey study found that *client identification* is associated with higher levels of auditor acquiescence to a client-preferred position. Svanberg and Öhman (2015) replicated Bamber and Iyer’s (2007) study using non-Big 4 auditors serving privately held clients, and also found that *client identification* is associated with higher levels of client acquiescence. Auditing high-uncertainty accounting estimates such as fair value is challenging because there is a lack of bright-line guidance in current auditing standards; nevertheless, it also provides auditors with great autonomy and room for discretion and judgment. And such judgments are subject to the influence of the auditor’s degree of *client identification*. Therefore, it is critical to investigate the impact of *client identification* on auditors’ fair value materiality judgments.

From a regulatory point of view, the American Institute of Certified Public Accountants’ (AICPA, 2014) Code of Professional Conduct, Integrity and Objectivity Rule 1.100.001, prohibits members from subordinating their judgment to others. ISA 200 and 240 require auditors to maintain an attitude of professional skepticism regardless of their beliefs about management’s honesty and integrity that have arisen from past experiences with management. Professional skepticism, an attitude that encompasses a questioning mind and a critical assessment of audit evidence, is essential to the performance of effective audits, and it is the responsibility of each individual auditor to appropriately apply professional skepticism throughout the audit (AICPA, 2019). It is particularly important in areas of audit that require significant management judgment or transactions outside the normal course of business, such as fair value measurement. Auditors may develop an inappropriate level of trust or confidence in management over time, and this inappropriate trust could impede professional skepticism and objectivity, allowing unconscious bias to prevail (PCAOB, 2009). Identification with clients may be one way in which auditors can develop an inappropriate level of trust in client management. Indeed, Dukerich, Kramer, and Parks (1998) suggest that high levels of

organizational identification or ‘overidentification’ can lead to various problems, including developing an automatic trust in others, a lower perceived need for intervening in questionable behaviour, suppressing dissent when doubt is called for, an inability to question the ethicality of organizational behaviour, and even behaving unethically on behalf of the organization.

Therefore, *client identification* poses real risks to auditors when assessing the materiality of a client’s fair value record as client-identified auditors are likely to be biased towards clients with impaired professional skepticism and judgment. In relationship-based societies such as China, the institutional environment for investor protection is generally perceived to be weaker than in more mature markets (Du, Ronen, and Ye, 2015); it is therefore more likely to observe the theorized negative impact of *client identification* on auditors’ independence and auditor quality (Chen et al., 2010). Of interest is how Chinese auditor’s level of *client identification* influences their fair value materiality judgments.

## **2.6 Professional Identification**

*Professional identification* is critical in reinforcing the objectivity of auditors’ judgments (Johnstone, Warfield, and Sutton, 2001; King, 2002; Bamber and Iyer, 2007; Bauer, 2014). The main obligation for auditors is to attest that the financial statements of their clients are not materially misleading and this requires objectivity in auditor judgment (Bamber and Iyer, 2007; Garcia-Falières and Herrbach, 2015; Broberg et al., 2018). Prior studies suggest that *professional identification* entails the privilege of self-regulation, emphasizing aspects such as autonomy, independence, professional judgment, and public interest activities (Freidson, 2001; Gendron, Suddaby, and Lam, 2006; Guo, 2018). Therefore, *professional identification* of auditors is deemed to be a critical component in promoting auditors’ independence and skepticism and facilitates the generation of independent and unbiased audit judgments and decisions (King, 2002; Bamber and Iyer, 2007; Bauer, 2014; Guo, 2018). For example, King (2002) uses an experimental economics setting and finds that auditor bias due to increased client financial incentives and familiarity with a client manager is mitigated when they have a strong affiliation with their professional identity. Moreover, Bamber and Iyer (2007) find that auditors who exhibit higher levels of *professional identification* are less likely to acquiesce to the client’s position. Similarly, Bauer (2014) points out that heightening professional identity salience affects auditor judgments, resulting in auditors acting more sceptically. While there is little research that has been conducted in the fair value context, it is reasonable to assume, based on prior literature, that auditors are more likely to cast unbiased materiality judgments when

auditing complex estimates such as fair value.

Extant studies on the impact of *professional identification* on auditors' judgments and decision making have been mostly, if not all, conducted in Anglo-American countries (i.e., Bamber and Iyer, 2007; Warren and Alzola, 2009; Bauer, 2014; Guo, Jasovska, Rammal and Rose, 2018). For example, archival research suggests that greater regulatory pressure improves the quality of reported fair value measurements in Anglo-American settings (Hughes and Tett, 2008; Van de Poel et al., 2009; Vyas, 2011; Bratten et al., 2013). As demonstrated in the extant literature, regulatory and legal systems are significant environmental factors that define acceptable behaviour and create penalties that make preferred behaviour incentive-compatible (Hughes and Tett, 2008; Vyas, 2011). Archival research finds that regulatory discipline can mitigate aggressive reporting of estimates by preparers but provides little direct evidence about the effect of regulatory discipline on auditors' incentives when auditing fair value measurements. Van de Poel, Maijoor, and Vanstraelen, (2009) find that higher-quality legal systems are associated with more frequent and more conservative recognition of goodwill impairments under IFRS. These preparer-related findings suggest that greater regulatory scrutiny should stimulate auditors to improve the quality of the audits of fair value measurements (Bratten et al., 2013).

It is not clear how far the characteristics of professionalism originating from an Anglo-American background would be applicable to firms in China. Nevertheless, China provides an interesting national context to examine the role of *professional identification* in influencing auditors' fair value materiality judgments for two reasons. Firstly, Chinese auditors are expected to exercise an increased level of professionalism because of the improved institutional environment and enhanced regulatory pressure. Specifically, in 1995, the MOF adopted a new set of auditing standards that are closely modelled on the ISA issued by the International Federation of Accountants (IFAC). Prior to the adoption of the new standards, Chinese auditors were required to follow a set of standards mandated by the CICPA. The new standards improve upon the old standards by providing auditors with detailed auditing procedures, including audit planning procedures, sampling guidelines, standards of audit evidence, and clear guidance for audit opinion formulation (Suzuki, 2007; Gillis, 2014; Reich and Lebow, 2014). The new standards consist of three levels: (1) The Principal Auditing Standard; (2) The Specific Auditing Standards and Practice Statements; and (3) The Professional Guidelines (Gensler and Yang, 1996). The first level provides a general framework, including an overview of the

Standards of Field Work and Reporting. The second level consists of seven Specific Auditing Statements providing detailed guidance for implementing the Principal Auditing Standard, including a statement on Audit Reports. The Practice Statements in level 2 are designed to give guidance on issuing specialized audit reports (DeFond et al., 2000; Pistor and Xu, 2005). The third level is designed to provide detailed practical assistance in implementing the first two levels. A major difference between the new standards and the CICPA guidelines they replaced is the inclusion of the Professional Guidelines (Defond et al., 2000). Secondly, Chinese auditors are exposed to Anglo-American professional values through various education and training programs (Deng and Marve, 2015). For example, many of the staff at Chinese indigenous audit firms have undertaken both practical and theoretical professional training abroad (Gul et al., 2010). The CICPA has also launched a project to develop ‘leading personnel’, which aims at preparing a large number of the most talented CPAs to be the leaders of their audit firms and to encourage other CPAs to learn from them (e.g., Wang, Wong, and Xia, 2008). The Big 4 have provided assistance for this (Stuttard, 2009). In addition, the CICPA has helped set up a mutual benefit system for Chinese CPAs to acquire foreign accounting certifications and for foreigners to receive Chinese CPA certifications (Deng and Macve, 2015).

Prior studies provide reasonable ground to infer that Chinese auditors, in experiencing the overall institutional changes that are characterized by enhanced professional, regulatory, and legal enforcement, are anticipated to act in accordance with the norms and values of the audit profession. Consequently, when auditing high-uncertainty estimates like fair value, identifying with the audit profession is likely to lead Chinese auditors to produce unbiased and independent opinions. However, there is little, if any, research that has been conducted to examine the role of *professional identification* in influencing Chinese auditors’ judgment in the context of fair value measurement. By providing empirical, experimental evidence, this thesis attempts to fill this void.

## **2.7 Social Bonds with Work Associates**

*Social bonds* have been identified as another important factor that influences auditors’ professional judgment, thereby impacting audit quality. The concept of the *social bond* is multidisciplinary and research on *social bonds* can be found in numerous bodies of literature including psychology, sociology, marketing, politics, and criminal deviance (e.g., Turner, 1970; Devetak and Higgott, 1999; Ahmad and Buttle, 2001; Dash, Bruning, and Guin, 2009). Researchers have suggested that *social bonds* have suffered from a lack of clarity in definition

across disciplines, and a lack of common terms used among researchers when referring to business relationships (Arantola, 2002; Brown and Brown, 2006). Terms such as ‘tie’, ‘link’, and ‘attachment’ are used synonymously (Wendelin, 2002; Cater, 2008). This thesis draws on the most relevant study in auditing conducted by Kadous et al. (2018), in which a *social bond* is defined as the subjective sense of interpersonal closeness and connectedness between auditors and their work associates.

Extensive studies have investigated the impact of various types of relationship between auditor and client on audit judgment and decision making (e.g., Ye et al., 2006; Guan et al., 2016; Bhattacharjee and Brown, 2018). However, limited studies have been conducted to examine the influence of the relationship between auditors and their work associates. To the best of my knowledge, Kadous et al. (2018) is the only study that provides empirical evidence on how *social bonds* between an auditor and their work associates influence the auditor’s judgment. Kadous et al. (2018) conducted their research in an advice-taking setting and found a trust heuristic among auditors who received advice from advisors with whom they shared a *social bond*.

Nevertheless, it is important to examine the impact of the *social bond* between the auditor and their work associates on the former’s judgment, especially in China. Specifically, in Chinese society, the interrelationship of the person and the collective means that the Western concept of an anomic individual is alien. ‘Man’ in Chinese culture, is seen as ‘a relational being, socially situated and defined within an interactive context’ (Malloy, Albright, Diaz-Loving, Dong and Lee, 2004)). Likewise, the concept of an individual possessing a unique ego is also absent in Chinese culture. Rather, the concept of ego in Chinese society is a collective that always belongs to a closely integrated group on which is reflected some of the individual’s glory or shame (Patel, Harrison, and McKinnon, 2002; Yen, Barnes, and Wang, 2011). An individual’s family, and their wider community of friends and superiors, all have an interest in the individual’s advancement or setbacks, with public acclaim or censure affecting not only the individual but also the reputation of the extended group (Bond and Hwang, 1986, pp. 215–218). *Social bond* in this study measures the strength of closeness and connectedness auditors feel towards their work associates, and therefore assists in predicting auditors’ behaviours when coping with audit–client conflict, where there is tension between protecting the extended group (work associates and the firm) and client pressure.



## CHAPTER 3.

### THEORY AND HYPOTHESES DEVELOPMENT

Researchers suggest that both situational and individual factors should be taken into account in examining auditors' judgments (Nolder and Kadous, 2018). Some studies have examined individual factors, such as *client identification* and *professional identification*. However, prior research has not examined auditors' judgments and decisions when they are required to provide assurance on the fair value of assets that are measured using level 3 inputs. This thesis examines the interaction between a situational factor, namely, *outcome imprecision*, and the respective individual factors, namely, *client identification*, *professional identification*, and *social bond* with work associates, and their influences on auditors' fair value materiality judgments.

#### 3.1 Outcome Imprecision

The nature and reliability of information available to management to support the making of a fair value accounting estimate vary widely, and therefore affect the degree of estimation uncertainty associated with that fair value. When markets are inactive, price information becomes unavailable, and estimates need to be made based on other information, often incorporating inputs that are 'unobservable' (level 3 inputs). Thus, the degree of estimation uncertainty increases and affects the risk of material misstatement. Audit outcome discussions or negotiations with the client are more common in cases where the estimates exhibit higher imprecision (Cannon and Bedard, 2017). In particular, *outcome imprecision* implies 'additional uncertainty about misstatement size' (Nelson et al., 2005, pp. 913). While there have been calls from standard setters and regulators for researchers to examine the influence of *outcome imprecision* on auditors' judgments (IAASB, 2008; PCAOB, 2009; IFAC, 2018), the topic remains understudied. Among the very few studies that examine the impact of *outcome imprecision*, Nelson et al. (2005) provide evidence on how *outcome imprecision* affects auditors' adjustment decisions with regard to bad debt reserve. The study suggests that auditors are more likely to require adjustment of an imprecise range than a precise point estimate of misstatement. A more recent study by Griffin (2014) finds that when fair value estimates involve level 3 inputs, auditors are significantly more likely to require clients to make audit adjustments when the misstatement is imprecise than when it is precise. To the best of my knowledge, this is the first research that has been conducted to examine the impact of outcome impression on the important and challenging topic of auditors' fair value materiality judgments. In particular, this thesis employs the experiment research method, which allows the causal



relationship between *outcome imprecision* and its impact on auditors' fair value materiality judgments to be established. Moreover, in practice, both situational and individual factors are present and interact (Nolder and Kadous, 2018). Therefore, this thesis examines whether and how the interaction between the situational factor, namely, *outcome imprecision*, and individual factors, namely auditors' *client identification*, *professional identification*, and *social bond* with work associates, influence auditors' fair value materiality judgments.

### **3.2 Client Identification**

Social identity theory offers a theoretical framework for examining non-financial dependence, and claims that individuals' social identity is the result of a self-categorization process. Individuals group themselves with others and internalize traits that they perceive are typical of the group (van Knippenberg, van Knippenberg, De Cremer, and Hogg, 2004). When people develop a social identity, they classify themselves according to occupation, organization, family, nationality, or age, and it is possible to have many such identities simultaneously (Markus and Wurf, 1987). It is common for an individual to possess multiple identities in an organizational context. Prior identity research in accounting has examined *client identification* and *professional identification* (Bamber and Iyer, 2007; Ashforth, Harrison, and Corley, 2008; Bauer, 2014). Social identity theory suggests that auditors' identification with the client and their identification with the profession play a critical role in influencing auditor judgments (King, 2002; Ashmore, Deaux, and McLaughlin-Volpe, 2004; Bamber and Iyer, 2007).

*Client identification*, which reflects an auditor's perception of oneness with a client organization (Bamber and Iyer, 2007; Herda and Lavelle, 2015), has long been a problem in the auditing industry. While accounting firms want auditors who are focused on client relations and satisfaction, such associations should not overpower the auditors' skepticism and independent judgment. To the extent that *client identification* does overpower the auditors' skepticism and independent judgments, the auditors are more likely to focus on pleasing the client than upholding unbiased professional judgments.

Prior studies suggest that identification with the client may interfere with auditors' objectivity by inducing judgment bias, that is, an auditor identifying with a client is inclined to act in the interest of that client (Svanberg and Öhman, 2015). Mautz and Sharaf (1961) warn auditors that the 'greatest threat to ... independence is a slow, gradual, almost casual erosion of his "honest disinterestedness"'. Johnstone et al. (2001) identify interpersonal relationships between the auditor and client as an incentive that creates a risk to independence. Bamber and

Iyer (2007) also point out that auditors' *client identification* is a potential concern to auditors' skepticism and independent judgments. Specifically, the study finds that auditors who identify more with their clients are more likely to acquiesce to the client-preferred treatment of a materiality issue (Bamber and Iyer, 2007). Bauer (2014) conducts experimental research and finds that auditors with a higher level of *client identification* agree more with the clients' preferred accounting treatment. To sum up, auditors of high *client identification* are more likely to make materiality judgments that agree with clients' preferred position. Therefore, the following hypotheses are suggested:

H1a. *When their client identification level is high, auditors are less (more) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise).*

H1b. *When their client identification level is low, auditors are more (less) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise).*

Despite the potential impact of *client identification* on auditors' judgment and decision making, Nelson (2009) approaches this issue from a different angle. Specifically, Nelson (2009) concludes that auditors are more likely to make judgments that exhibit more professional skepticism (i.e., they are less willing to allow aggressive reporting) because of concerns about exposure to litigation and reputation loss rather than concerns about client importance and the potential for client loss. In particular, when the possible misstatement is imprecise, the existence of a range of higher possible outcomes suggests additional uncertainty about misstatement size (Nelson et al., 2005), which implies higher risk towards potential exposure to litigation and reputation loss when there is a misjudgment. For example, unlike prior research, which suggests that auditors are more likely to give client-preferred treatment in the context of an ambiguous task setting (e.g., involving fair value level 3 inputs), Griffin (2014) finds that when estimates involve more level 3 inputs, auditors are more likely to require adjustment of imprecise amounts of misstatement than precise amounts. To conclude, imprecision of misstatement implies an additional risk of exposure to litigation and reputational loss for auditors; in which case, *client identification* will be less likely to influence auditors' fair value materiality judgments as it does when the misstatement is precise. This leads to the following hypotheses:

H2a. *When the possible misstatement is imprecise, auditors are more likely to consider the*

*misstatement to be material and to request an audit adjustment regardless of whether their client identification is high or low.*

H2b. *When the possible misstatement is precise, auditors with high (low) client identification are less (more) likely to consider the misstatement to be material and to request an audit adjustment.*

### **3.3 Professional identification**

In addition to *client identification*, auditors possess *professional identification*, which varies in strength for each auditor (Bamber and Iyer 2007; Suddaby et al., 2009). According to social identity theory, auditors who identify with their profession tend to internalize the values and norms of the profession; their behaviour is highly governed by these values and norms (Svanberg and Öhman, 2015).

Prior research has demonstrated that *client identification* and *professional identification* are important yet distinct factors in an audit setting with opposing influences on auditors' independence and professional skepticism. Specifically, strong *client identification* will impair auditor independence, while stronger *professional identification* will enhance it. Extant studies suggest that auditors with stronger *client identification* favour client preferences more, which is indicative of impaired objectivity, but auditors with stronger professional identities favour client preferences less, which is indicative of increased skepticism (King, 2002; Bamber and Iyer, 2007; Bauer, 2014). Auditors with a stronger *professional identification*, emphasizing aspects such as autonomy, independence, professional judgment, and public interest activities (cf. Bamber and Iyer, 2007; Gendron et al., 2006) ought to be less engaged in and less responsive to business-related activities of the firm, for example, pleasing the client by acquiescing to client-preferred accounting treatment. Therefore, it is suggested that the propensity to acquiesce to the clients' preferred accounting position increases with increased *client identification*; the opposite should hold for *professional identification*. *Professional identification* of auditors is deemed to be a critical component of promoting auditors' independence and skepticism and facilitates the generation of independent and unbiased audit judgments and decisions (King, 2002; Bamber and Iyer, 2007; Bauer, 2014; Guo, 2018). King (2002) argues that auditors' affiliations with accounting groups (e.g., engagement teams, audit firms, or the profession) can protect auditors from this unconscious bias. *Professional identification* should promote professional behaviour and objectivity on the part of auditors (Johnstone et al., 2001). Bauer (2014) establishes that inducing *professional identification*

reduces the impact of client biases on auditor judgments. Based on prior findings, it is hypothesized that auditors who possess strong *professional identification* are less likely to acquiesce to clients' preferred accounting treatment. However, the judgments of auditors with lower *professional identification* will vary with the uncertainty of the audit task. In particular, an imprecise range of possible misstatements indicates higher uncertainty and higher audit risks. Considering the risk-aversion nature of auditors, they are less likely to agree to client-preferred accounting treatment when the possible misstatement is imprecise and vice versa. This leads to the following hypotheses:

H3a. *When their professional identification is high, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether the possible misstatement is imprecise or precise.*

H3b. *When their professional identification is low, auditors are more (less) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise).*

As suggested by Nolder and Kadous (2018), auditors' judgment-making is best assessed situationally. Specifically, where the range of possible misstatements is imprecise, auditors are faced with significantly higher risks of exposure to litigation and reputation loss. Nelson et al. (2005) initiated the investigation on the imprecision of misstatements, pointing out that, due to uncertainty aversion, an imprecise audit outcome is more likely to lead to audit adjustment. Consistent with Nelson et al. (2005), Griffin (2014) shows that auditors tend to require clients to make adjustments when misstatements are imprecise. As discussed earlier, when the possible misstatement is imprecise, mitigation of the risks of high uncertainty overrides other individual factors that influence auditors' judgment and decision making, including auditors' *professional identification*. Auditors are more likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise. This leads to the following hypotheses:

H4a. *When the possible misstatement is imprecise, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether their professional identification is high or low.*

H4b. *When the possible misstatement is precise, auditors with high (low) professional identification are more (less) likely to consider the misstatement to be material and to request an audit adjustment.*

### 3.4 Social Bond

There is evidence of the importance of auditors' affiliation with firms and work associates in particular (Kleinman and Palmon, 2000). *Social bond* is selected in this thesis to examine auditors' affiliation with their working associates. *Social bond* refers to auditors' subjective sense of interpersonal closeness or connectedness with their work associates (Berscheid, 1994; Feng and MacGeorge, 2007). To the best of my knowledge, no extant study has examined the impact of the *social bond* between working associates on auditors' fair value judgments and decision making.

*Social bond*, as one of the most important factors that influence one's interpersonal and organizational commitment (Mavondo and Rodrigo, 2001), is more likely to steer auditors' judgment and decision making. Limited studies have been conducted to examine the influence of the relationship between auditors and their work associates. To the best of my knowledge, Kadous et al. (2018) is the only study that provides empirical evidence on how *social bonds* between auditors and their work associates influence auditors' judgment. Kadous et al. (2018) conducted their research in an advice-taking setting and found a trust heuristic among auditors receiving advice from advisors with whom they share a *social bond*. In the auditing context, when auditor–client conflicts are present, for example, when there is a need to make adjustments to the financial statements, then Chinese auditors would inevitably take into account the interests and reputation of their work associates and firm when forming their judgments. Auditors who have strong *social bonds* with their work associates are likely to act to protect the reputation of their own groups and have an enhanced relationship with work associates and with the firm (Su and Littlefield, 2001). However, when the *social bond* is low, auditors are less likely to be concerned about the reputation of the audit firm. It has been suggested that auditors' judgment and decision making will vary according to the range of possible misstatements. In particular, *outcome imprecision* implies 'additional uncertainty about misstatement size' (Nelson et al., 2005). When the possible misstatement is imprecise, the existence of a range of higher possible outcomes suggests additional uncertainty about misstatement size (Nelson et al., 2005), which implies higher risk towards potential exposure to litigation and reputation loss when judgment is not exercised properly. In such a case, auditors are more likely to consider the misstatement to be material and to request an audit adjustment. When the range of possible misstatements is precise, auditors are faced with less uncertainty and fewer risks, and are therefore less likely to consider the misstatement to be material and to request the client to make an adjustment. Therefore, the following hypotheses

are formulated:

*H5a. When their social bond with work associates is high, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether the possible misstatement is precise or imprecise.*

*H5b. When their social bond with work associates is low, auditors are more (less) likely to consider the misstatement to be material and to request an audit adjustment when the possible misstatement is imprecise (precise).*

Consistent with the earlier discussion, when the possible misstatement is imprecise, the strength of auditors' *social bond* towards their work associates has a limited impact on auditors' fair value materiality judgments. Because the uncertainty and risks associated with an imprecise range of possible misstatements are significant, it is suggested that this has an overriding impact on auditors' fair value materiality judgments. In contrast, when auditors face less significant uncertainty and fewer risks, and thus when the possible misstatement is precise, the strength of *social bonds* is more likely to influence auditors' judgments. Therefore, the following hypotheses are formulated:

*H6a. When the possible misstatement is imprecise, auditors are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether their social bond with work associates is high or low.*

*H6b. When the possible misstatement is precise, auditors with high (low) social bonds with work associates are more (less) likely to consider the misstatement to be material and to request an audit adjustment.*

## **CHAPTER 4.**

### **RESEARCH METHOD**

#### **4.1 Experimental Research Method**

To test the hypotheses, a between-subject quasi-experiment was conducted. Prior research has adopted a range of methods to examine auditors' judgments and decisions. Among the most powerful is the experiment, a method of inquiry whereby the researcher randomly assigns subjects within a controlled setting in which the researcher reproduces a phenomenon (an individual or social process), actively manipulates that phenomenon, and then makes various observations of (e.g., measurements) or related to the phenomenon (Corti, Reddy, Choi, and Gillespie, 2015). Often these observations or measurements are not able to be made in a natural setting. While using a survey questionnaire to investigate auditors' professional judgments has its merits, as evidenced by Bamber and Iyer (2007) and He et al. (2017), researchers suggest that experimental research design is more appropriate for examining judgment and decision making because it demonstrates whether there is an effect and identifies what causes the effect (Pan and Patel, 2017). Audit judgment and decision-making research primarily aims to evaluate the quality of auditors' judgments and examine the factors that affect those judgments, and to develop and test theories of the underlying cognitive processes by which judgments are made (Simnett and Trotman, 2018). Studies of audit judgment are a major focus of auditing research due to their potential policy implications for professional practice in areas such as development and modification of auditing methods, standards and procedures, and approaches to training and supervision (Boritz, 1986). A common criticism of experiments is that they lack external validity and thus are weak in generalizability. While there is some truth to this criticism, the nature of the limitation is not well understood (Kadous and Zhou, 2017). This research paradigm has been defended on the grounds that its goals are prediction, not description or explanation, that external validity is 'more than skin deep' (Berkowitz and Donnerstein, 1982) and depends not on tasks that mimic natural tasks and settings, but ones that evoke behaviours that unfold in natural tasks and settings (Swieringa and Weick, 1982). Judgment and decision-making experiments provide unique value in determining the causal antecedents of important judgments and providing insights into the judgment process, allowing researchers to make strong causal claims and explore questions that are often difficult or impossible to answer with observational data (Kadous and Zhou, 2016). In addition, experimental research enables real-world issues to be examined in relatively simplified settings, which allows researchers to study



realistic subjects that may not be easily studied in natural settings (Solomon and Trotman, 2003; Mertins et al., 2013).

## **4.2 Overview of Research Instrument**

The research instrument consists of three sections. In section 1, subjects were provided with a detailed audit scenario relating to fair value materiality judgments, which involves a disagreement between the auditor and the client. Section 2 gathered demographic data about the subjects. In section 3, subjects' *client identification* and *professional identification* were measured using a five-item scale based on the Organizational Identification Scale (Mael and Ashforth, 1992; Wan-Higgins et al., 1998), which was later revised and used by Bamber and Iyer (2007). Lastly, auditors' *social bond* with their peers was measured with a five-item scale used by Mavondo and Rodrigo (2001).

The auditing scenario in this thesis was developed based on Griffin (2014). All subjects were asked to assume that they were the senior audit manager conducting the audit of an important client who'd had a piece of essential manufacturing equipment impaired during the fiscal year. However, auditors had doubts about the fair value of the manufacturing equipment. Two independent expert valuers hired by the auditing firm had provided a similar evaluation of the manufacturing equipment, which was significantly different from the client's estimate. To capture auditors' judgments, the subjects were required to answer two questions, namely (1) How likely is the misstatement material? And (2) How likely is it that they will require an adjustment to the client's financial statements? Two versions of research instrument were developed based on *outcome imprecision*, as a situational factor, by providing the subjects with either a wide or narrow range of possible misstatements on fair value. The subjects were further asked to answer the question that "how wide or narrow do you think the range of adjustment to the fair value of the manufacturing equipment provided by the independent valuer is." This manipulation question will provide some assurance that the subjects reasonably understand the scenario included in the instrument.

## **4.3 Overview of Participants**

Subjects were recruited from leading auditing firms operating in Wuhan, China. The evidence clearly establishes that large auditing firms have a number of similarities in their organizational culture (Patel and Epstein, 2006; Pan and Patel, 2017). Thus, by selecting auditors from leading auditing firms, the organizational culture of auditing firms that may influence auditors'



judgments will be controlled. The reason for choosing auditors from Wuhan is because of the commercial significance of the city. Wuhan is one of the most populous cities and an important centre for economy, trade, and finance in China (Cheng and Zhou, 2015).

Seventy-two auditors were randomly chosen from the selected firms and completed the experimental tasks. Ten failed the manipulation check question and therefore were excluded from the data analyses. A sample of 62 auditors were included in testing the hypotheses. The subjects were from the top 20 domestic audit firms in China (42%), Big 4 international audit firms (27%), and other domestic and international firms (31%). The majority of the subjects (55%) had conducted fair value audit multiple times. Sixty-six percent of the subjects had found misstatements during the audit, and 71% had requested audit adjustments. Those who requested an audit adjustment were also found to have had a discussion with the clients' management teams.

## CHAPTER 5.

### RESULTS AND ANALYSIS

#### 5.1 Manipulation Check and Auditors' Materiality Judgments

Table 1 presents the results of the subjects' responses to the manipulation check question and their materiality judgments as auditors. The results presented in Panel A of Table 1 suggest that our manipulation was successful. There is a significant difference ( $p < 0.001$ ) with regard to participants' perception of the width of the misstatement between a narrow ( $M=4.23$ ,  $SD=1.27$ ) and wide ( $M=5.94$ ,  $SD=1.12$ ) range.

Panel B of Table 1 presents the subjects' responses regarding how likely they would consider the misstatement to be material. The subjects who had been given the wide-range instrument ( $M=7.56$ ,  $SD=1.92$ ) were more likely to consider the misstatement to be material, compared to those who had been given the narrow range ( $M=6.54$ ,  $SD=2.55$ ). The difference is marginally significant ( $p=0.078$ ).

Panel C of Table 1 illustrates the subjects' responses to the question that how likely they would be to require their client to make an audit adjustment. There is a significant difference ( $p=0.037$ ) between the subjects who received the narrow range ( $M=6.42$ ,  $SD=2.59$ ), compared to those who received the wide ( $M=7.64$ ,  $SD=1.90$ ) range of the instrument. Thus, when the outcome is imprecise, auditors are more likely to request an audit adjustment than when the outcome is precise.

**Table 1. Manipulation of Outcome Imprecision and Auditors' Materiality Judgments**

<b>Panel A: Mean (std. dev.) response to 'How wide or narrow do you think the range of adjustment to the fair value of the manufacturing equipment provided by the independent valuer is?'</b>				
	Narrow	Wide	<i>t</i> -statistic	<i>p</i> -value
Response	4.23 (1.27) <i>n</i> =26	5.94 (1.12) <i>n</i> =36	-5.611	0.000
<b>Panel B: Mean (std. dev.) response to 'How likely are you to consider that the fair value misstatement of the manufacturing equipment is material to Huami's financial statements?'</b>				
	Narrow	Wide	<i>F</i> -statistic	<i>p</i> -value
Response	6.54 (2.55) <i>n</i> =26	7.56 (1.92) <i>n</i> =36	3.216	0.078
<b>Panel C: Mean (std. dev.) response to 'How likely are you to request an audit adjustment of the manufacturing equipment's fair value to Huami's financial statements?'</b>				
	Narrow	Wide	<i>F</i> -statistic	<i>p</i> -value

Response	6.42 (2.59) <i>n</i> =26	7.64 (1.90) <i>n</i> =36	4.544	0.037
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Panel A provides the subjects' responses to the manipulation question using a seven-point scale with the following labels: 1='very narrow', 4='neutral', 7='very wide'.

Panels B and C provide the subjects' responses to judgment questions using a 10-point scale with the following labels: 1='very low likelihood' to 10='very high likelihood'.

## 5.2 The Joint Effect of *Client Identification* and *Outcome Imprecision* on Auditors'

### Judgments

A two-way analysis of variance (ANOVA) was conducted on the influence of two independent variables (*outcome imprecision* and *client identification*) on the likelihood that auditors would consider the misstatement material, as well as the likelihood of requesting an audit adjustment. *Outcome imprecision* was manipulated at two levels (wide and narrow), and *Client identification* consisted of two levels (high and low).

For auditors' materiality judgments, as reported in Panel A of Table 2, the main effect of *outcome imprecision* is significant ( $p=0.039$ ), while *client identification* does not have a significant main effect on auditors' materiality judgments ( $p=0.265$ ). The interaction effect between *outcome imprecision* and *professional identification* is not significant ( $p=0.265$ ).

For auditors' adjustment decisions, as reported in Panel B of Table 2, the main effect of *outcome imprecision* is significant ( $p=0.011$ ), and the joint effect of *outcome imprecision* and *professional identification* is significant ( $p=0.032$ ), while the main effect of *professional identification* is insignificant ( $p=0.107$ ).

Panels C and D of Table 2 provide further analyses and suggest that when auditors' *client identification* level is low, the likelihood that auditors consider the misstatement to be material and request an audit adjustment is significantly higher when the possible misstatement is imprecise (mean of 7.69 and 7.81 respectively) than when the possible misstatement is precise (mean score of 5.60 and 5.10 respectively). The results support Hypothesis 1b but do not support Hypothesis 1a. Therefore, regardless of whether the possible misstatement is precise or imprecise, auditors with high *client identification* are more likely to consider the misstatement to be material and to request an audit adjustment. Moreover, the main effect for *client identification* is not significant ( $p=0.107$ ), indicating no significant difference between high *client identification* and low *professional identification*. In particular, auditors are more likely to consider that the misstatement is material and request the client to make an adjustment

when the range of possible misstatements is wide (imprecise), supporting Hypothesis 2a, but rejecting Hypothesis 2b. The interaction effect is significant ( $p=0.032$ ).

**Table 2. Results for Tests of Hypotheses 1 and 2**

<b>Panel A. 2X2 ANOVA for the likelihood of considering the misstatement to be material</b>				
Source	Sum of squares	<i>df</i>	<i>F</i>	<i>p</i>
<i>Outcome imprecision</i>	21.16	1	4.44	0.039
<i>Client identification</i>	6.03	1	1.26	0.265
<i>Outcome imprecision</i> x <i>Client identification</i>	11.30	1	2.37	0.129
Error	276.54	58		
<b>Panel B. 2X2 ANOVA for the likelihood of requesting the client to make an adjustment</b>				
Source	Sum of squares	<i>df</i>	<i>F</i>	<i>p</i>
<i>Outcome imprecision</i>	31.91	1	6.98	0.011
<i>Client identification</i>	12.28	1	2.68	0.107
<i>Outcome imprecision</i> x <i>Client identification</i>	22.05	1	4.82	0.032
Error	265.34	58		
<b>Panel C. Simple main effect for the likelihood of considering the misstatement to be material</b>				
	Narrow	Wide	Std. error	<i>p</i>
Low CI (Narrow vs Wide)	5.60	7.69	0.88	0.021
High CI (Narrow vs Wide)	7.13	7.45	0.73	0.659
	Low CI	High CI	Std. error	<i>p</i>
Narrow (Low CI vs High CI)	5.60	7.13	0.88	0.088
Wide (Low CI vs High CI)	7.69	7.45	0.73	0.747
<b>Panel D. Simple main effect for the likelihood of requesting the client to make an adjustment</b>				
	Narrow	Wide	Std. error	<i>p</i>
Low CI (Narrow vs Wide)	5.10	7.81	0.86	0.003
High CI (Narrow vs Wide)	7.25	7.50	0.72	0.729
	Low CI	High CI	Std. error	<i>p</i>
Narrow (Low CI vs High CI)	5.10	7.25	0.86	0.016
Wide (Low CI vs High CI)	7.81	7.50	0.72	0.665

Multiple linear regression was calculated to predict the likelihood of auditors considering the misstatement to be material and to request an audit adjustment, respectively, based on *outcome imprecision* and auditors' *client identification*. The regression models are not significant, as reported in Table 3.

**Table 3. Regression results of the joint effect of *Client identification* and *Outcome imprecision* on auditors' judgments**

<b>Panel A. Regression results of auditors' materiality judgments</b>					
	<i>B</i>	Std. error	$\beta$	<i>t</i>	<i>p</i>
Dependent variable=likelihood of considering the misstatement to be material					
Independent variables					

<i>Outcome imprecision</i>	1.157	2.290	0.257	0.505	0.615
<i>Client identification</i>	0.291	0.883	0.148	0.330	0.743
<i>Outcome imprecision x Client identification</i>	-0.050	0.521	-0.069	-0.097	0.923
Model R <sup>2</sup>	0.249				
Model <i>F</i>	1.280				
Model <i>p</i>	0.290				

<b>Panel B. Regression results of auditors' adjustment decisions</b>					
	<i>B</i>	Std. error	$\beta$	<i>t</i>	<i>p</i>
Dependent variable=likelihood of requesting client to make an adjustment					
Independent variables	2.58	2.28	0.56	1.134	0.261
<i>Outcome imprecision</i>	0.885	0.878	0.44	1.008	0.318
<i>Client identification</i>	-0.348	0.518	-0.47	-0.672	0.504
<i>Outcome imprecision x Client identification</i>					
Model R <sup>2</sup>	0.102				
Model <i>F</i>	2.207				
Model <i>p</i>	0.097				

\* $p < 0.1$ . \*\* $p < .05$ . \*\*\* $p < .01$ .

### 5.3 The Joint Effect of *Professional Identification* and *Outcome Imprecision* on Auditors' Judgments

A two-way ANOVA was conducted on the influence of two independent variables (*outcome imprecision* and *professional identification*) on the likelihood that auditors would consider the misstatement to be material, as well as the likelihood of requesting an audit adjustment. *Outcome imprecision* was manipulated at two levels (wide and narrow), and *professional identification* consisted of two levels (high and low).

For auditors' materiality judgement, as reported in Panel A of Table 4, the main effect of *outcome imprecision* is marginally significant ( $p=0.09$ ), and *professional identification* does not have a significant main effect on auditors' materiality judgements ( $p=0.34$ ). The interaction effect between *outcome imprecision* and *professional identification* is significant ( $p=0.01$ ).;

For auditors' adjustment decisions, as reported in Panel B of Table 4, the main effect for *outcome imprecision* is significant ( $p=0.04$ ), indicating a significant difference between the wide and narrow ranges. The main effect for *professional identification* is not significant ( $p=0.23$ ), indicating no significant difference between high *professional identification* and low *professional identification*. The interaction effect is significant ( $p=0.01$ ).

Panel C and Panel D of Table 4 provide further analyses. For auditors' materiality judgements, when the level of *professional identification* is low, the subjects who were given the narrow-

range instrument were significantly more likely to consider the misstatement to be material than their wide-range counterparts ( $p < 0.001$ ). However, for the subjects with higher *professional identification*, there is no significant difference between narrow- and wide-range participants. When holding *outcome imprecision* constant, for the subjects given the narrow range instrument, the subjects with higher *professional identification* are less likely to consider the misstatement to be material, compared to those with low *professional identification*. There is no significant difference between auditors with high and low *professional identification* when they are given a wide-range instrument.

For auditors' adjustment decisions, when the level of *professional identification* is low, the subjects given the narrow-range instrument were significantly more likely to request an audit adjustment than their wide-range counterparts ( $p < 0.001$ ). However, for the subjects with higher *professional identification*, there is no significant difference between narrow- and wide-range participants. When holding *outcome imprecision* constant, for the subjects given the narrow range instrument, the subjects with higher *professional identification* are less likely to consider the misstatement to be material, compared to those with low *professional identification*. There is no significant difference between auditors with high and low *professional identification* when they are given a wide range instrument. The results support Hypotheses 3 and 4.

**Table 4. Results of Tests for Hypotheses 3 and 4**

<b>Panel A. 2X2 ANOVA for the likelihood of considering the misstatement to be material</b>				
Source	Sum of squares	<i>df</i>	<i>F</i>	<i>p</i>
<i>Outcome imprecision</i>	13.36	1	2.98	0.09
<i>Professional identification</i>	4.16	1	0.93	0.34
<i>Outcome imprecision x Professional identification</i>	30.11	1	6.72	0.01
Error	259.91	58		
<b>Panel B. 2X2 ANOVA for the likelihood of requesting the client to make an adjustment</b>				
Source	Sum of squares	<i>df</i>	<i>F</i>	<i>p</i>
<i>Outcome imprecision</i>	19.31	1	4.33	0.04
<i>Professional identification</i>	6.57	1	1.47	0.23
<i>Outcome imprecision x Professional identification</i>	33.58	1	7.54	0.01
Error	258.40	58		
<b>Panel C. Simple main effect for likelihood of considering misstatement is material</b>				
	Narrow	Wide	Std. error	<i>p</i>
Low PI (Narrow vs Wide)	5.64	8.00	0.75	0.00
High PI (Narrow vs Wide)	7.58	7.11	0.79	0.55
	Low PI	High PI	Std. error	<i>p</i>
Narrow (Low PI vs High PI)	5.64	7.58	0.83	0.02

Wide (Low PI vs High PI)	8.00	7.11	0.71	0.21
<b>Panel D. Simple main effect for likelihood of requesting the client to make an adjustment</b>				
	Narrow	Wide	Std. error	<i>p</i>
Low PI (Narrow vs Wide)	7.22	8.06	0.75	0.00
High PI (Narrow vs Wide)	7.58	7.22	0.79	0.65
	Low PI	High PI	Std. error	<i>p</i>
Narrow (Low PI vs High PI)	7.22	7.58	0.83	0.01
Wide (Low PI vs High PI)	8.06	7.22	0.70	0.24

Multiple linear regression was calculated to predict the likelihood of auditors considering the misstatement to be material and to request an audit adjustment, respectively, based on *outcome imprecision* and auditors' *professional identification*.

For auditors' materiality judgments, the regression model is not significant.

For auditors' adjustment decisions, a significant regression equation was found ( $F(3,58)=5.307$ ,  $p=.008$ ), with an  $R^2$  of .215. Auditors' likelihood of requesting an audit adjustment is equal to

$$Y = -8.805 + 8.361 (\text{Outcome imprecision}) + 2.975 (\text{Professional identification}) - 1.516 (\text{Outcome imprecision} \times \text{Professional identification}),$$

where *outcome imprecision* is coded as 1=narrow range, 2=wide range, and *professional identification* is measured using a seven-point Likert scale. The likelihood of auditors requesting audit adjustments increased by 2.975 for each unit of *professional identification*; the subjects given the wide-range instrument were more likely to request an audit adjustment than those who were given a narrow-range instrument, by 8.631 units. In addition, there is significant interaction between *outcome imprecision* and *professional identification* in influencing auditors' adjustment decisions.

**Table 5. Regression results of the joint effect of *Professional identification* and *Outcome imprecision* on auditors' judgments**

<b>Panel A. Regression results of auditors' materiality judgments</b>					
	<i>B</i>	Std. error	$\beta$	<i>t</i>	<i>p</i>
Dependent variable=likelihood of considering the misstatement to be material					
Independent variables					
<i>Outcome imprecision</i>	4.896	2.853	1.086*	1.716	0.091
<i>Professional identification</i>	1.559	1.008	0.698	1.547	0.127
<i>Outcome imprecision</i> x <i>Professional identification</i>	-0.821	0.587	-1.107	-1.398	0.167
Model $R^2$	0.090				
Model <i>F</i>	1.912				
Model <i>p</i>	0.138				

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**Panel B. Regression results of auditors' adjustment decisions**

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	<i>B</i>	Std. error	$\beta$	<i>t</i>	<i>p</i>
Dependent variable=likelihood of requesting client to make an adjustment					
Independent variables					
<i>Outcome imprecision</i>	8.361	2.692	1.825***	3.106	0.003
<i>Professional identification</i>	2.975	0.951	1.31***	3.128	0.003
<i>Outcome imprecision</i> x <i>Professional identification</i>	-1.516	0.554	-2.012***	-2.735	0.008
Model $R^2$	0.215				
Model <i>F</i>	5.307				
Model <i>p</i>	0.003				

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\* $p < 0.1$ . \*\* $p < .05$ . \*\*\* $p < .01$ .

#### 5.4 The Joint Effect of *Social Bond* and *Outcome Imprecision* on Auditors' Judgments

A two-way ANOVA was conducted to examine the effects of *outcome imprecision* and *social bond* between auditors and their peers on auditors' materiality judgments. As reported in Panel A of Table 6, there is a statistically significant interaction between *outcome imprecision* and *social bond* between auditors and their peers on the likelihood of auditors considering the misstatement to be material ( $p = 0.04$ ). Therefore, an analysis of the simple main effects for *outcome imprecision* and *social bond* level was performed respectively. All pairwise comparisons were run for each simple main effect with reported 95% confidence intervals and  $p$ -values within each simple main effect.

As reported in Panel B of Table 6, the mean scores of auditors' materiality judgments for low and high social bond of narrow range of the subjects are 4.8 and 7.63 respectively, and the difference is significant ( $p < 0.001$ ). For wide-range of the subjects, there is no significant difference between those with high and low levels of social bond. Therefore, when the outcome is precise, auditors with higher-level *social bonds* with peers are more likely to consider the misstatement to be material than those with lower-level *social bonds*.

As reported in Panel C of Table 6, the mean scores of auditors' materiality judgments for the narrow- and wide-range of the subjects with low social bond are 4.8 and 7.38 respectively, and the difference is significant ( $p < 0.001$ ). Auditors with lower-level *social bonds* with their peers are more likely to consider the misstatement to be material when the outcome is more imprecise.

As reported in Panel D of Table 6, for auditors' adjustment decisions, the mean scores for low and high social bond of narrow-range of the subjects are 4.3 and 7.75 respectively, and there is



a significant difference ( $p < 0.001$ ). For the wide-range of the subjects, there is no significant difference between those with high and low levels of social bond as both are highly likely to request audit adjustments, suggesting that Hypothesis 6a is supported. When the outcome is precise, auditors with higher-level *social bonds* with peers are more likely to request the client to make an audit adjustment than those with lower-level *social bonds*, supporting Hypothesis 6b. The mean scores of auditors' adjustment decision, for narrow- and wide-range, the subjects with low *social bonds* are 4.3 and 7.38 respectively, and there is a significant difference ( $p < 0.001$ ), suggesting that Hypothesis 5a is supported. Auditors with lower-level *social bonds* with peers are more likely to request the client to make an audit adjustment when the outcome is more imprecise, supporting Hypothesis 5b.

**Table 6. Results of Tests for Hypotheses 5 and 6**

<b>Panel A. 2X2 ANOVA for likelihood of considering the misstatement to be material</b>				
Source	Sum of squares	<i>df</i>	<i>F</i>	<i>p</i>
<i>Outcome imprecision</i>	28.58	1	6.91	0.01
<i>Social bond</i>	39.42	1	9.53	0.00
<i>Outcome imprecision x Social bond</i>	18.13	1	4.38	0.04
Error	239.89	58		
<b>Panel B. 2X2 ANOVA for likelihood of requesting the client to make an adjustment</b>				
Source	Sum of squares	<i>df</i>	<i>F</i>	<i>p</i>
<i>outcome imprecision</i>	42.41	1	11.37	0.00
<i>Social bond</i>	62.58	1	16.77	0.00
<i>outcome imprecision x Social bond</i>	24.58	1	6.59	0.01
Error	216.39	58		
<b>Panel C. Simple main effect for likelihood of considering the misstatement to be material</b>				
	Narrow	Wide	Std. error	<i>p</i>
Low SB (Narrow vs Wide)	4.80	7.38	0.77	0.00
High SB (Narrow vs Wide)	7.63	7.92	0.78	0.71
	Low SB	High SB	Std. error	<i>p</i>
Narrow (Low SB vs High SB)	4.80	7.63	0.82	0.00
Wide (Low SB vs High SB)	7.38	7.92	0.72	0.45
<b>Panel D. Simple main effect for likelihood of requesting the client to make an adjustment</b>				
	Narrow	Wide	Std. error	<i>p</i>
Low SB (Narrow vs Wide)	4.30	7.38	0.73	0.00
High SB (Narrow vs Wide)	7.75	8.17	0.74	0.57
	Low SB	High SB	Std. error	<i>p</i>
Narrow (Low SB vs High SB)	4.30	7.75	0.78	0.00
Wide (Low SB vs High SB)	7.38	8.17	0.68	0.25

Multiple linear regression was run to predict the likelihood that auditors would consider the misstatement to be material and to request an audit adjustment respectively, from *outcome imprecision* and auditors' *social bond* with their peers. *Outcome imprecision* is coded as 1=narrow range, 2=wide range, and *social bond* is measured using a seven-point Likert scale.

The regression model statistically significantly predicted the auditors' materiality judgments ( $p=0.005$ ), with  $R^2=.195$ . All three variables, namely *outcome imprecision*, *social bond*, and the interaction between *outcome imprecision* and *social bond*, are significant. Auditors' likelihood of considering the misstatement to be material is equal to

$$Y_1 = -8.067 + 7.084 (\text{Outcome imprecision}) + 3.01 (\text{Social bond}) - 1.331 (\text{Outcome imprecision} \times \text{Social bond})$$

For auditors' adjustment decisions, a significant regression equation was found ( $p<0.001$ ), with an  $R^2=.306$ . All variables added to the model are statistically significant in predicting auditors' adjustment decisions. Auditors' likelihood of requesting an audit adjustment is equal to

$$Y_2 = -12.281 + 8.988 (\text{Outcome imprecision}) + 3.873 (\text{Social bond}) - 1.703 (\text{Outcome imprecision} \times \text{Social bond})$$

**Table 7. Regression Results of the Joint Effect of Social Bond and Outcome Imprecision on Auditors' Judgments**

<b>Panel A. Regression results of auditors' materiality judgments</b>					
	B	Std. error	$\beta$	<i>t</i>	<i>p</i>
Dependent variable=likelihood of considering the misstatement as material					
Independent variables					
<i>Outcome imprecision</i>	7.084	2.839	1.571**	2.495	0.015
<i>Social bond</i>	3.010	1.159	1.389**	2.597	0.012
<i>Outcome imprecision</i> x <i>Social bond</i>	-1.331	0.632	-1.589**	-2.105	0.040
Model $R^2$	0.195				
Model <i>F</i>	4.690				
Model <i>p</i>	0.005				
<b>Panel B. Regression results of auditors' adjustment decisions</b>					
	B	Std. error	$\beta$	<i>t</i>	<i>p</i>
Dependent variable=likelihood of requesting client to make an adjustment					
Independent variables					
<i>Outcome imprecision</i>	8.988	2.679	1.96***	3.355	0.001
<i>Social bond</i>	3.873	1.094	1.76***	3.540	0.001
<i>Outcome imprecision</i> x <i>Social bond</i>	-1.703	0.596	-2.00***	-2.855	0.006
Model $R^2$	0.306				

Model $F$	8.524
Model $p$	0.000

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\* $p < 0.1$ . \*\* $p < .05$ . \*\*\* $p < .01$ .

## CHAPTER 6.

### DISCUSSION AND CONCLUSION

#### 6.1 Conclusion

Given the increasing global convergence of accounting and auditing standards and practice, fair value measurement is an important and controversial issue (Bratten et al., 2013; Christensen et al., 2012; Griffith et al., 2015; Glover et al., 2016; Bewley et al., 2018). Fair value audit is one of the most significant challenges for auditors and has been implicated in audit failures, substantial corporate collapses, and financial crises both internationally and in China. Prior studies on auditors' fair value materiality judgments have predominantly been conducted in Anglo-American countries, but there are increasing calls from standard setters, regulators, and researchers for wider, more rigorous research into various factors that influence auditors' evaluation of clients' fair value measurement. As we have seen, given its significant economic and social influence in global business and concerns about the audit quality of Chinese companies, China provides an appropriate national context for this research. Fair value measurements are an important and challenging issue for auditors, audit firms, regulators, and researchers in the Chinese context as well. Given the emerging nature of such research, providing causal evidence is particularly important to extend the research. Therefore, in this research, a between-subject experiment was conducted among Chinese professional auditors. This thesis contributes to the auditing literature by demonstrating the importance of taking into account both situational and individual factors when examining auditors' judgments. Its findings contribute to the global convergence of accounting and auditing practice, and will benefit global standard setters, national regulators, audit firms, and organizations in enhancing the audit quality of fair value measurements.

This thesis examines relevant situational and individual factors that influence auditors' fair value materiality judgments in the Chinese context. It invokes the theoretical perspectives of Hurtt et al. (2013) and Nolder and Kadous (2018), which highlight the importance of both situational and individual factors in understanding auditors' judgments and decisions. The situational factor examined in this thesis is *outcome imprecision*, and the individual factors are auditors' perceived *client identification*, *professional identification*, and *social bond* with work associates. As auditors' judgments are best assessed situationally, this thesis examines how Chinese auditors respond to audit tasks when the possible misstatement is precise or imprecise.

The results suggest that auditors are marginally more likely to consider that the fair value misstatement is material when the range of possible misstatements is imprecise than when it is precise, and auditors are significantly more likely to request an audit adjustment when the range of possible misstatements is imprecise than when it is precise. This is because *outcome imprecision* is associated with uncertainty and risks. An imprecise range of misstatement indicates higher uncertainty and risks than a precise range of misstatement. Research results suggest that when the possible misstatement is imprecise, auditors are more likely to consider that the misstatement is material and to request an audit adjustment regardless of whether their: (1) *client identification* is high or low (H2b); (2) *professional identification* is high or low (H4b); and (3) social bond with work associates is high or low (H6b). Confirming the earlier discussion, the significant uncertainty and risk associated with a wide range of possible misstatements override individual auditor factors, such as their *client identification*, *professional identification*, and *social bonds* with work associates.

Second, in addition to invoking relevant studies on situational and individual factors, this thesis also draws on social identity theory to examine the influence of auditors' multiple identifications on their fair value materiality judgments. Extant research finds that auditors' *client identification* and *professional identification* have distinct impacts on auditors' fair value materiality judgments. Specifically, while *client identification* may pose a threat to auditor objectivity, auditors' *professional identification* may offset this threat by promoting professional behaviour and objectivity (Johnstone et al., 2001; Gibbins and Trotman, 2002; Bamber and Iyer, 2007). The thesis does not find a significant association between *client identification* and client-preferred treatment. Moreover, the results do not support the hypothesis that a high level of *client identification* will result in a lower likelihood of considering misstatement as material and requesting an audit adjustment (H2a). However, the research results are consistent with prior studies concerning the impact of *professional identification* on auditors' judgments. Specifically, when auditors' *professional identification* is high, they are more likely to consider that the misstatement is material and to request an audit adjustment regardless of whether the possible misstatement is imprecise or precise. Chinese auditors are faced with a unique tension between the increasing professionalism induced by regulatory pressure and institutional improvement and dependence on important clients (Wu and Patel, 2014; Deng and Marve, 2015; Ying and Patel, 2016). While *professional identification* is critical in understanding auditors' judgments and decision making, no research to date has examined its impact on fair value materiality judgments in China. Given the wide

diffusion of Anglo-American professionalism, it is crucial to examine the application of the imported concept of *professional identification* in countries such as China. This research assists by providing empirical evidence on how *client identification* and *professional identification* influence Chinese auditors' fair value materiality judgments.

Third, the social bond between auditors and their work associates is critical in understanding auditors' fair value materiality judgments in China, because *social bonds* are an integral part of business (Liu et al., 2011). The research results suggest when auditors' social bond with work associates is high, they are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether the possible misstatement is precise or imprecise (H5a) and vice versa (H5b). This could be explained by the cultural perspective whereby Chinese auditors would inevitably take into account the interest and reputation of their work associates and firm when forming their judgments. Auditors who have strong *social bonds* with work associates are likely to act to protect the reputation of their own groups in order to enhance their relationship with work associates and the firm (Ying et al., 2020). To the best of my knowledge, no extant study has examined the impact of the social bond between working associates on auditors' fair value judgments and decision making. This study extends prior research by providing empirical evidence in the relationship-based society of China on the impact of *social bonds* between auditors and work associates on their fair value materiality judgments.

The findings have several implications for audit firms, global standard setters, and national regulators such as the PCAOB in the United States and the Institute of Certified Public Accountants in China, who have called for researchers to examine various antecedent factors that influence auditors' fair value materiality judgments to improve audit quality (PCAOB, 2009; PCAOB, 2018a; Bratten et al., 2013; Griffin, 2014; Glover, Taylor, and Wu, 2016). For example, the IASB (2018) suggests that 'some areas of IFRS 13 Fair Value Measurement present implementation challenges, largely in areas requiring judgment'. Moreover, the PCAOB (2018a) concludes that 'Accounting estimates ... including those based on fair value measurements ... are some of the areas of greatest risk in the audit, requiring additional audit attention and appropriate application of professional skepticism. Auditing accounting estimates (including fair value measurements) has proven challenging for auditors'. Indeed, international auditing standard setters and regulators have made great efforts to enhance the audit quality of fair value measurement. For example, the revised ISA540 *Auditing Accounting Estimates*,

*Including Fair Value Accounting Estimates, and Related Disclosures* specifies ‘more robust requirements and detailed guidance to foster audit quality’. The PCAOB recently amended auditing standards relating to fair value measurement including AS 2501, which particularly addresses the risks of material misstatements relating to fair values and emphasizes the importance of applying auditors’ professional judgments (PCAOB, 2018b). Moreover, unlike prior research that examines *outcome imprecision* in Anglo-American settings, this thesis provides insights into how *outcome imprecision* influences auditors’ fair value materiality judgments in the unique cultural environment of China.

The findings may also be useful to auditing firms for enhancing the audit quality of fair value measurement. This study provides experimental evidence on how both a situational factor, namely *outcome imprecision*, and important individual factors, namely auditors’ *client identification*, *professional identification*, and *social bonds* with work associates jointly affect auditors’ fair value materiality judgments. The results suggest that auditors, regardless of their level of *client identification*, *professional identification* and *social bonds* with work associates, are more likely to consider misstatement to be material and to request an audit adjustment in order to mitigate uncertainty and risk associated with an imprecise range of possible misstatements. In addition, while this thesis does not find a significant result for the impact of *client identification* on auditors’ fair value materiality judgments, consistent with extant studies, *professional identification* promotes professional behaviour and objectivity on the part of auditors. Specifically, when auditors’ *professional identification* is high, they are more likely to consider the misstatement to be material and to request an audit adjustment regardless of whether the possible misstatement is imprecise or precise and vice versa. Audit firms should be aware of the influence of both *client identification* and *professional identification* on auditors’ judgment and decision making. Additionally, the findings may be useful for an audit firm in establishing quality control pertaining to auditing fair value measurements.

## **6.2 Limitations**

The findings of this thesis should be considered in light of its limitations. Fair value audit is relatively new in China and the participants’ understanding and experience of fair value audit may vary. For example, 45% of the participants had not engaged in fair value audit before undertaking the task. Responses from such participants therefore only reflect their understanding of fair value through education or training rather than actual work experience of auditing the fair value of assets. Therefore, the data collected may not accurately reflect the

participants' responses in real practice. To eliminate such an effect, future studies can collect data only from auditors who have audited fair value.

While high-quality audit judgment and decision-making experiments have high inferential value and produce generalizable theories, experimental research is often criticized for lacking external validity. Admittedly, experiments necessarily exclude certain contextual factors that potentially impinge on the judgments of interest. Therefore, the process of generalizing requires careful thought. In other words, the findings of this thesis need to be viewed through the lens of a relevant theory, in this case, social identity theory. The results of this thesis provide evidence that allows auditors' fair value materiality judgments to be predicted, but on a set of conditions, including auditors' *client identification*, *professional identification*, and social bond with work associates.

Despite these limitations, this thesis creates a new avenue for audit research on fair value by examining the materiality judgment and decision-making process of auditors. Considering the irreversible trend of globalization and the convergence of international accounting standards, future studies will find the inquiry into the fair value judgment and decision-making process of auditors from different countries and cultures meaningful. Moreover, an examination of auditors from Anglo-American cultures, where the concept of fair value originated, and those from non-Anglo-American cultures, where the concept of fair value has been introduced and adopted, will be useful. Finally, it is suggested that the sampling method be altered by recruiting participant auditors with fair value audit experience to better resemble real-life responses.



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## **Appendix 1: Research Instrument**



**Research Instrument**

**Research Survey of Chinese Auditors' Professional Judgment on Fair Value**

**– English Version – Narrow Range**





## RESEARCH SURVEY OF CHINESE AUDITORS' PROFESSIONAL JUDGMENT ON FAIR VALUE

Dear participant,

You are invited to participate in a study of Auditors' Fair Value Materiality Judgments in China. The purpose of the study is to examine whether and how two important situational factors, namely *outcome imprecision* and *auditor-client social bond*, and an important personality variable, namely, *construal of self*, influence auditors' fair value materiality judgments in China.

The study is being conducted to meet the requirements of Master of Research under the supervision of Professor Chris Patel (Email: [chris.patel@mq.edu.au](mailto:chris.patel@mq.edu.au); Phone: +612 9850 7825) and Dr Peipei Pan (Email: [peipei.pan@mq.edu.au](mailto:peipei.pan@mq.edu.au); Phone: +612 9850 9943) of the Department of Accounting and Corporate Governance of Macquarie University, and associate professor YingFei Liu of Wuhan University.

If you decide to participate, you will be asked to complete a survey questionnaire named "Research Survey of Chinese auditors' professional judgment on Fair Value", and consists of three main sections. In Part 1, you are invited to closely examine an audit case related to Huami Vehicle Ltd., which involves a disagreement between the auditor and the client. Part 2 gathers demographic data about you. In Part 3 we collect some information of professional values about you as an auditor. The questionnaire will take approximately 25-30 minutes to complete.

Any information or personal details gathered in the course of the study are confidential, except as required by law. No individual will be identified in any publication of the results. All data and information collected will be handled only by authors of this research. Collected data will be kept for a minimum period of 5 years from the most recent publication of the research. A summary of the results of the data can be made available to you on request by emailing to [siqi.zong@hdr.mq.edu.au](mailto:siqi.zong@hdr.mq.edu.au).

Participation in this study is entirely voluntary: you are not obliged to participate and if you decide to participate, you are free to withdraw at any time without having to give a reason and without consequence.

Yours sincerely

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*The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics & Integrity (telephone (02) 9850 7854; email [ethics@mq.edu.au](mailto:ethics@mq.edu.au)). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.*

## PART 1: AUDIT CASE ON FAIR VALUE

Below is a case about fair value related to Huami Vehicle Ltd. After reading the case, you are required to exercise your professional judgment regarding the fair value of an essential manufacturing equipment. I appreciate that normally you would require more information than provided in the case to make such decisions. However, for the purpose of this study, you are required to make your judgment only based on the relevant information provided. There is no “correct” or “incorrect” answer, as we value your professional judgments in answering the questions.

### General information of Huami Vehicle Limited

Assume that you are the senior audit manager who is conducting the audit of an important client-Huami Vehicle Ltd.. Huami Vehicle Ltd is an automobile manufacturer that designs, develops, manufactures automobiles, buses, and electric bicycles. Huami was listed on Shanghai stock exchange five years ago, and is a profitable company whose earnings have been fairly consistent over the current and past five years. Over the last five years, your audit firm has conducted extensive internal control tests and has always given the standard *unqualified opinions* for Huami’s financial statements. In addition, **Huami is not a part of a group of companies.**

### Disagreement:

All necessary audit tests have been completed by competent staff and reviewed to your satisfaction for the current financial year **except for one particular account**: you have certain doubts about the calculation of the fair value of an essential manufacturing equipment. Consequently, your firm hires an independent valuer who disagrees with Huami’s record and suggested the following comments:

Our measurement differs from Huami’s record, and our analysis suggests that the Huami’s recorded fixed asset impairment loss should be increased by approximately **¥430 million to ¥470 million.**

Given the substantial discrepancy between Huami’s record and the independent valuer’s evaluation, your firm hires another independent valuer to assess the fair value of the manufacturing equipment. **The outcome agrees with the first valuer’s evaluation.**

In accordance with Chinese Standards on Audit No. 1221 on Materiality, **overall materiality (OM)** of Huami’s financial statements is **established at ¥1200 million** and **performance materiality (PM)** is **¥900 million**. Apart from the manufacturing equipment, **there is no other misstatement found.**

This had led to the discussion between you and Dr Sheng, the director of Huami, about whether there is a material misstatement of the manufacturing equipment’s fair value and whether it is necessary to make an adjustment to the financial statements. Dr Sheng argues that the value of the manufacturing equipment is impaired at the year-end in accordance with Chinese Accounting Standards for Business Enterprises (ASBEs) No.8 *Impairment of assets*. Huami used *Level 3 unobservable inputs* to measure the fair value of the equipment based on discounted cash flows at year-end. Unobservable inputs refer to inputs used in situations where there is almost no active market for the assets.

**Huami is an important client** contributing significantly to the total audit revenue of your firm. **Dr Sheng is strongly pressuring you that the value of the manufacturing equipment is fairly presented and there is no adjustment required for the value of manufacturing equipment.** He also argues that the financial statements present a true and fair view of their financial position and performance and therefore are eager to release the financial reports without any adjustment to the public as soon as possible. Dr Sheng has expressed this opinion strongly, and insists on receiving a standard *unqualified opinion* on the financial statement.

## QUESTIONS

Based only on the limited information provided to you, please answer the following questions by placing an  $\checkmark$  on the following scale that describes you the best:

1. How likely are you to consider that the fair value misstatement of the manufacturing equipment is *material* to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

2. How likely are you to request an audit adjustment of the manufacturing equipment' fair value to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

3. Please indicate the most likely RMB amount of your required adjustment:

¥ \_\_\_\_\_ million.

Your comments:

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4. How likely do you think your superior partner would consider that the fair value misstatement is *material* to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

5. How likely do you think your superior partner would request an audit adjustment of the manufacturing equipment' fair value to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

6. Please indicate the most likely RMB amount of your superior partner' required adjustment:

¥ \_\_\_\_\_ million.

Your comments:

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## Additional Questions:

**Please answer the following questions by placing an  $\checkmark$  on the following scale that describes you the best:**

1. What is the range of adjustment to the fair value of the manufacturing equipment provided by the independent valuer in the case:

From ¥ \_\_\_\_\_ million to ¥ \_\_\_\_\_ million

2. How *wide* or *narrow* do you think the range of adjustment to the fair value of the manufacturing equipment provided by the independent valuer is?

Very Narrow			Neutral			Very Wide
1	2	3	4	5	6	7

3. In this audit case, how *close* or *distant* is your relationship with Dr Sheng?

Very Distant			Moderate			Very Close
1	2	3	4	5	6	7

4. In this audit case, what do you think about the statement “I feel close to Dr Sheng.”?

Strongly Disagree			Neutral			Strongly Agree
1	2	3	4	5	6	7

5. In this audit case, how much pressure do you feel working with Dr Sheng in auditing Huami?

No pressure at all			Neutral			A great deal of pressure
1	2	3	4	5	6	7

6. In this audit case, overall, how *positive* or *negative* do you feel working with Dr Sheng in auditing Huami?

Very negative			Neutral			Very positive
1	2	3	4	5	6	7

7. In this audit case, do you *like* working with Dr Sheng in auditing Huami?

Do not like working with Dr Sheng at all			Neutral			Very much like working with Dr Sheng
1	2	3	4	5	6	7

8. In this audit case, how *frustrated* do you feel working with Dr Sheng in auditing Huami?

Not frustrated at all			Neutral			Very frustrated
1	2	3	4	5	6	7

9. In this audit case, how *comfortable* do you feel working with Dr Sheng in auditing Huami?

Not comfortable at all			Neutral			Very comfortable
1	2	3	4	5	6	7

10. In this audit case, how *happy* do you feel working with Dr Sheng in auditing Huami?

Not happy at all		Neutral				Very happy
1	2	3	4	5	6	7

11. In this audit case, how *irritated* do you feel working with Dr Sheng in auditing Huami?

Not irritated at all		Neutral				Very irritated
1	2	3	4	5	6	7

12. In this audit case, how *trustful* is the relationship between you and Dr Sheng?

Not trustful at all		Neutral				Very trustful
1	2	3	4	5	6	7

13. How familiar are you with Auditing Standards of China (ASC) No. 1322 *Auditing Fair Value Measurements and Disclosures*?

Not at all familiar		Neutral				Very familiar
1	2	3	4	5	6	7

14. How *familiar* are you with the audit task in this case related to fair value of the Huami's manufacturing equipment?

Not at all familiar		Neutral				Very familiar
1	2	3	4	5	6	7

15. How *confident* are you in your ability to perform the audit task in this case related to fair value of the Huami's manufacturing equipment?

Not at all confident		Neutral				Very confident
1	2	3	4	5	6	7

16. In your opinion, how *realistic* do you think this audit case is?

Not at all realistic		Neutral				Highly realistic
1	2	3	4	5	6	7

17. In your opinion, how *understandable* do you think this audit case is?

Not at all understandable		Neutral				Highly understandable
1	2	3	4	5	6	7

## PART 2: DEMOGRAPHICS

<b>Please respond to the following questions relating to your personal profile.</b>			
<b>Are you:</b>			
<input type="checkbox"/> Male		<input type="checkbox"/> Female	
<b>How old are you?</b>			
<input type="checkbox"/> Under 20	<input type="checkbox"/> 20-24	<input type="checkbox"/> 25-29	<input type="checkbox"/> 30-34
<input type="checkbox"/> 35-39	<input type="checkbox"/> 40-49	<input type="checkbox"/> 50-59	<input type="checkbox"/> 60 or over
<b>Your highest education level (completed or in process)</b>			
<input type="checkbox"/> Diploma <input type="checkbox"/> Undergraduate <input type="checkbox"/> Post graduate and above			
<b>How many years of audit experience do you have?</b>			
<input type="checkbox"/> Less than 1 year <input type="checkbox"/> 1-3 <input type="checkbox"/> 3-6 <input type="checkbox"/> more than 6 years			
<b>Which of the following best describes the firm that you are currently working with:</b>			
<input type="checkbox"/> Domestic audit firm (Top 10) <input type="checkbox"/> Domestic audit firm (Top 20) <input type="checkbox"/> Big 4 international audit firm <input type="checkbox"/> non-Big 4 international audit firm <input type="checkbox"/> Other (please specify) _____			
<b>Which of the following best describes your current job position?</b>			
<input type="checkbox"/> Associate <input type="checkbox"/> Senior Associate <input type="checkbox"/> Associate Manager <input type="checkbox"/> Manager <input type="checkbox"/> Senior Manager <input type="checkbox"/> Partner <input type="checkbox"/> Other (please specify) _____			
<b>Which section are you currently working in?</b>			
<input type="checkbox"/> Financial Audit <input type="checkbox"/> Tax <input type="checkbox"/> Consulting <input type="checkbox"/> Other (please specify)			
<b>How many times have you conducted audits related to fair values of fixed assets?</b>			
<input type="checkbox"/> None <input type="checkbox"/> 1- 5 <input type="checkbox"/> 6-10 <input type="checkbox"/> more than 10			
<b>How many audit engagements have you conducted where a misstatement was discovered?</b>			
<input type="checkbox"/> None <input type="checkbox"/> 1- 5 <input type="checkbox"/> 6-10 <input type="checkbox"/> more than 10			
<b>How many audit engagements have you conducted where an adjustment was requested?</b>			
<input type="checkbox"/> None <input type="checkbox"/> 1- 5 <input type="checkbox"/> 6-10 <input type="checkbox"/> more than 10			
<b>How often do you participate in discussions of important accounting issues with the management of your client (e.g. the finance controller)?</b>			
<input type="checkbox"/> Never <input type="checkbox"/> Sometimes <input type="checkbox"/> Very often			
<b>What is your professional qualification?</b>			
<input type="checkbox"/> I am a member of the Chinese Institute of Certified Public Accountants (CICPA) <input type="checkbox"/> I am not a member of the CICPA <input type="checkbox"/> If you have any other accounting professional qualification, please specify			



### PART 3: PERSONAL IDENTITY

Please indicate how much you agree or disagree with each of the following statements by placing an ✓ on the scale.

	Strongly Disagree			Un-decided			Strongly Agree
I have respect for the authority figures with whom I interact.	1	2	3	4	5	6	7
It is important for me to maintain harmony within my group.	1	2	3	4	5	6	7
My happiness depends on the happiness of those around me.	1	2	3	4	5	6	7
I would offer my seat in a bus to my boss.	1	2	3	4	5	6	7
I'd rather say "No" directly, than risk being misunderstood.	1	2	3	4	5	6	7
Speaking up during a class is not a problem for me.	1	2	3	4	5	6	7
Having a lively imagination is important to me.	1	2	3	4	5	6	7
I am comfortable with being singled out for praise or rewards.	1	2	3	4	5	6	7
I respect people who are modest about themselves.	1	2	3	4	5	6	7
I will sacrifice my self-interest for the benefit of the group I am in.	1	2	3	4	5	6	7
I often have the feeling that my relationships with others are more important than my own accomplishments.	1	2	3	4	5	6	7
I should take into consideration my parents' advice when making education/career plans.	1	2	3	4	5	6	7
I am the same person at home that I am at school.	1	2	3	4	5	6	7
Being able to take care of myself is a primary concern for me.	1	2	3	4	5	6	7
I act the same way no matter who I am with.	1	2	3	4	5	6	7
I feel comfortable using someone's first name soon after I meet them, even when they are much older than I am.	1	2	3	4	5	6	7
It is important to me to respect decisions made by the group.	1	2	3	4	5	6	7
I will stay in a group if they need me, even when I am not happy with the group.	1	2	3	4	5	6	7
If my brother or sister fails, I feel responsible.	1	2	3	4	5	6	7
Even when I strongly disagree with group members, I avoid an argument.	1	2	3	4	5	6	7

	Strongly Disagree		Un-decided				Strongly Agree	
I prefer to be direct and forthright when dealing with people I've just met.	1	2	3	4	5	6	7	
I enjoy being unique and different from others in many respects.	1	2	3	4	5	6	7	
My personal identity independent of others is very important to me.	1	2	3	4	5	6	7	
I value being in good health above everything.	1	2	3	4	5	6	7	
When someone praises this client, it feels like a personal compliment.	1	2	3	4	5	6	7	
When I talk about this client, I usually say "We" rather than "They." This client's successes are my successes.	1	2	3	4	5	6	7	
When someone criticizes this client, it feels like a personal insult.	1	2	3	4	5	6	7	
When someone criticizes my profession, it feels like a personal insult.	1	2	3	4	5	6	7	
When I talk about my profession, I usually say "We" rather than "They."	1	2	3	4	5	6	7	
I am very interested in what others think about my profession.	1	2	3	4	5	6	7	
My profession's successes are my successes.	1	2	3	4	5	6	7	
When someone praises my profession, it feels like a personal compliment	1	2	3	4	5	6	7	
I often eat meals together with my audit clients after work	1	2	3	4	5	6	7	
I usually keep in touch via telephone, email or text message with my audit clients, as friends do	1	2	3	4	5	6	7	
I frequently participate in entertaining activities with my audit clients after work, such as karaoke	1	2	3	4	5	6	7	
I help my audit clients via my social circle	1	2	3	4	5	6	7	
If I ever receive a favor from my audit clients, I try to repay them	1	2	3	4	5	6	7	
I try my best to help out my audit clients when they are in need	1	2	3	4	5	6	7	
I am honest and frank with my audit clients	1	2	3	4	5	6	7	
I always keep my word when interacting with my audit clients	1	2	3	4	5	6	7	
I assure my audit clients that I am trustworthy in work and social interactions	1	2	3	4	5	6	7	

	Strongly Disagree		Un-decided			Strongly Agree	
I never criticize my audit clients in public because this would cause them to lose face	1	2	3	4	5	6	7
I avoid opposing or criticizing my audit clients in public, even if I disagree with them	1	2	3	4	5	6	7
If I receive an invitation from an audit client and from another party at the same time, I will give priority to my audit client's invitation	1	2	3	4	5	6	7
I often interact with my partner on a social basis outside of work	1	2	3	4	5	6	7
My partner and I are able to talk openly as friends.	1	2	3	4	5	6	7
I consider my partner as being almost as close to me as family.	1	2	3	4	5	6	7
If I were to change business partners, I would lose a good friend in my current partner.	1	2	3	4	5	6	7
I would consider whether my partner's feelings would be hurt before I made an important decision.	1	2	3	4	5	6	7

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to auditors' materiality judgments, or if there are any other comments you would like to make, please do so in the space provided.

**Thank you for your participation!**

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*The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics & Integrity (telephone (02) 9850 7854; email ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.*

**Research Instrument**

**Research Survey of Chinese Auditors' Professional Judgment on Fair Value**

**– Chinese Version – Narrow Range**





## 关于中国审计人员对于公允价值的判断调查问卷

您好，

我是宗思琪，来自麦考瑞大学的一名研究型硕士在读学生。这个项目是在我在麦考瑞大学的导师 Chris Patel 教授和潘培培博士的指导下进行的。武汉大学刘颖斐副教授是该项目的共同研究员。我诚意邀请您参与完成这项重要的调查问卷；这对于帮助我们了解中国的公允价值审计这个重要但富有争议的研究题目有非常重大的意义。这个问卷的目的在于研究影响我国审计人员对公允价值审计重要性专业判断的各种因素。

本问卷由三部分组成：在第一部分中，我们邀请您仔细阅读一个关于华米汽车有限公司的审计案例，该案例涉及审计师与客户之间的分歧，需要您运用您的专业知识和经验作出判断。第二部分会收集您的个人信息。在第三部分中，我们会请您回答一些关于您作为审计师的职业价值的信息。

我理解在通常情况下您需要比我们所提供的内容更多的信息去做出相关判断。但是为了本研究的目的，您需要仅根据案例中提供的相关信息回答问题。这些问题没有“正确”或“不正确”的答案，因为您的回答是基于您的职业判断。

本次调查问卷保持自愿和匿名的原则。我们将严格保密您所提供的任何信息。搜集的数据只用作整体分析，且仅供研究之用。研究结果可能会以期刊文章、会议论文或研究论文的形式发表。您作为问卷的参与者，如果对此项目感兴趣，可直接向我索取调查结果。

非常感谢您拨冗配合参与这项研究。如果您想了解更多关于这项研究的细节，请随时联系我。您的帮助对于成功完成这项研究是非常重要的。

此致

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## 第一部分：公允价值的审计案例

以下是与华米汽车有限公司相关的公允价值案例，阅读案例后，您需要对其制造设备的公允价值进行专业判断。我理解在通常情况下您需要更多的信息来作出判断。然而，为了本研究的目的，您需要仅根据所提供的信息来回答相关问题。这些问题没有“正确”或“不正确”的答案，我们重视的是您在回答问题时的专业判断。

### 华米汽车有限公司简介

假设您是一名高级审计经理，正在对一个重要的客户-华米汽车有限公司-进行审计。华米汽车有限公司是一家集设计、开发、生产家用汽车、公共汽车、电动自行车为一体的汽车制造企业。华米五年前在上海证券交易所上市，是一家持续盈利的公司，在过去五年华米的盈利能力都相当稳定。在过去的五年中，审计人员对华米进行了广泛的内控测试，并且一直对华米的财务报表予标准的无保留审计意见。此外，**华米并非一个集团公司。**

### 意见不合：

所有必要的审计测试都已经由有能力的员工完成，并且您对当前财年的审计结果感到满意；**除了一个特定账户：**您对华米的一个关键的制造设备的公允价值的计算有一定的疑问。因此，贵所聘请了独立的估值人员对该设备做估价，得出的结论与华米的财务数据不相符。估值人员的评论如下：

“我们的量测与华米的记录不同，根据我们的专业估值与分析表明，客户记录的固定资产减值损失应增加大约 4.3 亿元至 4.7 亿元。”

鉴于华米的记录与独立估值人员的评估存在较大差异，贵所聘请了另一位独立估值人员对制造设备的公允价值进行评估。**其结果与第一个估值人员的评估一致。**

按照中国审计标准 1221 号审计重要性相应准则，华米财务报表的**整体重要性水平(OM)在 12 亿元，其执行的重要性水平(PM)是 9 亿元。**同时，除了这个关键的制造设备，审计师**没有发现其他误报。**

您和华米董事盛博士就该公司的制造设备的公允价值是否存在重大错报，以及是否需要对财务报表进行调整进行了讨论。盛博士认为，存在争议的这个制造设备的价值在年底已经按照中国企业会计准则第 8 号的规定进行了资产减值。基于**第三层次不可观察输入值**，华米使用年末现金流折现来衡量这个制造设备的公允价值。不可观察输入值，是指不能从市场数据中取得的输入值。

华米是**贵所的重要客户**，为贵所贡献了非常可观的审计收入。关于制造设备的估值问题上，**盛博士对您施压，他认为华米记录的制造设备价值是合理的，不需要对制造设备的价值进行调整。**他还认为，华米的财务报表真实、公允地反映了该企业的财务状况和经营业绩，因此迫切希望在不作任何调整的情况下尽快向公众发布财务报告。盛博士强烈表达了这一观点，并且期待贵所给予无保留的审计意见。

## 问题

仅根据以上提供给您有限信息，请回答以下问题（在您觉得最合适的数值上打√）：

1. 对于华米的财务报表而言，您认为有多大可能性制造设备的公允价值错报是显著的？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

2. 您有多大可能性会要求华米对制造设备的公允价值在财务报表里做出调整？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

3. 请指出您认为最有可能的调整金额是：

¥ \_\_\_\_\_ 亿。原因是：\_\_\_\_\_

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4. 对于华米的财务报表而言，您觉得您事务所的资深合伙人认为有多大可能性制造设备的公允价值错报是显著的？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

5. 您觉得您事务所的资深合伙人有多大可能性会要求华米对制造设备的公允价值在财务报表里做出调整？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

6. 请指出您事务所的资深合伙人认为最有可能的调整金额是：

¥ \_\_\_\_\_ 亿。原因是：\_\_\_\_\_

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## 其他问题:

请回答以下问题（在您觉得最合适的数值上打√）：

1. 案例中独立估值人员提供的制造设备的公允价值的调整范围是：

从 ¥\_\_\_\_\_ 亿 到 ¥\_\_\_\_\_ 亿

2. 您认为案例中独立估值人员提供的制造设备的公允价值的调整范围的宽窄如何？

非常窄		适中				非常宽
1	2	3	4	5	6	7

3. 在这个审计案例中，您是否觉得和盛博士的关系很亲近或者很疏远？

非常疏远		适中				非常亲近
1	2	3	4	5	6	7

4. 在这个审计案例中，您对“我觉得和盛博士很亲近”这句话怎么看？

强烈反对		中立				强烈同意
1	2	3	4	5	6	7

5. 在这个审计案例中，在审计华米时，您是否感觉和盛博士一起工作让您有压力？

完全没有压力		适中				非常有压力
1	2	3	4	5	6	7

6. 在这个审计案例中，总的来说，在审计华米时，和盛博士一起工作对您是否产生正面或者负面情绪？

非常正面的情绪		中立				非常负面的情绪
1	2	3	4	5	6	7

7. 在这个审计案例中，您喜欢和盛博士一起工作吗？

完全不喜欢和盛博士一起工作		中立				非常喜欢和盛博士一起工作
1	2	3	4	5	6	7

8. 在这个审计案例中，您是否觉得和盛博士一起工作让您沮丧？

完全不沮丧		中立				非常沮丧
1	2	3	4	5	6	7

9. 在这个审计案例中，您是否感觉和盛博士一起工作让您放心？

完全不舒适		中立				非常舒适
1	2	3	4	5	6	7

10. 在这个审计案例中，您是否觉得和盛博士一起工作让您开心？

完全不开心			中立			非常开心
1	2	3	4	5	6	7

11. 在这个审计案例中，您是否觉得和盛博士一起工作让您生气？

完全不生气			中立			非常生气
1	2	3	4	5	6	7

12. 在这个审计案例中，您和盛博士的关系有多可靠？

完全不可靠			中立			非常可靠
1	2	3	4	5	6	7

13. 您对中国审计准则第 1322 号——公允价值计量与披露审计准则熟悉程度如何？

完全不熟悉			适中			非常熟悉
1	2	3	4	5	6	7

14. 您对本案例中关于华米的制造设备公允价值审计任务熟悉程度如何？

完全不熟悉			适中			非常熟悉
1	2	3	4	5	6	7

15. 您对于您完成本案例中关于华米的制造设备公允价值审计任务的能力有多大信心？

完全没信心			适中			非常有信心
1	2	3	4	5	6	7

16. 在您看来，这个案例贴近现实吗？

完全不贴近现实			适中			非常贴近现实
1	2	3	4	5	6	7

17. 在您看来，这个案例容易理解吗？

完全不容易理解			适中			非常容易理解
1	2	3	4	5	6	7

## 第二部分：个人信息

请回答如下关于您个人信息的问题:			
性别:			
<input type="checkbox"/> 男		<input type="checkbox"/> 女	
年龄:			
<input type="checkbox"/> 20 岁以下	<input type="checkbox"/> 20-24	<input type="checkbox"/> 25-29	<input type="checkbox"/> 30-34
<input type="checkbox"/> 35-39	<input type="checkbox"/> 40-49	<input type="checkbox"/> 50-59	<input type="checkbox"/> 60 岁或以上
您最高的学历（已经完成或者正在就读的）			
<input type="checkbox"/> 专科 <input type="checkbox"/> 大学本科 <input type="checkbox"/> 硕士或以上			
您有多少年的审计工作经验？			
<input type="checkbox"/> 少于一年 <input type="checkbox"/> 1-3 年 <input type="checkbox"/> 3-6 年 <input type="checkbox"/> 超过 6 年			
以下哪个选项最贴近您现在工作单位的类型:			
<input type="checkbox"/> 国内前十审计事务所 <input type="checkbox"/> 国内前二十审计事务所 <input type="checkbox"/> 四大国际审计事务所 <input type="checkbox"/> 非四大国际审计事务所 <input type="checkbox"/> 其他 (请注明) _____			
以下哪项最能描述你目前的工作职称?			
<input type="checkbox"/> 审计师 <input type="checkbox"/> 高级审计师 <input type="checkbox"/> 助理经理 <input type="checkbox"/> 经理 <input type="checkbox"/> 高级经理 <input type="checkbox"/> 合伙人 <input type="checkbox"/> 其他 (请注明) _____			
您的工作部门是？			
<input type="checkbox"/> 审计 <input type="checkbox"/> 税务 <input type="checkbox"/> 咨询 <input type="checkbox"/> 其他 (请注明) _____			
您参加过多少次固定资产公允价值的审计？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 1-5 <input type="checkbox"/> 6-10 <input type="checkbox"/> 超过 10 次			
您参与的审计业务中有多少次发现了客户错报？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 1-5 <input type="checkbox"/> 6-10 <input type="checkbox"/> 超过 10 次			
您参与的审计业务中有多少次要求客户调整财务报表？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 1-5 <input type="checkbox"/> 6-10 <input type="checkbox"/> 超过 10 次			
您与客户管理层（如财务总监）讨论重要的会计问题的频率有多高？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 有时 <input type="checkbox"/> 经常			
您的职业资格是？			
<input type="checkbox"/> 我是中国注册会计师协会的一员(CICPA) <input type="checkbox"/> 我不是中国注册会计师的一员 <input type="checkbox"/> 如果你有任何其他会计职业资格,请说明 _____			

### 第三部分：个人价值

请回答以下问题（在您觉得最合适的数值上打√）：

	强烈 反对			中立			强烈 同意
我尊重身边的权威人士。	1	2	3	4	5	6	7
对我而言，维系团队和谐很重要。	1	2	3	4	5	6	7
周围人的快乐，我就觉得快乐。	1	2	3	4	5	6	7
跟上级一起乘车，我会给他让座。	1	2	3	4	5	6	7
我宁愿说“不”，也不愿被他人误解。	1	2	3	4	5	6	7
会议上发言，对我来说没有一点问题。	1	2	3	4	5	6	7
拥有丰富的想象力，对我来说很重要。	1	2	3	4	5	6	7
我能坦然面对和接受表扬和奖赏。	1	2	3	4	5	6	7
我尊敬谦虚的人。	1	2	3	4	5	6	7
我愿为团队的利益而牺牲自己的利益。	1	2	3	4	5	6	7
我常常觉得我和其他人的关系比我自己的成就更重要。	1	2	3	4	5	6	7
在我决定工作的规划时，应该考虑父母的意见。	1	2	3	4	5	6	7
在家和公司，我的表现是一致的。	1	2	3	4	5	6	7
我首要关心的事情是照顾好自己。	1	2	3	4	5	6	7
无论跟谁在一起，我的表现都是一样的。	1	2	3	4	5	6	7
对我认识的人，我习惯直接称呼名字。如果这个人的年纪比我大很多，我也喜欢直接称呼他的名字。	1	2	3	4	5	6	7
尊重团体做出的决定对我来说很重要。	1	2	3	4	5	6	7
如果团队需要我，我会一直留在团队中，即使我在这个团队工作的不愉快。	1	2	3	4	5	6	7
如果与我同辈的家庭成员没有成功，我会觉得我有责任。	1	2	3	4	5	6	7
即使当我的意见和团体其他人的意见很不一致，我也会避免争论。	1	2	3	4	5	6	7
我倾向于直接的方式和人交往，即使是对刚刚认识的人也是如此。	1	2	3	4	5	6	7

	强烈 反对	中立					强烈 同意
我很喜欢在各个方面和其他人不一样。	1	2	3	4	5	6	7
我独立自主的个性对我很重要。	1	2	3	4	5	6	7
我觉得健康比任何其他的东西都重要。	1	2	3	4	5	6	7
当有人称赞我的客户时，感觉就像是对我个人的赞美。	1	2	3	4	5	6	7
当我谈论我的客户时，我通常说“我们”而不是“他们”。客户的成功就是我的成功。	1	2	3	4	5	6	7
当有人批评我的客户时，感觉像是对我个人的侮辱。	1	2	3	4	5	6	7
当有人批评我的行业时，感觉像是对我个人的侮辱。	1	2	3	4	5	6	7
当我谈论我的行业时，我通常说“我们”而不是“他们”。	1	2	3	4	5	6	7
我非常感兴趣别人对我的行业的看法。	1	2	3	4	5	6	7
我的行业的成功就是我的成功。	1	2	3	4	5	6	7
当有人称赞我的行业时，感觉就像是对我个人的赞美	1	2	3	4	5	6	7
我经常下班后和审计客户一起吃饭	1	2	3	4	5	6	7
我通常通过电话、电子邮件或短信与我的审计客户保持联系，就像朋友那样	1	2	3	4	5	6	7
我经常在下班后和审计客户一起参加娱乐活动，比如卡拉 ok	1	2	3	4	5	6	7
我通过我的社交圈帮助我的审计客户	1	2	3	4	5	6	7
如果我得到审计客户的帮助，我会尽力回报他们	1	2	3	4	5	6	7
当我的审计客户需要的时候，我尽我最大的努力帮助他们	1	2	3	4	5	6	7
我对审计客户是诚实和坦率的	1	2	3	4	5	6	7
在与审计客户打交道时，我总是信守诺言	1	2	3	4	5	6	7
我向我的审计客户保证，我在工作和社会交往中是值得信赖的	1	2	3	4	5	6	7
我从不公共场合指正我的审计客户，因为这会让他们丢面子	1	2	3	4	5	6	7
即使我不同意我的审计客户的意见，我也避免公开反对或指正他们	1	2	3	4	5	6	7
如果我同时收到审计客户和其他的邀请，我将优先考虑审计客户的邀请	1	2	3	4	5	6	7

	强烈 反对	中立					强烈 同意
我经常在工作之余与我的工作搭档进行社交活动	1	2	3	4	5	6	7
我和我的工作搭档可以像朋友一样开诚布公地交谈。	1	2	3	4	5	6	7
我认为我的工作搭档几乎和我的家人一样亲密。	1	2	3	4	5	6	7
如果我换了生意伙伴，我就会失去一个好朋友。	1	2	3	4	5	6	7
在我做出重要决定之前，我会考虑我的工作搭档的感情是否会受到伤害。	1	2	3	4	5	6	7

非常感谢您拨冗参与这次调查问卷。您的帮助对于我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对审计师关于重要性的专业判断有什么评论，请留下您的宝贵意见。

**感谢您的参与！**

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*The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics & Integrity (telephone (02) 9850 7854; email [ethics@mq.edu.au](mailto:ethics@mq.edu.au)). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.*

## **Research Instrument**

### **Research Survey of Chinese Auditors' Professional Judgment on Fair Value**

**– English Version – Wide Range**







## RESEARCH SURVEY OF CHINESE AUDITORS' PROFESSIONAL JUDGMENT ON FAIR VALUE

Dear participant,

You are invited to participate in a study of Auditors' Fair Value Materiality Judgments in China. The purpose of the study is to examine whether and how two important situational factors, namely *outcome imprecision* and *auditor-client social bond*, and an important personality variable, namely, *construal of self*, influence auditors' fair value materiality judgments in China.

The study is being conducted to meet the requirements of Master of Research under the supervision of Professor Chris Patel (Email: [chris.patel@mq.edu.au](mailto:chris.patel@mq.edu.au); Phone: +612 9850 7825) and Dr Peipei Pan (Email: [peipei.pan@mq.edu.au](mailto:peipei.pan@mq.edu.au); Phone: +612 9850 9943) of the Department of Accounting and Corporate Governance of Macquarie University, and associate professor YingFei Liu of Wuhan University.

If you decide to participate, you will be asked to complete a survey questionnaire named "Research Survey of Chinese auditors' professional judgment on Fair Value", and consists of three main sections. In Part 1, you are invited to closely examine an audit case related to Huami Vehicle Ltd., which involves a disagreement between the auditor and the client. Part 2 gathers demographic data about you. In Part 3 we collect some information of professional values about you as an auditor. The questionnaire will take approximately 25-30 minutes to complete.

Any information or personal details gathered in the course of the study are confidential, except as required by law. No individual will be identified in any publication of the results. All data and information collected will be handled only by authors of this research. Collected data will be kept for a minimum period of 5 years from the most recent publication of the research. A summary of the results of the data can be made available to you on request by emailing to [siqi.zong@hdr.mq.edu.au](mailto:siqi.zong@hdr.mq.edu.au).

Participation in this study is entirely voluntary: you are not obliged to participate and if you decide to participate, you are free to withdraw at any time without having to give a reason and without consequence.

Yours sincerely

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## PART 1: AUDIT CASE ON FAIR VALUE

Below is a case about fair value related to Huami Vehicle Ltd. After reading the case, you are required to exercise your professional judgment regarding the fair value of an essential manufacturing equipment. I appreciate that normally you would require more information than provided in the case to make such decisions. However, for the purpose of this study, you are required to make your judgment only based on the relevant information provided. There is no “correct” or “incorrect” answer, as we value your professional judgments in answering the questions.

### General information of Huami Vehicle Limited

Assume that you are the senior audit manager who is conducting the audit of an important client-Huami Vehicle Ltd.. Huami Vehicle Ltd is an automobile manufacturer that designs, develops, manufactures automobiles, buses, and electric bicycles. Huami was listed on Shanghai stock exchange five years ago, and is a profitable company whose earnings have been fairly consistent over the current and past five years. Over the last five years, your audit firm has conducted extensive internal control tests and has always given the standard *unqualified opinions* for Huami’s financial statements. In addition, **Huami is not a part of a group of companies.**

### Disagreement:

All necessary audit tests have been completed by competent staff and reviewed to your satisfaction for the current financial year **except for one particular account**: you have certain doubts about the calculation of the fair value of an essential manufacturing equipment. Consequently, your firm hires an independent valuer who disagrees with Huami’s record and suggested the following comments:

Our measurement differs from Huami’s record, and our analysis suggests that the Huami’s recorded fixed asset impairment loss should be increased by approximately **¥365 million to ¥535 million.**

Given the substantial discrepancy between Huami’s record and the independent valuer’s evaluation, your firm hires another independent valuer to assess the fair value of the manufacturing equipment. **The outcome agrees with the first valuer’s evaluation.**

In accordance with Chinese Standards on Audit No. 1221 on Materiality, **overall materiality (OM)** of Huami’s financial statements is **established at ¥1200 million** and **performance materiality (PM)** is **¥900 million**. Apart from the manufacturing equipment, **there is no other misstatement found.**

This had led to the discussion between you and Dr Sheng, the director of Huami, about whether there is a material misstatement of the manufacturing equipment’s fair value and whether it is necessary to make an adjustment to the financial statements. Dr Sheng argues that the value of the manufacturing equipment is impaired at the year-end in accordance with Chinese Accounting Standards for Business Enterprises (ASBEs) No.8 *Impairment of assets*. Huami used *Level 3 unobservable inputs* to measure the fair value of the equipment based on discounted cash flows at year-end. Unobservable inputs refer to inputs used in situations where there is almost no active market for the assets.

**Huami is an important client** contributing significantly to the total audit revenue of your firm. **Dr Sheng is strongly pressuring you that the value of the manufacturing equipment is fairly presented and there is no adjustment required for the value of manufacturing equipment.** He also argues that the financial statements present a true and fair view of their financial position and performance and therefore are eager to release the financial reports without any adjustment to the public as soon as possible. Dr Sheng has expressed this opinion strongly, and insists on receiving a standard *unqualified opinion* on the financial statement.

## QUESTIONS

Based only on the limited information provided to you, please answer the following questions by placing an  $\checkmark$  on the following scale that describes you the best:

1. How likely are you to consider that the fair value misstatement of the manufacturing equipment is *material* to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

2. How likely are you to request an audit adjustment of the manufacturing equipment' fair value to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

3. Please indicate the most likely RMB amount of your required adjustment:

¥ \_\_\_\_\_ million.

Your comments:

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4. How likely do you think your superior partner would consider that the fair value misstatement is *material* to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

5. How likely do you think your superior partner would request an audit adjustment of the manufacturing equipment' fair value to Huami's financial statements?

Very Low Likelihood					Very High Likelihood				
1	2	3	4	5	6	7	8	9	10

6. Please indicate the most likely RMB amount of your superior partner' required adjustment:

¥ \_\_\_\_\_ million.

Your comments:

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### Additional Questions:

**Please answer the following questions by placing an  $\checkmark$  on the following scale that describes you the best:**

1. What is the range of adjustment to the fair value of the manufacturing equipment provided by the independent valuer in the case:

From ¥ \_\_\_\_\_ million to ¥ \_\_\_\_\_ million

2. How *wide* or *narrow* do you think the range of adjustment to the fair value of the manufacturing equipment provided by the independent valuer is?

Very Narrow			Neutral			Very Wide
1	2	3	4	5	6	7

3. In this audit case, how *close* or *distant* is your relationship with Dr Sheng?

Very Distant			Moderate			Very Close
1	2	3	4	5	6	7

4. In this audit case, what do you think about the statement “I feel close to Dr Sheng.”?

Strongly Disagree			Neutral			Strongly Agree
1	2	3	4	5	6	7

5. In this audit case, how much pressure do you feel working with Dr Sheng in auditing Huami?

No pressure at all			Neutral			A great deal of pressure
1	2	3	4	5	6	7

6. In this audit case, overall, how *positive* or *negative* do you feel working with Dr Sheng in auditing Huami?

Very negative			Neutral			Very positive
1	2	3	4	5	6	7

7. In this audit case, do you *like* working with Dr Sheng in auditing Huami?

Do not like working with Dr Sheng at all			Neutral			Very much like working with Dr Sheng
1	2	3	4	5	6	7

8. In this audit case, how *frustrated* do you feel working with Dr Sheng in auditing Huami?

Not frustrated at all			Neutral			Very frustrated
1	2	3	4	5	6	7

9. In this audit case, how *comfortable* do you feel working with Dr Sheng in auditing Huami?

Not comfortable at all			Neutral			Very comfortable
1	2	3	4	5	6	7

10. In this audit case, how *happy* do you feel working with Dr Sheng in auditing Huami?

Not happy at all		Neutral				Very happy
1	2	3	4	5	6	7

11. In this audit case, how *irritated* do you feel working with Dr Sheng in auditing Huami?

Not irritated at all		Neutral				Very irritated
1	2	3	4	5	6	7

12. In this audit case, how *trustful* is the relationship between you and Dr Sheng?

Not trustful at all		Neutral				Very trustful
1	2	3	4	5	6	7

13. How familiar are you with Auditing Standards of China (ASC) No. 1322 *Auditing Fair Value Measurements and Disclosures*?

Not at all familiar		Neutral				Very familiar
1	2	3	4	5	6	7

14. How *familiar* are you with the audit task in this case related to fair value of the Huami's manufacturing equipment?

Not at all familiar		Neutral				Very familiar
1	2	3	4	5	6	7

15. How *confident* are you in your ability to perform the audit task in this case related to fair value of the Huami's manufacturing equipment?

Not at all confident		Neutral				Very confident
1	2	3	4	5	6	7

16. In your opinion, how *realistic* do you think this audit case is?

Not at all realistic		Neutral				Highly realistic
1	2	3	4	5	6	7

17. In your opinion, how *understandable* do you think this audit case is?

Not at all understandable		Neutral				Highly understandable
1	2	3	4	5	6	7

## PART 2: DEMOGRAPHICS

<b>Please respond to the following questions relating to your personal profile.</b>			
<b>Are you:</b>			
<input type="checkbox"/> Male		<input type="checkbox"/> Female	
<b>How old are you?</b>			
<input type="checkbox"/> Under 20	<input type="checkbox"/> 20-24	<input type="checkbox"/> 25-29	<input type="checkbox"/> 30-34
<input type="checkbox"/> 35-39	<input type="checkbox"/> 40-49	<input type="checkbox"/> 50-59	<input type="checkbox"/> 60 or over
<b>Your highest education level (completed or in process)</b>			
<input type="checkbox"/> Diploma <input type="checkbox"/> Undergraduate <input type="checkbox"/> Post graduate and above			
<b>How many years of audit experience do you have?</b>			
<input type="checkbox"/> Less than 1 year <input type="checkbox"/> 1-3 <input type="checkbox"/> 3-6 <input type="checkbox"/> more than 6 years			
<b>Which of the following best describes the firm that you are currently working with:</b>			
<input type="checkbox"/> Domestic audit firm (Top 10) <input type="checkbox"/> Domestic audit firm (Top 20) <input type="checkbox"/> Big 4 international audit firm <input type="checkbox"/> non-Big 4 international audit firm <input type="checkbox"/> Other (please specify) _____			
<b>Which of the following best describes your current job position?</b>			
<input type="checkbox"/> Associate <input type="checkbox"/> Senior Associate <input type="checkbox"/> Associate Manger <input type="checkbox"/> Manger <input type="checkbox"/> Senior Manager <input type="checkbox"/> Partner <input type="checkbox"/> Other (please specify) _____			
<b>Which section are you currently working in?</b>			
<input type="checkbox"/> Financial Audit <input type="checkbox"/> Tax <input type="checkbox"/> Consulting <input type="checkbox"/> Other (please specify)			
<b>How many times have you conducted audits related to fair values of fixed assets?</b>			
<input type="checkbox"/> None <input type="checkbox"/> 1- 5 <input type="checkbox"/> 6-10 <input type="checkbox"/> more than 10			
<b>How many audit engagements have you conducted where a misstatement was discovered?</b>			
<input type="checkbox"/> None <input type="checkbox"/> 1- 5 <input type="checkbox"/> 6-10 <input type="checkbox"/> more than 10			
<b>How many audit engagements have you conducted where an adjustment was requested?</b>			
<input type="checkbox"/> None <input type="checkbox"/> 1- 5 <input type="checkbox"/> 6-10 <input type="checkbox"/> more than 10			
<b>How often do you participate in discussions of important accounting issues with the management of your client (e.g. the finance controller)?</b>			
<input type="checkbox"/> Never <input type="checkbox"/> Sometimes <input type="checkbox"/> Very often			
<b>What is your professional qualification?</b>			
<input type="checkbox"/> I am a member of the Chinese Institute of Certified Public Accountants (CICPA) <input type="checkbox"/> I am not a member of the CICPA <input type="checkbox"/> If you have any other accounting professional qualification, please specify			

### PART 3: PERSONAL IDENTITY

Please indicate how much you agree or disagree with each of the following statements by placing an ✓ on the scale.

	Strongly Disagree		Un-decided				Strongly Agree	
I have respect for the authority figures with whom I interact.	1	2	3	4	5	6	7	
It is important for me to maintain harmony within my group.	1	2	3	4	5	6	7	
My happiness depends on the happiness of those around me.	1	2	3	4	5	6	7	
I would offer my seat in a bus to my boss.	1	2	3	4	5	6	7	
I'd rather say "No" directly, than risk being misunderstood.	1	2	3	4	5	6	7	
Speaking up during a class is not a problem for me.	1	2	3	4	5	6	7	
Having a lively imagination is important to me.	1	2	3	4	5	6	7	
I am comfortable with being singled out for praise or rewards.	1	2	3	4	5	6	7	
I respect people who are modest about themselves.	1	2	3	4	5	6	7	
I will sacrifice my self-interest for the benefit of the group I am in.	1	2	3	4	5	6	7	
I often have the feeling that my relationships with others are more important than my own accomplishments.	1	2	3	4	5	6	7	
I should take into consideration my parents' advice when making education/career plans.	1	2	3	4	5	6	7	
I am the same person at home that I am at school.	1	2	3	4	5	6	7	
Being able to take care of myself is a primary concern for me.	1	2	3	4	5	6	7	
I act the same way no matter who I am with.	1	2	3	4	5	6	7	
I feel comfortable using someone's first name soon after I meet them, even when they are much older than I am.	1	2	3	4	5	6	7	
It is important to me to respect decisions made by the group.	1	2	3	4	5	6	7	
I will stay in a group if they need me, even when I am not happy with the group.	1	2	3	4	5	6	7	
If my brother or sister fails, I feel responsible.	1	2	3	4	5	6	7	
Even when I strongly disagree with group members, I avoid an argument.	1	2	3	4	5	6	7	

	Strongly Disagree		Un-decided				Strongly Agree	
I prefer to be direct and forthright when dealing with people I've just met.	1	2	3	4	5	6	7	
I enjoy being unique and different from others in many respects.	1	2	3	4	5	6	7	
My personal identity independent of others is very important to me.	1	2	3	4	5	6	7	
I value being in good health above everything.	1	2	3	4	5	6	7	
When someone praises this client, it feels like a personal compliment.	1	2	3	4	5	6	7	
When I talk about this client, I usually say "We" rather than "They." This client's successes are my successes.	1	2	3	4	5	6	7	
When someone criticizes this client, it feels like a personal insult.	1	2	3	4	5	6	7	
When someone criticizes my profession, it feels like a personal insult.	1	2	3	4	5	6	7	
When I talk about my profession, I usually say "We" rather than "They."	1	2	3	4	5	6	7	
I am very interested in what others think about my profession.	1	2	3	4	5	6	7	
My profession's successes are my successes.	1	2	3	4	5	6	7	
When someone praises my profession, it feels like a personal compliment	1	2	3	4	5	6	7	
I often eat meals together with my audit clients after work	1	2	3	4	5	6	7	
I usually keep in touch via telephone, email or text message with my audit clients, as friends do	1	2	3	4	5	6	7	
I frequently participate in entertaining activities with my audit clients after work, such as karaoke	1	2	3	4	5	6	7	
I help my audit clients via my social circle	1	2	3	4	5	6	7	
If I ever receive a favor from my audit clients, I try to repay them	1	2	3	4	5	6	7	
I try my best to help out my audit clients when they are in need	1	2	3	4	5	6	7	
I am honest and frank with my audit clients	1	2	3	4	5	6	7	
I always keep my word when interacting with my audit clients	1	2	3	4	5	6	7	
I assure my audit clients that I am trustworthy in work and social interactions	1	2	3	4	5	6	7	



	Strongly Disagree		Un-decided			Strongly Agree	
I never criticize my audit clients in public because this would cause them to lose face	1	2	3	4	5	6	7
I avoid opposing or criticizing my audit clients in public, even if I disagree with them	1	2	3	4	5	6	7
If I receive an invitation from an audit client and from another party at the same time, I will give priority to my audit client's invitation	1	2	3	4	5	6	7
I often interact with my partner on a social basis outside of work	1	2	3	4	5	6	7
My partner and I are able to talk openly as friends.	1	2	3	4	5	6	7
I consider my partner as being almost as close to me as family.	1	2	3	4	5	6	7
If I were to change business partners, I would lose a good friend in my current partner.	1	2	3	4	5	6	7
I would consider whether my partner's feelings would be hurt before I made an important decision.	1	2	3	4	5	6	7

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to auditors' materiality judgments, or if there are any other comments you would like to make, please do so in the space provided.

**Thank you for your participation!**

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*The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics & Integrity (telephone (02) 9850 7854; email ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.*

## **Research Instrument**

### **Research Survey of Chinese Auditors' Professional Judgment on Fair Value**

**– Chinese Version – Wide Range**





## 关于中国审计人员对于公允价值的判断调查问卷

您好，

我是宗思琪，来自麦考瑞大学的一名研究型硕士在读学生。这个项目是在我在麦考瑞大学的导师 Chris Patel 教授和潘培培博士的指导下进行的。武汉大学刘颖斐副教授是该项目的共同研究员。我诚意邀请您参与完成这项重要的调查问卷；这对于帮助我们了解中国的公允价值审计这个重要但富有争议的研究题目有非常重大的意义。这个问卷的目的在于研究影响我国审计人员对公允价值审计重要性专业判断的各种因素。

本问卷由三部分组成：在第一部分中，我们邀请您仔细阅读一个关于华米汽车有限公司的审计案例，该案例涉及审计师与客户之间的分歧，需要您运用您的专业知识和经验作出判断。第二部分会收集您的个人信息。在第三部分中，我们会请您回答一些关于您作为审计师的职业价值的信息。

我理解在通常情况下您需要比我们所提供的内容更多的信息去做出相关判断。但是为了本研究的目的，您需要仅根据案例中提供的相关信息回答问题。这些问题没有“正确”或“不正确”的答案，因为您的回答是基于您的职业判断。

本次调查问卷保持自愿和匿名的原则。我们将严格保密您所提供的任何信息。搜集的数据只用作整体分析，且仅供研究之用。研究结果可能会以期刊文章、会议论文或研究论文的形式发表。您作为问卷的参与者，如果对此项目感兴趣，可直接向我索取调查结果。

非常感谢您拨冗配合参与这项研究。如果您想了解更多关于这项研究的细节，请随时联系我。您的帮助对于成功完成这项研究是非常重要的。

此致

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## 第一部分：公允价值的审计案例

以下是与华米汽车有限公司相关的公允价值案例，阅读案例后，您需要对其制造设备的公允价值进行专业判断。我理解在通常情况下您需要更多的信息来作出判断。然而，为了本研究的目的，您需要仅根据所提供的信息来回答相关问题。这些问题没有“正确”或“不正确”的答案，我们重视的是您在回答问题时的专业判断。

### 华米汽车有限公司简介

假设您是一名高级审计经理，正在对一个重要的客户-华米汽车有限公司-进行审计。华米汽车有限公司是一家集设计、开发、生产家用汽车、公共汽车、电动自行车为一体的汽车制造企业。华米五年前在上海证券交易所上市，是一家持续盈利的公司，在过去五年华米的盈利能力都相当稳定。在过去的五年中，审计人员对华米进行了广泛的内控测试，并且一直对华米的财务报表予标准的无保留审计意见。此外，**华米并非一个集团公司。**

### 意见不合：

所有必要的审计测试都已经由有能力的员工完成，并且您对当前财年的审计结果感到满意；**除了一个特定账户：**您对华米的一个关键的制造设备的公允价值的计算有一定的疑问。因此，贵所聘请了独立的估值人员对该设备做估价，得出的结论与华米的财务数据不相符。估值人员的评论如下：

“我们的量测与华米的记录不同，根据我们的专业估值与分析表明，客户记录的固定资产减值损失应增加大约 3.65 亿元至 5.35 亿元。”

鉴于华米的记录与独立估值人员的评估存在较大差异，贵所聘请了另一位独立估值人员对制造设备的公允价值进行评估。**其结果与第一个估值人员的评估一致。**

按照中国审计标准 1221 号审计重要性相应准则，华米财务报表的**整体重要性水平(OM)在 12 亿元，其执行的重要性水平(PM)是 9 亿元。**同时，除了这个关键的制造设备，审计师**没有发现其他误报。**

您和华米董事盛博士就该公司的制造设备的公允价值是否存在重大错报，以及是否需要对财务报表进行调整进行了讨论。盛博士认为，存在争议的这个制造设备的价值在年底已经按照中国企业会计准则第 8 号的规定进行了资产减值。基于**第三层次不可观察输入值**，华米使用年末现金流折现来衡量这个制造设备的公允价值。不可观察输入值，是指不能从市场数据中取得的输入值。

华米是**贵所的重要客户**，为贵所贡献了非常可观的审计收入。关于制造设备的估值问题上，**盛博士对您施压，他认为华米记录的制造设备价值是合理的，不需要对制造设备的价值进行调整。**他还认为，华米的财务报表真实、公允地反映了该企业的财务状况和经营业绩，因此迫切希望在不作任何调整的情况下尽快向公众发布财务报告。盛博士强烈表达了这一观点，并且期待贵所给予无保留的审计意见。

## 问题

仅根据以上提供给您有限信息，请回答以下问题（在您觉得最合适的数值上打√）：

1. 对于华米的财务报表而言，您认为有多大可能性制造设备的公允价值错报是显著的？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

2. 您有多大可能性会要求华米对制造设备的公允价值在财务报表里做出调整？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

3. 请指出您认为最有可能的调整金额是：

¥ \_\_\_\_\_ 亿。原因是：\_\_\_\_\_

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4. 对于华米的财务报表而言，您觉得您事务所的资深合伙人认为有多大可能性制造设备的公允价值错报是显著的？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

5. 您觉得您事务所的资深合伙人有多大可能性会要求华米对制造设备的公允价值在财务报表里做出调整？

非常低的可能性					非常高的可能性				
1	2	3	4	5	6	7	8	9	10

6. 请指出您事务所的资深合伙人认为最有可能的调整金额是：

¥ \_\_\_\_\_ 亿。原因是：\_\_\_\_\_

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## 其他问题:

请回答以下问题（在您觉得最合适的数值上打√）：

1. 案例中独立估值人员提供的制造设备的公允价值的调整范围是：

从 ¥\_\_\_\_\_ 亿 到 ¥\_\_\_\_\_ 亿

2. 您认为案例中独立估值人员提供的制造设备的公允价值的调整范围的宽窄如何？

非常窄		适中				非常宽
1	2	3	4	5	6	7

3. 在这个审计案例中，您是否觉得和盛博士的关系很亲近或者很疏远？

非常疏远		适中				非常亲近
1	2	3	4	5	6	7

4. 在这个审计案例中，您对“我觉得和盛博士很亲近”这句话怎么看？

强烈反对		中立				强烈同意
1	2	3	4	5	6	7

5. 在这个审计案例中，在审计华米时，您是否感觉和盛博士一起工作让您有压力？

完全没有压力		适中				非常有压力
1	2	3	4	5	6	7

6. 在这个审计案例中，总的来说，在审计华米时，和盛博士一起工作对您是否产生正面或者负面情绪？

非常正面的情绪		中立				非常负面的情绪
1	2	3	4	5	6	7

7. 在这个审计案例中，您喜欢和盛博士一起工作吗？

完全不喜欢和盛博士一起工作		中立				非常喜欢和盛博士一起工作
1	2	3	4	5	6	7

8. 在这个审计案例中，您是否觉得和盛博士一起工作让您沮丧？

完全不沮丧		中立				非常沮丧
1	2	3	4	5	6	7

9. 在这个审计案例中，您是否感觉和盛博士一起工作让您放心？

完全不舒适		中立				非常舒适
1	2	3	4	5	6	7

10. 在这个审计案例中，您是否觉得和盛博士一起工作让您开心？

完全不开心			中立			非常开心
1	2	3	4	5	6	7

11. 在这个审计案例中，您是否觉得和盛博士一起工作让您生气？

完全不生气			中立			非常生气
1	2	3	4	5	6	7

12. 在这个审计案例中，您和盛博士的关系有多可靠？

完全不可靠			中立			非常可靠
1	2	3	4	5	6	7

13. 您对中国审计准则第 1322 号——公允价值计量与披露审计准则熟悉程度如何？

完全不熟悉			适中			非常熟悉
1	2	3	4	5	6	7

14. 您对本案例中关于华米的制造设备公允价值审计任务熟悉程度如何？

完全不熟悉			适中			非常熟悉
1	2	3	4	5	6	7

15. 您对于您完成本案例中关于华米的制造设备公允价值审计任务的能力有多大信心？

完全没信心			适中			非常有信心
1	2	3	4	5	6	7

16. 在您看来，这个案例贴近现实吗？

完全不贴近现实			适中			非常贴近现实
1	2	3	4	5	6	7

17. 在您看来，这个案例容易理解吗？

完全不容易理解			适中			非常容易理解
1	2	3	4	5	6	7



## 第二部分：个人信息

请回答如下关于您个人信息的问题:			
性别:			
<input type="checkbox"/> 男		<input type="checkbox"/> 女	
年龄:			
<input type="checkbox"/> 20 岁以下	<input type="checkbox"/> 20-24	<input type="checkbox"/> 25-29	<input type="checkbox"/> 30-34
<input type="checkbox"/> 35-39	<input type="checkbox"/> 40-49	<input type="checkbox"/> 50-59	<input type="checkbox"/> 60 岁或以上
您最高的学历（已经完成或者正在就读的）			
<input type="checkbox"/> 专科 <input type="checkbox"/> 大学本科 <input type="checkbox"/> 硕士或以上			
您有多少年的审计工作经验？			
<input type="checkbox"/> 少于一年 <input type="checkbox"/> 1-3 年 <input type="checkbox"/> 3-6 年 <input type="checkbox"/> 超过 6 年			
以下哪个选项最贴近您现在工作单位的类型:			
<input type="checkbox"/> 国内前十审计事务所 <input type="checkbox"/> 国内前二十审计事务所 <input type="checkbox"/> 四大国际审计事务所 <input type="checkbox"/> 非四大国际审计事务所 <input type="checkbox"/> 其他 (请注明) _____			
以下哪项最能描述你目前的工作职称?			
<input type="checkbox"/> 审计师 <input type="checkbox"/> 高级审计师 <input type="checkbox"/> 助理经理 <input type="checkbox"/> 经理 <input type="checkbox"/> 高级经理 <input type="checkbox"/> 合伙人 <input type="checkbox"/> 其他 (请注明) _____			
您的工作部门是？			
<input type="checkbox"/> 审计 <input type="checkbox"/> 税务 <input type="checkbox"/> 咨询 <input type="checkbox"/> 其他 (请注明) _____			
您参加过多少次固定资产公允价值的审计？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 1-5 <input type="checkbox"/> 6-10 <input type="checkbox"/> 超过 10 次			
您参与的审计业务中有多少次发现了客户错报？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 1-5 <input type="checkbox"/> 6-10 <input type="checkbox"/> 超过 10 次			
您参与的审计业务中有多少次要求客户调整财务报表？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 1-5 <input type="checkbox"/> 6-10 <input type="checkbox"/> 超过 10 次			
您与客户管理层（如财务总监）讨论重要的会计问题的频率有多高？			
<input type="checkbox"/> 从未 <input type="checkbox"/> 有时 <input type="checkbox"/> 经常			
您的职业资格是？			
<input type="checkbox"/> 我是中国注册会计师协会的一员(CICPA) <input type="checkbox"/> 我不是中国注册会计师的一员 <input type="checkbox"/> 如果你有任何其他会计职业资格,请说明 _____			

### 第三部分： 个人价值

请回答以下问题（在您觉得最合适的数值上打√）：

	强烈 反对			中立			强烈 同意
我尊重身边的权威人士。	1	2	3	4	5	6	7
对我而言，维系团队和谐很重要。	1	2	3	4	5	6	7
周围人的快乐，我就觉得快乐。	1	2	3	4	5	6	7
跟上级一起乘车，我会给他让座。	1	2	3	4	5	6	7
我宁愿说“不”，也不愿被他人误解。	1	2	3	4	5	6	7
会议上发言，对我来说没有一点问题。	1	2	3	4	5	6	7
拥有丰富的想象力，对我来说很重要。	1	2	3	4	5	6	7
我能坦然面对和接受表扬和奖赏。	1	2	3	4	5	6	7
我尊敬谦虚的人。	1	2	3	4	5	6	7
我愿为团队的利益而牺牲自己的利益。	1	2	3	4	5	6	7
我常常觉得我和其他人的关系比我自己的成就更重要。	1	2	3	4	5	6	7
在我决定工作的规划时，应该考虑父母的意见。	1	2	3	4	5	6	7
在家和公司，我的表现是一致的。	1	2	3	4	5	6	7
我首要关心的事情是照顾好自己。	1	2	3	4	5	6	7
无论跟谁在一起，我的表现都是一样的。	1	2	3	4	5	6	7
对我认识的人，我习惯直接称呼名字。如果这个人的年纪比我大很多，我也喜欢直接称呼他的名字。	1	2	3	4	5	6	7
尊重团体做出的决定对我来说很重要。	1	2	3	4	5	6	7
如果团队需要我，我会一直留在团队中，即使我在这个团队工作的不愉快。	1	2	3	4	5	6	7
如果与我同辈的家庭成员没有成功，我会觉得我有责任。	1	2	3	4	5	6	7
即使当我的意见和团体其他人的意见很不一致，我也会避免争论。	1	2	3	4	5	6	7
我倾向于直接的方式和人交往，即使是对刚刚认识的人也是如此。	1	2	3	4	5	6	7

	强烈 反对	中立					强烈 同意
我很喜欢在各个方面和其他人不一样。	1	2	3	4	5	6	7
我独立自主的个性对我很重要。	1	2	3	4	5	6	7
我觉得健康比任何其他的东西都重要。	1	2	3	4	5	6	7
当有人称赞我的客户时，感觉就像是对我个人的赞美。	1	2	3	4	5	6	7
当我谈论我的客户时，我通常说“我们”而不是“他们”。客户的成功就是我的成功。	1	2	3	4	5	6	7
当有人批评我的客户时，感觉像是对我个人的侮辱。	1	2	3	4	5	6	7
当有人批评我的行业时，感觉像是对我个人的侮辱。	1	2	3	4	5	6	7
当我谈论我的行业时，我通常说“我们”而不是“他们”。	1	2	3	4	5	6	7
我非常感兴趣别人对我的行业的看法。	1	2	3	4	5	6	7
我的行业的成功就是我的成功。	1	2	3	4	5	6	7
当有人称赞我的行业时，感觉就像是对我个人的赞美	1	2	3	4	5	6	7
我经常下班后和审计客户一起吃饭	1	2	3	4	5	6	7
我通常通过电话、电子邮件或短信与我的审计客户保持联系，就像朋友那样	1	2	3	4	5	6	7
我经常在下班后和审计客户一起参加娱乐活动，比如卡拉 ok	1	2	3	4	5	6	7
我通过我的社交圈帮助我的审计客户	1	2	3	4	5	6	7
如果我得到审计客户的帮助，我会尽力回报他们	1	2	3	4	5	6	7
当我的审计客户需要的时候，我尽我最大的努力帮助他们	1	2	3	4	5	6	7
我对审计客户是诚实和坦率的	1	2	3	4	5	6	7
在与审计客户打交道时，我总是信守诺言	1	2	3	4	5	6	7
我向我的审计客户保证，我在工作和社会交往中是值得信赖的	1	2	3	4	5	6	7
我从不公共场合指正我的审计客户，因为这会让他们丢面子	1	2	3	4	5	6	7
即使我不同意我的审计客户的意见，我也避免公开反对或指正他们	1	2	3	4	5	6	7
如果我同时收到审计客户和其他的邀请，我将优先考虑审计客户的邀请	1	2	3	4	5	6	7

	强烈 反对	中立					强烈 同意
我经常在工作之余与我的工作搭档进行社交活动	1	2	3	4	5	6	7
我和我的工作搭档可以像朋友一样开诚布公地交谈。	1	2	3	4	5	6	7
我认为我的工作搭档几乎和我的家人一样亲密。	1	2	3	4	5	6	7
如果我换了生意伙伴，我就会失去一个好朋友。	1	2	3	4	5	6	7
在我做出重要决定之前，我会考虑我的工作搭档的感情是否会受到伤害。	1	2	3	4	5	6	7

非常感谢您拨冗参与这次调查问卷。您的帮助对于我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对审计师关于重要性的专业判断有什么评论，请留下您的宝贵意见。

**感谢您的参与！**

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*The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics & Integrity (telephone (02) 9850 7854; email [ethics@mq.edu.au](mailto:ethics@mq.edu.au)). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.*

## **Appendix 2: Ethics Approval Letter**

19/06/2019

Dear Professor Patel,

**Reference No: 5201954079279**

**Project ID: 5407**

**Title: The Joint Effect of Outcome Imprecision, Social Bonds and Construal of Self on Auditors' Fair Value Materiality Judgments: Evidence from China**

Thank you for submitting the above application for ethical review. The Macquarie Business School Subcommittee has considered your application.

I am pleased to advise that ethical approval has been granted for this project to be conducted by Siqu Zong, and other personnel: Dr Peipei Pan, Ms Sici Zong.

This research meets the requirements set out in the National Statement on Ethical Conduct in Human Research 2007 (updated July 2018).

**Standard Conditions of Approval:**

1. Continuing compliance with the requirements of the National Statement, available from the following website:  
<https://nhmrc.gov.au/about-us/publications/national-statement-ethical-conduct-human-research-2007-updated-2018>.
2. This approval is valid for five (5) years, subject to the submission of annual reports. Please submit your reports on the anniversary of the approval for this protocol. You will be sent an automatic reminder email one week from the due date to remind you of your reporting responsibilities.
3. All adverse events, including unforeseen events, which might affect the continued ethical acceptability of the project, must be reported to the subcommittee within 72 hours.
4. All proposed changes to the project and associated documents must be submitted to the subcommittee for review and approval before implementation. Changes can be made via the [Human Research Ethics Management System](#).

The HREC Terms of Reference and Standard Operating Procedures are available from the Research Services website:  
<https://www.mq.edu.au/research/ethics-integrity-and-policies/ethics/human-ethics>.

It is the responsibility of the Chief Investigator to retain a copy of all documentation related to this project and to forward a copy of this approval letter to all personnel listed on the project.

Should you have any queries regarding your project, please contact the [School Ethics Officer](#).

The Macquarie Business School Subcommittee wishes you every success in your research.

Yours sincerely,

Associate Professor Jana Bowden

Chair, Macquarie Business School Subcommittee

*The Faculty Ethics Subcommittees at Macquarie University operate in accordance with the National Statement on Ethical Conduct in Human Research 2007, (updated July 2018), [Section 5.2.22].*