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Abstract

A number of Chinese firms voluntarily audit their financial statements, even though the auditing of interim financial statements is not required by the standards specified by the state. This study examines the economic value of voluntary auditing in a natural experimental setting. We investigate the relationship between voluntary auditing, reports audited, and whether investors place more value on voluntarily audited earnings than on unaudited earnings. Based on a sample of 2,458 semi-annual interim reports released by listed Chinese firms from 1996 to 1999, we find that the choice of voluntary auditing is positively associated with the percentage of tradable shares, profitability, and company size. We also find that the earnings response coefficients of audited firms are higher than those of unaudited firms, especially when the auditing is voluntary. Our findings are consistent with theoretical propositions that managers voluntarily purchase external auditing to enhance the credibility of accounting numbers. This study contributes to the literature, especially on the economic value of voluntary auditing.



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