

Corporate Internal Governance, Social Attention, Corporate Social Responsibility and Audit Independence in China— the Perspective of Audit Clients

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Abstract

Independence is fundamental to the reliability of auditors' reports. Third parties believe that there is no need for external auditors without independence. Audit failures of well-known and listed companies frequently occur in China. It has essential research value to abstract the factors of the audited supplier and discuss factors that affect the independence of the audit from the perspective of the audit purchaser. This article takes the case of Kangmei Pharmaceutical's audit failure in 2019 and uses the A-share listed companies' data on the Shenzhen Stock Exchange from 2010 to 2018 to construct an audit independence model to test the purchaser factors that affect audit independence empirically. The study finds that under other conditions unchanged, the degree of Social Attention and the performance of Corporate Social Responsibility (CSR) significantly affect the independence of auditing. The level of Corporate Internal Governance has no noticeable impact on Audit Independence. However, the level of Corporate Internal Governance and Social Attention plays a significant intermediary effect in the path of Corporate Social Responsibility affecting audit independence. This article introduces legal risk as an external shock to further study the role of intermediary effects. Further research finds that when a company has legal risks, it will negatively obscure the relationship between corporate social responsibility and audit independence by wearing the cloak of social responsibility to achieve self-interested goals. The research results show that auditing the buyer's attributes is one of the critical factors affecting the independence of external audits. In order to protect the legitimate interests of enterprises and external audit institutions, regulatory authorities can improve Audit Independence by strengthening the guidance of the internal construction of enterprises, encouraging traditional evaluation agencies to rate enterprises regularly, and rationally guiding enterprises to perform social responsibilities.

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