The Impact of Auditor Independence on Fraud Detection in China

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ABSTRACT

In recent years, the issue of corporate fraud has gained increasing attention in both academic research and professional practice, and the role of auditors in fraud prevention and detection has become increasingly critical. This study investigates the impact of auditor independence (comprising independence in fact and independence in appearance) on fraud detection performance in China. Drawing on data from 366 practicing auditors and analyzed using SPSS statistical analysis, the findings reveal that both dimensions significantly enhance auditors' fraud detection capability, with independence in fact exerting the stronger influence, followed by independence in appearance. These results suggest that independence in fact enables auditors to critically evaluate audit evidence, resist client pressures, and maintain vigilance when confronted with ambiguous or conflicting information. Independence in appearance ensures that external stakeholders perceive auditors as unbiased, reinforcing the deterrent effect of audits and promoting rigorous examination of financial statements. The study also highlights the unique institutional and relational dynamics within the Chinese auditing context, where factors such as ownership concentration, political ties, and regulatory enforcement may influence auditor behavior. Practical implications emphasize the importance of reinforcing professional skepticism, strengthening internal quality-control systems, implementing audit rotation policies, and enhancing transparency to bolster both actual and perceived independence. By linking auditor independence to measurable fraud detection outcomes, this research contributes to improving audit quality and reinforcing public confidence in financial reporting in China.

Keywords: auditor independence; fraud detection; independence in fact; independence in appearance; audit quality

INTRODUCTION

Over the past two decades, China has experienced rapid economic growth and financial market expansion, accompanied by increasing complexity in corporate operations (Zhu, 2012). Alongside these developments, incidents of corporate fraud, including financial misstatements, earnings manipulation, and intentional misrepresentation, have become significant concerns for regulators, investors, and other stakeholders (Rashid et al., 2022). Fraud not only undermines market confidence but also imposes severe economic and reputational costs on companies (A. Girau et al., 2022). In this context, auditors serve as essential gatekeepers, tasked with examining financial statements and detecting fraudulent activities (Campa et al., 2025; Sapiri, 2024). Their role is central to maintaining the integrity of financial reporting, safeguarding stakeholders, and ensuring the proper functioning of capital markets. Auditor independence, encompassing both actual objectivity and perceived impartiality, has been recognized globally as a key determinant of audit quality and effectiveness in fraud detection (Ardillah & Chandra, 2022). Without independence, auditors may face conflicts of interest, weakened professional judgment, or pressures that compromise their ability to identify irregularities, potentially allowing fraudulent behavior to go undetected.

In China, the regulatory and institutional environment presents unique challenges and opportunities for auditor independence. The China Securities Regulatory Commission (CSRC) and other regulatory bodies have implemented reforms aimed at improving corporate governance, including stricter accounting standards, audit rotation policies, and enhanced disclosure requirements (Zi, 2024). At the same time, the prevalence of concentrated ownership structures, political connections, and economic dependencies between auditors and clients may limit auditors' ability to act independently. The effectiveness of auditor independence in detecting fraud in China remains limited and mixed (Wu & Xiao, 2021). Some studies suggest that closer enforcement and audit reforms have strengthened independence, improving the detection of misstatements (Lamoreaux et al., 2023; Lennox & Wu, 2022), while others indicate that systemic pressures continue to weaken auditors' objectivity (Tetteh et al., 2023). Understanding how auditor independence interacts with fraud detection in China is therefore both practically significant and theoretically meaningful, as it sheds light on the mechanisms that promote transparency, accountability, and investor protection in emerging markets.

The central problem addressed in this study is the lack of empirical understanding of the relationship between auditor independence and the detection of corporate fraud in China. Existing research tends to focus on audit quality broadly, earnings management, or compliance issues, rather than directly examining whether auditors' independence influences the likelihood of detecting fraudulent activities. Moreover, much of the literature treats independence as a theoretical construct without fully considering the contextual factors unique to China, such as ownership concentration, political ties, and regulatory enforcement intensity. Consequently, there is a need for research that explicitly links auditor independence to fraud detection outcomes, accounting for the complex institutional and market environment of Chinese listed companies. This gap in knowledge forms the basis of the present study.

The primary objective of this research is to investigate how auditor independence affects the detection of corporate fraud in China. Specifically, the study aims to define and operationalize the key constructs of auditor independence and fraud detection within the Chinese context, empirically examine the relationship between these variables. In addition, the study seeks to provide practical recommendations for auditors, corporate boards, and regulators to strengthen governance practices and improve fraud detection. By doing so, it contributes to a deeper understanding of how audit practices function in an emerging market context and how audit reforms can be leveraged to enhance financial reporting reliability.

This research makes several important contributions. First, it provides empirical evidence on the role of auditor independence in detecting corporate fraud, addressing a gap in the Chinese accounting literature. Second, the study offers practical guidance for auditors, regulators, and policymakers, highlighting measures that can strengthen independence and improve fraud detection effectiveness. Finally, it extends theoretical perspectives on audit quality by linking auditor independence directly to fraud detection outcomes, rather than general audit effectiveness or earnings management metrics. Collectively, these contributions enhance both academic understanding and practical application, supporting more transparent, accountable, and reliable financial reporting in China.

LITERATURE REVIEW AND HYPOTHSES

Fraud Detection

Fraud detection is the systematic process of identifying intentional misstatements, omissions, or manipulations in financial reporting that are designed to mislead stakeholders (Ali et al., 2022). Fraud can take various forms, including earnings management, asset misappropriation, and deliberate misrepresentation of financial statements, all of which may have significant financial and reputational consequences for organizations. In accounting research, fraud detection is regarded as a critical mechanism for safeguarding investor interests, maintaining market efficiency, and reinforcing trust in financial systems (Chatterjee et al., 2024; West & Bhattacharya, 2016). The process of fraud detection relies heavily on auditors' professional skills, judgment, and the application of analytical techniques to identify irregularities. Detecting fraud requires not only technical proficiency but also the capacity to recognize subtle behavioral and transactional anomalies that might indicate intentional manipulation.

In the Chinese context, fraud detection presents unique challenges. Chinese firms often exhibit concentrated ownership, where controlling shareholders have substantial influence over managerial and operational decisions, potentially increasing the risk of financial misstatement. Additionally, the interplay between state influence and corporate governance creates an environment in which traditional audit procedures may be insufficient to detect complex or opaque fraudulent practices (Xanthopoulou et al., 2024). Regulatory frameworks, while improving, still vary significantly in enforcement strength across regions, contributing to

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inconsistencies in fraud detection outcomes. Technological advancements, including data analytics, artificial intelligence, and automated anomaly detection, have enhanced the ability to identify fraudulent transactions. However, these tools are only as effective as the professional judgment and independence of the auditors applying them. Scholars also note that fraud detection effectiveness is influenced by factors such as the quality of internal controls, the presence of whistleblower mechanisms, and the transparency of corporate governance practices. Thus, understanding fraud detection in China requires an integrated approach that considers institutional, regulatory, technological, and behavioral factors.

Auditor Independence

Auditor independence is widely recognized as a cornerstone of audit quality and a critical determinant of reliable financial reporting (Pinatik, 2021). It refers to the auditor's capacity to perform audit activities objectively, without being influenced by relationships with the client, economic dependence, or external pressures (Yahaya & Onyabe, 2022). Independence can be conceptualized along two dimensions: actual independence, which reflects the auditor's internal objectivity and professional integrity, and perceived independence, which reflects the confidence of stakeholders that the auditor is free from bias (Manap et al., 2023). Strong independence ensures that auditors are able to apply professional skepticism, rigorously test financial information, and resist managerial or shareholder pressures that might compromise audit quality. International standards, including those established by the International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB), underscore the importance of independence in maintaining the credibility of audits.

Empirical research has demonstrated that auditor independence positively affects financial reporting quality, reduces earnings management, and increases stakeholders' trust (Sawaya et al., 2025). In the Chinese audit environment, however, maintaining independence can be challenging due to institutional and structural factors. Chinese auditors often face economic pressure from clients, where audit fees may constitute a significant portion of firm revenue, potentially leading to conflicts of interest. Additionally, local government influence, political connections of company executives, and competitive audit markets can constrain auditors' autonomy (Zeng et al., 2022). The regulatory framework, while increasingly rigorous, still faces enforcement challenges, particularly in smaller firms or less developed regions. Studies also suggest that longer audit tenure can sometimes compromise independence due to familiarity with clients, whereas mandatory rotation and strict nonaudit service restrictions may strengthen perceived independence. The concept of auditor independence in China, therefore, is multifaceted, encompassing ethical standards, regulatory compliance, and the practical realities of market and institutional pressures, all of which influence auditors' ability to detect fraudulent activities effectively.

Independence in Fact and Fraud Detection

Independence in fact, often referred to as actual independence, represents the auditor's objective ability to perform audit tasks without bias, undue influence, or conflicts of interest (Dopuch et al., 2003). This dimension emphasizes the internalized ethical standards, professional judgment, and autonomous decision-making of auditors (Church et al., 2015). Auditors who possess strong independence in fact are more likely to maintain professional skepticism, rigorously evaluate evidence, and detect subtle manipulations in financial reporting that might otherwise go unnoticed. Empirical studies have consistently shown that actual independence enhances the effectiveness of fraud detection (Drogalas et al., 2017). For example, auditors with high independence in fact are less likely to overlook intentional misstatements in complex transactions or collusive schemes between management and employees (Adrian et al., 2024).

In the Chinese context, independence in fact is influenced by institutional and market-specific factors. Economic dependence on large clients, political pressures, and the competitive nature of audit markets may compromise auditors' actual independence, reducing their ability to identify fraudulent behavior (Mansouri et al., 2009).

Nevertheless, regulatory reforms, such as mandatory audit firm rotation and stricter oversight by the China Securities Regulatory Commission (CSRC), aim to enhance auditors' autonomy and professional integrity. Recent studies also highlight the role of continuing professional education, ethical codes, and audit firm governance in reinforcing independence in fact, thereby improving the likelihood of fraud detection (Windsor & Warming-Rasmussen, 2009). Moreover, the integration of advanced audit technologies, including data analytics and anomaly detection tools, interacts with independence in fact: auditors must exercise unbiased judgment to correctly interpret automated signals of potential fraud. Overall, independence in fact is widely regarded as a core determinant of an auditor's ability to detect financial irregularities, particularly in environments where organizational and external pressures might otherwise obscure fraudulent activities. Therefore, the study proposes that:

H1: There is a positive significant relationship between independence in fact and fraud detection

Independence in appearance and Fraud Detection

Independence in appearance, or perceived independence, refers to the extent to which external stakeholders believe that auditors are unbiased and objective (Dopuch et al., 2003). While auditors may maintain actual independence, any perception of closeness to the client, economic dependence, or conflicts of interest can undermine stakeholder confidence and reduce the deterrent effect of auditing (Campa & Donnelly, 2016). Research indicates that independence in appearance plays a crucial role in fraud detection, not only by affecting auditors' credibility but also by influencing management behavior. When auditors are perceived as independent, management may be less inclined to engage in fraudulent reporting, knowing that financial statements will be scrutinized objectively (Church & Zhang, 2011).

In China, independence in appearance is particularly relevant due to cultural and institutional factors. The high concentration of ownership and political ties between firms and regulators can lead stakeholders to question auditors' impartiality, even when auditors maintain actual independence. Studies suggest that perceived independence significantly impacts both the effectiveness of fraud detection and the market's trust in audit outcomes (Sulistyowati & Supriyati, 2015). Furthermore, visible measures such as audit firm rotation, disclosure of auditor-client relationships, and limitations on non-audit services contribute to strengthening perceived independence. Notably, perceived independence interacts with investor behavior: when investors trust auditors' objectivity, they are more likely to rely on financial statements, indirectly reinforcing management's incentives to report accurately (Noch et al., 2022). In practice, achieving high perceived independence is essential for enhancing the deterrent function of auditing and ensuring that potential fraud is proactively addressed. Consequently, both actual and perceived independence are integral to the overall efficacy of fraud detection, with perceived independence serving as a critical mechanism for external validation and managerial accountability. The following hypothesis was proposed:

H2: There is a positive significant relationship between independence in appearance and fraud detection

METHODOLOGY

Respondent Selection

The primary objective of this research is to investigate the impact of auditor independence on the effectiveness of fraud detection within the Chinese auditing context. This study seeks to address this gap by collecting primary data from practicing auditors to examine how different dimensions of independence, namely Independence in Fact and Independence in Appearance, influence the ability to identify fraudulent activities in corporate financial reporting. The target respondents include certified public accountants (CPAs) employed in accounting firms of varying sizes, ranging from the Big Four international firms to regional and small local audit practices. The sample encompasses multiple job positions, including junior auditors, senior auditors, and audit managers, as these individuals are directly engaged in audit engagements and have varying levels of decision-making authority and responsibility in fraud detection processes. By including auditors across hierarchical levels, the study captures both operational and supervisory perspectives on independence and its influence on professional judgment.

To ensure that the responses are relevant and reliable, participants were required to have a minimum of two years of full-time audit experience and hold a valid professional certification, such as the CPA or an equivalent designation. This criterion ensures that respondents are familiar with real-world auditing environments and have direct experience in evaluating potential fraud risks. Furthermore, the research focuses on auditors from multiple major economic regions in China, including Beijing, Shanghai, Guangzhou, Chengdu, and Wuhan. This geographical coverage enhances the representativeness of the study by accounting for regional differences in corporate governance practices, regulatory enforcement, and client-auditor relationships that may affect auditor independence.

Sampling Method

The study adopts a stratified random sampling approach to ensure that auditors from different firm types, hierarchical levels, and regions are proportionately represented. The population of interest comprises 363,804 registered auditors in China as of 2024, according to the Chinese Institute of Certified Public Accountants (CICPA). Stratification was conducted across three main dimensions: firm size (Big Four, large domestic, and small/mid-sized local firms), job position (junior auditor, senior auditor, manager/partner), and region (East China, Central China, South China, and West China). This stratification ensures that the heterogeneity of auditors' professional environments, experiences, and exposure to client pressures is adequately reflected in the sample.

A total of 500 questionnaires were distributed, based on methodological and practical considerations for stratified sampling. The larger sample size was selected to capture sufficient variation within each stratum and to maintain statistical reliability given the population size. Out of the distributed questionnaires, 366 valid responses were returned, yielding a response rate of 73.2%, which is considered satisfactory for survey-based research. The sampling strategy ensures that both auditors from high-profile international firms and those from smaller regional practices are represented, allowing for an analysis of how firm context and organizational structure may interact with auditor independence to affect fraud detection.

Research Design

The research design is structured to measure the influence of auditor independence on fraud detection through a survey instrument that assesses two key dimensions: Independence in Fact and Independence in Appearance. These items of auditor independence were adopted from prior studies (Arfaie et al., 2024; Ndina & Maria, 2025) and have been proven to be valid and reliable. The final questionnaire consists of 15 items, 9 items measuring Independence in Fact (e.g., auditors' ability to resist management pressure, objectivity in judgment, professional skepticism) and 6 items measuring Independence in Appearance (e.g., perceived impartiality by clients, stakeholders' trust, disclosure of potential conflicts).

The survey was administered through both online and offline channels. Online surveys were distributed via professional networks, including WeChat auditor groups, CICPA forums, and LinkedIn audit communities, using Wenjuanxing, a widely adopted online survey platform in China. Offline surveys were conducted during audit training sessions, professional seminars, and continuing education workshops in Beijing, Shanghai, and Guangzhou. This mixed-mode approach ensured broad accessibility and higher response rates across auditors of different age groups, firm types, and geographic locations.

The survey instrument underwent a rigorous validation process to ensure internal consistency and reliability. Cronbach's alpha was calculated for each dimension. The Independence in Fact dimension yielded a Cronbach's alpha of 0.93, while the Independence in Appearance dimension yielded a Cronbach's alpha of 0.88, exceeding the widely accepted threshold of 0.70 (Tavakol & Dennick, 2011), indicating strong reliability. Mean item scores ranged from 3.85 to 4.42 for Independence in Fact and 4.20 to 4.41 for Independence in Appearance, suggesting generally high levels of both actual and perceived independence among respondents.

Table 1: Two dimensions and fifteen items of audit independence

Dimensions	Code	Item	Mean	Cronbach's α
Independence in fact	AD1	I am able to perform audit procedures without interference or undue influence from the client organization.	4.42	0.93

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	AD2	I am able to obtain all information and data required for the audit without restriction.	4.13	
Dimensions	**Code**	**Item**	**Mean**	**Cronbach's α**
	AD3	I am able to act with integrity and objectivity, even when such actions may place the client relationship at risk.	4.01	
	AD4	I am able to report client errors without allowing client pressure to affect my professional judgment.	4.33	
	AD5	I am able to disclose client errors confidently, even when the client threatens to replace me.	4.21	
	AD6	I am able to complete audit tasks without being influenced by external parties.	3.85	
	AD7	I am able to maintain professional judgment that is fully independent from management's preferences or expectations.	4.11	
	AD8	I am able to request additional documentation or explanations from the client whenever necessary, without restriction.	3.98	
	AD9	I am able to include all relevant findings in my audit report and communicate them directly to the responsible authorities.	4.34	
Independence in appearance	AD10	I am able to limit my consecutive audit engagement with the same client to no more than three years.	4.25	0.88
	AD11	I am able to refuse audit engagements when a client's fees constitute an excessively large portion of my firm's total revenue.	4.25	
	AD12	I am able to decline any client-provided services or benefits that could compromise my objectivity.	4.35	
	AD13	I am willing to undergo peer reviews of my audit procedures to maintain independence and audit quality.	4.41	
	AD14	I am able to avoid providing audit services to a client when I am simultaneously offering other non-audit services to that client.	4.20	
	AD15	I am able to conduct audit work under the authorization of the audit committee or board of directors to ensure proper governance oversight.	4.32	

The fraud detection assessment consists of five items adapted from Handoyo et al. (2021), which are recognized as valid and reliable measures of auditors' ability to detect fraud through evaluating internal controls, reviewing information systems, verifying transactions, and identifying irregularities in operational or financial records (Table 2). Mean scores and Cronbach's α were also calculated for these items, showing high internal consistency ($\alpha = 0.90$) and mean scores between 3.75 and 4.28, suggesting that respondents generally report strong confidence in their fraud detection capabilities.

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Table 2: Measurement items for fraud detection

Latent Variable	Code	Item	Mean	Cronbach's α
Fraud detection	FD1	I am able to assess the ethical culture and awareness of internal controls among employees to identify potential fraud risks.	4.28	0.90
	FD2	I am able to identify, analyze, and evaluate fraud risks through risk assessment procedures.	3.75	
	FD3	I am able to verify that transactions follow proper authorization procedures as outlined in the SOPs and identify suspicious activities.	4.06	
	FD4	I am able to evaluate the effectiveness of information and communication systems in identifying or reporting fraud-related concerns.	3.96	
	FD5	I am able to detect potential fraud through continuous audit procedures and review of operational activities.	4.28	

RESULTS AND ANALYSIS

Demographic Descriptive Statistics

The demographic analysis provides a comprehensive overview of the 366 valid responses collected from professional auditors across various firms in China. As shown in Table 3, the gender distribution remains relatively balanced, with 54.6% male and 45.4% female participants, indicating adequate representation of both genders in the auditing profession. Regarding age, the majority of respondents fall within the 30–39 age group (41.3%), followed by those under 30 (27.1%) and 40–49 (22.9%). This age structure suggests that most participants are in the early to mid stages of their careers—periods often associated with both strong technical competence and active engagement in audit tasks.

In terms of job position, 42.3% of respondents are senior auditors, 31.4% junior auditors, and 26.2% managers or partners, ensuring coverage across different professional ranks. Firm type is also well-distributed: 30.1% from Big Four firms, 35.8% from large domestic firms, and 34.2% from small or mid-sized local firms, offering substantial representation across firms of different sizes. Work experience shows that 39.3% of auditors have 6– 10 years of experience, followed by 35.0% with more than 10 years, suggesting that most respondents possess meaningful exposure to practical audit engagements. Overall, the demographic profile demonstrates a diverse and representative sample of the auditing profession in China. The inclusion of varied age groups, firm types, and experience levels enhances the validity of subsequent regression analyses on technical knowledge, professional skepticism, and professional ethics, thereby reducing sampling bias and improving external generalizability.

Table 3: Demographic characteristics of respondents

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	200	54.6
	Female	166	45.4
Age	<30	99	27.1
	30–39	151	41.3
	40–49	84	22.9
	≥50	32	8.7
Position	Junior Auditor	115	31.4

	Senior Auditor	155	42.3
	Manager/Partner	96	26.2
Firm Type	Big Four	110	30.1
	Large Domestic	131	35.8
	Small/Mid Local	125	34.2
Work Experience	2–5 years	94	25.7
	6–10 years	144	39.3
	>10 years	128	35.0

Impact of Independence in Fact on Fraud Detection

The regression analysis results (Table 4) show that Independence in Fact (IF) has a significant positive effect on Fraud Detection (FD), with a standardized regression coefficient $\beta = 0.55$, $t = 4.43$, $p < 0.001$. This indicates that auditors who maintain a high level of actual independence are more capable of identifying fraudulent activities.
Therefore, Hypothesis 1 is supported.

This result suggests that auditors who demonstrate genuine independence—free from client influence, personal bias, or undue pressure—are more likely to exercise objective judgment when evaluating audit evidence. Independence in fact enables auditors to critically assess inconsistencies, scrutinize financial anomalies, and challenge management assertions without hesitation. Such objectivity strengthens the auditor's ability to detect irregularities and uncover potential fraud. From a theoretical perspective, these findings align with prior research emphasizing that independence is a fundamental determinant of audit quality and a key safeguard against impaired judgment in fraud detection (Oyedotun et al., 2025). In practice, auditors with stronger independence are more inclined to maintain professional skepticism, evaluate risks objectively, and apply rigorous audit procedures tailored to fraud-prone areas. Furthermore, the significant impact of IF highlights the increasing importance of ethical integrity in a complex audit environment where client pressures, commercial incentives, and relational familiarity may influence auditor judgment.

Table 4: The impact of independence in fact on fraud detection

Independent variable	**β**	**T-value**	**P-value**	
Independence in Fact → Fraud Detection	0.55	4.43		<0.001

Impact of Independence in Appearance on Fraud Detection

Regression analysis demonstrates that Independence in Appearance (IA) exerts a strong positive influence on Fraud Detection (FD) (Table 5). The standardized path coefficient is $\beta = 0.34$ ($p < 0.001$), indicating a substantial and statistically significant relationship. Therefore, Hypothesis 2 is supported.

This finding suggests that auditors who appear independent to external stakeholders—maintaining objectivity in their professional image and avoiding situations that could create perceived conflicts of interest—are more likely to perform fraud-related procedures rigorously. Independence in appearance enhances public trust and reinforces the auditor's commitment to impartial judgment. When auditors avoid close personal ties, financial entanglements, or relational familiarity with clients, they are better positioned to evaluate evidence with neutrality and reduced bias.

The result is consistent with prior studies highlighting the importance of perceived independence for ensuring audit credibility. Research such as Kay (2024) underscores that independence, both in substance and in appearance, acts as a cognitive safeguard that supports unbiased decision-making. Similarly, behavioral perspective suggests that auditors who uphold a strong professional demeanor are more attentive to inconsistencies and better able to maintain vigilance when assessing ambiguous evidence (Edmond & Martire, 2019). In the Chinese auditing environment, where social relationships and client influence may shape

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perceptions of objectivity, maintaining independence in appearance plays a particularly critical role in strengthening fraud detection effectiveness.

Table 5: The impact of independence in appearance on fraud detection

Independent variable	β	T-value	P-value
Independence in Appearance → Fraud Detection	0.34	4.81	<0.001

CONCLUSION

This study aims to systematically examine how auditor independence influences the effectiveness of fraud detection within the Chinese auditing environment. Based on 366 valid survey responses collected from various regions and different types of accounting firms across China, the empirical results confirm the critical role of the two dimensions of independence—independence in fact and independence in appearance—in improving auditors' ability to identify fraud. The findings underscore that auditor independence remains a fundamental driver of audit quality and a primary determinant of fraud discovery in the Chinese context.

First, the empirical evidence indicates that independence in fact exerts a strong and significant positive effect on fraud detection ($\beta = 0.55$, $p < 0.001$). This suggests that the auditor's capacity to maintain objective judgment and professional skepticism, despite client pressure, economic ties, or interpersonal relationships, is essential for detecting financial irregularities, fraudulent transactions, and inconsistencies in reported information. Auditors with higher levels of factual independence demonstrate stronger competence in evidence collection, risk assessment, data verification, and in challenging management explanations. These findings reinforce the theoretical view that independence is the foundation of audit quality and a core mechanism through which auditors enhance their ability to identify fraud. Second, this study finds that independence in appearance also has a significant positive impact on fraud detection ($\beta = 0.34$, $p < 0.001$). Appearance-based independence reflects stakeholders' perceptions of the auditor's impartiality. Given China's environment—characterized by concentrated ownership, political ties, and strong local government influence—maintaining this form of independence is particularly important. The results show that when auditors avoid behaviors that may compromise their perceived objectivity, such as excessive reliance on major clients, insufficient rotation, or extensive provision of non-audit services, management faces stronger external monitoring pressure, thereby reducing incentives for misconduct. Moreover, auditors perceived as independent tend to adopt more cautious and vigilant approaches when evaluating audit evidence, further increasing the likelihood of uncovering fraud.

Based on the findings, three groups of recommendations are proposed for auditors, accounting firms, governance bodies, and regulatory authorities. First, auditors should continually strengthen professional skepticism, judgment capacity, and ethical awareness. As factual independence significantly enhances fraud detection, auditors must consciously maintain independent thinking and avoid allowing client pressure, economic dependence, or long-term relationships to affect their assessments. Additionally, auditors should enhance their mastery of fraud indicators, analytical techniques, and anomaly detection tools. Second, accounting firms should reinforce independence through institutional arrangements. First, they should implement strict client acceptance policies and manage client revenue concentration to reduce the risk of economic dependence. Second, firms should promote mandatory staff rotation, strengthen engagement reviews, and improve internal quality-control systems to mitigate familiarity threats. Furthermore, adopting advanced technologies such as automated audit procedures and anomaly detection systems can help integrate technological support with professional judgment, thereby improving fraud detection outcomes. Third, regulators should continue strengthening the audit oversight system. This includes refining auditing standards, increasing inspection frequency, and publicly disclosing violations to impose credible external constraints. Corporate governance bodies, such as audit committees, should enhance their expertise and independence to ensure that the audit process is not influenced by management. Since independence in appearance also significantly affects fraud detection, companies should improve transparency regarding audit-related information—such as audit fees, non-audit services, and auditor rotation—to reinforce stakeholder confidence in the integrity of the audit.

Although this study provides empirical evidence on the relationship between auditor independence and fraud detection in China, several limitations remain, offering opportunities for future research. First, the study relies primarily on self-reported questionnaire data, which may be influenced by respondents' subjective perceptions or social desirability bias. Future studies could incorporate objective sources such as real audit cases, regulatory sanctions, audit reports, or datasets of financial fraud cases to validate the causal relationship between independence and fraud detection using multi-source data. Second, although this study includes multiple dimensions of independence and fraud detection, future research could further enrich the model by incorporating variables such as auditors' psychological traits, team culture, incentive systems, or regional regulatory intensity, thus offering a more comprehensive explanation of differences in fraud detection capability.

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