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Ownership effects on audit-detected error characteristics: An empirical study in an emerging economy

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Abstract

The presence of foreign subsidiaries and local companies, each playing a significant role in the local economy is a typical phenomenon in the business environment of emerging economies. The objective of this study is to extend the research concerning the relationship between environmental factors and error occurrence by examining the impact of organizational ownership (foreign subsidiaries in Hong Kong vs. local Chinese companies) on error characteristics. The second objective of this study is to examine the empirical characteristics of errors in an emerging economy, Hong Kong, with references to relevant U.S. studies. Hong Kong is part of the Chinese Economic Area, a Big Emerging Market identified by the U.S. Department of Commerce. In the past two decades, while there have been numerous empirical studies on error characteristics for U.S. audit data, there is a scarcity of such studies using non-U.S. data. Due to differences

in organizational culture, nature of business transactions as well as accounting practices, the error characteristics detected in audit populations in emerging economies may be significantly different from those discovered in the U.S. Results of this study should facilitate audit efficiency and effectiveness through improved audit risk assessment for each ownership type company and should also alert management of multinational corporations to incorporate the potential differences in error patterns in designing and implementing effective accounting controls for companies outside the U.S.



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Keywords

Audit planning; emerging economy; error characteristics; ownership effects

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