

探索臺灣審計人員之道德挑戰

Chee W. Chow^{*} Damon M. Fleming^{**} 黃政仁^{***} 吳安妮^{****}

摘要：本研究有助於洞察臺灣審計人員在執行查核案件時所面臨的道德挑戰，研究包含兩個主要部分：首先，透過實驗方式評估受試者在審計情境下的道德推理水平；結果發現，臺灣的會計系學生之道德推理水平與美國學生是相似的，而臺灣的審計人員之道德推理水平則低於臺灣學生。這項調查結果引發我們更進一步的研究動機，本研究訪談臺灣 23 位具有豐富經驗的審計人員，以探索他們在執行審計案件時主要的道德挑戰為何？訪談結果顯示，臺灣審計人員認為他們的主要義務，是服務投資人和資本市場，他們試圖認真履行自己的專業責任，但他們面對各種挑戰，包括有限的人力和時間、沒有足夠的權威指導，及客戶屬性和行動的影響。

關鍵詞：審計人員、道德推理

* 教授，拉荷雅，加州

** 聖地牙哥州立大學 Charles W. Lamden 會計學院助理教授

*** 東海大學會計學系助理教授

**** 國立政治大學會計學系教授

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Exploring Taiwanese Auditors' Ethical Changes

Chee W. Chow^{*} Damon M. Fleming^{**}
George Cheng-Jen Huang^{***} Anne Wu^{****}

Abstract: This study contributes insights into the ethical challenges that Taiwanese auditors face when conducting audit engagements. The study contains two main components. First, an experiment is used to assess the subjects' level of ethical reasoning in audit-specific contexts. It finds the ethical reasoning level of Taiwanese accounting students to be similar to that of their U.S. counterparts, whereas that of Taiwanese auditors is below that of the Taiwanese students. This set of findings, in turn, gives impetus to interviews with 23 experienced auditors to unearth the major ethical challenges that they have to contend with in audit engagements. The interviews suggest that Taiwanese auditors consider their primary professional obligation to be serving investors and the capital markets, and they seek to be conscientious in discharging this professional responsibility. But in doing so, they face a variety of challenges that range from limited personnel and time, to insufficient authoritative guidance, to client attributes and actions.

Keywords: auditor, ethical reasoning

^{*} Professor, La Jolla, California

^{**} Assistant Professor, Charles W. Lamden School of Accountancy, San Diego State University, San Diego, California

^{***} Assistant Professor, Department of Accounting, Tunghai University

^{****} Professor, Department of Accounting, National Chengchi University

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1. INTRODUCTION

The return that capital providers demand depends on the integrity of corporate financial reports (Healy and Palepu, 2001). As such, the level of Taiwanese firms' financial reporting integrity can affect both the amount and cost of capital that they obtain, in turn affecting the speed and direction of the Taiwanese economy's development. Thus, it is of concern that many accounting and corporate scandals have erupted among Taiwanese companies in recent years. A prominent example is executives at Procomp Informatics Ltd. (a major Taiwanese chipmaker) precipitating a NT\$ 7 billion (US\$ 219 million) accounting fraud that involved overstating sales revenues, manipulating stock prices, illegally leveraging assets, and arranging financing through illegitimate shell companies (*The China Post*, 2009). Other highly-publicized scandals include the embezzlement of NT\$ 70 billion (US\$ 2.2 billion) by executives at the Rebar Group and corporate malfeasance at Infodisc Technology Co. (Ho, 2004; Huang, 2007). Incidents like these have eroded investor confidence and prompted questions about Taiwanese companies' corporate governance and risk management. More generally, they have added to concerns about the credibility of the financial reporting process, companies' internal controls, and corporate ethics in Asia (DeFond, Wong, and Li, 1999; Li and He, 2000; Pang, 2002).

Taiwan's securities market regulators and other governing bodies have responded with actions aimed at improving the quality of the financial reporting process. Extant research suggests that to be effective, such actions need to consider a wide range of factors in a holistic fashion, as variables ranging from the institutional environment to firms' internal processes (e.g., the legal infrastructure, shareholder activism, takeover markets, executive compensation, and external auditing) can affect companies' financial reporting choices (Karpoff, Malatesta, and Walkling, 1996; MacAvoy and Millstein, 1999; Allen and Gale, 2001; La Porta, López-De-Silanes, and Vishny, 2002; Chow, Ho, and Mo, 2006). Nevertheless, a case can be made for paying particular attention

to external auditors because they occupy a pivotal gatekeeper role in the financial reporting process. Ultimately, it is individual auditors who decide what and how much evidence to collect about a client's systems and processes underlying its accounting numbers, and how to interpret this evidence in formulating the audit report. Indeed, some of the Taiwanese authorities' actions do aim to enhance external auditors' independence in certifying financial reports. For example, the two major stock exchanges—Taiwan Stock Exchange Corporation (TWSE) and GreTai Securities Market (GTSM)—have adopted rules effectively mandating five-year audit partner rotations, and Taiwan's Legislative Yuan has passed amendments to the Securities and Exchange Law requiring listed companies to have independent directors on corporate boards, and to either set up an audit committee or establish a superintendent system on the board (Chung, 2005; Chi, Huang, Liao, and Xie, 2009). This study seeks to assist such efforts at strengthening Taiwanese auditors' tendency and ability to uphold ethical standards in the audit process by first comparing the ethical reasoning of graduating Taiwanese accounting students and Taiwanese auditors, and then investigating the ethical challenges that Taiwanese auditors face in audit engagements.

Our reason for examining graduating Taiwanese accounting students' level of ethical reasoning is to shed light on the "raw materials" entering the Taiwanese audit profession. Graduating U.S. accounting students are used as a point of reference because among populations studied in accounting research, they tend to exhibit the highest levels of ethical reasoning. More important, the Taiwanese students are compared to experienced Taiwanese auditors to shed light on whether, as had been found in some prior studies, experience with the demands and intricacies of auditing engagements depresses one's ethical reasoning level (e.g., Ponemon, 1992; Ponemon and Gabhart, 1993; Shaub, 1994; Thorne, Massey, and Magnan, 2003). We find no significant difference between Taiwanese and U.S. accounting students' levels of ethical reasoning, but

the ethical reasoning level of experienced Taiwanese auditors is lower than that of the Taiwanese students at a marginal significance level.

The results of comparing Taiwanese accounting students and auditors motivated us to delve more deeply into the factors affecting Taiwanese auditors' ethical reasoning. Interviews with 23 Taiwanese auditors from all ranks and many different firms were used to discover the ethical challenges that they face in discharging their professional duties. The interview findings suggest that these auditors consider their primary professional obligation to be serving investors and the capital markets. But in discharging this professional responsibility, they face a variety of challenges, including ones stemming from clients (e.g., attempts to manipulate financial reporting; lack of Generally Acceptable Accounting Principles [GAAP] knowledge) as well as their own firms (e.g., limited numbers of trained/ experienced personnel; pressures to control costs and time). In response, Taiwanese auditors find it useful to rely on accounting "rules" as leverage to get clients to toe the line for financial reporting and disclosure. They also develop firm practices (e.g., partner conferences, apprenticeship programs) and procedures (e.g., risk assessment committees) to mitigate client-related risk. Collectively, these findings suggest several possible directions for addressing ethical challenges in auditing and for improving audit quality in Taiwan.

The remainder of this article is structured as follows. The next section explains our approach to assessing ethical reasoning and presents the experimental results. The section after that reports on the method and findings of the interview-based investigation. The final section provides a summary and discusses the implications of our findings.

2. ASSESSING TAIWANESE AUDITORS' LEVEL ETHICAL REASONING

2.1 Ethical Reasoning in Accounting

Accounting studies of ethical reasoning have commonly followed Rest's (1979, 1994) Model of Ethical Action, which decomposes the

ethical decision process into four components: (1) identification of an ethical dilemma; (2) ethical judgment; (3) intention to act ethically; and (4) ethical behavior (Thorne, 1998, 2000; Jones, Massey, and Thorne, 2003). These studies have particularly focused on ethical judgment (Component 2) by examining the development and level of accountants' cognitive moral structure precipitating a decision or choice (Jones et al., 2003) using Rest's (1979) Defining Issues Test (DIT) (e.g., Ponemon and Gabhart, 1993; Shaub, 1994; Louwers, Ponemon, and Radtke, 1997; Bernardi and Arnold, 1997; Bernardi and Arnold, 2004; Scofield, Phillips, and Bailey, 2004). The DIT uses responses to generic decision scenarios to produce a principled-reasoning score (P-score), with higher DIT P-scores being considered to represent higher moral reasoning. Gul, Ng, and Tong (2003) have applied the DIT to auditors from the People's Republic of China, and found that their DIT P-scores were negatively associated with the likelihood of engaging in unethical behavior.

Relatively recently, research has suggested the need for scenarios that capture the nature of audit-related tasks (Jones et al., 2003). Using Rest's DIT as a model, Thorne (2000) developed an Accounting Ethical Dilemma Instrument (AEDI) for assessing ethical reasoning in audit-specific ethical dilemmas. Like the DIT, the AEDI also produces a P-score. Thorne (2000) showed via tests with large samples that the AEDI had comparable validity and reliability to the DIT. A number of other studies (e.g., Ge and Thomas, 2008; Fleming, Romanus, and Lightner, 2009) also have attested to the AEDI's validity. Applications of the AEDI to samples of accountants and accounting students by Thorne (2000; 2001) have found that their DIT P-scores are significantly higher than their AEDI P-scores. This difference supports the contention that the audit context contains some unique attributes that may affect accountants' propensity to uphold high ethical standards. Accordingly, we chose the AEDI as our measuring instrument to examine ethical reasoning among our Taiwanese research subjects.

2.2 Comparing Taiwanese Students and Auditors

Experimental Sample

All participants were volunteers and individual anonymity was guaranteed. 94 copies of the instrument were distributed to final year accounting students at a university in central Taiwan, and 84 completed copies were returned. The Taiwanese auditors worked for offices of Big-4 accounting firms across a number of metropolitan areas, and 86 completed instruments were obtained out of 110 distributed by contact persons in the offices. The U.S. student sample came from a large public university, and 133 completed instruments were returned out of 138 distributed. After deleting subjects that failed the validity checks, the final sample consisted of 49 Taiwanese students, 40 Taiwanese auditors, and 126 U.S. students.¹ Table 1 presents demographic information for the subjects.

Panel A of Table 1 shows that the Taiwanese and U.S. students were similar in age, total number of credit hours completed, distribution between male and female, and completion of an ethics course, though the U.S. students have completed a higher number of accounting credit hours. Panel B shows that the auditors cover all ranks, are roughly equally divided between the two genders, have an average of 5.64 years audit experience, and have participated in over 25 audit engagements, on average, in the past three years.

¹ Since the cases deal with a potentially sensitive issue—the subject's level of ethical reasoning—they are open to the potential threat of participants artificially choosing responses that put themselves in a favorable light. To counter this potential bias, both the DIT and AEDI included a number of "M" (for meaningless) items to enable an internal validity check. These items are "written to sound lofty and pretentious but not to mean anything" (Rest, 1979, p. 4). As will be explained below, the AEDI that we used contained four cases, and each case contained at least one M-item for consideration. An M-score was obtained for each participant across the four cases by summing the points assigned to the M-item(s) based on the order in which each is included in the ranking of the four most important considerations. We excluded subjects with M-scores equal to or greater than 5. We surmise that the relatively higher exclusion rate for Taiwanese subjects probably was due to their cultural attribute of concern for "face."

TABLE 1 Ethical Reasoning Sample Demographics

<i>Panel A: Descriptive Statistics for the Student Samples</i>		
<i>Attribute</i>	<i>Taiwan Students</i>	<i>U.S. Students</i>
Age	21.57 (0.82)	21.65 (-1.81)
Total Credit Hours	110.00 (14.03)	113.83 (24.96)
Accounting Credit Hours	20.48 (9.01)	29.34 (15.79)
Ethics Course (% complete)	35.40	33.30
Gender (% male)	69.40	61.90
Number of Interviewees	49	126
<i>Panel B: Descriptive Statistics for the Auditor Sample</i>		
<i>Attribute</i>	<i>Taiwan Auditors</i>	
Years of audit experience	5.64 (5.34)	
Current Position		
Partner/ Director (%)	15.40	
Manager (%)	33.30	
Senior (%)	17.90	
Staff (%)	33.30	
Number of audits in past 3 years	25.62 (26.43)	
Gender (% male)	47.50	
Number of Interviewees	40	

*The standard errors for means are reported in parentheses.

Experimental Materials and Procedure

The AEDI was administered in Chinese. It was first translated into Chinese by three accounting scholars independently; then they met to reconcile any differences. The Chinese version was then evaluated by one of the bilingual researchers for content equivalence to the original, and minor changes were made after discussions by the research team.

In total, the AEDI asked each subject to complete four audit-related decision making scenarios. Respectively, these cases entailed: (1) responding to a superior's directive not to disclose in the management letter information that is unfavorable to the auditor's own firm; (2)

whether to recommend a friend for a client's CFO position, thus potentially impairing future independence from the client; (3) whether to share confidential information about one client with another; and (4) whether to demand fuller disclosure of a client's related party transactions. Each case asked the subjects to indicate how they believed "the accountant in the case should *realistically* respond, taking into consideration the pressures and tradeoffs that influence accountants' behaviors on the job" (Thorne, 2000).² For example, the first case asked if the auditor in the case should amend the management letter. The three possible responses were: "should amend it," "can't decide," and "do not amend it." After providing their choice for a given scenario, participants rated the importance of 12 considerations to the decision, then identified and ranked in decreasing order of importance the four most important items out of the 12 listed.³ Following Thorne (2000), the P-score was obtained by adding the points assigned to the *principled items of consideration* included in the subject's four most important considerations (4 points for first rank, 3 points for second rank, 2 points for third rank, and 1 point for fourth rank), and then converting the subject's total points to a percentage of total possible points.⁴ Higher P-scores would represent higher levels of ethical reasoning. After completing the AEDI, participants responded to a series of debriefing and demographic questions (see Table 1).

² As with the DIT, the cases are written in the third person to minimize the potential for self-serving bias in responses (Thorne, 2000).

³ For example, the listed considerations for the first case include: "What action would Alice's (the auditor's) peers in the audit firm expect her to make?" "Whether clients really care about internal control or if all they ever really want is a clean audit opinion," and "Would amending the management letter be consistent with what Alice thinks is right?"

⁴ Following prior research, principled reasoning is defined as that which incorporates a societal perspective, focusing on cooperating with society's rules and adhering to self-chosen ethical principles. For the first case, the principled items of consideration include: "How is society best served?" "Would amending the management letter be consistent with what Alice thinks is right?" and "What factors are relevant in determining Alice's professional responsibility?"

Experimental Results

Table 2 reports the results for the subjects' level of ethical reasoning. There is no statistically significant difference between the Taiwanese and U.S. students (33.16 vs. 32.22; t -value = 0.52, p -value = 0.63). However, similar to many prior comparisons of accounting students and experienced auditors, the Taiwanese auditors' level of ethical thinking is lower than that of the Taiwanese students, though only at a marginally significant level (33.16 vs. 29.25, t -value = 1.59, p -value = 0.058). Because the auditors had graduated a number of years before the current crop of students, this result could simply indicate that they had started with lower levels of ethical reasoning when they had first entered the profession, rather than the effects of actual audit experience. Its marginal significance level also could mean, as is argued by recent longitudinal (Bernardi and Arnold, 2004) and large sample cross-sectional (Scofield et al., 2004) studies, that the effects of audit experience are less important than early studies had suggested. Nevertheless, in conjunction with prior findings about pressures that auditors face in conducting audits (e.g., Chow et al., 2006; Chow, Ho, and Vera-Muñoz, 2008), it does add to the motivation for a deeper look into the ethical challenges that Taiwanese auditors have to contend with in discharging their fiduciary duties. Below, we turn to an explanation of how we used in-depth interviews to gain such insights.

3. INTERVIEWS OF EXPERIENCED AUDITORS

We used semi-structured interviews for data collection because they are particularly useful for investigating phenomena in naturally occurring settings (Patton, 1990). Given the dearth of information about the ethical challenges that influence auditors' professional judgment, interviews can help to capture the richness and complexity of how auditors define and resolve ethical issues (Liedtka, 1992). Further, the interview process affords an opportunity to follow up on unexpected findings and revelations, and thus enhances the opportunities for new theoretical developments (Merchant, Chow, and Wu, 1995). Auditors may also encounter ethical

TABLE 2 Overall Ethical Reasoning Results

<i>Panel A: Ethical Reasoning (P-Score) Descriptive Statistics</i>			
<i>Sample</i>	<i>n</i>	<i>Mean</i>	<i>S.D.</i>
Taiwan Students	49	33.160	10.53
U.S. Students	126	32.220	10.80
Taiwan Auditors	40	29.250	12.70

<i>Panel B: Planned Group Comparisons</i>			
<i>Sample</i>	<i>Mean Dif.</i>	<i>t-value</i>	<i>p-value</i>
Taiwan Students vs. U.S. Students	0.940	0.520	0.603
Taiwan Students vs. Taiwan Auditors	3.913	1.590	0.058 ^a

^a One-tailed p-value.

issues that are not directly related to the conduct of an audit, and interviews allow auditors to tell “stories” about their experiences without being artificially constrained (Martin, Feldman, Hatch, and Sitkin, 1983).

3.1 Interview Sample

Our sample selection was based on two main factors. First, research suggests (Sweeney and Roberts, 1997). In particular, Chow, Harrison, McKinnon, and Wu (2002) suggest that the organizational culture of (then) Big-6 affiliated Taiwanese audit firms is influenced by the dominant American culture of the international firm. Second, the mix of ethical challenges, as well as the resources for dealing with them, are likely to differ across hierarchical levels and firm sizes. Thus, we sought a sample that would provide broad coverage of these characteristics.

In total, we interviewed 23 practicing auditors. Table 3 shows selected demographic characteristics of these participants. Twelve of them worked for four large firms, each of which was affiliated with one of the Big-4 international accounting firms. The remaining 11 auditors were from four smaller domestic firms. The participants from both large and small firms were quite evenly spread across ranks (from staff up to partner) and gender. Most held undergraduate degrees in accounting or business (22 out of 23), and had an average of 7.4 years of audit experience.

TABLE 3 Interview Sample Demographics

<i>Demographic Characteristics</i>	<i>Big Firms</i>	<i>Small Firms</i>	<i>Total</i>
<i>Rank</i>			
Partner	4	4	8
Manager	5	3	8
Senior	2	1	3
Staff	1	3	4
Total	12	11	23
<i>Gender</i>			
Male	7	9	16
Female	5	2	7
Total	12	11	23
<i>Education</i>			
Undergraduate business/ accounting	7	7	14
Undergraduate science	0	1	1
Graduate business/ accounting	5	3	8
Total	12	11	23
<i>Audit Experience</i>			
Mean (years)	8.29	6.45	7.41
Standard Deviation	5.79	4.56	5.21

Interview Procedure

All of the interviews were conducted in Chinese jointly by a member of research team experienced in conducting formal interviews and an assistant. Each interview began with a description of the research and introduction of the informed consent form, which the interviewee had to sign before answering the interview questions. The interview proceeded through a series of planned questions about ethical issues encountered during each of the four phases of the audit process—risk assessment, planning, execution, and reporting. Interviewees were asked to describe the most important ethical issues that they had encountered in each phase, and explain why the incidences were important, how the issues were resolved, and how often similar incidences had occurred. To ensure a consistent point of reference across interviewees, the interviewer provided

a definition of each stage of the audit process.⁵ Appendix A contains the interview instrument.

The interviews lasted between half an hour and an hour and a half, and each was taped with the participant's consent. The interviewees were assured that their responses would be completely anonymous, and that any personal or firm-specific information would be removed from the transcripts. After the recordings were transcribed, each interviewee was given a copy of his/ her interview transcript for corrections. No corrections were suggested, and the transcripts were translated into English by two of the researchers.⁶

3.2 Data Analysis

We analyzed the interview transcripts in a manner closely patterned after the grounded theory approach for qualitative research (e.g., Gibbins, Richardson, and Waterhouse, 1990). First, several transcripts were selected at random and reviewed to identify significant words or phrases that capture dominant themes of the responses. Then these words and phrases were compiled into a coding scheme for analyzing the remaining transcripts, with modifications made to accommodate new themes that emerged.⁷ Based on the coded responses, we developed a conceptual framework to organize the dominant themes and the relationships that may exist across these themes.⁸ Our framework is consistent with extant research (e.g., Church, Davis, and McCracken, 2008) and specifies three

⁵ These definitions were aimed at reducing the potential impact of different terminology being used across firms, thus possibly inducing auditors from different firms to attribute different meanings to the various phases.

⁶ One researcher performed the initial translation and the other researcher compared the translations to the original recordings to ensure accuracy of the translation.

⁷ Any modifications to the coding scheme were retrospectively applied to the transcripts that had already been processed.

⁸ Grounded theory procedures suggest circulating a draft of the resulting analysis and conclusions to the interviewees (Gibbins et al., 1990). We omitted this step in part because each interviewee only constituted a small part of the overall statistics, in part because each participant had already approved his/ her transcript, and in part because of the significant time and effort required to translate a draft of the paper from English to Chinese.

main categories of factors that the subjects had identified as having a major impact on audit outcomes—those relating to collection and evaluation of audit evidence, analysis of ambiguous accounting guidance, and auditor-client interactions. Table 4 presents: (1) the factors identified by the interviewees as ethical challenges; and (2) the absolute and percentage frequencies with which each factor (and its sub factors) were cited in the interviews.⁹

Collection and Evaluation of Audit Evidence

Panel A of Table 4 reveals three areas in which ethical challenges arise related to the collection and evaluation of audit evidence. By far the most frequently cited issue in this area is assessing risk during the planning phase of audit engagements. Fully 22 out of the 23 auditors (96%) reported encountering ethical challenges in performing risk assessments, implying that this issue permeates firms of different sizes and auditors of different ranks. Perhaps this finding should not be a surprise given the importance of risk assessment in the audit planning process. Designing an audit plan to provide reasonable assurance of detecting material misstatements in the financial statements begins with understanding the nature of the entity and its environment as well as management's objectives, strategies, and business risks that may result in misstatement. Auditors also collect and evaluate evidence about a client's internal controls to ensure proper handling of transactions (e.g., evaluate and test controls), transactions that affect account balances (e.g., examine a sample of transactions that occurred during the period), and resultant ending account balances (e.g., examine a sample of items for a specific account balance) (Messier, Glover, and Prawitt, 2008). It is based on such understanding that choices

⁹ We chose to provide these statistics for the sample as a whole, rather than providing breakdowns by firm size (i.e., large and small) and auditor level (i.e., partner/ manager and senior/ staff). While the latter may provide some insights into the effects of these two factors, our relatively small sample size is an important limitation to such analysis. While our discussion below will mostly focus on the findings for the entire sample, we will amplify the key findings with interview excerpts from auditors across firm size and experience levels.

TABLE 4 Ethical Challenges Identified by Taiwan Auditors

<i>Ethical Challenges</i>	<i>Count</i>	<i>%</i>
<i>Panel A: Collection and Evaluation of Audit Evidence</i>		
Audit risk assessment	22	96
Time budgets/ deadlines	12	52
Shortage of staff	9	39
<i>Panel B: Interpretation of Accounting Standards</i>		
Reliance and enforcement of accounting rules	19	83
Conservatism	6	26
<i>Panel C: Auditor-Client Interaction</i>		
Financial statement disclosure	21	91
Professional skepticism	19	83
Client lack of GAAP knowledge	16	70
Auditor independence	7	30
Number of interviewees	23	

are made about the nature and extent of audit procedures to detect fraud (Asare and Wright, 2004; Hogan, Rezaee, Riley, and Velury, 2008).

The auditors we interviewed view risk assessment as being a critical component in the audit process, and pay particular attention to evaluating the ethical integrity of management. For example:

Many companies are very strict with their internal control. But there is little control over management. The ethics of management plays an important role in determining the level of risk (Partner, Small Firm).

[The] principles and morality of company owners and management are the most important ethical issues because of the influence on companies' operations. When we have a big problem with management's principles, we will reject the engagement (Partner, Small Firm).

When accepting a new engagement, we worry about the morality of high-level management. If their high-level management had tried to conceal the truth intentionally, we would pay a high cost

for the audit. Besides, we will be exposed to a high risk (Partner, Large Firm).

Following up on identifying risk assessment in the planning process as being important, 10 (43%) audit partners discussed practices and procedures that their firms used to mitigate audit risk. For example:

When we have doubts about the moral standards of a client's CEO, we will convene a partner conference. We will estimate the impact on the level of risk on the auditor so as to decide whether to accept the audit engagement. If the risk is too high, we will not accept the engagement. If the risk is low, we will estimate the possibilities of risk happening, the size of the influence, and the level of auditing acceptable to the company (Partner, Large Firm).

According to the policy of our firm, a [risk] committee consisting of 3 or 4 accountants (including a foreigner) should be established by each [office] in every country. The function of this committee is to make a report while we are considering accepting a new client with high risk. We can only accept the client after this evaluation (Partner, Large Firm).

To enhance the partners' training and experience, we adopt a "master and apprentice system." We convene a partnership conference monthly that enables us to discuss important cases. We also pay much attention to risk assessment, and provide a specific form to strengthen the risk control and management (Partner, Small Firm).

Since risk assessment is obviously a time consuming and costly process, it poses an ethical dilemma for auditors because they are invariably faced with severe time and workload pressures (e.g., DeZoort and Lord, 1997). Audit firms increasingly face greater competition and cost pressures that often cannot be passed on to their clients, and time budgets and time deadlines are common mechanism used to increase

efficiency (Bowrin and King, 2010).¹⁰ Prior research suggests that time pressures can adversely affect the audit process and audit effectiveness (e.g., McDaniel, 1990; DeZoort and Lord, 1997; Bowrin and King, 2010). For example, imposed time budgets can pressure auditors to underreport the time necessary to complete audit tasks or rush through tasks and procedures (e.g., Alderman and Dietrich, 1982). Time deadlines such as those imposed by securities markets or other regulators for filing financial reports can also directly affect the collection and evaluation of audit evidence by pressuring auditors to cut corners in the audit program and procedures (DeZoort and Lord, 1997). Constraints such as available personnel and client fee agreements further exacerbate the time pressures. Accordingly, 52% (12) of the auditors interviewed cited time budgets and deadlines as presenting ethical challenges, particularly in the context of client assistance and cooperation. For example:

Whether the client freely offers complete information will affect the difference between the actual audit hours and those originally planned, particularly in areas such as related party transactions. If the clients do not cooperate in providing information, we will have to spend more manpower and time in order to complete the audit (Partner, Large Firm).

Compliance of customers, such as available time for auditing and scope of auditing, influence our staffing and time allocation. If the time available for auditing is not enough, the scope will be limited, and the quality of auditing will be influenced (Senior, Small Firm).

Time budget and pressure issues are particularly salient when there is a shortage of well-trained audit staff. Research suggests that knowledge and ability are the driving forces of judgment performance in the auditing context (e.g., Libby, 1995). Consistent with this, recent research in Taiwan

¹⁰ Time budget pressure relates to the constraints on resources allocated to perform audits, and time deadline pressure relates to having to perform a task within a specified period of time (DeZoort and Lord, 1997).

finds those investments in auditors' human capital (i.e., education, experience, professional certification, and continuing professional development) can significantly enhance audit quality (Cheng, Liu, and Chien, 2009). Among our interviewees, 39% (9) of the auditors explicitly cited a shortage of trained audit staff as an ethical challenge related to the collection and evaluation of audit evidence. The shared concern is that audit quality may be compromised due to this shortage. For example:

Because of our limited human resources and the nature of the industry, we have employed a lot of recent graduates. Although they are not very experienced, we have had no choice but to assign work to them that should be assigned to more experienced auditors. It is quite possible that this may jeopardize the quality of the audit (Partner, Large Firm).

When we accept an audit engagement, we always try to assign auditors with suitable experience to the engagement. However, the turnover in CPA firms is very high, so it is not under our control sometimes (Senior, Large Firm).

Notwithstanding the shortage of audit staff, our interviews suggest that Taiwanese auditors attempt to compensate for the effects of other factors. Specifically, 75% of the auditors (all partner/ manager level) who had identified time budgets and time pressure as challenges also indicated that their firms invested additional staff and other resources to maintain a desired level of audit quality. For example:

When deciding on testing, we consider the CEO's character, our past experience with the client, the type and quantity of related party transactions, and new investments. When the client has a poor past record, our firm will assign a senior auditor to perform a 100% audit (Manager, Large Firm).

Because we were the successive auditor, we did not figure out the impact of [a] subsidiary in China when planning. The company

owned 100% share of that subsidiary, but the former auditor had recognized the profit of the subsidiary as a long term investment and we had not noticed the materiality when planning. When we found out the situation in auditing, we added more people to audit the recognition of profit for the subsidiary (Partner, Small Firm).

Interpretation of Accounting Standards

The second theme that emerged from our interviews relates to the interpretation of accounting standards. Earnings and its components are greatly influenced by interpretations of accounting standards that client management and auditors make about reporting business transactions. Companies have significant and persistent motives for managing earnings that include meeting benchmarks, issuing securities at higher prices, reporting positive trends in performance, and increasing the size of bonuses (e.g., Dechow, Richardson, and Sweeney, 1996; Graham, Harvey, and Rajgopal, 2005). These motives can lead managers to aggressively interpret accounting standards.

Panel B of Table 4 reveals that 83% (19) of the Taiwanese auditors identified reliance on accounting "rules," and enforcement of these rules, as important ethical challenges. The manager at a small audit firm put it this way: "Different views [on interpreting accounting standards] between CPAs and companies are the most important ethical issues." The partner of a large firm echoed this sentiment: "Did the accounting disclosures of our clients comply with GAAP rules (especially the subjective part)? Management can easily manipulate the subjective areas, such as inventory valuation and contingent liabilities. The CPA must determine whether the accounts are presented fairly or not."

These assessments can be placed in the context of current discussions among financial accounting regulators, preparers, users, and other interested parties about whether accounting standards should be rule-based

or principle-based.¹¹ Proponents of rule-based standards posit that rules increase the comparability and verifiability of financial statements as well as reduce enforcement and litigation costs (Schipper, 2003). Research also suggests that auditors may prefer rule-based standards because they limit clients' opportunistic interpretation of GAAP (Nelson, 2003; Church et al., 2008). Our interviews reveal that Taiwanese auditors prefer to rely on rule-based elements of accounting standards to minimize clients' ability to "manage" the numbers presented in financial statements and to stand firm with clients. For example:

Clients will try to manipulate their financial statements; therefore, auditors must rely on rules [in accounting standards] (Partner, Large Firm).

Our industry is a service industry. We try our best to fit the demands of our clients, tell them about the regulations and GAAP, and send the report to the banks. We become a medium or bridge between our clients and the financial statement users. But we insist on fulfilling our public responsibility to follow the rules (Partner, Large Firm).

Panel B of Table 4 further shows that 26% (6) of the auditors specifically cited conservatism as an important component of their interpretation and enforcement of accounting standards. Researchers suggest that conservatism has influenced the practice of accounting for over five centuries (Basu, 1997). The traditional notion of conservatism in accounting is summarized by the adage "anticipate no profits, but anticipate all losses" (Bliss, 1924, c.f. Watts, 2003a). More broadly,

¹¹ The U.S. Securities and Exchange Commission (SEC) characterizes rules-based accounting standards as having three common elements: numerous bright-line tests, numerous exceptions to the purported underlying accounting principles, and a need and demand for detailed implementation guidance to apply the standards (SEC, 2003). It defines principles-based standards, on the other hand, as having a concise statement of the substantive accounting principle, few, if any, exceptions or internal inconsistencies, an appropriate amount of implementation guidance devoid of bright-line tests, and consistency with a conceptual framework of financial reporting.

conservatism is the preference for accounting treatments that result in lower reported values of stockholders' equity and manifests as a higher (lower) degree of verification for increases (decreases) to stockholders' equity (Basu, 1997). Empirical research in accounting suggests that conservatism persists in accounting practice today despite the push to include more fair value-based information in financial statements (Watts, 2003a).¹² Our interviews reveal that Taiwanese auditors focus on exercising conservatism as a result of concerns about client tendencies for more optimistic reporting. For example, the manager of a large firm noted "It happens constantly...the CPA's views are more conservative and the company's views are more optimistic."

On balance, our interviews suggest that accounting rules enhance Taiwanese auditors' ability to enforce their professional judgment because the rules supply them with leverage to ensure that clients "toe the line." This role of accounting rules goes beyond that of simply limiting professional judgment as suggested by prior ethics research (e.g., Lampe and Finn, 1992; Meara, Schmidt, and Day, 1996), and is consistent with Ma's (1998) proposal that, in a collectivist society such as Taiwan, positive attitudes toward rule observance are likely to encourage ethical judgment. In other words, the Taiwanese auditors exhibit their collectivist tendency towards their fellow auditors and the public, rather than the client, and are able to rationalize their choices based upon their commitment to the profession and the public.¹³

¹² See Watts (2003a; 2003b) for discussions of the explanations and implications of conservatism in accounting.

¹³ Two comparisons of U.S. auditors (Jeffrey and Weatherholt, 1996) and Taiwanese auditors (Jeffrey, Weatherholt, and Lo, 1996) consider the relationships among rule observance attitudes, ethical development, and professional commitment. In general, the researchers found that the Taiwanese consider rule observance to be very important. Interestingly, the emphasis on rules did not appear to inhibit the ethical reasoning of Taiwanese auditors as had been observed in U.S. auditors. Further, strong professional commitment and high ethical development was observed for the Taiwanese auditors, whereas a negative relationship between professional commitment and ethical development was observed for the U.S. subjects.

Auditor-Client Interaction

The third theme identified from our interviews relates to the interactions between auditors and clients. At the end of the day, financial statements and audit reports often are the product of a negotiation process between the auditor and client management (Gibbins, Salterio, and Webb, 2001; Gibbins, McCracken, and Salterio, 2007; Brown and Wright, 2008). As such, this theme is interconnected with the preceding one because audit-client negotiation generally arises when there are differences of opinion related to accounting and disclosure issues (Gibbins et al., 2001; Gibbins et al., 2007). Our interviewees identified four areas of ethical challenges within auditor-client interactions: financial statement disclosure, professional skepticism, client knowledge of GAAP, and auditor independence.

1. Financial Statement Disclosure

Panel C of Table 4 shows that 91% (21) of the auditors cited ethical challenges related to financial statement disclosure—that is, material information reported to financial statement users strictly required under GAAP and securities regulations.¹⁴ Examples include disclosures made by firms in their securities offering prospectus, annual and quarterly financial statements (including management’s discussion and analysis [MD&A]), and other filings required by securities regulators or exchanges (Heitzman et al., 2010). Our interviewees indicate that Taiwanese auditors face serious challenges regarding financial statement disclosures and place a strong emphasis on their responsibilities to financial statement users. For example:

One of our clients prepared to list their company “over-the-counter,” and had too many related party transactions. They

¹⁴ In contrast, voluntary disclosures are those concerning information for which management has control over the nature, content, or timing. Examples of voluntary disclosures include pre-announcements of earnings, analyst conference calls, press releases, and management forecasts of earnings. See Healy and Palepu (2001) and Heitzman, Wasley, and Zimmerman (2010) for reviews and analysis of the voluntary disclosure literature.

established another company in order to avoid the problem. We thought that although it is not related party transaction in appearance, they used the relationship to get around the problem; therefore, it is related party transaction in substance. We considered this problem to be very serious and disclosed it. The client did not wish to disclose it. So, naturally, there was an argument (Partner, Small Firm).

Clients always think that disclosure should be as little as possible. But a financial report is external information, and everyone has the right to know. In order to make the information complete, CPAs should insist, in issuing their opinion, that full disclosure is followed (Manager, Large Firm).

2. Professional Skepticism

Panel C of Table 4 shows that 83% (19) of the auditors viewed the exercise of professional skepticism as an ethical challenge in Taiwan. Professional skepticism in auditing requires that auditors maintain a questioning mind and critically assess audit evidence (Messier et al., 2008). Auditing standards emphasize the importance of maintaining professional skepticism throughout the entire audit process. For instance, skepticism can influence key risk management decisions such as client acceptance and continuance (e.g., Johnstone and Bedard, 2003). During the conduct of an audit, professional judgment and the outcomes of many important decisions (e.g., interpretation of red flags) rest on auditors' skepticism when evaluating management integrity, honesty, and ethics (e.g., Asare and Wright, 2004). Having a skeptical mind or attitude is also particularly important for identifying fraud (e.g., Hogan et al., 2008). Our interviews indicate that Taiwanese auditors consider client integrity and trust to be key ethical issues. Overall, they seem to set clear boundaries between themselves and the client and therefore approach the audit with a skeptical attitude and with little trust in management. For example:

Before accepting the engagement, we should know who are the shareholders, their background, and the relation between the management and shareholders. After accepting an engagement, there is the potential to provide a lot of services. However, we will face a dilemma if we are unable to manage client pressure when issuing a report. So the client's potential unscrupulous behavior is a serious risk that we face (Partner, Large Firm).

While skepticism is espoused as a core element of the audit process, the level at which individual auditors exercise skepticism can be a function of their experiences with fraud. Research suggest that three conditions are generally present when fraud occurs—incentive or pressure to commit fraud, opportunity to commit fraud, and an attitude or rationalization for committing fraud (Hogan et al., 2008). Incentives for management to commit fraud come mainly from the pressures to meet market (e.g., analyst) expectations, compensation structures, need for external financing, and poor actual performance. Opportunities for fraud commonly stem from a lack of effective internal controls and poor (or limited) corporate governance. Finally, managers' attitudes toward fraud and related behaviors have a significant influence on intentions to actually commit financial statement fraud (Gillet and Uddin, 2005). Our interviews suggest that Taiwanese auditors face a high-risk environment marked by considerable exposure to fraud, necessitating a highly skeptical attitude toward clients. For example:

Although we can use the audit process to investigate other risks, the CPA is unable to audit the morality and strategic decision-making of management—especially when management is deliberately concealing information from us. For instance, I remember one client that was listed on the Stock Exchange. When we were auditing the company's mid-year report and annual report, we discovered that the CEO had embezzled the company's funds.

It is difficult to perform an adequate audit when management conceals the truth from auditors (Partner, Large Firm).

It happened only two weeks ago. The client is an American company's subsidiary, and management is native [Taiwanese]. The parent company suspected that the subsidiary did not follow the internal control policies. There were a large number of cash transactions and they [the parent] suspected that there was an internal control problem. They also doubted the integrity of the subsidiary's CEO. So they asked us to perform a special audit. The audit is still underway. We have already conveyed to the parent company that the CEO did indeed commit fraud (Manager, Small Firm).

I can think of one example, where the client was illegally promoting its stock. The CEO of that company attempted to raise the stock price and to get the cash back in his pocket by recording fictitious sales and increasing EPS after the rights issue (Manager, Large Firm).

3. Client Knowledge

The relative knowledge that auditors and their clients have of GAAP is an important issue in auditor-client interactions. Both auditors and clients need to understand the pertinent facts and circumstances for transactions as well as the applicable GAAP to effectively resolve disputes. Gibbins et al. (2001) find that audit partners believe audit firms generally have greater accounting expertise than clients. In the case of Taiwanese auditors, 70% (16) of our interviewees indicated that they are concerned about their clients' lack of GAAP knowledge (Panel C, Table 4). Several auditors even suggested that their clients need to be educated in GAAP and should be required to have a professional certification (e.g., CPA) to better ensure competency in financial reporting. For example:

We think that our clients' accountants should reinforce the application of GAAP. When someone wants to be a financial manager in a publicly traded company, he should have a license, and then his integrity and responsibility should be strengthened (Partner, Small Firm).

We need to strengthen the clients' understanding of GAAP rules and to encourage clients to be more transparent in their disclosure (Partner, Small Firm).

4. Auditor Independence

Auditor independence is the cornerstone of the audit process. Conceptually, auditor independence means that there is an unbiased relationship between the auditor and client that prepared the financial statements (Messier et al., 2008). In practice, auditor independence has evolved from a moral-ethical position into an object that is highly regulated through codes of conduct and professional practice (e.g., the AICPA's Code of Professional Conduct). It is commonly accepted that auditors must remain independent in both fact (i.e., mental state lacking bias) and appearance (i.e., public perception of objectivity); and the three main factors that can compromise independence from a client include direct or material indirect financial interest, business relationships (e.g., prior employment with a client/ CPA firm), and the provision of certain non-audit services (e.g., accounting system development).

Panel C of Table 4 shows that 30% (7) of the auditors we interviewed cited auditor independence as an important ethical issue. These auditors are particularly concerned about independence related to personal interactions and relationships with clients. For example:

Because people's relationships are emphasized in Taiwan, auditors are highly concern about interpersonal relationships and how it will influence the quality of auditing. If the field staff is not independent, it will increase our risks. Three or four years ago...it

was discovered that one of our clients' managers was related to one of our audit managers. To avoid any potential independence problems, we assigned another manager to that client (Partner, Large Firm).

“Friendliness” will influence professional judgment, and it will affect audit quality and risk. Because I am not the person getting the data first-hand, the data that the auditors provide is very important (Partner, Small Firm).

Commercial pressure is also acknowledged as an impediment to auditor independence. Concerns by regulators (e.g., SEC, 2003) that the provision of non-audit services impairs auditor independence has spurred an extensive literature examining the relationships between audit and non-audit fees and auditor independence (e.g., DeFond, Raghunandan, and Subramanyam, 2002; Frankel, Johnson, and Nelson, 2002; Kinney, Palmrose, and Schulz, 2004; Lim and Tan, 2008). Findings from these studies are somewhat mixed, with results varying depending on the proxy chosen for audit quality. Lim and Tan (2008) suggest that on balance, there is some research support that the provision of non-audit services impairs independence in appearance, but there is little or no support for such an effect on independence in fact. Despite the lack of definitive findings, the regulatory emphasis on this issue has gotten the attention of audit practitioners. Our interviews indicate that Taiwanese auditors are well aware of the commercial nature of the audit, in particular the additional services that can be provided, and the ethical challenges this can pose to their primary role as auditors. For example:

We had a chance to assist in an initial public offering for a client. It looked like a good opportunity—the CPA could help documenting the accounting system and composing the prospectus. But we were concerned when the company refused to let us know who its major shareholder was. We realized that its investment companies were

controversial individual investors. In the end, we did not accept the engagement (Partner, Large Firm).

4. SUMMARY AND DISCUSSION

First, the findings from an experiment suggested that Taiwanese auditors' level of ethical reasoning is below that of graduating accounting students (i.e., new entrants into the Taiwanese accounting profession). Then interviews with 23 experienced Taiwanese auditors from all the ranks in both large and small firms were used to follow up on this finding, with the specific aim of unearthing the ethical challenges that Taiwanese auditors face when conducting audit engagements. The interview findings suggest that these auditors seek to be conscientious in performing their tasks and that they consider their primary professional obligation to be serving investors and the capital markets. They are concerned with managing risk (e.g., litigation), and face a variety of challenges in discharging their fiduciary duties. Factors relating to audit clients include the latter's attempts to manipulate financial reporting, lack of GAAP knowledge, and lack of cooperation. In response, Taiwanese auditors find it useful to rely on accounting "rules" as leverage to get clients to toe the line for financial reporting and disclosure, though they often are handicapped by the lack of clear-cut guidance from authoritative sources. The auditors also have to contend with limited numbers of trained/ experienced personnel and pressures to control costs and time. Despite the resource constraints, they significantly invest in developing practices (e.g., partner conferences, apprenticeship programs) and procedures (e.g., risk assessment committees) to further mitigate risk.

Collectively, these findings suggest several directions for combating ethical challenges in auditing and for improving audit quality in Taiwan. On the regulatory front, earlier we had noted actions by Taiwan's securities market regulators and other governing bodies to improve the quality of the financial reporting process through strengthening corporate governance and auditor independence (e.g., mandatory audit partner

rotation, independent corporate directors, limiting non-audit services). Our interview results suggest that despite these initiatives, auditor independence remains a major ethical challenge. This finding is consistent with research that some regulatory interventions in Taiwan, such as requiring a five-year mandatory audit partner rotation, do not have a significant effect on audit quality (e.g., Chi et al., 2009). Indeed, this finding is similar in spirit to one from the U.S. that auditor rotation requirements may reduce auditors' exposure to information about a client's business, thus making it more difficult to learn about the possibility of fraud (Painter, 2004). At the same time, this does not imply that all of the regulatory efforts are ineffectual. Relating to non-audit services, Duh, Lee, and Hau (2009) find that the provision of such services increases auditors' financial reliance on their audit clients and impairs their independence. They also find that overall auditor independence has improved in the several years since the Procomp scandal, which may in part be due to new restrictions on the provision of such services. In the U.S., the large-scale corporate scandals of the past decade have prompted not only passage of the Sarbanes-Oxley Act of 2002, but also creation of the Public Company Accounting Oversight Board (PCAOB) to oversee and regulate the U.S. auditing profession. Since its inception, the PCAOB has issued numerous guidelines and rules for audit practice and auditor independence (e.g., Rule 3520). The U.S. experience with the PCAOB could be instructive whether creating a similar regulatory body in Taiwan could help to enhance the quality of financial reporting, in part by promoting greater auditor independence, and in part by providing auditors with more authoritative backing for resisting pressures from clients.

Beyond regulatory standards and action, audit quality also depends on public accounting firms' corporate culture, governance, systems and processes. An auditing firm's culture establishes parameters for acceptable professional conduct, recognized and accepted premises for judgment and decision making, and sets the "tone at the top" for the audit as a high quality service (Jenkins, Deis, Bedard, and Curtis, 2008). Research in

accounting shows that organizational culture can affect the motivation, behavior and performance of accounting firm personnel generally (e.g., Bhimani, 2003; Chow et al., 2002), as well as specific decisions and actions such as auditor judgment on materiality (Carpenter, Dirsmith, and Gupta, 1994) and auditor independence (Windsor and Ashkanasy, 1996). Both corporate culture and governance are affected by factors such as organizational structure (e.g., centralized/ decentralized), compensation and reward systems, policies on information (i.e., knowledge sharing), ethics training, and the existence of independent monitoring boards to oversee ethics and other advisory functions (Jenkins et al., 2008). As for systems and processes, the extent to which a firm makes use of information technology and has audit manuals and expert systems can affect individual auditors' judgments and actions. Our interview results suggest that Taiwanese audit firms have instituted some key measures, including ones related to process (e.g., partnership meetings) and governance (e.g., advisory committees). But prominent by its absence was any mention about the nature and extent of training (particularly related to ethics). While ethics training likely occurs in public accounting firms despite this omission by the interviewees, the type, availability, and effectiveness of such training is largely unknown (both in the U.S. and Taiwan). Public accounting firms in Taiwan could be well served by ethics training programs that increase firm members' sensitivity to, and ability to deal with important ethical challenges such as those identified in our interviews. Such in-house training programs can be effective supplements to ethics training provided in universities and continuing professional education programs by tying into the firm's unique challenges and internal systems and resources.

Since universities' accounting programs are the primary source of new entrants into the audit profession, Taiwan's accounting educators also can contribute by helping their students to develop a high level of ethical awareness and standard. While we found the level of ethical reasoning for Taiwanese accounting students to be similar to that of their U.S.

counterparts, the mere fact of many U.S. and Taiwan accounting scandals, per se, is clear evidence that there is room for both groups to improve. Accounting educators in the developed Western nations have acknowledged the importance of their role in shaping the ethical culture and climate in the accounting profession (e.g., Madison and Schmidt, 2006; Blanthorne, Kovar, and Fisher, 2007), and their efforts to strengthen this role could be instructive to their Taiwan colleagues. For example, we found that Taiwanese auditors repeatedly face challenges with clients that act unethically (e.g., managing earnings, fraud). One way to prepare students for this challenge is to engage them in classroom simulations that address ethics from the corporate accounting perspective. Haywood and Wygal (2009) provide an example of such a simulation based on the Institute of Management Accountants' (IMA) *Statement of Ethical Professional Practice*, an international guideline for ethical conduct by corporate accountants. In addition, Radtke (2004) suggests using multiple short ethics vignettes to broaden students' awareness of ethical issues, while Massey and Thorne (2006) have suggested providing students with guidance about the cognitive decision processes that should be used when resolving ethical dilemmas in various accounting contexts. Perhaps the potential usefulness of such exposure can be illustrated using the case of fraud detection, where it has been observed that the normal audit environment does not always provide auditors with the necessary practice and feedback to enable them to detect fraud. Importantly, research has found that novice auditors who have received simulated experience through specific training in asset theft detection outperform experienced auditors in detecting such fraud (Carpenter, Durtschi, and Gaynor, 2002).

In making use of tools like these, educators in Taiwan should recognize that some ethical challenges may be unique to the Taiwanese context because some ethical challenges are specific to particular institutional arrangements (Chow et al., 2006). Also, their students' national culture may induce them to have different assessments of and reactions to ethical challenges as compared to their foreign counterparts (Ho and Chang, 1994;

Fleming, Chow, and Su, 2010). Further, they should be aware that there is a difference of opinion on whether ethics education is more effective in the form of stand-alone courses or being integrated throughout the accounting curriculum (Blanthorne et al., 2007).

It should be obvious from the preceding discussion that upholding Taiwanese auditors' ethical standards in audits involves multiple layers of factors. While our study has shed light on some of these factors, identifying the full range of challenges and developing effective responses to them will require a vastly expanded scope of inquiry. Given the infancy of this line of research in Taiwan, there remains much room for future studies to contribute towards guiding the accounting regulatory and standard setting process, governance in audit firms, the design of audit firm systems and processes, and auditor training. One way to improve upon our study is to seek a greater cross section of audit firms, thereby potentially covering a broader range of audit issues and challenges. It also would be beneficial to include a greater number of auditors across the various ranks to better understand the different challenges that each faces in practice. Future research also can investigate the efficacy of techniques and interventions aimed at enhancing auditors' ethical reasoning and awareness of ethical professional practice issues. As to the empirical method, each has its unique strengths and weaknesses (Birnberg, Shields, and Young, 1990). For example, while surveys are suitable for uncovering the existence of relationships and potentially relevant variables, they lack the ability to illuminate issues of "how," "why" and the nature of processes. Future research will be made much richer by employing a multitude of research approaches in a mutually supporting fashion.

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APPENDIX A: INTERVIEW PROTOCOL

Instructions: Please read the following statement and sign your name in the space provided if you agree to participate in this study.

INFORMED CONSENT

I hereby consent to my participation in the following research project:

Title: An Investigation into Auditors' Perceptions about Ethical Issues

Project Director: Dr. XXXXXXXXXXXX

Research Assistant: XXXXXXXXXXXX

The purpose of the research project is to gain insight into the ethical issues facing auditors today. We hope that the sharing of experiences by seasoned auditors like yourself will help us to gain insight into the challenges facing auditors in today's business environment.

We expect that the study will take about one hour of your time. Your participation is completely voluntary. You may withdraw from the study at any time. Although we are taping your conversation, your participation is completely anonymous; all identification will be removed from the tapes and transcripts of the recordings. *We unconditionally guarantee that no information used from the study will make any reference to your specific participation.*

Signature

.....

Date

.....

SET UP BOTH TAPE RECORDERS WITH FRESH TAPES IN EACH BEFORE THE AUDITOR COMES IN.

Description of the Research (to be read aloud)

We are conducting a study to determine auditors' experiences and perceptions about ethical issues that arise in audits. We really appreciate your finding time in your busy schedule to help us in this study. It is our hope that the information we collect across a number of experienced auditors like yourself will provide insight into the challenges facing auditors in today's business environment.

As noted in the informed consent form, although we are taping your conversation, your participation is completely anonymous; all identification will be removed from the tapes and the transcripts of the recordings, *and no finding will be tied to specific individuals or firms.*

TURN ON THE TWO TAPE RECORDERS.

ASK THE FOLLOWING SEMI-STRUCTURED INTERVIEW QUESTIONS

(Note: try to ask each auditor each question without varying the order.)

Background Information

In order to put your insights into perspective relative to other auditors that we interview, it would be helpful to obtain some information about your professional experiences. Let us begin by addressing a few questions in this area.

1. Can you please outline your career for me including:
 - a) Your education;
 - b) Your work experience in the firm, including:
 - 1) The number of years that you have audited;
 - 2) The different positions you have held in your career; and
 - 3) The types of clients you have audited;

- c) Your work experience outside of the firm, including:
- 1) The type of company for which you worked;
 - 2) The position(s) you held; and
 - 3) The number of years you were in each.
2. Would you mind telling us in what year were you born?

Ethical Issues by Audit Steps in the Audit Process: Risk Assessment
(read aloud)

Please think about the audit process. One of the first steps in that process is to assess risks associated with performing the audit. For example, during this phase of the audit, auditors assess such factors as materiality, audit risk, inherent and control risks as well as business risk (that is, risks to the firm such as litigation or loss or reputation that may result from a particular client relationship).

Most Important Ethical Issue Encountered during Risk Assessment Phase of the Audit

1. Please think about the *most important* ethical issue that you have faced in your career that arose during the risk assessment phase of the audit. Please answer the following questions relating to this most important ethical issue:
- What was it?
 - Why do you consider it an ethical issue?
 - Why do you consider it the most important?
 - When did it occur? How long ago was that?
 - At what level were you when it happened?
 - What was the context in which it happened (i.e., “tell me about it”)?
 - How was it resolved? Did your firm/ supervisor/ peer/ colleagues support you?
 - Would you do it differently if you had to face this issue again?
 - What could you/ your firm/ the client/ the profession (any or all) do to prevent it?

- What factors did you consider in the resolution of this issue?
 - How often would you say you face this issue – never, rarely, sometimes, often, or always?
2. Have there been other ethical issues that you have faced in the risk assessment phase that are *almost as important* as this first one? If so, please describe them (follow above sequence).

Ethical Issues by Audit Steps in the Audit Process: Program Planning
(read aloud)

Please think about the program planning phase of the audit. During the program planning phase of the audit, the nature, extent, timing and staffing of audit tests are determined—based upon the risk assessment performed earlier.

Two questions patterned after those for the Risk Assessment Phase.

Ethical Issues by Audit Steps in the Audit Process: Execution (read aloud)

Please think about the execution stage of the audit. Execution refers to act of conducting the audit tests set forth in the audit program and evaluating the resultant test evidence.

Two questions patterned after those for the Risk Assessment Phase.

Ethical Issues by Audit Steps in the Audit Process: Reporting (read aloud)

The last step in the audit process is to report or communicate the findings of the audit to the shareholders, audit committee, etc.

Two questions patterned after those for the Risk Assessment Phase.