

**CORPORATE
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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Journal Corporate Ownership & Control is published four times a year, in September-November, December-February, March-May and June-August, by Publishing House "Virtus Interpress", Kirova Str. 146/1, office 20, Sumy, 40021, Ukraine.

Information for subscribers: New orders requests should be addressed to the Editor by e-mail. See the section "Subscription details".

Back issues: Single issues are available from the Editor. Details, including prices, are available upon request.

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Corporate Ownership & Control

ISSN 1727-9232 (printed version)
1810-0368 (CD version)
1810-3057 (online version)

Certificate № 7881

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Почтовый адрес редакции:

Почтовый ящик 36
г. Сумы, 40014
Украина

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Журнал "Корпоративная собственность и контроль" издается четыре раза в год в сентябре, декабре, марте, июне издательским домом Виртус Интерпресс, ул. Кирова 146/1, г. Сумы, 40021, Украина.

Информация для подписчиков: заказ на подписку следует адресовать Редактору журнала по электронной почте.

Отдельные номера: заказ на приобретение отдельных номеров следует направлять Редактору журнала.

Размещение рекламы: за информацией обращайтесь к Редактору.

Права на копирование и распространение: копирование, хранение и распространение материалов журнала в любой форме возможно лишь с письменного разрешения Издательства.

Корпоративная собственность и контроль

ISSN 1727-9232 (печатная версия)
1810-0368 (версия на компакт-диске)
1810-3057 (электронная версия)

Свидетельство КВ 7881 от 11.09.2003 г.

Виртус Интерпресс. Права защищены.

EDITORIAL

Dear readers!

An economic crisis has shown lack of attention to crucial issues in governance business entities. Recommendations for corporate governance enforcement have been proposed by business community, society and regulators. However, risks, performance, reporting and corporate control issues are still under the discussion. With respect to this role of legal environment in establishing appropriate solutions for corporate governance effectiveness is relevant. It is clear that corporate governance enforcement and other legal issues is an increasingly important area of focus and substantial discussion should be arranged. Understanding that real business conditions can differ from theoretical models proposed by science, that's why it's important to form a platform for practitioners and theorists to outline main challenges and prospective solutions for improving corporate governance world.

This issue pays attention to the problems of corporate governance rating model, account auditing in the corporate system, pension fund governance, european banking system.

Gina Albu investigates several fundamental issues underlying some issues about interventionism, governance and so on that come in actuality in this period of economic crisis. *Francesca Magli, Alberto Nobolo and Matteo Ogliari* proposed the analysis of corporate governance from a cross-country perspective, the question arises whether a common, global framework is optimal for all. In fact, corporate governance systems have different features depending on the country concerned. *Roberta Provasi and Patrizia Riva* showed that there is a strong presence of local auditing firms; almost half of the companies listed on the CSI 300 are audited by domestic firms. With regard to the presence of foreign companies, it was found that foreign companies not belonging to the big four are the most representative. *Adam Samborski* predominantly paid attention to the role of governance for investments, was looking for answers to questions about the state of pension fund governance in Poland, thus trying to find methods for improvement. *Themistokles Lazarides and Electra Pitoska* advance research on the issue of convergence of the banking system in Europe using a set of data from 27 countries of Europe. *Udo C. Braendle* suggests the future of corporate governance in Russia.

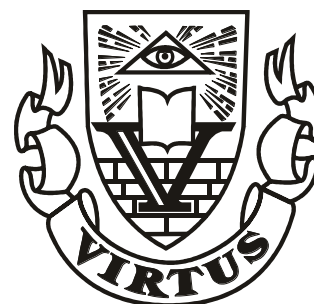
We hope that you will enjoy reading the journal and in future we will receive new papers, outlining the most important issues and best practices of corporate governance!

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Volume 11, SPRING 2014

SPECIAL CONFERENCE ISSUE

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This paper investigates several fundamental issues underlying some issues about interventionism, governance and so on that come in actuality in this period of economic crisis.

Over time the economic crisis that began in 2008 has had some negative consequences on the global economy. Moreover, many sparked controversy between the followers of Keynes and Friedman's and not least between Obama's policies envisaging growth and EU austerity policies that were aimed at reducing the deficit and debt.

It is necessary that both the U.S. and the EU to rethink the development model and to improve governance in all aspects. Stiglitz and Krugman are some of the biggest proponents of interventionism and higher government spending. They also are trying to find solution for economic growth.

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This issue is still evident more in the emerging market economies (for example China, India, Brazil) where the traditional model for corporate governance is not necessarily the framework that works best. Corporate governance must operate differently in these environments. These differences underscore the necessity for some level of adaptation of corporate governance principles, an area of increasing activity in recent reform efforts, and of much research interest.

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The paper critically analyses this draft code and gives implications about the future of corporate governance in Russia. The author compared Russian Corporate Governance Initiatives with those of other BRIC countries. The Russian Code of Corporate Conduct was implemented in 2002 and has not been revised for many years. The same is true for Codes of other BRIC countries. 2013 the situation has changed. Russia published a Draft Code of Corporate Governance that should reflect the changes in Russian Corporate Governance over the last 10 years.

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LEGAL ACCOUNT AUDITING IN THE CORPORATE SYSTEM OF CHINESE LISTED COMPANIES RELEVANCE AND IMPLICATIONS

Roberta Provasi*, Patrizia Riva**

Abstract

In recent years, the People's Republic of China has enjoyed strong growth that has attracted the attention of the whole world. In particular, the event that marked a significant development of the Chinese economy has been the entry into the WTO in 2001. This has triggered the opening of China to foreign investment and the gradual liberalization of foreign companies in the Chinese domestic market. The presence of foreign investors and foreign companies in China has increased the demand for higher quality in the standard of auditing and an acceleration of the process of international convergence. To this end, China over the years has continued its project of alignment with the international rules and in 2008 published the new CSA (Chinese Standards on Auditing) and in 2010 in accordance with the principle of global and continues convergence the CASB (China auditing Standards Board) has completed its review of the CSA achieving full convergence with the Clarified ISAs. The aim of this research is to investigate the current scenario of the system of statutory audit in the People's Republic of China, the degree of development of auditing system highlighting the differences and peculiarities of the audit through an empirical analysis that involved the companies composing the index CSI 300 the 300 most highly capitalized companies, 95 of which are listed on the Shenzhen Stock Exchange and 205 on the Shanghai Stock Exchange. The analysis showed that there is a strong presence of local auditing firms, almost half of the companies listed on the CSI 300 are audited by domestic firms. With regard to the presence of foreign companies, it was found that foreign companies not belonging to the big four are the most representative. In fact only 76 companies are audited by the Big Four.

Keywords: Stock Exchange, CSI, CASB, Domestic Auditing Firms, CSA, Non Domestic Auditing Firms, Chinese Listed Companies, ISA Clarified, CACPA

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1. The evolution of Auditing System in the People's Republic of China

In the Chinese context the accounting system has been evolving for about 3000 years. It has incorporated in the century's innovations and changes switching from a single to double entry system. In particular, the audit has ancient origins and initially consisted in check:

- The completeness of the financial records of the empire;
- The honesty of government officials in the management of public funds and property of the emperor;
- The accuracy of the payment records and collection.

The auditors were chosen personally by the emperor and once designated they covered an authoritative and prestigious office and a consequent status of privilege in society. No one knew exactly as

it did the audit, the auditors were obliged to keep secret the techniques used and their loyalty was continuously subject to evaluation. The ultimate purpose of the audit was to search for fraud, errors and irregularities. The earliest evidence of the existence of a formalized system of audit procedures date back to the Zhou Dynasty (1122 BC-770 BC). The first rudimentary form of auditing called with the expression *Zaifu* consisted in a summary audit on monthly reports and in an auditing in the more comprehensive and analytical accounts of the Annual Report (*Sui-Hui*). The review of the Annual Report formed the basis for a second review - the *Tachi* or Great Calculation - and for the Triennial Evaluation of the Governing Officers: their promotion depended on the auditing results. These procedures were further developed and better regulated during the Tang Dynasty (618 AD -907 AD) with the introduction of the review system *Bi-Bu*

regulated by a special department which referred to the Ministry of Justice. However, it was during the Song Dynasty (907 AD-1279 AD) that for the first time the term audit appears, indicated by the expression She-Ji Shen means "examination" and Ji which means "accounting and finance". The expression itself shows the strong and unavoidable link between auditing and accounting itself. Over the years there were various dynasties (Zhou, Song, Ming) during which the accounting and auditing systems were more and more refined until the advent of the last dynasty, the Qing dynastic empire. This led the empire towards an irreversible crisis in 1911 which led to the civil war, and finally in 1912 to the origin of the People's Republic of China. The new period has led to the opening up to Western culture also with regard to accounting and auditing issues.

A major step for the development of the audit it was in 1918 with the publication of the Law of Internal Auditing and in 1945 the Law of Accountants. In 1949, Mao proclaimed the birth of the People's Republic of China, this resulted in the establishment of the Soviet model of socialism and characterized from the planned economy accompanied by the introduction of a system of Fund Accounting. This new system introduced new accounting concepts and principles in line with the state system of resource allocation and management control. In this context, the role of the auditor consisted in the control of the use of state funds allocated to the companies, a kind of "Compliance Tests" to verify if public resources were used properly. At the end of the 80 'with the death of Mao and the adoption of the Open Door Policy of the economic situation changed dramatically. The new policy encouraged the adoption by companies of Chinese methods of business management and accounting practices in use in the Western world.

The role of audit in such renewed environment completely changed becoming more and more a tool to satisfy external users and to restore the confidence of foreign investors. In accordance with the provisions of the Constitution of the People's Republic of China (PRC) in 1982, in 1983 it was established the Audit Administration of the People's Republic of China (AAPRC), which marked the birth of the CNAO (China's National Audit Office). In 1986 the "Regulations of the People's Republic of China on Certified Public Accountants", was published by the State Council. It consists in a new framework which has established the regulation of accounting practice, the qualification of CPA as a nonprofit corporation providing independent audit services, including tests for enrollment in the professional and ethical norms. Audit for private companies - called Social Audit – starts from this moment on. These provisions have fostered the establishment in 1988 of the CICPA (Chinese Institute of Certified Public Accountants), a body under the jurisdiction of the Ministry of Finance, the

development of the profession of Certified Public Accountants (CPA) and finally the establishment of the PA (Public Auditors, mainly Audit Firms). The development of Chinese auditing was supported by the auditing foreign firm that from 90s' were present in China by opening representative offices, branches or joint ventures with local entities. The data show that at the end of 1997 at least 10% of the Chinese market of the auditing reviews was handled by auditing firms abroad. Until 1988, the year of foundation of the CICPA, there were no enforced auditing standards and this was a problem as no differences in application of controls started springing throughout the huge territories of China. The lack of official guidance meant that some companies started developing principles and auditing procedures to be used within its own boundaries. After the publication of the CPA law in 1993, it became then necessary the formulation of Auditing Standards. This was unavoidable to legitimate and to support the operating of auditing professionals and firms.

The Chinese Institute of Certified Public Accountants (CICPA) appointed the Commission for the development of Chinese Independent Auditing Standards (CIASC) consisting of members of the same CICPA, research institutions and accounting firms. The first set of 10 principles that included the Preface, the General Principle and the Financial Statement Audit, were adopted in December 1995. A second set was enforced in January 1996 concerning the guidelines on annual audit of the financial statements, the use of audit documentation and the evaluation of the audit activities. Again in December 1996 further 14 specific standards were composed including those concerning crucial topics such as: "Fraud and Errors", "Internal Control and Risk", "Materiality" and "Analytical Procedures". Finally in 1999 a third group of 15 specific standards was released, including those relating to "Transactions with related parties", "Going concern", and on the "Auditing of state-owned enterprises", and on procedures to implement when auditing is computerized.

2. The adoption of ISA Clarified and the convergence to international standards

In recent years, the will to align the standards of Chinese Audit System to the international standards has become a real need. The presence of foreign investors and companies in China has in fact increased the demand for a higher quality of Auditing Standards and an acceleration process of international convergence.

Recently China has encouraged and prosecuted the project alignment with the international rules until 2008. In that year, it has been published the existing Chinese Auditing Standards Revised and Redrafted, with the aim of aligning with ISA.

In accordance with the principle of continuous and global convergence, the Chinese Auditing Standards Board (CASB) has completed the review of Chinese Auditing Standards (CSA) and has reached full convergence with the Clarified ISAs. The reviewed CSA have been officially applicable in November 2010 and were officially effective for the financial statements auditing starting from January 2011 forward. During the international convergence process, CASB aimed strongly to keep standards concerning specific issues of the particular Chinese context, for example as; grants related to capital and the standard of communication between the previous and the later Auditor. The IAASB has recognized the necessity of these particular standards and has confirmed their acceptability in cases where they are not in conflict with ISAs standards.

The present Chinese Auditing Standards is made up of:

- 21 redrafted (RD) CSA;
- 16, revised (RV) CSA;
- 1 CSA added (AD).

From the comparison between the Clarified ISAs and the new CSA is possible to identify a strong similarity with the exception of the CSA 1153 in which communication between the new auditor and the previous one is faced separately.

The factors that have encouraged the introduction of auditing standards issued by the Chinese Institute of Certified Public Accountants (CICPA), Chinese Association of Certified Public Accountants (CACPA) and Chinese Auditing Standards Board (CASB) are essential to understand the different development steps of these principles, but also to understand the main features of Chinese Audit market. The problems are related mainly to: the lack of independence of the auditors, the lack of qualified professionals, an environment often characterized by corruption, socio-cultural aspects rooted in Chinese society and transmitted from generation to generation. Certainly, all these circumstances have delayed and obstacle the Auditor profession development and have slowed down the process of international harmonization and have had a negative impact on foreign investments in China. China efforts to align with international standards have been remarkable, and this has certainly led to an improvement of the auditing quality.

Unfortunately, it must be emphasized that the path is not completed yet as problems still remain. The process of enforcing of Revised and Redrafted ISAs do not currently have resulted in the effective implementation of the standards. Even the issue of auditor independence is still not fully resolved because of the cultural influence as it seems difficult to separate completely the audit profession from government intervention.

In particular, on September 2009, Ministry of Finance (MOF) issued the document named "Several Opinions on Accelerating the Development of China's

CPA Industry" which is detailed in the action plan for the audit of the 2010-2020 period focused in particular on:

- a) Creating domestic audit firms with international impact. The Big 4 inspect the most part of SOEs Chinese listed companies. Chinese government encourages domestic audit firms to compete and place themselves in a medium-high market and especially try to get back new client companies audited by Big 4;
- b) Promote the small independent auditors;
- c) Promote the importance of the auditors' independence in order to ensure greater reputation and credibility to Chinese Auditing activity.

3. Chinese listed companies auditing in the CSI 300. Empiric analysis

3.1 Data and Methodology

In China, the stock market was born on November 26, 1990 with the foundation of the Shanghai Stock Exchange (SSE), which became actionable on December 19 of the same year. Almost contextual was the opening of the second Chinese Stock Exchange, the Shenzhen (SZSE) which was established on 1st December 1990. These two Stock Exchange Markets are the main equity markets in the People Republic of China.

The Shanghai Stock Exchange (SSE) in twenty years has grown fundamentally simultaneously with the evolution of Chinese economy⁵. Today, Shanghai Stock Exchange is one of the main Chinese stock market by number of listed companies, on January 28, 2012 there are about 925 listed companies and it is the second stock market in the world after the United States.

The Shenzhen Stock Exchange is a self-regulated entity engaged in the development of the multi-tier Chinese capital market, promoting development and economic transformation.⁶

In particular, thanks to his engagement it was possible to activate a capital market divided into three distinct categories: i) Main Board; ii) SME Board; iii) ChiNext and Over the Counter (OTC) market. It has become one of the emerging markets drawing the attention of the whole world.

⁵Franceschi, A. (2011, Maggio 20). La Borsa di Shanghai apre alle società straniere. Pronte alla quotazione Hsbc e Standard Chartered. *Il Sole 24 Ore*, p. 13-14.

⁶Shenzhen Stock Exchange. (2012). Tratto il giorno Gennaio 28, 2012 da <http://www.szse.cn>: <http://www.szse.cn/main/en/AboutSZSE/SZSEOverview/>

Table 1. Clarified ISA and CSA

ISA	n. CSA	CSA (Chinese Auditing Standards)	RV	RD	ADD
ISA 200	CSA 1101	Overall Objectives of the Independent Auditor and the Conduct of an Auditor Accordance with Chinese Standards on Auditing		x	
ISA 210	CSA 1111	Agreeing the Terms of Audit Engagements	x		
ISA 220	CSA 1121	Quality Control for an Audit of Financial Statements	x		
ISA 230	CSA 1131	Audit Documentation	x		
ISA 240	CSA 1141	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	x		
ISA 250	CSA 1142	Consideration of Laws and Regulations in an Audit of Financial Statements	x		
ISA 260	CSA 1151	Communications with those charged with governance	x		
ISA 265	CSA 1152	Communicating Deficiencies in Internal Control to those Charged with Governance and Management			x
N/A	CSA 1153	Communications between the auditor and his/her Predecessor	x		
ISA 300	CSA 1201	Planning and Audit of Financial Statements	x		
ISA 315	CSA 1211	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment	x		
ISA 320	CSA 1221	Materiality in Planning and Performing an Audit		x	
ISA 330	CSA 1231	The Auditor's Responses to Assessed Risks	x		
ISA 402	CSA 1241	Audit Considerations Relating to an Entity Using a Service Organization		x	
ISA 450	CSA 1251	Evaluation of Misstatements Identified during the Audit		x	
ISA 500	CSA 1301	Audit Evidence	x		
ISA 501	CSA 1311	Audit Evidence-Specific Considerations for selected Items	x		
ISA 505	CSA 1312	External Confirmations		x	
ISA 510	CSA 1331	Initial Audit Engagements-Opening Balances	x		
ISA 520	CSA 1313	Analytical Procedures	x		
ISA 530	CSA 1314	Audit Sampling	x		
ISA 540	CSA 1321	Audit Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures		x	
ISA 550	CSA 1323	Related Parties		x	
ISA 560	CSA 1332	Subsequent Events	x		
ISA 570	CSA 1324	Going Concern	x		
ISA 580	CSA 1341	Written Representations		x	
ISA 600	CSA 1401	Special Consideration-Audits of Group Financial Statements		x	
ISA 610	CSA 1411	Using the work of Internal Auditors	x		
ISA 620	CSA 1421	Using the work of an Auditor's Expert		x	
ISA 700	CSA 1501	Forming on Opinion and Reporting on Financial Statements	x		
ISA 705	CSA 1502	Modifications to the Opinion in the Independent Auditor's Report		x	
ISA 706	CSA 1503	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report		x	
ISA 710	CSA 1511	Comparative Information-Corresponding Figures and Comparative Financial Statements		x	
ISA 720	CSA 1521	The Auditor's Responsibilities Relating Other Information in Documents Containing Audited Financial Statements	x		
ISA 800	CSA 1601	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework		x	
ISA 805	CSA 1603	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statements		x	
ISA 810	CSA 1604	Engagements to Report on Summary Financial Statements		x	
ISQC 1	CSA 5101	Quality Controls for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements	x		

A main and significant index that supervises the performance of the Chinese stock market is the CSI 300 index. This index was introduced in April 2005 to substitute the Shanghai and Shenzhen index 300.⁷ It is made up of 300 shares of type A with the highest capitalization, listed on both Shanghai and Shenzhen Stock Exchange Market.⁸

For this analysis it is taken into consideration a sample of companies constituent of the CSI 300 index as the most highly capitalized these companies are more representative than others;⁹ in particular this index is made up of 95 companies listed on the Shenzhen Stock Exchange Market and 205 companies listed on the Shanghai Stock Exchange Market.

The *China Securities Index Limited Company* (CSI) represents a joint venture between the two Stock Exchanges, it is a professional business entity specialized in the indexes creation and management and services connected that aims to become a leader in this sector. The CSI also puts effort into encouraging and promoting the capital market and financial innovation grounded on the information and the processes of the two Stock Exchanges.

All the analysis carried out and here described, take into consideration only three hundred companies, the data were made available by the use of Datastream database that has provided us the names of the audit firms assigned to the legal account auditing of the listed companies.

The analysis carried out aims to examine the audit reports prepared for the financial statements of 2012 of the listed companies in the index CSI 300. The companies constituting CIS index are shown on the table 2:

The aim of this analysis is to verify whether the 300 most highly capitalized companies included in such index are audited by International or by Domestic Audit Firms.

Considering the evolution process of Chinese auditing system it is expected that most of the companies are audited by international audits firms. This scenario indeed would be an additional proof of the international convergence of the auditor profession, of the progress of the independence from local governments, so from the state, as well as a pace in the direction of independence from the audited firms.

⁷Shanghai Shenzhen CSI 300 Index.(2012). Tratto il giorno Gennaio 28, 2012 da http://www.csindex.com.cn:http://www.csindex.com.cn/sseportal_en/csiportal/zs/indexreport.do?type=1

⁸CSI 300 Index. Tratto il giorno Gennaio 28, 2012 da http://www.wikininvest.com: http://www.wikininvest.com/index/CSI_300_Index

⁹ L'elenco complete delle 300 società costituenti il CSI 300 Index è stato rilevato dal sito internet della China Securities Index, Ltd: <http://www.csindex.com.cn>, URL:http://www.csindex.com.cn/sseportal_en/csiportal/zs/jbxx/report.do?code=000300&&subdir=1 in data 28 Gennaio 2012

Table 2. Companies listed on the CSI 300 at 28.01.2012

COMPANIES	Stock Exchange Market	COMPANIES	Stock Exchange Market
Shenzhen Development Bank Co Ltd	SZSE	Dalian Jinniu Co Ltd	SZSE
China Vanke Co Ltd	SZSE	Taiyuan Coal Gasification Co Ltd	SZSE
Shenzhen Baoan Enterprises (Group) Co Ltd	SZSE	Advanced Technology & Materials Co Ltd	SZSE
CSG Holding Co Ltd	SZSE	Shanxi Xishan Coal And Electricity Power Co Ltd	SZSE
Shenzhen Great Wall Kaifa Technology Co Ltd	SZSE	China Resources Sanjiu Medical&Pharmaceutical	SZSE
China Merchants Property Development Co Ltd	SZSE	Zhejiang NHU Co Ltd	SZSE
Shenzhen Energy Group Co Ltd	SZSE	Hualan Biological Engineering INC	SZSE
China International Marine Containers (Group) Co Ltd	SZSE	Suning Appliance Co Ltd	SZSE
Liaoning Huajin Tongda Chemicals Co Ltd	SZSE	Beijing SL Pharmaceutical Co Ltd	SZSE
Shenzhen Zhongjin Lingnan Nonfemet Co Ltd	SZSE	Dalian Zhangzidao Fishery Group Co Ltd	SZSE
Shenzhen Agricultural Products Co Ltd	SZSE	Mesnac Co Ltd	SZSE
ZTE Corporation	SZSE	Zhongtai Chemical	SZSE
Shenzhen Overseas Chinese Town Co Ltd	SZSE	Lai Bao Hi-Tech	SZSE
TCL Corporation	SZSE	zhejiang Tianma Bearing Co Ltd	SZSE
Zoomlion Heavy Industry Science & Technology Co Ltd	SZSE	Huolinhe Opencut Coal Industry Corporation Limited of Innermongolia	SZSE
Wei Chai Power Co Ltd	SZSE	Bank of Ningbo Co Ltd	SZSE
Tangshan Jidong Cement Co Ltd	SZSE	Risesun Real Estate Development Co Ltd	SZSE
Financial Street Holding Co Ltd	SZSE	Chenzhou Mining Group Co Ltd	SZSE
Hubei Yihua Chemical Industry Co Ltd	SZSE	Xinjiang Goldwind Science & Technology Co Ltd	SZSE
Shandong Dong-Ee Jiao Co Ltd	SZSE	Hangzhou Binjiang Real Estate Group Co Ltd	SZSE
XCMG Construction Machinery Co Ltd	SZSE	Fujian Sunner Development Co Ltd	SZSE
Guangdong Midea Electric Appliances Co Ltd	SZSE	Jiangsu Yanghe Brewery Joint-Stock Co Ltd	SZSE
Guangxi Liugong Machinery Co Ltd	SZSE	Beijing Orient Landscape Co Ltd	SZSE
Yunnan Baiyao Industry Co Ltd	SZSE	Haining China Leather Market Co Ltd	SZSE
Wanxiang Qianchao Co Ltd	SZSE	Chongyi Zhangyuan Tungsten Co Ltd	SZSE
Hong Yuan Securities Co Ltd	SZSE	Beijing Dabeinong Technology Group Co Ltd	SZSE
Luzhou Lao Jiao Co Ltd	SZSE	Shenzhen Hepalink Pharmaceutical Co Ltd	SZSE
Weifu High-Technology Group Co Ltd	SZSE	NavInfo Co Ltd	SZSE
Jilin Aodong Medicine Industry (Groups) Co Ltd	SZSE	Hangzhou Hikvision Digital Technology Co Ltd	SZSE
Chongqing Changan Automobile Co Ltd	SZSE	Sichuan Kelun Pharmaceutical Co Ltd	SZSE
Pangang Group Steel Vanadium & Titanium Co Ltd	SZSE	Palm Landscape Architecture Co Ltd	SZSE
Anhui Tongdu Copper Stock Co Ltd	SZSE	Rongsheng Petro Chemical Co Ltd	SZSE
Gree Electric Appliances Inc of Zhuahai	SZSE	Qingdao Hanhe Cable Co Ltd	SZSE
Shantui Construction Machinery Co Ltd	SZSE	Shanxi Securities Co Ltd	SZSE
Northeast Securities Co Ltd	SZSE	BYD Co Ltd	SZSE
Tangshan Iron & Steel Co Ltd	SZSE	Shijiazhuang Yiling Pharmaceutical Co Ltd	SZSE
Suning Universal Co Ltd	SZSE	Shanghai Pudong Development Bank Co Ltd	SSE
Beijing Huaer Co Ltd	SZSE	Wuhan Iron And Steel Co Ltd	SSE
Beijing Yanjing Brewery Co Ltd	SZSE	Beijing Capital Co Ltd	SSE
China Nonferrous Metal Industry's Foreign Engineering & Construction Corp	SZSE	Shanghai International Airport Co Ltd	SSE
Xi'an Aircraft International Corp	SZSE	Inner Mongolia Baotou Steel Union Co Ltd	SSE

Table 2 Continue

COMPANIES	Stock Exchange Market	COMPANIES	Stock Exchange Market
Yanbian Road Construction Co Ltd	SZSE	Hua Xia Bank Co Ltd	SSE
Xinxing Ductile Iron Pipes Co Ltd	SZSE	China Minsheng Banking Corp Ltd	SSE
Inner Mongolia Prairie Xingfa Co Ltd	SZSE	Baoshan Iron & Steel Co Ltd	SSE
Shijiazhuang Petro-Chemical Co Ltd	SZSE	China Shipping Development CO.,LTD	SSE
Qinghai Salt Lake Industry Co Ltd	SZSE	China Petroleum and Chemical Corp (Sinopec)	SSE
FAW Car Co Ltd	SZSE	China Southern Airlines Co Ltd	SSE
Yunnan Aluminium Co Ltd	SZSE	CITIC Securities Co Ltd	SSE
Shanxi Taigang Stainless Steel Co Ltd	SZSE	Sany Heavy Industry Co Ltd	SSE
CITIC Guoan Information Industry Co Ltd	SZSE	China Merchants Bank Co Ltd	SSE
Wuliangye Yibin Co Ltd	SZSE	Beijing Gehua CATV Network Co Ltd	SSE
Yantai Changyu Pioneer Wine Co Ltd	SZSE	Poly Real Estate Group Co Ltd	SSE
Sichuan New Hope Agribusiness Co Ltd	SZSE	China United Network Communications Co Ltd	SSE
Yunnan Copper Co Ltd	SZSE	Minmetals Development Co Ltd	SSE
Henan Shuanghui Investment & Development Co Ltd	SZSE	Beijing Double-Crane Pharmaceutical Co Ltd	SSE
Angang Steel Co Ltd	SZSE	Zhengzhou Yutong Bus Co Ltd	SSE
Henan Shen Huo Coal Industry and Electricity Power C	SZSE	China Gezhouba Group Co Ltd	SSE
Jizhong Energy Resources Co Ltd	SZSE	Beijing Tongrentang Co Ltd	SSE
Yunnan Tin Co Ltd	SZSE	TBEA Co Ltd	SSE
Yunnan Yuntianhua Co Ltd	SSE	Zhongjin Gold Co Ltd	SSE
Guangzhou Development Industry (Holdings) Co Ltd	SSE	Yunnan Chihong Zinc&Germanium Co Ltd	SSE
Tsinghua Tongfang Co Ltd	SSE	Fiberhome Telecommunication Technologies Co Ltd	SSE
SAIC Motor Co Ltd	SSE	Sinochem International Corp	SSE
Gansu Yasheng Industrial (Group) Co Ltd	SSE	Shanghai Datun Energy Resources Co Ltd	SSE
Chengdu Commodities Co Ltd (Group)	SSE	Lanzhou Hailong New Material Co Ltd	SSE
Inner Mongolia Baotou Steel Rare-Earth Hi-Tech Co Ltd	SSE	Kangmei Pharmaceutical Co Ltd	SSE
China Eastern Airlines Corp Ltd	SSE	Kweichow Moutai Co Ltd	SSE
China Spacesat Co Ltd	SSE	China Railway Erju Co Ltd	SSE
Shanxi Lanhua Science-Tech Venture Co Ltd	SSE	Tianjin Tasly Pharmaceutical Co Ltd	SSE
China Railway Tielong Container Logistics Co Ltd	SSE	China Petroleum Jilin Chemical Engineering & Construction Co Ltd	SSE
Chongqing Brewery Co Ltd	SSE	Shandong Gold-Mining Co Ltd	SSE
Kingfa Sci&Tech Co Ltd	SSE	Xiamen Tungsten Co Ltd	SSE
HuDong Heavy Machinery Co Ltd	SSE	Baoding Tianwei Baobian Electric Co Ltd	SSE
Shanghai Aerospace Automobile Electromechanical Co Ltd	SSE	Tiandi Science & Technology Co Ltd	SSE
Xiamen C&D Inc	SSE	Offshore Oil Engineering Co Ltd	SSE
Zhejiang Ju Hua Co Ltd	SSE	Anhui Conch Cement Co Ltd	SSE
Beijing Tiantan Biological Products Co Ltd	SSE	UFIDA Software Co Ltd	SSE
Beiqi Foton Motor Co Ltd	SSE	Henan Zhongfu Industry Co Ltd	SSE
Taiyuan Heavy Industry Co Ltd	SSE	Heilongjiang Agriculture Co Ltd	SSE
Shanghai Construction Co Ltd	SSE	Tsingtao Brewery Co Ltd	SSE
Youngor Group Co Ltd	SSE	Shanghai Dazhong Public Utilities (Group) Co Ltd	SSE
Guangdong Shengyi Sci Tech Co Ltd	SSE	Shenergy Co Ltd	SSE
Yanzhou Coal Mining Co Ltd	SSE	Shanghai Municipal Raw Water Co Ltd	SSE
Shanghai Fosun Pharmaceutical (Group) Co Ltd	SSE	Shanghai Yuyuan Tourist Mart Co Ltd	SSE
Xinhu Zhongbao Co Ltd	SSE	Fuyao Group Glass Industries Co Ltd	SSE
Zhejiang Medicine Co Ltd	SSE	Harbin Pharmaceutical Group Co Ltd	SSE
Shandong Nanshan Industrial Co Ltd	SSE	Sichuan Chuantou Energy Co Ltd	SSE
Hainan Airlines Co Ltd	SSE	Qingdao Haier Co Ltd	SSE
Guangxi Wuzhou Zhongheng Group Co Ltd	SSE	Dashang Co Ltd	SSE

Table 2 Continue

COMPANIES	Stock Exchange Market	COMPANIES	Stock Exchange Market
Xinjiang Guanghui Industry Co Ltd	SSE	Tianyi Science & Technology Co Ltd	SSE
Hainan Xingye Polyester Co Ltd	SSE	Shenyang Neusoft Co Ltd	SSE
Beijing Urban Construction Investment & Development Co Ltd	SSE	Cofco Tunhe Co Ltd	SSE
Zhejiang Hisun Pharmaceutical Co Ltd	SSE	Liaoning Cheng Da Co Ltd	SSE
Aerospace Information Co Ltd	SSE	Shanghai Bashi Industrial (Group) Co Ltd	SSE
Jiangsu Hengrui Medicine Co Ltd	SSE	Jiangsu Zongyi Co Ltd	SSE
Gansu Jiu Steel Group Hongxing Iron & Steel Co Ltd	SSE	Sichuan Quanxing Co Ltd	SSE
Yantai Wanhua Polyurethane Co Ltd	SSE	Shandong Luxin High-Tech Industry Co Ltd	SSE
Jiangxi Hongdu Aviation Industry Co Ltd	SSE	GD Power Development Co Ltd	SSE
Shanghai Zhenhua Port Machinery Co Ltd	SSE	Chengdu Dr. Peng Technology Co Ltd	SSE
Sichuan Hongda Co Ltd	SSE	Maanshan Iron and Steel Co Ltd	SSE
Shanxi Guoyang New Energy Co Ltd	SSE	Shanxi Xinghuaacun Fen Wine Factory Co Ltd	SSE
Zhejiang Longsheng Group Co Ltd	SSE	Orient Group Incorporation	SSE
Jiangxi Copper Co Ltd	SSE	North China Pharmaceutical Co Ltd	SSE
Southwest Securities Co Ltd	SSE	Shanghai Oriental Pearl (Group) Co Ltd	SSE
Jiangxi Changhe Automobile Co Ltd	SSE	Haitong Securities Company Limited	SSE
Beijing Tianhong Baoye Real Estate Co Ltd	SSE	Sichuan Changhong Electric Co Ltd	SSE
Joincare Pharmaceutical Group Industry Co Ltd	SSE	Beijing Wangfujing Department Store Co Ltd	SSE
Gemdale Corporation	SSE	Inner Mongolia Mengdian Huaneng Thermal Power Corp Ltd	SSE
Guizhou Panjiang Refined Coal Co Ltd	SSE	Wuzhou Minovo Co Ltd	SSE
NARI Technology Development Co Ltd	SSE	Dongfang Electrical Machinery Co Ltd	SSE
Zhejiang China Commodities City Group Co Ltd	SSE	Long March Launch Vehicle Technology Co Ltd	SSE
Anhui Jianghuai Automobile Co Ltd	SSE	Jilin Yatai (Group) Co Ltd	SSE
COSCO Shipping Co Ltd	SSE	Inner Mongolia Yili Industrial Group Co Ltd	SSE
Ji Lin Ji En Nickel Industry Co Ltd	SSE	China Resources (Jilin) Bio-Chemical Co Ltd	SSE
Baoji Titanium Industry Co Ltd	SSE	Shanghai Zhangjiang Hi-tech Park Development Co Ltd	SSE
Jiangsu Shuangliang Air-Conditioning Equipment Co Lt	SSE	China Yangtze Power Co Ltd	SSE
Sinoma International Engineering Co Ltd	SSE	Industrial and Commercial Bank of China Ltd	SSE
Anhui Hengyuan Coal Industry and Electricity Power Co Ltd	SSE	Shanghai Great Wisdom Co Ltd	SSE
Kailuan Clean Coal Co Ltd	SSE	Sinovel Wind Group Co Ltd	SSE
China Merchants Securities Co Ltd	SSE	Aluminum Corporation of China Limited	SSE
Datong Energy Chemical Co Ltd	SSE	China Pacific Insurance (Group) Co Ltd	SSE
Daqin Railway Co Ltd	SSE	Shanghai Pharmaceuticals Co Ltd	SSE
Bank of Nanjing Co Ltd	SSE	Metallurgical Corporation of China Co Ltd	SSE
Ningbo Port Co Ltd	SSE	China Life Insurance Company Limited	SSE
China Shenhua Energy Co Ltd	SSE	Pingdingshan Tianan Coal Mining Co Ltd	SSE
China South Publishing & Media Group Co Ltd	SSE	China State Construction Engineering Co Ltd	SSE
The Pacific Securities Co.Ltd	SSE	Huatai Securities Co Ltd	SSE
Beijing Haohua Energy Resource Co Ltd	SSE	Shanxi Lu'an Environmental Energy Development Co Ltd	SSE
China First Heavy Industries Co Ltd	SSE	Zhengzhou Coal Mining Machinery Group Co Ltd	SSE
Air China Ltd	SSE	Jihua Group Co Ltd	SSE

Table 2 Continue

COMPANIES	Stock Exchange Market	COMPANIES	Stock Exchange Market
China National Chemical Engineering Co Ltd	SSE	Shanghai Electric Group Co Ltd	SSE
China Hainan Rubber Industry Group Co Ltd	SSE	CSR Co Ltd	SSE
Chongqing Water Group Co Ltd	SSE	Everbright Securities Co Ltd	SSE
Industrial Bank	SSE	China Oilfield Services Limited	SSE
Western Mining Co Ltd	SSE	China Everbright Bank Co Ltd	SSE
Bank of Beijing Co Ltd	SSE	PetroChina Co Ltd	SSE
China XD Electric Co Ltd	SSE	China Shipping Container Lines Co Ltd	SSE
China Railway Construction Co Ltd	SSE	China International Travel Service Co Ltd	SSE
Inner Mongolia Junzheng Energy & Chemical Industry Co Ltd	SSE	China Coal Energy Co Ltd	SSE
Tongkun Group Co Ltd	SSE	Zijin Mining Group Co Ltd	SSE
Pangda Automobile Trade Co Ltd	SSE	SDIC Xinji Energy Co Ltd	SSE
China Erzhong Group (Deyang) Heavy Industries Co Ltd	SSE	China Cosco Holdings Co Ltd	SSE
Agricultural Bank of China Co Ltd	SSE	Yonghui Superstores Co Ltd	SSE
China CNR Co Ltd	SSE	China Construction Bank	SSE
Ping An Insurance (Group) Company of China Ltd	SSE	Jinduicheng Molybdenum Co Ltd	SSE
Bank of Communications Co LTD	SSE	Bank of China Ltd	SSE
Guangshen Railway	SSE	China Shipbuilding Industry Co Ltd	SSE
Xi'an Shaangu Power Co Ltd	SSE	Datang Power Generation	SSE
Industrial Securities Co Ltd	SSE	BBMG Corporation	SSE
China Railway Co Ltd	SSE	China Citic Bank Corporation Limited	SSE

3.2. The Results

The survey was carried out gradually. The first result as shown in (table 3a and 3b) points out that the most

part of the companies' financial statements is audited by international audit firms.

Table 3a. 3b. Auditing Firms: Domestic and non-domestic



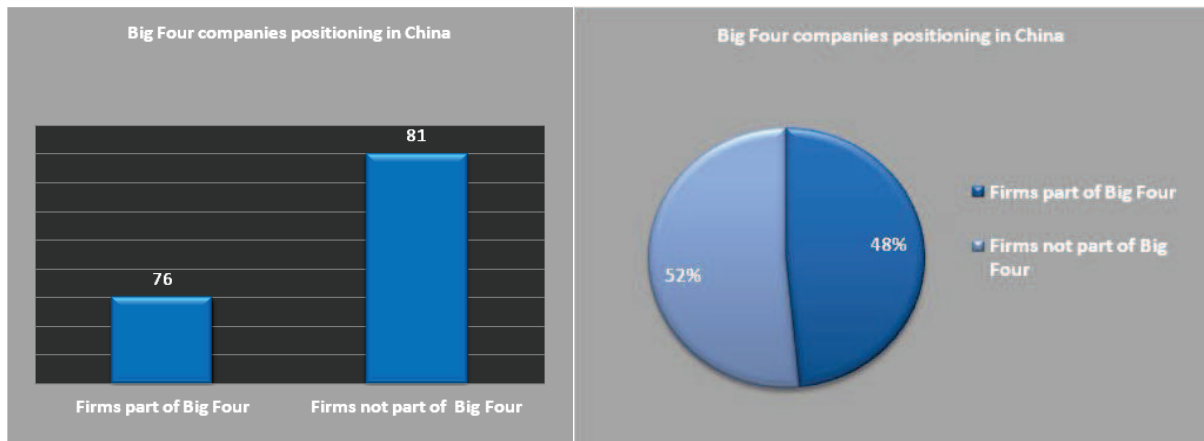
The Tab. 3a and 3b show that more than half of the listed companies of CSI 300 Index at Shanghai Stock Exchange and Shenzhen are audited by independent International Audit Firms, in particular 157, while 143 companies are audited by domestic auditing firms.

The expectations are partially fulfilled because it is verified that the international audit firms are present

in China but it is also evident the importance of domestic audit firms.

The analysis highlights the international auditing firm nature. The Tables 4a and 4b show the type of audit firms distinguishing between firms that are part of the Big Four and the other.

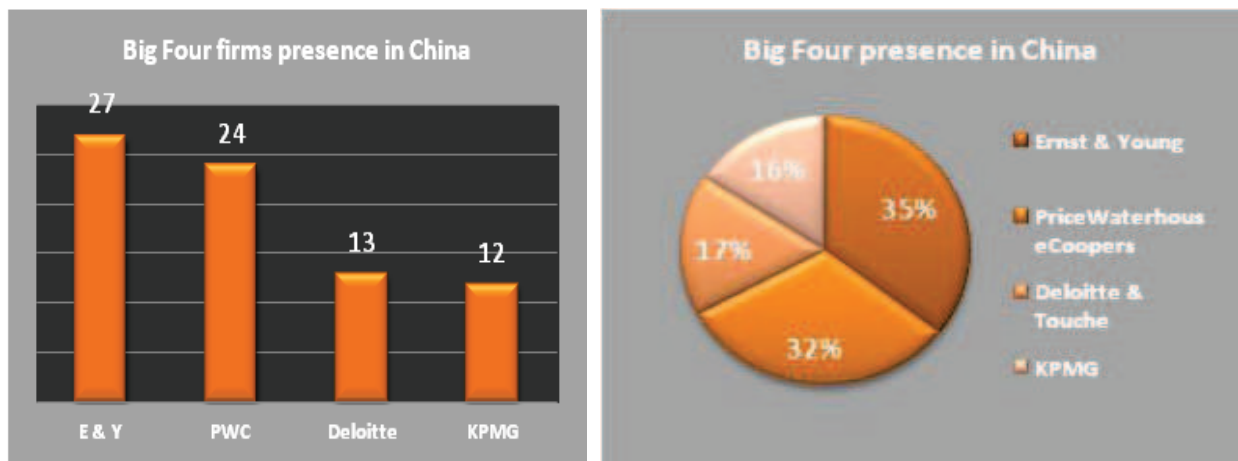
Table 4a, 4 b. Big Four Companies positioning in China



Data of Tab.4 show that the international audit firms the so-called Big Four as (*Ernst&Young, Price waterhouse Coopers, Deloitte & Touche and KPMG*) are equally presented, they don't have a predominant role in the Chinese audit system. On the contrary of

other countries as for example in Italy the companies listed on Milan Stock Exchange are audited mainly by auditors' part of the Big Four. The following analyses show the companies' number audited by each of the Big Four.

Table 5a, 5 b. Big Four presence in China



Out of the 74 companies audited by the Big Four, 27 of them are audited by *Ernst & Young*, which comes out to be the most represented of the Big

Four in China. The same survey was carried out for the international audit firms not part of the Big Four.

Table 6a, 6b. The Main International Audit Firms

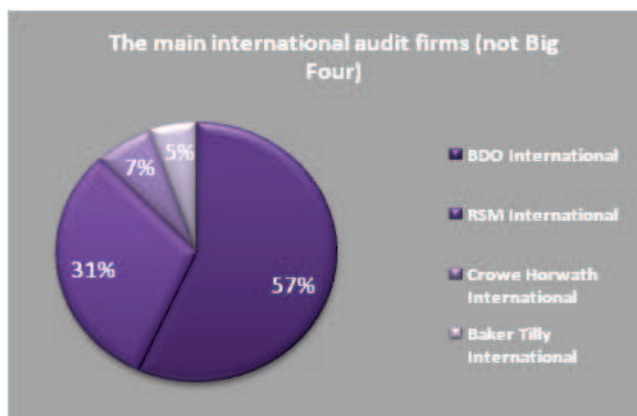
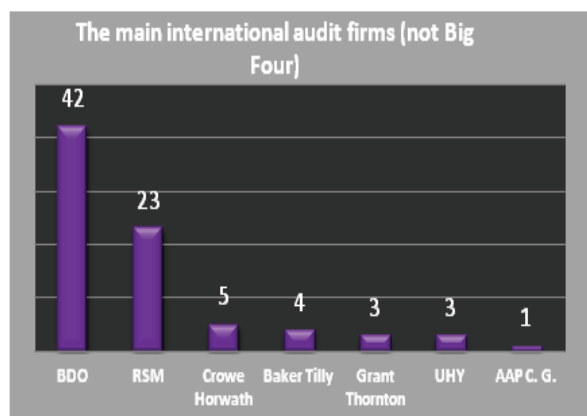


Table 6a and 6b show that BDO International and RSM International are definitely more present. In particular, the International BDO firm audits a considerable number of companies and comes out to be the outlier.

4. The role of domestic auditing firms.

Conclusions

In regards to the domestic auditing firms data shows that they are a large number therefore each of them, excluding the first three of the list, audit a small number of companies, (intending with this expression less than 10).

Table 7. Main Auditing Domestic Firms

Main Auditing Domestic Firms	Nb Of Audited Companies
Ascenda CPA	24
Shinewing CPA	21
Pan-China CPA	14
Reanda Certified Public Accountants Co., Ltd	8
China Audit Asia Pacific CPA	7
Daxin Cpa's	7
Shenzhen Peng Cheng	5
Beijing Xinghua CPA Office Company Ltd	4
Huapu Tianjian Gaoshang CPA	4
Zhonglei CPA	3
Jiangsu Tianheng	3
Fujian Huaxing CPA Firm	3
Zonzun Accounting Office Ltd	3
Shandong Huide CPA Office Co Ltd	3
Jiangsu Suyu Jincheng CPA	3
China Auditor International Certified Public Accountants	3
Tianzhi Guoji CPA	2
Asia (Group) Accounting Firm	2
Jonten CPA	2
Shanghai Shanghui CPA	2
GP Public Accountants Company Ltd	2
Shandong Zhengyuan Hexin Co	2
Shanghai Donghua CPAs	2
Sichuan Huaxin (Group) CPA	2
Xigema Certified Public Accountants Co Ltd	1
Xin Yong Zhong He CPAs	1
Beijing Zhongzheng Tiantong CPA	1
Zhongzhun CPA Firm Co. Ltd	1
Beijing Tianyuanquan CPAs Co.,Ltd	1

Wuzhou Songde Union CPA	1
Zhong Qin Wanxin CPA	1
Sichuan Hua Xin (Ji Da) CPA	1
Zhongrui Yuehua CPA Office	1
Zhongxi CPA	1
Beijing Yong Tuo CPAs	1
ZhongXingCai GuangHua CPA Co, Ltd.	1
	143

In particular, the data point out that the main domestic auditing firms are the following: Ascenda CPA carry out the auditing of 24 companies; Shinewing CPA audit 21 companies; Pan-China CPA 14 companies.

The research carried out highlights how Chinese listed companies prefer mostly domestic auditing firms for their financial statement auditing. This results are relevant and can be considered critical as in China, due to the recent introduction of the standards the domestic auditing firms have been characterized by a lower quality level than the one provided by international auditing

networks. They also have been characterized, in the past, by a less structured and detailed methodological approach, and especially less independent from government authorities and customers. This result confirms the importance of the revolutionary introduction of the auditing standards described in the first paragraphs of this work.

The research examines the belonging sectors of the 300 listed companies in order to define a relation between the auditing firm and audited company sector.

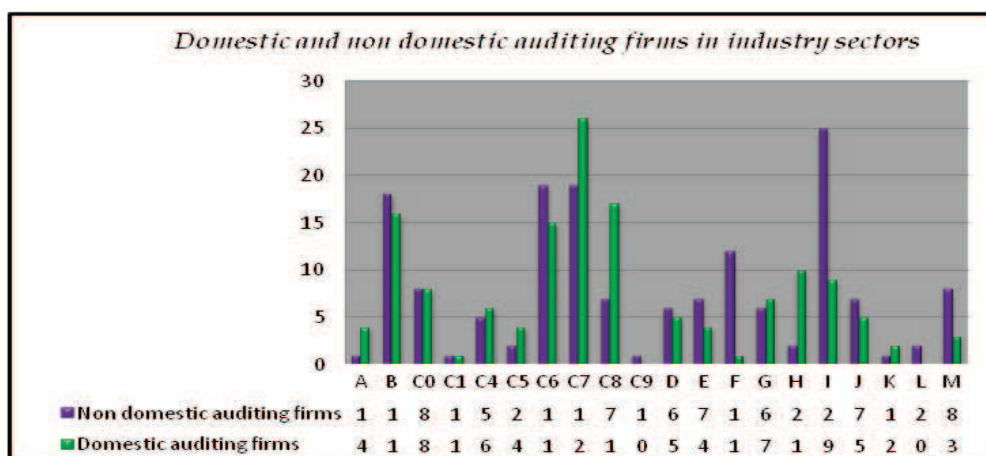
Firstly the belonging sectors of listed companies analyzed are 20.

Table 8. Sectors of Listed Companies

CODE	SECTOR	COMPANIES NB
A	Agriculture	5
B	Extractive Industry	34
C0	Food and beverage	16
C1	Textile and clothing	2
C4	Petrolchemical	11
C5	Electronic	6
C6	Metallurgy	34
C7	Machinery and industrial supplies	45
C8	Pharmaceutical	24
C9	Other manufacturing industries	1
D	Utilities	11
E	Construction	11
F	Transportation	13
G	IT	13
H	Wholesale and retail trading	12
I	Financial	34
J	Real estate	12
K	Social services	3
L	Media	2
M	Conglomerate	11
		300

Most part of the companies belong to; industry, Metallurgy and Financial. The following table shows companies audited allocated by sector

Table 9. Domestic and Non-domestic auditing Firms in Industry Sectors



Through this analysis it is possible to identify the sector in which these kinds of audit firms operate more in absolute terms. In particular Tab9 shows a greater presence of non domestic auditing firms in sectors as Metallurgy (C6) and Financial (I). While there has been a higher presence of the domestic auditing firms in sectors as Machinery and industrial supplies (C7), Pharmaceutical (C8) and Wholesale and retail trading (H).

The non domestic auditing firms, have a greater presence in the financial sector, on the other hand for the domestic auditing firms the greater presence is in the Machinery and industrial supplies. On the contrary to what has been shown previously the sector analysis of domestic and non domestic auditing firms has provided a positive response to the development of auditor profession in China. In fact, even the non domestic auditing firms have not a prevalent presence in all sectors; it is prevalent in the one of the sectors where it is absolutely necessary the quality, professional and independence that only the non domestic auditing firms can provide. The financial sector requires guarantees in particular to support the safeguard of the investors. The choice to point and the decision to turn to non domestic auditing firms represents a proof of the auditor profession in China. On the other hand it is understandable and sharable the predominant presence of domestic auditing firms in the Machinery and industrial supplies sector as it doesn't need a particular safeguard as provided for the financial sector.

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