

# THE AUDIT EXPECTATION GAP BETWEEN AUDITORS & AUDIT BENEFICIARIES IN CHINA

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## ABSTRACT

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A nationwide accountancy reformation has been progressing in China after the “opening to outside world” policy. The weak foundation of accounting system make Chinese accounting services far fall behind the need of information users in its dramatic developing economy. The high profile corporation scandal caused the public suspicion on auditors.

As a main cause of loss of public confidence, the audit expectation gap is examined in this research to investigate the extent of expectation gap between auditors and audit beneficiaries in China in aspects of auditor responsibility, reliability of audit report and audited financial statements, decision usefulness of audit report, the auditor independence, and liberalization of public accounting services. By comparing with the gaps found by researches conducted in Malaysia and Singapore, the significant characteristics of Chinese audit expectation gaps are identified. The appropriate solutions for narrowing the gaps are also provided based on prior researches,

The survey questionnaires were sent to auditor, banker, and investor groups. The collected data were tested through Mann-Whitney *U*-test on whether there are significant perception differences between auditors and beneficiaries.

The findings suggest that the audit expectation gaps are prevalent in all tested areas, especially in statements of auditor responsibility. Chinese audit beneficiaries held auditors in high responsibility, which the gap is broader than Malaysia and Singapore. Auditors believe the financial statements are reliable; however, audit beneficiaries take a neutral view. Both groups consent the decision usefulness of audited financial report, the improvement of audit independence and the liberalization of public accounting services in China. The results also indicate that the beneficiaries held a higher perception on the improvement of audit services as a whole.