



Faculty of Economics and Business

**The Impact of China's New Securities Law on Audit Quality and Fees:
Moderating Effect of Internal Control and Media Coverage**

Zhang Lu

Doctor of Philosophy

2025

The Impact of China's New Securities Law on Audit Quality and Fees:
Moderating Effect of Internal Control and Media Coverage

Zhang Lu

A thesis submitted

In fulfillment of the requirements for the degree of Doctor of Philosophy

(Finance)

Faculty of Economics and Business
UNIVERSITI MALAYSIA SARAWAK

2025

DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Malaysia Sarawak. Except where due acknowledgements have been made, the work is that of the author alone. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

.....

Signature

Name: Zhang Lu

Matric No.: 21010234

Faculty of Economics and Business

Universiti Malaysia Sarawak

Date :

ACKNOWLEDGEMENT

I want to express my deepest gratitude to my family, whose unwavering support and understanding have been a constant source of strength throughout my academic journey. Their encouragement has been invaluable, and I am profoundly thankful for their love and patience.

I am also sincerely grateful to Universiti Malaysia Sarawak for providing an excellent academic environment that greatly facilitated my studies. The resources and opportunities made available by the university have been instrumental in completing my research.

A special thank you goes to my main supervisor, Dr. Sophee Sulong bin Balia, whose guidance and expertise have been crucial to my academic progress. His commitment to scholarship and his support have greatly inspired me. I am also deeply thankful to Dr. Damien Lee Iung Yau, Dr. Asri bin Marsidi and Dr. Salawati binti Sahari, whose advice and encouragement have significantly enriched my work.

Finally, I extend my heartfelt thanks to everyone at Universiti Malaysia Sarawak who has supported me both academically and personally. The kindness and assistance I have received from the university community have made my experience in a foreign land truly meaningful. Without the collective help of all these individuals, I would not have been able to complete my studies.

ABSTRACT

The China's new Securities Law implemented in 2020 lowered the entry barriers for audit firms in the securities market, thereby intensifying competition within the audit sector. It also introduced a series of policy measures that further strengthened the regulation of listed companies and auditors, as well as increased the severity of penalties for violations. This study aims to investigate the impact of the new Securities Law on changes in audit quality and audit fees. Additionally, the study explores the moderating roles of internal control as an internal supervisory mechanism and media coverage as an external supervisory mechanism. Based on data from Chinese listed companies from 2016 to 2022, the study employs a Difference-in-Differences (DiD) approach to empirically test the hypotheses.

The findings reveal that the implementation of the new Securities Law has significantly improved the audit quality of listed companies, with the effect being particularly pronounced in firms with weaker internal controls. Moreover, extensive media coverage further amplifies the positive impact of the law on audit quality. Simultaneously, the study observes a significant increase in audit fees following the implementation of the law, reflecting the heightened compliance requirements and stricter regulatory scrutiny that influence auditors' pricing decisions. This increase in audit fees is less pronounced in companies with stronger internal controls, indicating that robust internal controls can mitigate some of the cost pressures associated with the new regulations. These results are consistent with the predictions of audit risk theory and reputation theory. The study employs rigorous robustness tests, including parallel trends test, placebo tests, and Propensity Score Matching Difference-in-Differences (PSM-DiD) analyses, to confirm the reliability of the findings.

The study provides important insights into how the China's new Securities Law impacts audit quality and audit fees. Overall, while the revised Securities Law has successfully enhanced market transparency and audit quality, it has also increased compliance costs for companies with lower governance standards. These findings carry significant theoretical and practical implications for policymakers, regulators, and market participants in China and other emerging economies.

Keywords: China's New Securities Law, Audit Quality, Audit Fees, Internal Control, Media Coverage

***Kesan Undang-Undang Sekuriti Baharu China terhadap Tingkah Laku Juruaudit:
Kesan Penyederhanaan Kawalan Dalam dan Liputan Media***

ABSTRAK

Pelaksanaan Undang-Undang Sekuriti baru di China pada tahun 2020 telah menurunkan halangan kemasukan bagi firma audit dalam pasaran sekuriti, sekaligus meningkatkan persaingan dalam sektor audit. Undang-undang ini juga memperkenalkan beberapa langkah dasar yang lebih mengukuhkan pengawalseliaan terhadap syarikat tersenarai dan juruaudit, serta meningkatkan tahap keseriusan hukuman bagi pelanggaran. Kajian ini bertujuan untuk meneroka perubahan dalam kualiti audit dan yuran audit berikutan pelaksanaan Undang-Undang Sekuriti yang baharu. Selain itu, kajian ini juga meneliti peranan moderasi kawalan dalaman sebagai mekanisme pengawasan dalaman dan liputan media sebagai mekanisme pengawasan luaran. Berdasarkan data daripada syarikat tersenarai di China dari tahun 2016 hingga 2022, kajian ini menggunakan pendekatan Perbezaan dalam perbezaan (DiD) untuk menguji hipotesis secara empirikal.

Penemuan kajian menunjukkan bahawa pelaksanaan Undang-Undang Sekuriti baru telah meningkatkan kualiti audit syarikat tersenarai secara signifikan, dengan kesan yang lebih ketara dalam firma yang mempunyai kawalan dalaman yang lebih lemah. Lebih-lebih lagi, liputan media yang meluas memperkuat lagi kesan positif undang-undang ini terhadap kualiti audit. Pada masa yang sama, kajian ini mengamati peningkatan ketara dalam yuran audit selepas pelaksanaan undang-undang ini, yang mencerminkan peningkatan keperluan pematuhan dan pengawasan regulatori yang lebih ketat yang mempengaruhi keputusan penetapan harga oleh juruaudit. Walau bagaimanapun, peningkatan yuran audit ini kurang ketara dalam syarikat yang mempunyai kawalan dalaman yang lebih kukuh, menunjukkan

bahawa kawalan dalaman yang mantap boleh mengurangkan sebahagian daripada tekanan kos yang berkaitan dengan peraturan baru. Hasil-hasil ini konsisten dengan ramalan teori risiko audit dan teori reputasi. Kajian ini menggunakan ujian keteguhan yang ketat, termasuk pengesahan trend selari, ujian plasebo, dan analisis Perbezaan-dalam-Perbezaan Pemadanan Skor Kecenderungan (PSM-DiD), untuk mengesahkan kebolehpercayaan penemuan. Kajian ini memberikan pandangan penting tentang bagaimana Undang-Undang Sekuriti baru di China mempengaruhi kualiti audit dan yuran audit. Secara keseluruhannya, walaupun Undang-Undang Sekuriti yang telah disemak semula ini berjaya meningkatkan ketelusan pasaran dan kualiti audit, ia juga telah meningkatkan kos pematuhan bagi syarikat dengan standard tadbir urus yang lebih rendah. Penemuan ini membawa implikasi teori dan praktikal yang signifikan bagi pembuat dasar, pengawal selia, dan peserta pasaran di China dan ekonomi membangun lain.

Kata kunci: *Undang-Undang Sekuriti Baru China, Kualiti Audit, Yuran Audit, Kawalan Dalaman, Liputan Media*

TABLE OF CONTENTS

	Page
DECLARATION	i
ACKNOWLEDGEMENT	ii
ABSTRACT	iii
ABSTRAK	v
TABLE OF CONTENTS	vii
LIST OF FIGURES	xv
LIST OF ABBREVIATIONS	xvi
CHAPTER 1 INTRODUCTION	1
1.1 Study Background	1
1.1.1 Economic Reform and Securities Market	1
1.1.2 The Development of China's Securities Law	4
1.1.3 The New Securities Law	5
1.1.4 Comparison of Changes between New and Old Securities Laws in China	8
1.1.5 External Audit Related Changes in the New Securities Law	15
1.1.6 The New Securities Law and External Audit	19
1.1.7 Internal Control and Audit Quality	27
1.1.8 Internal Control and Audit Fee	28

1.1.9	Media Coverage and Audit Quality	28
1.1.10	Media Coverage and Audit Fee	29
1.2	Problem Statement	30
1.3	Research Questions	34
1.4	Research Objectives	35
1.5	Scope of Study	36
1.6	Significance of the Study	37
1.7	Organization of the Study	38
	CHAPTER 2 LITERATURE REVIEW	40
2.1	Introduction	40
2.2	Reputation Theory	41
2.3	The Legal and Regulatory Framework of Auditing in China	45
2.4	Economic Consequences of the Revision of China Securities Law	46
2.5	Impact Factors of of Audit Quality	51
2.6	The New Securities Law and Audit Quality.	58
2.7	Internal Control and Audit Quality	60
2.8	Media Coverage and Audit Quality	64
2.9	Impact Factors of of Audit Fees	68
2.10	The New Securities Law and Audit Fees	75
2.11	Internal Control and Audit Fees	78

2.12	Media Coverage and Audit Fees	81
2.13	Conceptual Framework	85
2.14	Chapter Summary	88
CHAPTER 3 RESEARCH METHODOLOGY		90
3.1	Introduction	90
3.2	Dependent Variables	91
3.2.1	Audit Quality	91
3.2.2	Audit Fees	93
3.3	Independent Variable	93
3.4	Moderating Variables	96
3.4.1	Internal Control	96
3.4.2	Media Coverage	97
3.5	Control Variables	98
3.5.1	Firm Size	98
3.5.2	Firm Property Rights	98
3.5.3	Financial Leverage	99
3.5.4	Return On Assets	99
3.5.5	Company Growth	100
3.5.6	Profitability	101
3.5.7	Management Fee	102

3.6	Sample Selection and Data Resource	105
3.7	Estimation Models	107
3.7.1	Difference-in-Differences (DiD) Method	107
3.7.2	New Securities Law and Audit Quality	113
3.7.3	New Securities Law, Internal control and Audit Quality	115
3.7.4	New Securities Law, Media Coverage and Audit Quality	115
3.7.5	New Securities Law and Audit Fees	116
3.7.6	New Securities Law, Internal control and Audit Fees	117
3.7.7	New Securities Law, Media Coverage and Audit Fees	118
3.8	Diagnostic Test	119
3.9	Chapter Summary	123
	CHAPTER 4 RESULTS AND DISCUSSIONS	125
4.1	Introduction	125
4.2	Descriptive Statistics	126
4.3	New Securities Law and Audit Quality	129
4.3.1	Correlation Analysis	129
4.3.2	Multicollinearity Test	132
4.3.3	Chow Test	134
4.3.4	Breusch and Pagan Lagrange Multiplier test	135
4.3.5	Hausman Test	136

4.3.6	Heteroskedasticity Test	137
4.3.7	Autocorrelation Diagnostic Test	138
4.3.8	Parallel Trends Test	139
4.3.9	Results on the Impact of China's New Securities Law on Audit Quality	141
4.3.10	Robustness tests	147
4.4	New Securities Law, Internal Control and Audit Quality	157
4.5	New Securities Law, Media Coverage and Audit Quality	162
4.6	New Securities Law and Audit Fees	164
4.6.1	Correlation Analysis	164
4.6.2	Multicollinearity Test	165
4.6.3	Chow Test	168
4.6.4	Breusch and Pagan Lagrange Multiplier test	169
4.6.5	Hausman Test	169
4.6.6	Heteroskedasticity Test	170
4.6.7	Autocorrelation Diagnostic Test	171
4.6.8	Parallel Trends Test	172
4.6.9	Results on the Impact of China's New Securities Law on Audit Fees	173
4.6.10	Robustness tests	178
4.7	New Securities Law, Internal Control and Audit Fees	181
4.8	New Securities Law, Media Coverage and Audit Fees	185

4.9	Chapter Summary	187
CHAPTER 5 CONCLUSION AND RECOMMENDATIONS		190
5.1	Introduction	190
5.2	Discussion of the Findings	190
5.3	Theoretical Implications	196
5.4	Practical Implications	198
5.5	Limitations of the Study	201
5.6	Suggestions for Further Research	202
REFERENCES		204
APPENDICES		239

LIST OF TABLES

	Page
Table 1.1: Key Provisions and Requirements for Information Disclosure in the New Securities Law	11
Table 1.2: Content of the new investor protection section	12
Table 1.3: Modified Admission Rules for Securities Service Agencies	14
Table 1.4: The Penalties for Illegal Activities under the New Securities Law	15
Table 3.1: Variables Calculation	103
Table 3.2: Difference-in-Differences Model Coefficient Calculation Method	111
Table 4.1: Descriptive Statistics of Dummy Variables	126
Table 4.2: Descriptive Statistics of Continuous Variables	127
Table 4.3: Correlation Matrix	131
Table 4.4: Multicollinearity Test Result	133
Table 4.5: Chow Test Result	135
Table 4.6: Breusch and Pagan Lagrange Multiplier Test Result	136
Table 4.7: Hausman Test Result	137
Table 4.8: Heteroskedasticity Test Result	138
Table 4.9: Autocorrelation Diagnostic Test Result	139
Table 4.10: OLS Results on the Impact of China's New Securities Law on Audit Quality	144
Table 4.11: DiD Result of New Securities Law and Audit Quality	146
Table 4.12: Results of the Propensity Score Matching Balance Hypothesis Test	152
Table 4.13: Result of PSM-DID	153
Table 4.14: DiD Result on Replacement of the Dependent Variable	156
Table 4.15: Result of Moderating Effect of Internal Control	158
Table 4.16: Result of Moderating Effect of Media Coverage	161
Table 4.17: Multicollinearity Test	166

Table 4.18: Correlation Matrix	167
Table 4.19: Chow Test Result	168
Table 4.20: Breusch and Pagan Lagrange Multiplier Test Result	169
Table 4.21: Hausman Test	170
Table 4.22: Heteroskedasticity Test Result	171
Table 4.23: Autocorrelation Diagnostic Test Result	172
Table 4.24: OLS Results on the Impact of China's New Securities Law on Audit Fees	175
Table 4.25: DiD Result of New Securities Law and Audit Fees	177
Table 4.26: Result of PSM-DID	180
Table 4.27: Result of Moderating Effect of Internal Control	184
Table 4.28: Result of Moderating Effect of Media Coverage	186

LIST OF FIGURES

	Page
Figure 1.1: China's Gross Domestic Product and Gross National Product From the Year 1988 to 2021	2
Figure 1.2: Market Value and Number of Listed Companies in China's Securities Market From the year 2008 to 2023	3
Figure 1.3: The Course of Amendment and Revision of China's Securities Law	7
Figure 1.4: Number of Securities Qualification Audit Firms in China Year 2013 to 2023	21
Figure 1.5: Number of Auditor Violation Events in China Year 1996 to 2023	23
Figure 2.1: Conceptual Framework	88
Figure 3.1: Basic Principles of Difference-in-Differences	110
Figure 4.1: Parallel Trends Test for DiD Model of New Securities Law and Audit Quality	141
Figure 4.2: Placebo Test Result For DiD Regression of New Securities Law and Audit Quality	148
Figure 4.3: Comparison of Kernel Density Before and After PSM Matching	150
Figure 4.4: Moderating Effect of Internal Control Between the New Securities Law and Audit Quality	159
Figure 4.5: Moderating Effect of Media Coverage Between the New Securities Law and Audit Quality	162
Figure 4.6: Parallel Trends Test of DiD Regression of New Securities Law and Audit Fees	173
Figure 4.7: Placebo Test Result For DiD Regression of New Securities Law and Audit Fees	179
Figure 4.8: Moderating Effect of Internal Control Between the New Securities Law and Audit Fees	182

LIST OF ABBREVIATIONS

GDP	Gross Domestic Product
GNP	Gross National Product
CNY	Chinese Yuan
CSRC	China Securities Regulatory Commission
IPO	Initial Public Offering
ST	Special Treatment
AICPA	American Institute of Certified Public Accountants
SOX	Sarbanes-Oxley Act
PCAOB	Public Company Accounting Oversight Board
DiD	Difference-in-Differences
CNRDS	Chinese Research Data Services
CFND	Financial News Database of Chinese Listed Companies
CSMAR	China Stock Market & Accounting Research Database
PSM	Propensity Score Matching

CHAPTER 1

INTRODUCTION

1.1 Study Background

1.1.1 Economic Reform and Securities Market

As one of the world's most populous countries, China has seen its economic development trends capture significant international attention. Since the inception of economic reforms and opening up, China has emerged as the largest investment market globally and the leading contributor to global growth (Carpenter et al., 2021). The country has undergone a remarkable transformation, evolving from a relatively closed nation to one increasingly open to the world. This transformation is reflected in the sustainable growth of China's Gross Domestic Product (GDP) and Gross National Product (GNP), both of which have expanded significantly over the years. The rapid ascent of China's economy has not only reshaped its own social and economic landscape but also exerted a profound influence on the global economy (Chen et al., 2022). Figure 1.1 illustrates the annual growth data of China's GDP and GNP from 1988 to 2021, with figures in the chart represented in ten trillion Chinese yuan.

China's robust economic foundation and its status as a global economic powerhouse have significant implications for various sectors, particularly the securities markets. The new Securities Law in China is closely linked to the country's economic development, as adjustments in the securities market and regulations are essential to keep pace with economic progress.

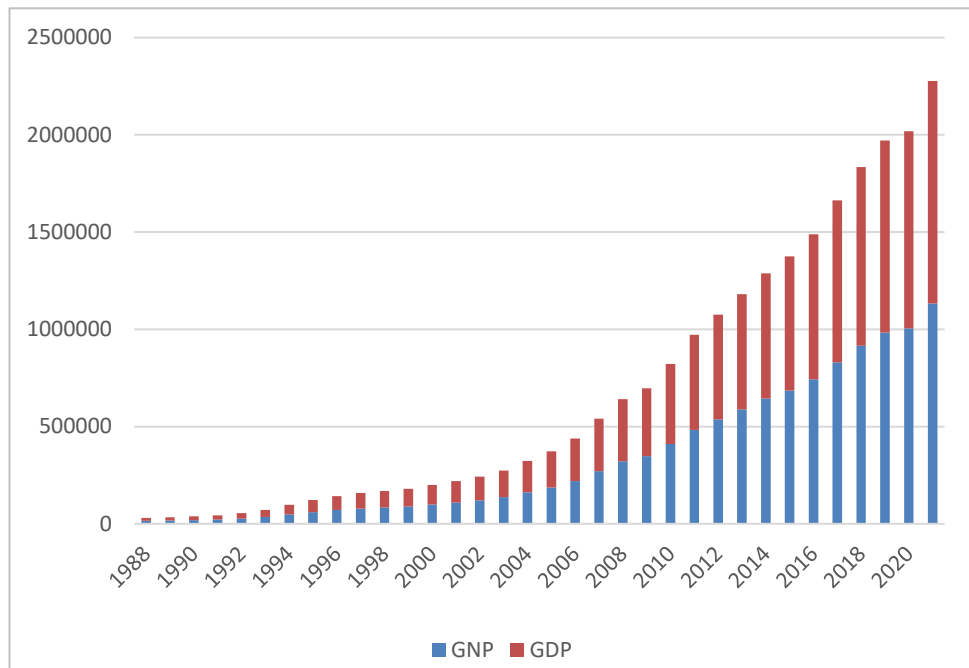


Figure 1.1: China's Gross Domestic Product and Gross National Product From the year 1988 to 2021

Source: Compiled by the author based on data from the National Bureau of Statistics of China, China Statistical Yearbook

Securities markets can meet diverse funding needs for both suppliers and demanders, providing a wide range of investment channels that contribute to the increase of national property income. In China, these markets have played an especially significant role, serving as a vital platform for sustaining economic vitality and improving resource allocation. Between 2008 and 2022, the number of listed companies on the Shanghai Stock Exchange and the Shenzhen Stock Exchange surged from 1,625 to 5,063, while the total market capitalization skyrocketed from CNY 121,541.046 billion to CNY 817,589.5797 billion. The development of China's stock market has offered investors extensive investment opportunities and provided robust capital support for businesses. Figure 1.2 illustrates the fluctuations in China's stock market capitalization (red line) and the changes in the number of listed companies (blue line).

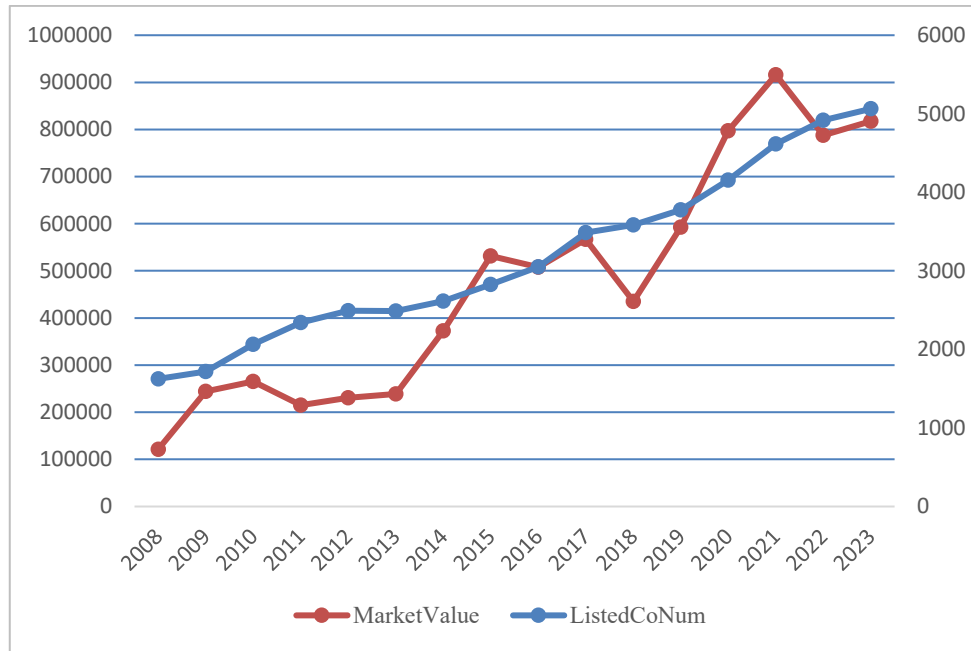


Figure 1.2: Market Value and Number of Listed Companies in China's Securities Market From the year 2008 to 2023

Source: Compiled by the author based on data from the National Bureau of Statistics of China, China Statistical Yearbook

Despite the significant achievements in China's stock market development, it has been accompanied by a series of regulatory and legal challenges. As the number of listed companies rapidly increases and market capitalization continues to expand, the need for stronger regulation and a robust legal framework has become increasingly urgent. Compared to other mature capital markets, China's capital market remains relatively immature, with insufficient market functionality and an imperfect legal system (Fan, 2023). The clarity of property rights, efficiency in resource allocation, and the presence of high-quality regulatory governance are key determinants of the capital market's development level (Chen et al., 2022). Securities regulations that impose disclosure requirements and facilitate private enforcement through liability rules have shown a favorable influence on the stock market (Porta et al., 2006). However, the globalization of markets and rapid technological changes have introduced new challenges and regulatory issues for the securities market. The

prosperity of society depends significantly on whether the Securities and Exchange Commission can ensure a fair and efficient securities market. Securities laws play a crucial role in this regard (Newman & Trautman, 2021).

Several high-profile corporate scandals in China, such as those involving Kangmei Pharmaceutical and Luckin Coffee, exposed deep-rooted problems in audit oversight, information disclosure, and regulatory enforcement (Wu, 2023; Yang et al., 2023). These cases revealed a fragile audit environment characterized by low market concentration, limited entry barriers, and inadequate professional accountability.

In response, the Chinese government recognized the need for comprehensive reforms to restore investor confidence and improve audit credibility. This led to a series of institutional upgrades, culminating in the revision of the Securities Law.

1.1.2 The Development of China's Securities Law

China's inaugural Securities Law was promulgated on December 29, 1998, and came into effect on July 1, 1999 (Standing Committee of the National People's Congress, 1998). This law serves as the foundational legal framework for the capital market, reflecting the evolution of China's capital market and establishing the institutional groundwork for its sustained and healthy growth. Comprising 12 chapters and 214 articles, the Securities Law explicitly defines securities as including stocks, corporate bonds, and other securities recognized by the State Council according to the law. It outlines the fundamental legal systems governing securities issuance, securities trading, and the acquisition of listed companies in the capital market. As China's first Securities Law, it plays a crucial role in laying the foundation for the country's legal system within the capital market. During the process of economic reform, formal laws and legal procedures have continuously evolved,

sometimes adapting to economic shifts and at other times driving economic transformations (Clarke et al., 2008).

The Standing Committee of the National People's Congress of China revised the 1998 "Securities Law" and issued the updated version on October 27, 2005, which became effective on January 1, 2006. Subsequently, China's Securities Law underwent further adjustments in June 2013 and August 2014 (Standing Committee of the National People's Congress, 2020).

As China's market economy evolves and the capital market changes, many regulatory provisions in the original Securities Law have gradually become insufficient to address emerging practical issues, such as effectively mitigating market risks and safeguarding investor rights. Challenges persist in the regulatory oversight of listed companies in China, including low penalties for violations, a suboptimal information environment, and weak investor protection mechanisms (Chen & Song, 2017). To improve the foundational system of China's securities market, align with international legal developments, and encourage innovation while ensuring proper regulation, the 15th meeting of the 13th National People's Congress Standing Committee passed a newly revised "Securities Law" in December 2019 (Standing Committee of the National People's Congress, 2020), referred to as the new Securities Law in this study. Figure 1.3 illustrates the evolution of China's Securities Law, from its initial promulgation through three amendments and two revisions to the current new Securities Law.

1.1.3 The New Securities Law

On December 28, 2019, during the 15th session of the Standing Committee of the 13th National People's Congress, the revised Securities Law was deliberated and approved

(Standing Committee of the National People's Congress, 2020). The new Securities Law came into effect on March 1, 2020. This revised version is commonly referred to as the "New Securities Law" in this research.

According to Xiaogang, the former Chairman of the China Securities Regulatory Commission (CSRC), the timing of the new Securities Law's promulgation aligns with China's economic reform entering a deep-water zone. The current goals of China's economic reform are supply-side reform and the mitigation of financial risks, with the expansion of direct financing being a key policy tool of the central government. As the foundational legal framework regulating direct financing, the Securities Law carries significant responsibilities in protecting investors and facilitating corporate financing. The comprehensive implementation of a registration system is considered a crucial strategy to achieve these objectives.

The revision of the Securities Law, aligned with the principles of top-level institutional design, further enhances the fundamental framework of the securities market. It reflects the directions of marketization, rule of law, and internationalization, providing robust legal safeguards for the comprehensive deepening of reforms. These reforms aim to effectively control market risks, improve the quality of listed companies, genuinely protect the legitimate rights and interests of investors, and promote the securities market's role in serving the real economy. The goal is to create a standardized, transparent, open, dynamic, and resilient capital market, thereby offering substantial and far-reaching significance.

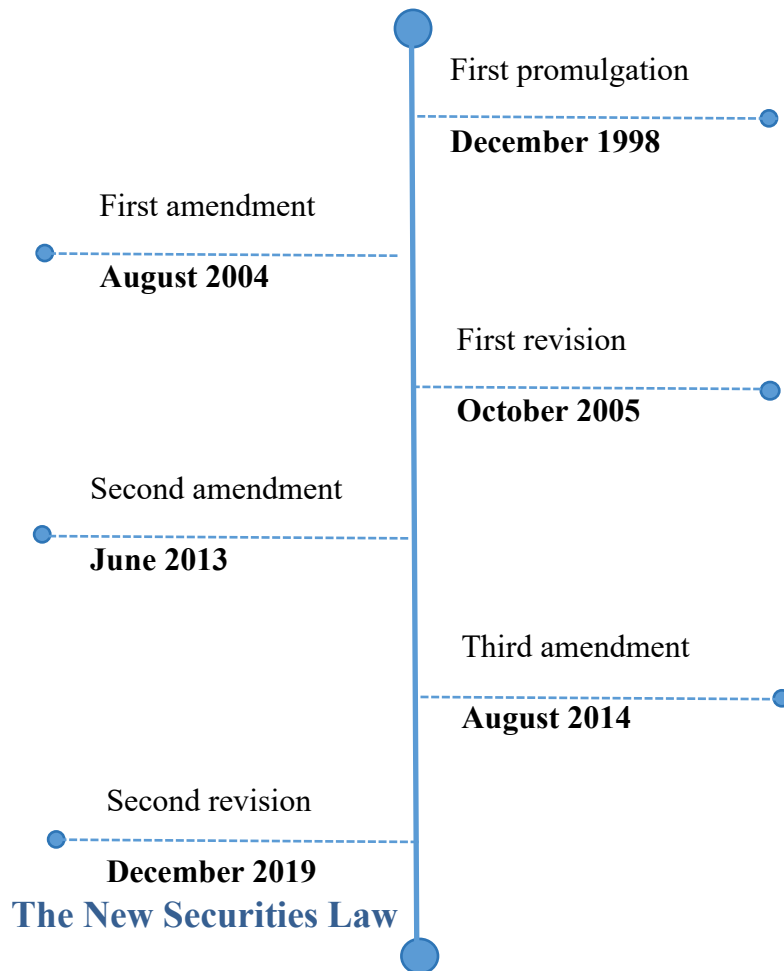


Figure 1.3: The Course of Amendment and Revision of China's Securities Law

Source: Compiled by the author from the China Securities Regulatory Commission website <http://www.csrc.gov.cn/shanghai/c105573/c1282295/content.shtml>

The new Securities Law explicitly mandates the comprehensive implementation of a securities issuance registration system. It expands the scope of the law, designates depositary receipts as a statutory type of security, and authorizes the State Council to stipulate management measures for the issuance and trading of asset-backed securities and asset management products, in accordance with the principles of the Securities Law.

A new chapter on information disclosure and investor protection has been added. Penalties for securities violations have been significantly raised, including substantial

increases in the maximum fines for insider trading, fraudulent issuance, and violations of information disclosure. Additionally, new provisions have been introduced to enhance the securities trading system and enforce the responsibilities of intermediary institutions. With the implementation of the new Securities Law, China's stock market has entered a new era (Xu, 2022).

Compared with previous editions, the new Securities Law has undergone some changes in areas such as market access, information disclosure, investor protection, and penalties for violations. Thus, the development of China's securities market and the evolution of its legal framework form the institutional backdrop against which audit quality is evaluated in this study. The next section will examine the detailed provisions of the revised Securities Law and its implications for audit practice.

1.1.4 Comparison of Changes between New and Old Securities Laws in China

The new China's Securities Law represents a pivotal advancement in the ongoing legalization and marketization of China's capital market. This law provides a robust legal foundation for the comprehensive deepening of capital market reforms. Notably, the revision introduces a range of institutional reforms and enhancements, such as the full implementation of the securities issuance registration system, a substantial increase in penalties for securities violations, improved investor protection mechanisms, strengthened information disclosure requirements, and an expanded scope of applicability for the law.

Compared to the 2014 version, the new Securities Law has grown from 12 chapters to 14, with the addition of specialized chapters on information disclosure and investor protection. Despite this expansion, the total number of articles has been reduced from 240 to 226, reflecting significant revisions and the removal of outdated provisions. In summary,

nearly 150 articles from the previous Securities Law have undergone substantial changes, signaling a comprehensive overhaul of the legal framework.

The following sections outline the key changes introduced by the new Securities Law.

1.1.4.1 New Added Chapter on Information Disclosure

The new Securities Law introduces a dedicated chapter on information disclosure to strengthen and refine the securities market's disclosure system. This chapter expands the scope of disclosure obligations, clarifies the principles of information disclosure, and broadens the range of information that must be disclosed. Additionally, it reinforces the civil liability of those responsible for information disclosure and increases the penalties for violations.

The introduction of the new chapter on information disclosure has profound implications for the auditing process. As the scope of information disclosure expands and its underlying principles become more defined, auditors now face heightened responsibilities to ensure the accuracy and completeness of the information provided. This increase in scrutiny compels auditors to adopt more stringent verification processes, demanding thorough reviews of financial statements and related disclosures to meet the new, stricter standards. Furthermore, the enhanced civil liability placed on those responsible for disclosing information intensifies the pressure on auditors, as they must now guarantee that their assessments are not only comprehensive but also fully compliant with legal requirements to mitigate any potential legal risks. In this evolving regulatory environment, auditors must take extra care to ensure that all relevant material is appropriately disclosed and that their professional judgments align with the increased levels of accountability demanded by the law. The content of the new disclosure section is presented in Table 1.1.

1.1.4.2 New Added Chapter on Investor Protection

The new Securities Law introduces a dedicated chapter on Investor Protection, which explicitly emphasizes the systematic construction of mechanisms to safeguard the legitimate rights and interests of investors. This chapter highlights the crucial role of investor protection institutions and strengthens penalties for violations of investor protection regulations.

The introduction of the Investor Protection chapter has direct implications for the auditing process. Auditors now face increased expectations to ensure that financial statements and disclosures accurately reflect the company's compliance with investor protection regulations. Given the strengthened penalties for violations, auditors must be particularly vigilant in identifying any discrepancies or omissions that could harm investors' interests.

The heightened emphasis on protecting the legitimate rights and interests of investors has significantly increased the responsibilities placed on auditors. They are no longer limited to assessing the financial health of companies; they must also conduct a thorough evaluation of internal controls specifically designed to safeguard investor interests. This expanded role highlights the critical importance of auditors in ensuring that companies not only fulfill their financial obligations but also maintain high standards of accuracy, completeness, and transparency in both financial and non-financial disclosures. Consequently, auditors have become central figures in preserving investor trust, as their careful and diligent assessments are crucial in ensuring that companies comply with the increasingly stringent legal and regulatory requirements. In this intensified regulatory landscape, the auditor's role in providing reliable assurance has become indispensable, playing a key part in enhancing investor confidence and contributing to the stability of the financial markets. The key elements of the new Investor Protection provisions are summarized in Table 1.2.

Table 1.1: Key Provisions and Requirements for Information Disclosure in the New Securities Law

Articles	Summary of New Content
Article 78	Expand the scope of information disclosure obligors; Add clear, concise, and easily understandable disclosure requirements; Specify that if securities are publicly issued and traded domestically and abroad, information disclosure obligors must simultaneously disclose information domestically and abroad.
Article 80	Expand and specify the scope of significant events that may have a significant impact on the stock trading prices of listed companies and companies traded on national securities exchanges; Add provisions requiring controlling shareholders and actual controllers of companies to inform the company in writing of significant events and cooperate with the company in fulfilling information disclosure obligations.
Article 82	Add timely and fair information disclosure requirements; Add provisions for directors and senior management to express dissent.
Article 83	Add requirements for information disclosure to be simultaneously made to all investors and provisions that undisclosed information must be kept confidential.
Article 84	Add provisions for voluntary disclosure, but prohibit misleading investors. Clarify that issuers, their controlling shareholders, actual controllers, directors, supervisors, and senior management personnel should disclose situations in which they make public commitments, and if they fail to fulfil the commitments, they should bear compensation liability for losses incurred by investors.

Source: Compiled by the author from the China Securities Regulatory Commission website <http://www.csrc.gov.cn/shanghai/c105573/c1282295/content.shtml>

Table 1.2: Content of the new investor protection section

Articles	Summary of New Content
Article 88	The new Securities Law introduces provisions on securities firms' obligations for investor suitability management and liability for violations.
Article 89	The new Securities Law categorizes investors into ordinary and professional categories, tailoring investor protection measures accordingly. In disputes between ordinary investors and securities firms, the burden of proof is shifted to the securities firms to prove the legality of their actions.
Article 90	The new Securities Law introduces a system for the exercise of shareholder rights on behalf of listed companies.
Article 91	The new Securities Law specifies that listed companies should outline the specific arrangements and decision-making procedures for distributing cash dividends in their articles of association, safeguarding investors' asset income rights.
Article 93	The new Securities Law adds provisions allowing controlling shareholders of issuers, actual controllers, and relevant securities firms to provide advance compensation for investor losses.
Article 94	The new Securities Law introduces a securities dispute mediation mechanism, stipulating that securities firms must not refuse mediation requests made by ordinary investors. It clarifies that investor protection institutions can support investor lawsuits.
Article 95	The new Securities Law introduces a representative litigation system, allowing aggrieved investors to collectively file lawsuits through a representative, effectively safeguarding their rights and enhancing the rule of law in the market.

Source: Compiled by the author from the China Securities Regulatory Commission website <http://www.csrc.gov.cn/shanghai/c105573/c1282295/content.shtml>

1.1.4.3 Modified Admission Rules for Securities Service Agencies

To enhance the self-discipline and independence of audit firms and ensure they strictly fulfill their obligations in conducting internal verification checks, the new Securities Law implements the policy of "streamlining administration, delegating power, and improving regulation" comprehensively. This reform emphasizes the role of intermediary institutions in maintaining market order and enhancing regulatory efficiency, encouraging audit firms to assume greater accountability and improve professional standards (Chen et al., 2024). As a result, the eligibility of audit firms to engage in securities services has shifted from an approval-based system to a filing-based system. This transition lowers the entry barrier for audit firms, as they no longer need prior approval from regulatory authorities. Instead, they are required to file relevant documents with the CSRC and other regulatory bodies, facilitating a more streamlined and efficient market entry process.

Despite the reduced administrative burden, government authorities will impose stricter regulations on their professional practices. Additionally, securities service agencies, including audit firms, are now mandated to properly preserve client documents, verification materials, and other information related to quality control, internal management, and business operations for at least ten years. They are also strictly prohibited from disclosing, hiding, forging, altering, or destroying such information.

Table 1.3: Modified Admission Rules for Securities Service Agencies

Previous Securities Law Content Article 169	New Securities Law Content Article 160
Investment advisory institutions, financial consulting firms, credit rating agencies, asset appraisal institutions, and accounting firms engaging in securities services must obtain approval from the securities regulatory authority under the State Council and relevant competent departments. The administrative measures for the approval of these institutions to conduct securities services shall be formulated by the securities regulatory authority under the State Council and relevant competent departments.	Accounting firms, law firms, and securities service institutions engaging in securities investment consulting, asset appraisal, credit rating, financial advisory, or information technology system services shall perform their duties diligently and faithfully, and provide services for securities transactions and related activities in accordance with relevant business rules. Securities investment consulting services must be approved by the securities regulatory authority under the State Council; no institution may provide such services without approval. Other securities service activities must be filed with the securities regulatory authority under the State Council and relevant competent departments.

Source: Compiled by the author from the China Securities Regulatory Commission website <http://www.csrc.gov.cn/shanghai/c105573/c1282295/content.shtml>

1.1.4.4 The Increased Severity of Penalties for Illegal Activities

In line with the top-level system design, the new Securities Law significantly enhances the foundational institutional framework of the securities market. It provides strong legal support for the comprehensive deepening of capital market reforms and imposes higher costs for illegal activities committed by various market participants, such as the disclosure of false information, insider trading, and market manipulation. The specific penalties for these illegal activities under the new Securities Law are detailed in Table 1.4.

Table 1.4: The Penalties for Illegal Activities under the New Securities Law

Illegal Activities	The penalties under the new Securities Law
Issuers engaging in fraudulent	Issuers engaging in fraudulent issuance activities will face fines up to twice the amount of funds raised, with a clear presumption of fault for controlling shareholders and actual controllers, and they will bear joint liability for compensation.
Illegal disclosure actions by listed companies	Companies involved in illegal disclosure actions will incur fines of up to CNY 10 million, with a clear presumption of fault for controlling shareholders and actual controllers, and they will bear joint liability for compensation.
Controlling shareholders and actual controllers who organize, instruct, or conceal matters leading to false statements	Controlling shareholders and actual controllers who organize, instruct, or conceal matters leading to false statements will face a maximum fine of CNY 10 million.
Securities service institutions failing to fulfil their duty of diligence and responsibility	Securities service institutions failing to fulfill their duty of diligence and responsibility will face fines up to ten times their business income; in severe cases, they may be suspended or prohibited from engaging in securities services.

Source: Compiled by the author from the China Securities Regulatory Commission website <http://www.csrc.gov.cn/shanghai/c105573/c1282295/content.shtml>

1.1.5 External Audit Related Changes in the New Securities Law

Information disclosure is crucial in the capital market, as it helps mitigate the adverse effects of information asymmetry between companies and investors (Diamond & Verrecchia, 1991). It serves as the lifeblood of the securities market and functions as a flexible regulatory tool, assisting in the coordination of multiple regulatory bodies to protect investors' interests (Wang & Qian, 2022). Investors rely heavily on corporate disclosures to make informed

decisions and expect fair returns based on publicly available information. Learning from disclosures has been shown to be an economically rational alternative to acquiring private information (Blankespoor et al., 2020). However, due to the separation of ownership and control, diverse participant incentives, and information manipulation risks, capital markets often suffer from opacity and inefficiencies. In this context, financial reports serve as a fundamental channel for corporate communication with investors.

External audits play an essential role in enhancing the credibility of these reports. As independent third parties, audit firms and certified public accountants perform attest functions that verify the authenticity and completeness of disclosed financial information. Their involvement not only improves transparency but also serves as a key deterrent to financial misconduct and earnings manipulation (Chun et al., 2005). Consequently, any changes in the legal environment that alter the responsibilities, risks, or market dynamics faced by auditors are expected to have a direct impact on their behaviour. With the implementation of the new Securities Law, the audit environment has undergone significant changes, particularly in reinforcing the role of auditors as "gatekeepers" in the capital market. This enhanced role demands a thorough examination of financial information, which is critical for the future development of the capital market (Huang & Gao, 2021). Given these changes, it is essential to explore how auditors may adjust their audit behaviour in response to the new Securities Law.

The new Securities Law introduces a number of reforms that carry important implications for audit practice in China. These changes span regulatory approval mechanisms, legal liabilities, information disclosure standards, and investor litigation risk. Based on a comparative review of the pre- and post-revision legal texts and supplemented by relevant literature, the following four aspects are most relevant to external auditors.

First, the revised Securities Law significantly enhances information disclosure requirements. One of the most important revisions in the new Securities Law is the establishment of a dedicated chapter on information disclosure, which significantly broadens the scope and depth of disclosure obligations for listed companies. Articles such as 78, 80, and 83 introduce new principles of clarity, simultaneity, and fairness in disclosure, along with enhanced civil liability for misleading or omitted information. From an auditing perspective, these changes elevate the responsibility of auditors to assess the adequacy and completeness of disclosures. Auditors are now expected to exercise greater professional skepticism when evaluating management's narrative disclosures and significant event reporting.

The literature suggests that stronger disclosure requirements increase the demand for high-quality audit services, as both investors and regulators rely more heavily on the assurance provided by external audits (Bushman & Landsman, 2010). Moreover, when the scope of information subject to public scrutiny is expanded, auditors must implement more robust verification procedures to mitigate legal and reputational risks. This results in increased audit effort and potentially higher audit fees, while also reinforcing the auditor's role in ensuring fair market conduct.

Second, the reform replaces the traditional licensing system with a filing system for audit firms engaged in securities services. Under Article 160 of the new law, audit firms engaging in securities services are no longer subject to administrative licensing by the China Securities Regulatory Commission. Instead, they must complete a filing procedure with the relevant regulatory authorities. This shift substantially lowers institutional barriers to entry, thereby increasing the number of audit firms eligible to provide securities-related services. According to CSRC data, the number of approved firms increased significantly following

this reform. The reduction in regulatory gatekeeping has led to intensified competition in the audit market. Such market dynamics may affect how auditors allocate resources, set pricing strategies, and assess engagement risks (Francis, 2004; Li & Sun, 2021). While reduced entry thresholds may encourage smaller firms to enter the capital market, they may also raise concerns regarding quality consistency and audit independence.

Third, the revised law imposes significantly harsher penalties for professional misconduct. Article 213 of the new Securities Law significantly raises the costs of audit-related violations. Under the new framework, securities service institutions that fail to fulfill their duties diligently may face fines of up to ten times their business income or a cap of CNY 5 million. In cases of serious violations, firms may be suspended or permanently banned from engaging in securities services. Moreover, individuals with direct responsibilities, including partners and signing auditors, may face personal fines of up to CNY 2 million. This is a substantial escalation from the previous penalty structure, where institutional fines were capped at five times business income and personal fines at only CNY 100,000. Empirical studies suggest that higher legal liability regimes increase auditor conservatism, reduce the likelihood of aggressive financial reporting, and encourage more robust audit procedures (Asthana & Boone, 2012; DeFond & Zhang, 2014). This provision is especially relevant to the present study, as it directly relates to how legal reforms influence auditor decision-making and audit outcomes.

Fourth, the law clarifies the application of joint and several liability for audit failures. Article 163 establishes that audit firms may be held jointly and severally liable with other parties for investor losses arising from misstatements or omissions in financial disclosures. This is further supported by the inclusion of a dedicated chapter on investor protection (Chapter Six), which introduces mechanisms such as representative litigation and

advance compensation by controlling shareholders or auditors. The formalization of joint liability greatly elevates the legal risk faced by auditors and increases the likelihood of facing civil lawsuits from affected investors. In light of the growing importance of investor protection institutions and class-action mechanisms in China, this provision has become highly consequential. Previous literature notes that stronger enforcement environments tend to incentivize higher audit quality and greater auditor caution (Choi et al., 2010).

In summary, the revised Securities Law introduces both structural and substantive changes that redefine the regulatory landscape for external auditors. Among these, the enhancement of information disclosure standards, the shift to a filing system, the elevation of legal liability, and the codification of investor-related responsibilities are the most impactful. These changes are expected to influence both the quality of audits and the way audit services are priced, providing the legal foundation for this study's empirical investigation into auditor behaviour, particularly in terms of audit quality and audit fees.

1.1.6 The New Securities Law and External Audit

In the newly revised Securities Law, a regulation directly related to the qualifications of audit firms has garnered widespread attention. Article 169 of the previous Securities Law stated: "Audit firms engaged in securities services must obtain approval from the State Council's securities regulatory authority and relevant competent departments. The approval procedures for audit firms engaged in securities services will be formulated by the State Council's securities regulatory authority and relevant competent departments." In contrast, Article 160 of the new Securities Law stipulates: "Audit firms and other securities service institutions shall diligently fulfill their duties, providing services for securities transactions and related activities in accordance with relevant business rules. Audit firms engaged in securities services shall file records with the State Council's securities regulatory authority

and relevant competent departments." This shift signifies that the qualification process for audit firms providing services to listed companies has transitioned from an approval system to a filing system.

Under the filing system, firms that wish to engage in securities services (excluding investment advisory services) only need to submit relevant materials to the State Council's securities regulatory authority and relevant competent departments for filing. Circular No. 97 of the Ministry of Finance imposes requirements on the organizational structure and suitability of audit firms intending to undertake securities services. It mandates that firms must adopt a partnership structure and prohibits them from accepting business that is incompatible with their operational situation, professional quality, scale, and risk-bearing capacity. Notably, there are no specific requirements regarding the scale, years of operation, or number of practitioners for audit firms. This implies that under the filing system, any audit firm has the opportunity to undertake auditing services for the capital market, leading to a more competitive environment where the market selects audit firms through competition (Li & Sun, 2021).

Before November 2020, only 40 audit firms had been announced by the China Securities Regulatory Commission (CSRC) as being engaged in securities services. However, as of April 10, 2023, the number of audit firms announced by the CSRC engaged in securities services had increased to 116, and this number continues to rise. This expansion indicates a significant change in the entry barrier to the auditing market and the competitive dynamics within it. In 1992, the first batch of audit firms licensed to engage in securities business included 13 firms. Subsequently, the number of firms with securities qualifications fluctuated, especially during periods of major mergers in the Chinese auditing industry. After

the transformation of Chinese audit firms into special general partnerships in 2013, the number stabilized at 40 firms, remaining unchanged until the new Securities Law was promulgated in 2019. Figure 1.4 illustrates the changes in the number of Chinese securities-qualified audit firms since 2013.

Although China's capital market has undergone substantial expansion over the past two decades, the number of audit firms qualified to provide securities services remained relatively stable from 2013 to 2019. It was not until the implementation of the new Securities Law and the filing-based entry system in 2020 that a significant increase occurred, as shown in Figure 1.4.

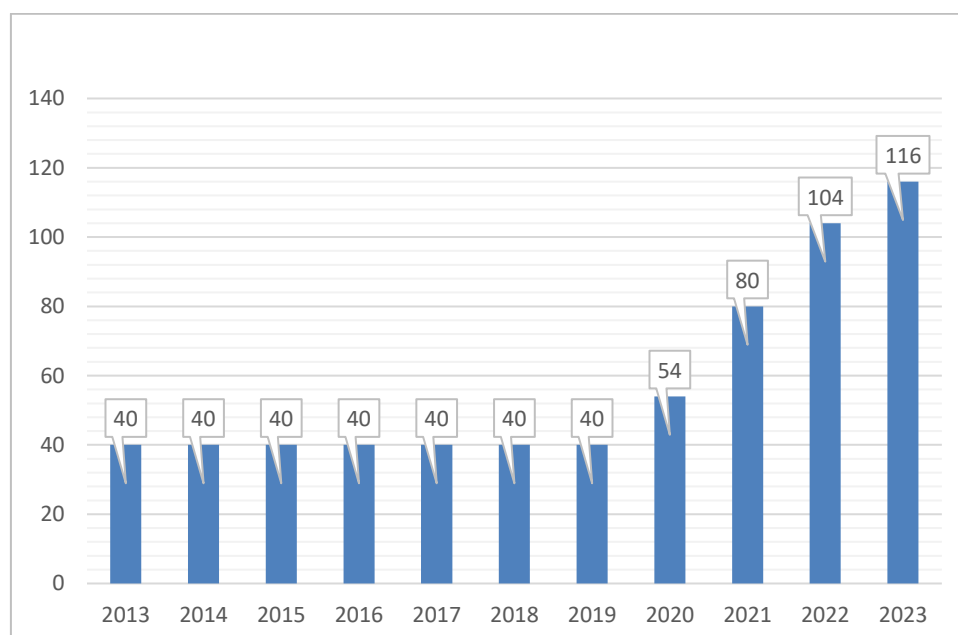


Figure 1.4: Number of Securities Qualification Audit Firms in China Year 2013 to 2023

Source: Compiled by the author from the China Securities Regulatory Commission website

The concentration of the audit market influences auditors' behavioural choices. In an oligopolistic audit market, auditors may become complacent, leading to reduced skepticism, diminished audit service quality, and changes in audit fees (Bentley et al., 2021; Circle et al.,

2012). The reform of the audit practice entry system significantly affects the reallocation of audit market resources and alters the competitive landscape, which in turn impacts audit work and audit quality. However, the outcomes of financial regulatory reforms are heavily dependent on the quality of enforcement and the diversity of corporate entities (Ponticelli & Alencar, 2016) and are also significantly influenced by the effectiveness of internal controls and the intensity of media oversight. Effective internal controls help companies better comply with regulatory requirements and reduce the incidence of violations (Chen et al., 2011). Additionally, media oversight enhances transparency and accountability among market participants through public disclosure and societal pressure, thereby encouraging auditors to perform their duties with greater diligence (Dyck et al., 2008). Therefore, it remains uncertain whether the reforms in the audit practice entry regime under the new Securities Law will positively or negatively affect overall audit quality in the market.

Another critical aspect emphasized in the newly revised Securities Law is the increased focus on information disclosure and investor protection. This shift has transformed the regulatory and litigation environment in the auditing industry. Since the promulgation of the new Securities Law in 2019, there has been a significant rise in the number of auditors subject to regulatory actions by securities regulatory authorities due to violations. Figure 1.5 provides a tabulation of the number of auditor violations from 1996 to 2023.

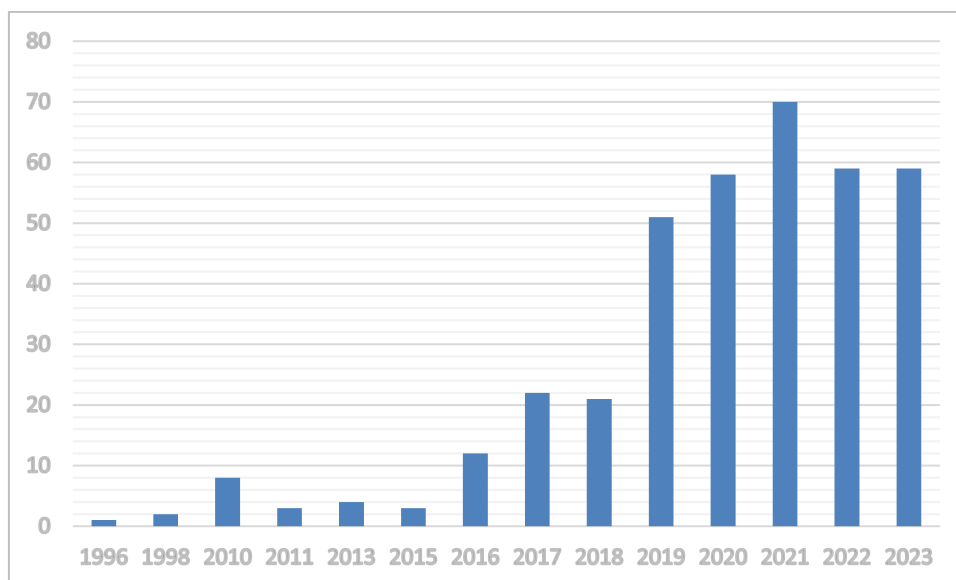


Figure 1.5: Number of Auditor Violation Events in China Year 1996 to 2023

Source: Compiled by the author from the China Securities Regulatory Commission website

Additionally, the new Securities Law significantly increases the cost of illegal activities, raising the penalties for violations in the securities sector. Administrative penalties have been elevated from the previous maximum of CNY 600,000 to CNY 20 million, alongside improvements in civil liability and litigation systems, where wrongdoers are held accountable for their civil responsibilities.

In 2020, following the implementation of the audit firm filing system stipulated by the new Securities Law, Shenzhen Tangtang audit firm became a registered entity authorized to engage in securities services. On March 26, 2020, Xinjiang Yilu Wanyuan Industrial Investment Holdings Co., Ltd. (*ST Xinyi) announced its intention to appoint Shenzhen Tangtang audit firm to audit its 2019 annual financial statements. In an attempt to assist *ST Xinyi in avoiding delisting, Shenzhen Tangtang issued an audit report containing false information and significant omissions. This case marked a significant instance under the new Securities Law where the CSRC imposed severe penalties on the audit firm, including the

confiscation of CNY 1.99 million in business income, a one-year suspension from engaging in securities services, and a fine amounting to six times the confiscated amount, totaling CNY 11.94 million. Moreover, the relevant registered accountants faced fines of CNY 1 million, CNY 500,000, and CNY 300,000, along with market bans of 10 years, 5 years, and 3 years, respectively. This represents the heaviest penalty the CSRC has issued to an audit firm to date.

The administrative penalties imposed by regulatory authorities can significantly impact the reputation of audit firms. Due to the influence of reputational mechanisms, these penalties can alter auditor behaviour, ultimately affecting audit opinions and fees (Gimbar et al., 2016). This incident not only serves as a warning for auditing firms to maintain diligence, independence, objectivity, fairness, and professionalism but also prompts a broader consideration of the impact of the new Securities Law on audit quality and audit fees. This study anticipates that auditors will take proactive measures to address the increased risks associated with enhanced external regulation. It will specifically examine the effects of the implementation of the new Securities Law on auditor behaviour from the perspectives of audit quality and audit fees.

The external legal and regulatory environment plays a fundamental role in shaping the structure, behavior, and outcomes of audit practices. Regulatory reforms often serve as direct triggers for structural shifts in the audit market, influencing not only the entry and exit mechanisms of audit firms but also the allocation of audit resources, strategic choices, and professional boundaries. Extensive international research has demonstrated that regulatory measures—such as mandatory firm rotation, restrictions on non-audit services, and strengthening the role of audit committees—are primarily aimed at enhancing audit quality

and independence, restoring investor confidence, and exerting direct institutional effects on the supply side of the audit industry (Tan & Ho, 2015).

In the European Union, the 2014 audit reform marked a turning point toward audit regulatory modernization. It introduced mandatory audit firm rotation, stricter prohibitions on non-audit services, and expanded disclosure in audit reports. A qualitative study by Castillo-Merino et al. (2024) based on Spanish market interviews found that the reform imposed significant compliance burdens and led to strategic shifts in client management, risk assessment, and pricing, ultimately transforming the competitive logic of audit firms and promoting greater specialization and transparency in audit services.

Similar effects are observed in transitional economies. For instance, Kantsir and Plekan (2017) demonstrate that Ukraine's regulatory reforms driven by its EU alignment established a public oversight body and strengthened quality control mechanisms. These reforms increased market concentration and professionalization by raising the barriers for market entry, especially for small and mid-sized firms.

In the Commonwealth system, Australia's CLERP 9 reform provides another case. Based on qualitative interviews, Houghton et al. (2013) argue that the reform improved confidence in financial reporting by reinforcing disclosure requirements and redefining auditor responsibilities. It compelled audit firms to rebalance their independence strategies, human capital allocation, and service portfolios.

Beyond regulatory design, the maturity of the legal environment itself is an important institutional factor affecting audit behavior. Choi and Wong (2002) found that audit firms in strong legal environments are more selective of clients and charge higher risk premiums in a cross-country study covering 39 jurisdictions. While strong legal frameworks promote

demand for high-quality audits, weak legal environments lead to external audits being used as substitutes for legal protections, particularly in addressing agency conflicts.

In the Chinese context, Liu (2015) analyzes A-share listed firms from 2003–2013 and finds that audit firms allocate more experienced personnel to regions with stronger legal environments and are more likely to issue non-standard audit opinions in those areas. This indicates that the legal context affects both the allocation of audit talent and the conservatism of audit judgments, particularly among large firms.

The impact of legal and regulatory environments also extends to audit outcomes and oversight effectiveness. Boolaky and O’Leary (2012) construct a 13-variable model incorporating legal, governance, education, and market factors, using data from 28 sub-Saharan African countries. They find that stronger legal systems significantly improve audit assurance quality and regulatory implementation.

Furthermore, institutional configurations shape audit efficiency and auditor judgment. Larmande and Lesage (2023) show that in the U.S., regulatory oversight (e.g., PCAOB inspections) enhances audit effectiveness, while legal liability rules improve efficiency. However, a dual enforcement regime may constrain auditors’ professional discretion, raising trade-offs between quality and efficiency.

Together, these studies demonstrate that audit supply and auditor behavior are not solely market-driven, but are profoundly shaped by legal and institutional environments. Regulatory design not only affects entry barriers and behavioral norms, but also underpins the credibility and trust structure of audit practices.

Against this backdrop, China's new Securities Law, especially the shift from an approval-based to a registration-based system signals fundamental institutional changes in market access, competition, and accountability mechanisms. While international experience suggests such reforms may enhance audit quality and transparency, the actual impact in the Chinese context remains underexplored. Specifically, whether the new Securities Law has altered auditors' incentive structures, resource allocation, or risk pricing strategies is still unclear. Therefore, this study seeks to systematically investigate the impact of the new Securities Law on audit quality and audit fees, providing empirical evidence to evaluate its effectiveness and inform future policy optimization.

1.1.7 Internal Control and Audit Quality

Internal control, as a fundamental corporate governance mechanism, directly impacts auditors' professional judgments by reducing risks associated with financial misstatements (Hogan Michael, 2008). Parushina and Pronyaeva (2023) analyzed internal financial control in Russian public institutions and found that robust internal systems enhance the reliability of financial statements, thus reducing audit scope requirements. Empirical evidence from China shows that auditors tend to issue fewer qualified audit opinions to firms with robust internal controls, reflecting greater auditor confidence and improved audit quality outcomes in the presence of strong governance systems (Chen, 2017).

The revised Securities Law in China has significantly strengthened the regulatory framework surrounding corporate governance, explicitly emphasizing rigorous internal control mechanisms to ensure comprehensive and accurate information disclosure. Given the new Securities Law's explicit requirements for enhanced disclosures, increased penalties for non-compliance, and joint liabilities, strong internal controls are expected to further mitigate audit risks, prompting auditors to adopt more consistent and reliable auditing

practices. Thus, the strength of internal controls is anticipated to significantly moderate how the regulatory shifts introduced by the new Securities Law affect overall audit quality.

1.1.8 Internal Control and Audit Fee

The relationship between internal control quality and audit fees is also critical within the context of regulatory reform. Aobdia and Petacchi (2020) found that when internal inspection systems within audit firms are perceived as effective, they lead to increased audit effort and improvements in financial reporting quality, highlighting how internal governance mitigates perceived audit risk. Conversely, deficiencies in internal control mechanisms typically necessitate expanded audit procedures and increased auditor resources to compensate for heightened misstatement risks, thus raising audit fees (Hogan Michael, 2008).

With the implementation of the new Securities Law, which markedly elevates penalties for auditors and securities institutions in cases of regulatory non-compliance or audit failure, auditors now face heightened liability exposure. This enhanced risk environment logically intensifies auditors' sensitivity to client internal control effectiveness. Empirical research in China by Pan & Song (2017) confirms that auditors consistently charge higher audit fees for firms exhibiting weaker internal controls, particularly following regulatory tightening. Hence, the robustness of internal controls can serve as a critical moderating factor, influencing auditors' risk assessments and fee structures within the new regulatory context.

1.1.9 Media Coverage and Audit Quality

Media coverage acts as a crucial external governance mechanism, influencing auditor behaviour and the overall quality of financial reporting. By increasing transparency and public scrutiny, media oversight effectively raises the reputational costs for companies and

auditors involved in financial misreporting (Huang, 2023). Under the new Securities Law, which emphasizes enhanced investor protection, increased public accountability, and significant regulatory penalties for misstatements and disclosure violations, media coverage is likely to exert even greater pressure on auditors to adhere strictly to professional standards. Empirical evidence from China indicates that media coverage significantly improves audit quality by intensifying auditors' reputational concerns and prompting more conservative audit practices.

Mingdon(2014) demonstrated that extensive media attention in China increases auditors' vigilance, reflected by higher frequencies of issuing qualified or modified audit opinions. Thus, the heightened regulatory expectations introduced by the new Securities Law, coupled with intensified media scrutiny, can substantially amplify auditors' incentives to maintain rigorous auditing standards, significantly moderating the relationship between regulatory reforms and audit quality.

1.1.10 Media Coverage and Audit Fee

Media coverage also directly impacts auditors' pricing decisions by altering their perceptions of reputational and litigation risks. Auditors typically adjust their fees to reflect higher anticipated risks and additional audit efforts associated with firms subject to extensive negative media attention. For example, a study using Chinese A-share listed companies finds that negative news coverage from official WeChat public accounts is significantly and positively associated with audit fees, due to increased perceived risk and higher risk premiums demanded by auditors (Feng et al., 2025). Similarly, Cahan et al. (2020) provide evidence that media exposure indirectly improves financial reporting quality through its effect on audit fees: auditors increase pricing as a response to higher reputational and litigation risks driven by media scrutiny. Furthermore, Burke et al. (2019) show that negative ESG-related media coverage increases both the likelihood of auditor resignation

and audit fees, indicating that auditors factor in reputational damage risks when setting their pricing strategies. In China, Zhang et al. (2024) demonstrate that retail investor pessimism expressed in online forums leads auditors to increase fees, due to increased market pressure and perceived litigation risks.

In the context of China's new Securities Law, which intensifies legal penalties, enhances disclosure requirements, and expands investor litigation rights, media exposure increases auditors' sensitivity to reputational and litigation risks. Using media coverage as a moderating variable not only helps uncover the underlying mechanisms through which the new Securities Law influences the relationship between audit quality and audit fees, but also offers a new perspective and theoretical support for understanding the role of the external information environment in shaping audit behavior.

1.2 Problem Statement

Existing research in China has primarily examined the impact of the new Securities Law from the perspectives of institutional change and legislation (Cao, 2020). It has been noted that the new Securities Law contributes to protecting investor rights and improving the quality of information disclosure by listed companies in China (Cai et al., 2021; Tang et al., 2023; Wang, 2023). As a crucial component of investor protection in the capital market, auditing has been significantly influenced by the implementation of the new Securities Law. While some studies have explored the impact of the new Securities Law on auditing, they have largely relied on case studies or theoretical deductions, lacking empirical data support in China (Li, 2020; Li & Sun, 2021). Additionally, diverse research efforts have investigated how the regulatory environments of audit markets in different countries influence auditor behaviour in European countries (Ehrmann & Prinz, 2023).

Auditors play a critical role in capital markets. Ensuring high-quality audits is not only key to maintaining the reputation of the auditing profession but also essential for the stability and healthy functioning of China capital markets (Chun et al., 2005). The enhancement of audit quality has consistently been a focus within academic research (Yu & Huang, 2023). Both external regulation and the conditions of the audit market significantly affect audit quality (Hsiao-Lun & Chan-Jane, 2016). Audit fees reflect auditors' compensation for the costs and risks incurred in providing auditing services. To address significant misreporting risks, auditors may transfer these risks to clients through fee premiums or charge higher fees to compensate for increased audit input requirements. For instance, Simunic (1980) first developed a theoretical model showing that audit pricing reflects client-specific risk, using Canadian data. DeFond & Zhang (2014) further documented how litigation risk and regulatory intensity affect audit effort and pricing in a U.S.-based review. More recently, Widmann et al. (2021) demonstrated that audit fees are sensitive to perceived audit complexity and regulatory scrutiny, confirming the cross-country relevance of audit fee risk premiums based on evidence from Germany. The implementation of the new Securities Law has altered the audit regulatory environment, potentially affecting auditors' decisions and behaviours regarding audit quality and fees. Investigating how these changes influence auditor behaviour not only aids in understanding the specific implications of the new Securities Law but also provides empirical support for policymakers, investors, and executives of listed companies to enhance audit regulatory frameworks and economic policymaking.

There is limited research on how the China's new Securities Law affects audit quality and fees, with existing studies mainly focusing on the effects of auditor traits, client features, and external conditions. However, empirical research on the specific effects of the new

Securities Law on auditor behaviour, particularly within China's unique securities market environment, remains scarce. Although internal controls are regarded as corporate governance mechanisms (Daif & Jalal, 2022) and media oversight as an external form of supervision, both of which influence auditors' risk perception and reputation protection (Pittman et al., 2021), there is a lack of research on how these factors operate under the regulatory framework of the new Securities Law. This study aims to fill this gap by focusing on the effects of the new Securities Law on the supply and demand dynamics in the audit market and the execution of audit activities, providing a comprehensive analysis of its specific impacts on auditor behaviour.

This study seeks to explore the impact of the new Securities Law on audit quality and audit fees, using media attention and internal controls as moderating variables. It analyzes the influence of the new Securities Law on auditors' decision-making processes, evaluating the effectiveness of the policy. Furthermore, it explains the role and effects of this law in shaping the audit market within a more open yet stricter legal environment of the securities market. This research contributes not only to the regulation of auditor behaviour and the enhancement of audit quality but also to the protection of market participants' legal rights and the promotion of sustained, orderly, and high-quality growth of the capital markets.

A large number of studies in different countries have examined the factors influencing audit quality and audit fees from the perspectives of auditor characteristics, client characteristics and external environment. And scholars have different views on the impact of the legal and regulatory environment in which auditors operate on auditor behaviour (DeFond & Francis, 2005; Ehrmann & Prinz, 2023; Wang, 2011). The implementation of China new securities law has led to significant changes in both the securities audit market

structure and the legal regulatory environment. This also provides a quasi-natural experiment to observe the impact of the implementation of the new securities law on audit quality and audit fees. While some studies have explored the impact of the new securities laws in China theoretically, there is a lack of empirical studies and reliable evidence to quantify these impacts. It is not clear whether the new securities law has significantly improved audit practices and outcomes. The literature lacks comprehensive studies to measure the direct impact of the new securities laws on audit quality and market efficiency in China. This study extends the theoretical breadth of the impact of the new securities law on audit quality and audit fees, and provides direction for research gaps in the theoretical and empirical foundations.

China's listed companies are located in a securities market that is unique in its rapid development, large scale and unique regulatory environment. The government is in a dominant position in the regulation of audits of China listed companies (Chen, 2009). China's regulatory environment is unique, especially in the regulation of emerging markets. With the expansion of the market and the increase of international exchanges, the Chinese government has continuously adjusted and strengthened its regulatory policies to cope with the rapid changes and potential risks in the China market (Wu, 2023). The enactment of the new securities law is also an important step to strengthen the opening of China's securities market to the outside world. In this context, the regulators have relaxed the threshold for market entry but adopted stricter penalties for non-compliance.

Concentrating on the impact on corporate audit quality and audit fees under the new securities law framework, this study examines whether reputational mechanisms can continue to work in a more open but stricter legal environment of securities markets, which

provides new support for reputation theory. Meanwhile, most of the previous studies have focused on developed markets, while this study will fill the gap in the structure of developing and emerging markets through empirical support. The impact of new securities laws on corporate audit quality and audit fees may vary in developing markets.

In this study, the Difference-in-Differences model was used in order to exclude endogenous effects and observe only the policy colour net utility when examining the effect of the new securities laws on audit quality and audit fees (Baker et al., 2022; Roth et al., 2023), while two additional moderating variables were added to the research work, including internal control and media coverage. Internal controls, as part of corporate governance (Deng & Wen, 2024), may play a key role in changes in audit quality and fees following the implementation of securities laws. Media coverage, on the other hand, may influence audit quality and fees by increasing market information transparency and auditor risk perception (Frost et al., 2022). This study will identify and better explain the impact of new securities laws on auditors' behavioural decisions.

1.3 Research Questions

Six research questions were constructed in order to examine the above issues.

RQ1 : Does the implementation of China's new securities law affect audit quality?

RQ2 : Does internal control moderate the impact of China's new securities law on audit quality?

RQ3 : Does media coverage moderate the impact of China's new securities law on audit quality?

RQ4 : Does the implementation of China's new securities law affect audit fees?

RQ5 : Does internal control moderate the impact of China's new securities law on audit fees?

RQ6 : Does media coverage moderate the impact of China's new securities law on audit fees?

1.4 Research Objectives

The general objective of this study is to examine the impact of the implementation of the new Securities Law on auditor behaviour and investigate the moderating effects of internal control and media coverage.

The specific objectives of this study are as follows.

RO1 : To examine the impact of the implementation of China's new securities law on audit quality.

RO2 : To investigate the moderating effect of internal control on the relationship between China's new securities law and audit quality.

RO3 : To investigate the moderating effect of media coverage on the relationship between China's new securities law and audit quality.

RO4 : To examine the impact of the implementation of China's new securities law on audit fees.

RO5 : To investigate the moderating effect of internal control on the relationship between China's new securities law and audit fees.

RO6 : To investigate the moderating effect of media coverage on the relationship between China's new securities law and audit fees.

1.5 Scope of Study

This study investigates the impact of China's new Securities Law, revised in December 2019 and implemented in March 2020, on the audit quality and audit fees of Chinese A-share listed companies. The A-share market is selected due to its dominance by retail investors, consistent growth, and significance within the broader Chinese stock market. Additionally, this market is under rigorous scrutiny by regulatory authorities, who frequently intervene to protect the interests of small and medium investors, making it a highly relevant focus for this research.

The scope of this study includes A-share listed companies from 2016 to 2022 that are not labeled as "ST" or "*ST." In the Chinese stock market, "ST" (Special Treatment) companies are those that have reported consecutive annual losses, indicating financial distress. "*ST" companies are those that are not only under "ST" designation but also flagged for violating securities regulations or exchange rules. Due to the heightened investment risks and trading restrictions associated with these companies, their inclusion could introduce irregularities that may affect the robustness of the analysis. Therefore, they are excluded from the sample.

The auditors included in this study are those who perform annual financial audits for the listed companies within the defined scope and are qualified to engage in securities market activities. These auditors are directly influenced by the new Securities Law, making their behaviour changes central to this study's analysis of audit quality and fees.

1.6 Significance of the Study

This study holds significant value in multiple dimensions. First, it addresses a critical gap in existing literature by providing empirical evidence on the impact of China's new Securities Law on auditor behaviour, particularly in terms of audit quality and audit fees. While prior research has primarily focused on the theoretical implications of legislative changes, this study uses data-driven analysis to reveal how these changes manifest in the unique environment of China's A-share market. By doing so, it enriches the academic discourse on the real-world effects of regulatory reforms, offering concrete insights that are directly applicable to the current regulatory context.

Second, this research has practical implications for auditors, audit firms, and regulatory authorities. By exploring how auditors respond to increased regulatory scrutiny and heightened penalties, the study offers valuable guidance on how to adapt to new regulations while maintaining audit quality. This is particularly relevant for practitioners who must navigate the complexities introduced by the new Securities Law. Additionally, the study provides regulatory bodies with a deeper understanding of the law's effectiveness, which could inform future policy adjustments aimed at enhancing market transparency and protecting investor rights.

Furthermore, this study contributes to the broader understanding of the role of external regulation in shaping audit practices. By analyzing the economic consequences of the new Securities Law on audit market dynamics, the research not only provides insights relevant to China but also offers valuable lessons for other emerging markets undergoing similar regulatory transformations. This cross-market applicability enhances the study's

relevance, making it a valuable resource for both domestic and international scholars and practitioners.

Lastly, the study holds particular importance for investors in the capital markets, who rely on audit reports to assess corporate financial information and make informed investment decisions. By examining the impact of the new Securities Law on the informational content and quality of audit reports, the research provides investors with a better understanding of how regulatory changes influence the reliability of financial disclosures. This also helps investors more accurately evaluate the value and risks associated with companies, leading to more informed and strategic investment decisions. Ultimately, the study contributes to the transparency and healthy development of the securities market, while safeguarding the legitimate rights of investors.

1.7 Organization of the Study

This paper is organized into five chapters.

Chapter One serves as the introduction, outlining the background, problem statement, research questions, objectives, significance, and scope of the study, as well as the overall organization of the paper.

Chapter Two is the literature review, which begins with an introduction to the theoretical foundation of this study, including audit risk theory and reputation theory. These theories provide the analytical basis for our research. It then reviews the literature on the economic consequences of securities law, the factors influencing audit quality and audit fees, and the relationships between internal control and auditor behaviour, as well as media coverage and auditor behaviour, identifying the research gaps.

Chapter Three discusses the research methodology. Building on the literature review, this chapter presents a conceptual framework, conducts theoretical analysis, and formulates hypotheses. It identifies measurement indicators for audit quality, audit fees, internal control, and media coverage before developing an empirical model. A Difference-in-Differences model is constructed to assess the impact of the new securities law on audit quality and audit fees, with internal control and media coverage as moderating variables. The study primarily employs quantitative analysis methods.

Chapter Four presents the research findings. It begins with descriptive statistics for all sample data and then provides an empirical analysis based on the proposed models. Diagnostic tests are conducted prior to model testing to ensure validity. The chapter concludes with an analysis of the model results and robustness tests to confirm the stability of the findings.

Chapter Five concludes the paper and offers recommendations. It discusses the findings, theoretical implications, practical implications, limitations of the study, and suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter establishes the theoretical foundation for this study through a comprehensive literature review. It begins by presenting the core theories guiding this research, namely audit risk theory and reputation theory, which are crucial for understanding the dynamics of auditor behaviour within the legal and regulatory framework. The chapter then outlines the implementation of China's new securities law and its significant impact on the structure of the securities audit market and the broader legal regulatory environment. The literature review further addresses the economic consequences of these regulatory changes, particularly focusing on their implications for the external regulation of auditing practices.

Following this, the chapter details the various factors influencing auditor behaviour, with a specific emphasis on auditor characteristics, client characteristics, and the external environment. This section is essential for constructing the framework for the subsequent research design. In addition to these primary areas, the chapter also considers the influence of internal control quality and media attention in shaping auditors' risk assessments and decision-making processes. By integrating these elements, the chapter aims to provide a robust analytical foundation from existing literature for a comprehensive evaluation of how the new securities law affects auditor behaviour. Finally, the chapter concludes with a summary.

2.2 Reputation Theory

Reputation Theory, which has its origins in the fields of economics and management, particularly within the framework of game theory, serves as a fundamental concept for understanding how individuals, firms, or institutions build and maintain trust and credibility in the market and society at large. Reputation is an intangible asset that represents the accumulated perception of a firm's or individual's past behaviour and performance. It is crucial for decision-making in markets characterized by information asymmetry, as participants often rely on the reputation of others when making economic decisions.

Reputation formation is a cumulative process that arises from repeated interactions in the market or society. These interactions enable parties to develop a comprehensive evaluation system based on the behaviour, decisions, and performance of others. The concept of reputation was rigorously explored within the Repeated Game Model in game theory, where participants gradually form evaluations of others based on their actions over time (Kreps et al., 1982).

In their seminal work, Kreps et al. (1982) introduced the Reputation Model, which analyzed how reputation evolves in a series of repeated games. In their model, reputation acts as a signal that influences the expectations and decisions of market participants, particularly in environments characterized by incomplete information. Shapiro (1983) further extended this theory by arguing that reputation is maintained through the consistent delivery of high-quality products or services over time, thus becoming a valuable asset for firms.

In competitive markets, reputation is not only an intangible asset but also a critical factor influencing a firm's market performance, financing capabilities, and customer loyalty.

A strong reputation enables firms to secure better deals and attract more customers, while a damaged reputation can lead to loss of market share and exclusion from the market (Davies & Miles, 1998; Shapiro, 1983).

In the context of market competition, aside from the role of formal institutions, the expression of informal institutions is also indispensable. Reputation theory posits that reputation represents an embodiment of informal institutions, playing a crucial complementary role in the functioning of enterprise competitive mechanisms (Pharoah, 2003). The irreplaceable and intangible nature of reputation renders it a scarce resource for enterprises. Abundant possession of this scarce resource signifies a strong overall development capability for the enterprise, resulting in a distinct competitive advantage in market competition and the acquisition of economic and social trust (Walker, 2010). Therefore, possessing a favourable reputation is a key driver for businesses to achieve operational development, and how to earn favourable societal reputation evaluations has also become an integral component of corporate development strategies.

DeAngelo (1981) argues that auditors are motivated to maintain a good reputation to obtain guideline fees, making them more inclined to provide high-quality audit services. As auditors who provide audit attestation services and products, reputation also has an impact. Auditors' reputations reflect the evaluation of their comprehensive capabilities by capital market participants such as investors, the general public, and corporations (Wang & Zhang, 2012). Having a strong reputation implies the ability to provide high-quality audit services for companies, ensuring high-quality audit assurance for information, and safeguarding the interests of stakeholders, including investors. It also enables the provision of high-quality supervision for information in the economic and social sphere, promoting orderly development in the economic and social domains. Reputation represents auditors' value and

is essential capital for auditors to achieve profitability and advancement (Weber et al., 2008). This compels auditors to attach great importance to the formation and maintenance of their high reputation, striving to enhance the quality of audit services and supply high-quality audit products to the capital market (Mayhew, 2001). Watts and Zimmerman (1986) contend that auditor reputation serves as a guarantee of audit quality. Auditing firms are more inclined to improve audit quality to win the market competition. Mao et al. (2017) explore the impact of enhancing and damaging auditor reputation on the entire capital market from various perspectives through a literature review of auditor reputation, concluding that auditor reputation is crucial for maintaining a high level of audit quality.

The introduction of China's new Securities Law has significantly altered the legal landscape of the auditing market, particularly by increasing penalties for auditor misconduct. According to Reputation Theory, these legal changes may incentivize auditors to place greater emphasis on maintaining their reputation to avoid losing their competitive advantage in the market. Under the new legal framework, reputation mechanisms are likely to play an even more critical role, prompting auditors to adjust their behaviour to comply with legal requirements and market expectations, ultimately leading to improvements in audit quality.

Although Reputation Theory originated in organizational and economic contexts, it has been widely applied in auditing research to explain auditor incentives and behavioural choices under regulatory and reputational pressures. For instance, DeAngelo (1981) developed a model where audit quality is positively related to auditor reputation, highlighting that reputation serves as a market-based disciplinary mechanism in the audit industry. Mayhew (2001) further provides empirical support for the notion that auditors with higher reputational capital are more likely to supply higher audit quality to preserve their market position. These studies demonstrate that reputation operates not only at the firm or

organizational level but also applies directly to individual professionals and audit institutions within capital markets.

In the context of auditing, reputation represents the accumulated public and market evaluation of an auditor's integrity, independence, and technical competence. It serves as a critical non-contractual mechanism that mitigates agency problems between auditors and financial statement users, especially in markets characterized by information asymmetry and weak legal enforcement. Hence, maintaining a good reputation becomes essential for auditors aiming to retain clients, avoid regulatory sanctions, and build trust among investors and other stakeholders (Mao et al., 2017; Weber et al., 2008).

Reputation Theory also provides an interpretive lens through which the influence of legal reform, such as the implementation of China's new Securities Law, on auditor behaviour can be understood. The 2019 revision of the Securities Law introduced substantially higher legal liabilities for audit failures, including fines, industry bans, and civil damages. These heightened legal stakes increase the reputational costs of non-compliance. Under such a regime, auditors are not only responding to formal legal enforcement but are also internally motivated to maintain their reputational capital. This reputational self-regulation complements external legal enforcement, leading auditors to adopt more conservative judgement, expand audit procedures, and invest in quality control to avoid both legal and reputational damage.

Therefore, the use of Reputation Theory in this study serves to bridge the connection between enhanced legal penalties and shifts in auditor behaviour. It supports the hypothesis that regulatory changes reshape not only the legal but also the reputational environment in which auditors operate, thereby influencing audit quality through reputational incentives.

2.3 The Legal and Regulatory Framework of Auditing in China

China's regulatory system for external audit is characterized by a dual structure combining administrative oversight and industry self-regulation. This comprehensive governance model has played a critical role in safeguarding audit quality and maintaining market discipline in the context of China's evolving capital markets (Lin, 2004). Administrative regulation is primarily conducted by government agencies such as the Ministry of Finance, the National Audit Office, and the China Securities Regulatory Commission. These institutions supervise and guide the professional conduct of audit firms and practitioners, as well as enforce compliance in capital market-related audit services. The Ministry of Finance acts as the core regulatory authority overseeing auditor practices and standards, while the China Securities Regulatory Commission monitors audit activities related to securities markets to ensure integrity and investor protection (Wang & Shang, 2010).

In parallel, self-regulation is conducted by the Chinese Institute of Certified Public Accountants, which performs supervisory and disciplinary functions within the profession. The Chinese Institute of Certified Public Accountants facilitates continuing education, enforces ethical standards, promotes industry credibility, and conducts peer reviews to enhance audit competence and integrity (Simunic & Wu, 2009). The integration of these two regulatory pathways, state-driven administrative control and profession-led self-regulation, reflects a hybrid governance structure that aims to balance institutional authority with professional accountability.

To further streamline oversight functions and improve regulatory efficiency, a unified digital supervision platform was officially launched in 2022 under the coordination

of the Ministry of Finance and other authorities. This initiative enhances transparency, centralizes regulatory data, and strengthens the enforcement of audit standards across the CPA industry. Such regulatory infrastructure is vital in the context of China's shifting legal and economic landscape, where the demand for audit quality and transparency is intensifying (Lin, 2004). As China's capital market becomes more open and complex, the comprehensive regulation of the auditor profession continues to evolve as a cornerstone of financial market integrity.

The Securities Law is the cornerstone legislation governing China's capital market, and its recent revision is a pivotal event that has drawn significant attention from both academic and practical sectors. The implementation of the new Securities Law is a key component of China's broader efforts to strengthen its legal infrastructure. Chinese scholars have conducted localized studies within the domestic market context, primarily focusing on the normative implications of specific clauses that were added or modified in the revised Securities Law and their impact on the capital market.

2.4 Economic Consequences of the Revision of China Securities Law

The revised Securities Law has amended provisions related to false statements and the due diligence obligations of intermediary institutions. The new law significantly enhances penalties for entities involved in making false statements. To better safeguard investor rights through regulatory sanctions, it is crucial to establish and refine the model for identifying internal responsible parties, thereby aiding the market in correctly identifying the actual individuals responsible (Xing, 2021). Additionally, the new law clarifies the due diligence obligations of intermediary institutions, reinforcing their role as gatekeepers. Zhang and Zheng (2022) examine a real case involving Xintai Electric to demonstrate how legal service providers, under the increased due diligence requirements introduced by the

new law, can enhance their effectiveness in fulfilling their responsibilities, thus better protecting investor rights. Chen and Sun(2021) argue that the crux of intermediary institutions' performance lies in "independence." While the revised Securities Law has heightened due diligence requirements, it still struggles to fundamentally distinguish between formal and substantive independence. This ambiguity can undermine the effectiveness of investor protection. Regulatory authorities should leverage the regulatory flexibility provided by the new law to further develop and refine standards for the independence of intermediary institutions, granting them the necessary authority to promote substantive independence and responsibility. Auditors, as discussed in this paper, fall within the category of intermediary institutions affected by these changes.

The revised Securities Law introduces new provisions related to information disclosure. Amid changing disclosure requirements and the implementation of a registration system, companies are in the process of overhauling their information disclosure frameworks. The emphasis is shifting from merely satisfying regulatory requirements to focusing on investor needs, with the guiding principle being the usefulness of information to investors. This shift involves simplifying disclosure formats and highlighting critical content. Xu and Liu (2020) found that, following the implementation of the revised law, companies began to prioritize principles such as "clarity, simplicity, and ease of understanding" in their disclosures, with increased attention to "materiality" standards.

However, some studies suggest that while the new Securities Law promotes reforms in disclosure systems, it places excessive emphasis on financial information, which may inadvertently reduce the accuracy of decision-making for investors and other information users. To effectively protect investors and others, it is essential to broaden the scope of disclosure requirements to include relevant information on significant safety matters (Zheng

& Li, 2020). Moreover, despite the new law's inclusion of voluntary disclosure requirements, there should be measures, such as exemptions, for disclosure obligors to ensure that voluntary disclosures are genuinely voluntary and that they effectively protect the legitimate rights of investors and other information users (Li & Kang, 2020).

The new Securities Law establishes a representative system in collective litigation, marking a significant innovation in China's capital market litigation system aimed at protecting investors. To achieve effective collective protection, this system should be supported by the improvement and promotion of relevant group litigation mechanisms (Tang, 2020). Liu (2022) noted a positive market response to the representative system in litigation, particularly following the "Kangmei Pharmaceutical" case. The successful implementation of this system has prompted various companies to place greater emphasis on improving their corporate governance, thereby enhancing investor protection.

However, Chen (2020) contends that although the representative system in collective litigation under the new Securities Law represents a significant reform, the relatively limited judicial independence in China may restrict the extent to which this reform can enhance investor protection.

These studies explored the key revisions introduced by China's new Securities Law, focusing on its impact on false statements, the due diligence obligations of intermediary institutions, information disclosure practices, and the establishment of the representative system in collective litigation. The new law has reinforced penalties for misconduct, clarified the due diligence responsibilities of intermediary institutions, and shifted the emphasis of information disclosure towards investor needs. Additionally, the introduction of the representative system in collective litigation marks a significant development in investor

protection mechanisms. However, the extent to which these changes effectively enhance market practices and investor protection remains a topic for further investigation.

In the preceding analysis, the focus was primarily on domestic research conducted by Chinese scholars regarding revisions to China's new Securities Law. However, the significance of such legal reforms extends beyond national borders, with international scholars also examining the economic consequences of amendments to securities laws. For example, the seminal work of Porta et al. (1998) demonstrated that the quality of legal infrastructure, particularly in terms of corporate shareholder and creditor protection, plays a crucial role in the development of financial markets. Their study, which spanned 49 countries, underscores the notion that strengthening a nation's legal framework can significantly enhance market efficiency and competitive order within the economy.

The international experience offers valuable insights into the broader implications of securities law reforms. Greenstone et al. (2006) examined the effects of the 1964 revision to the U.S. Securities Act, which heightened corporate information disclosure obligations. Their findings revealed that these changes effectively reduced agency costs, lowered financing costs, and ultimately contributed to enhancing corporate value—a clear demonstration of how legal reforms can have far-reaching economic benefits.

Further, Zhang (2017) provided an in-depth analysis of the U.S. securities market, attributing its sustained success to the strong regulatory capacity of the Securities and Exchange Commission (SEC) and cooperative regulatory systems such as industry self-regulation. This analysis underscores the critical role that government financial regulation plays in maintaining market stability and fostering investor confidence.

Chinese scholars Yin and He (2004) posited that a robust regulatory framework for the securities market not only ensures fairness but also effectively guides companies to reduce violations, thereby enhancing market operational efficiency and overall social welfare. This perspective provides important theoretical support for the continuous improvement of China's securities legislation. Additionally, the empirical study by Chen et al. (2005) revealed that enforcement actions by the China Securities Regulatory Commission (CSRC) resulted in an economic loss of approximately 1-2% in company stock prices, while also observing increases in auditor turnover rates, the issuance of qualified opinions, CEO turnover rates, and widening bid-ask spreads. These findings underscore the strong regulatory influence and authority of the CSRC.

Wu et al. (2019) focused on the supervisory mechanisms of the Chinese Institute of Certified Public Accountants, demonstrating that these mechanisms effectively heightened auditors' awareness of audit risks, leading them to adopt more cautious and thorough audit procedures. This aligns with Liu (2015) research on the relationship between market economic order and legal systems. Liu argued that a well-functioning market economy fundamentally operates as a legal economy, emphasizing the importance of maintaining both the quantity and quality of legal system supply, which is crucial for advancing China's socialist market economy reform and ensuring the seamless integration of marketization and legal governance.

The recent revision of China's Securities Law, which intensified penalties for illegal activities in the securities market, represents a significant step toward raising the cost of non-compliance nationwide. By doing so, it encourages companies to adopt more disciplined and transparent practices, reducing instances of misappropriation of corporate interests and ultimately enhancing overall corporate value.

The study by Chen et al. (2020) on the revision of the Securities Law, passed on December 28, 2019, found that it has already begun to optimize resource allocation within the capital market. Their findings suggest that the revision is steering the market toward a "more lenient entry, stricter exit" approach, which is expected to promote healthier market development. The study further posits that the higher the level of investor protection embedded in foundational market laws, the more effectively the market can function in terms of resource allocation.

However, despite the significant legislative progress marked by the revision of China's Securities Law in terms of investor protection and the regulation of listed companies, the effectiveness of its enforcement and the degree of its implementation remain areas of concern. Although penalties for illegal activities have been increased, the actual impact of these changes on market practices and investor protection is still uncertain (Chen et al., 2018; Chen et al., 2019; Duan et al., 2019). Therefore, a comprehensive and detailed analysis is required to better understand the economic consequences and regulatory effectiveness of the revised Securities Law, considering the policy-making environment and specific enforcement measures.

2.5 Impact Factors of of Audit Quality

DeAngelo (1981) argues that audit quality is the combined probability that auditors will both detect and report errors and fraud in the financial statements of the audited firms. Empirical research often uses the degree of earnings management and the issuance of non-standard audit opinions as proxy indicators of audit quality (DeFond et al., 2002; Gul et al., 2013). Maintaining high audit quality is crucial, not only for preserving the reputation of certified public accountants but also for ensuring the stability and health of capital markets (C. Chun et al., 2005). The enhancement of audit quality has long been a subject of academic

interest (Yu & Huang, 2023), with external regulations and the audit market environment playing significant roles in shaping audit quality (Hsiao & Chan, 2016). Extensive research has been conducted on the factors influencing audit quality and the potential economic outcomes associated with it.

Since this study focuses on the effects of China's new securities law on audit quality, the following review primarily examines literature related to these influencing factors. The literature is organized according to three perspectives: client characteristics, auditor characteristics, and the external environment.

From the perspective of client characteristics, Kouaib and Almulhim (2019) investigated how audit services mediate the relationship between board diversity and earnings management activities in a European context. They found that boards with greater gender and national diversity are associated with higher audit quality. Similarly, Guizani and Abdalkrim (2021) tested the mediating effect of board independence between ownership structure and audit quality, revealing that companies with higher institutional ownership are more likely to hire high-quality auditors and pay higher audit fees, indicating that the independence and international composition of the board positively influence audit quality.

Additionally, companies with a higher proportion of female directors significantly improve audit quality, suggesting that board diversity contributes to better audit outcomes (El-Deeb & Mohamed, 2024). Gao (2020) found that board tenure enhances audit independence within a certain range, and independent directors with higher education and relevant international industry association experience demonstrate greater independence. However, exceeding a critical tenure threshold diminishes audit independence.

The relationship between the characteristics of client management and audit quality has been extensively explored. Mardessi (2022) notes in his study that the independence and financial expertise of the audit committee can significantly reduce actual earnings management activities. This indicates that robust corporate governance can mitigate the risk of engaging low-quality audit services due to excessive managerial power. Ghazi Rim (2014) analyzed how board members with international experience enhance financial transparency and audit quality in corporations, underscoring the beneficial effects of executives' overseas experiences on audit quality. Zhang et al. (2020) argue that the background characteristics of CFOs, such as age, education level, and lack of political connections, significantly influence audit quality, reducing the likelihood of financial restatements. Furthermore, Wang and Zhang (2020) assert that manipulation of managerial tone signals potential earnings manipulation to auditors, prompting them to intensify their audit efforts to avoid reputational and legal repercussions, thereby improving audit quality.

Using U.S. data, Krishnan et al. (2019) found that higher client concentration significantly enhances audit quality. However, Bai et al. (2022), using data from Chinese listed companies, found that firms with higher client concentration are more likely to engage in opportunistic behaviour, which increases business risks and diminishes audit quality. They explained that the difference between China and the U.S. stems from China's reliance on relational transactions due to the absence of a standardized market contract system, meaning that higher client concentration harms audit independence. Furthermore, DeFond and Zhang (2014) argue that client demand serves as both the motivation to request high audit quality and the capacity to fulfill this demand, driven by the incentive to lower agency costs. Agency conflicts are a primary factor influencing clients' motivation for high audit quality, and the degree of these conflicts directly determines the extent of clients' audit demands.

From the perspective of auditor characteristics, DeAngelo (1981) initially argued that there is a relationship between audit firm size and audit quality, indicating that the size of the audit firm impacts audit quality. Francis & Yu (2009) posit that the larger the size of the firm, the greater the incentives to provide high-quality audits, thus enhancing audit quality. Wu & Yang (2015) also confirmed the positive correlation between firm size and audit quality, noting that this relationship is influenced by the risk of sanctions. With substantial punitive measures, auditors take into account the litigation pressures, thus boosting their motivation to supply high-quality audits.

Auditor personal characteristics also impact audit quality. Hao et al. (2022) suggest that compared to male auditors, female auditors are more conservative, resulting in higher audit quality. DeFond and Zhang (2014) believe that auditors' personality traits affect their judgment during audit procedures, thereby influencing audit quality. (Knechel et al., 2015) found that auditors who made conservative or aggressive mispredictions in previous reports are more likely to make similar mispredictions in future reports. Additionally, auditors with industry-specific expertise are better equipped to detect significant misstatements in financial reports, as this expertise allows them to gain deeper insights into typical and atypical patterns within the industry, thus more effectively identifying anomalies that may indicate errors or fraud (Aghaei & Muhammaddun, 2014).

The auditor-client relationship also impacts audit quality. Brown and Knechel (2016) refer to the match between the auditor's capabilities and client needs as auditor-client compatibility, which is associated with higher audit quality. Zhang et al. (2019) argue that social relationships between independent directors and auditors, such as alumni, same-school, and same-region connections, significantly enhance audit quality. Quick et al. (2018)

found that while client importance typically enhances audit quality, pressure from economically significant clients may compromise auditor independence and integrity, especially in environments with poor corporate governance. However, Yang (2019) contends that in the competitive Chinese audit market, where acquiring new clients is costly, auditors may lose independence when dealing with highly significant clients, leading to lower audit quality. Nonetheless, for large firms, the high cost of reputation mitigates the negative relationship between client importance and audit quality.

From the perspective of external environment, the competitive environment of the auditor impacts audit quality. Newton et al. (2016) found that in highly competitive audit markets, opinion shopping is more likely to occur. Increasing market concentration is believed to curb auditors' opportunistic behaviour, thereby enhancing audit service quality (Antle et al., 2006; Newton et al., 2013). Similar findings have been observed in the Chinese market, where Huang et al. (2016) used data to confirm that higher market concentration leads auditors to increase fees and audit effort, thereby enhancing audit quality. However, there are contrary views suggesting that increased market concentration might reduce audit quality (Francis et al., 2003). Boone et al. (2012) found that the Big Four audit firms' oligopoly fosters complacency among auditors, leading to more lenient auditing practices, less skepticism, and reduced service quality. Kallapur et al. (2010) argue that if higher market concentration results from firm closures under strict regulation, it does not negatively impact audit quality.

The institutional environment indirectly affects a company's reputation and litigation risk by influencing its governance structure and information transparency. Better governance structures and transparent information disclosure can reduce litigation risk, thereby

enhancing corporate reputation (Francis, 2011). Hurley et al. (2019) found that in poor market environments, managers may reduce their demand for high-quality audits to avoid price protection behaviour by investors. This results in high-quality auditors not dominating the market, and instead, other auditors lowering their audit quality. Kowaleski et al. (2020) found that in regions with high corruption levels, firms have insufficient intrinsic motivation for high-quality audits. This is because firms might prefer to evade legal and regulatory requirements through other means rather than ensuring compliance via high-quality audits. Fung et al. (2023) show that in better institutional environments, firms are more motivated to hire high-quality auditors with industry expertise, reducing issues like declining stock liquidity and rising cost of equity capital. This indicates that a good institutional environment can enhance the demand for high-quality audit services.

Le and Moore (2023) found that high-quality audits significantly reduce the extent of earnings management and the cost of equity capital. By enhancing audit oversight and improving audit quality, the government can effectively reduce corporate earnings management, thereby improving the quality of financial reporting. Hassan et al., (2023) pointed out that in countries with strong governance mechanisms, audit quality effectively limits the use of real earnings management by firms. Specifically, high-quality audits are more effective under such governance mechanisms in reducing firms' motivation to manage earnings through real activities manipulation. Duong (2023) explored the impact of provincial institutional environments on audit quality and earnings management of newly listed companies. The study found that in regions with good provincial governance, earnings management behaviours of newly listed companies are significantly reduced, especially upward earnings management. This study highlights the importance of institutional environments in enhancing audit quality, as good governance can improve the transparency

and reliability of financial reporting by curbing earnings management. Wu et al. (2017) assert that government oversight can positively influence the relationship between auditor traits and audit quality.

However, opinions on the impact of administrative penalties on audit quality are divided. Some scholars believe that after auditors receive administrative penalties, the discretionary accruals of their clients significantly decrease, thereby improving audit quality (Boone et al., 2015; Lennox & Pittman, 2010). Additionally, Liu et al. (2019) found that if audit firms in the same industry were previously penalized by the SEC, the discretionary accruals of clients of other firms in the industry significantly decreased, thereby improving audit quality. On the contrary, Li (2016) argues that because administrative penalties on auditors are relatively light and the cost of violations is low, there has been no significant improvement in audit quality.

The literature comprehensively examines the factors influencing audit quality from various perspectives, including client characteristics, auditor characteristics, the auditor-client relationship, the competitive environment of the audit market, the institutional environment, and government regulation. The findings suggest that while certain factors such as board diversity, auditor expertise, and strong governance structures tend to enhance audit quality, other elements like high client concentration and weak institutional environments may undermine it. Additionally, the role of government regulation remains contentious, with mixed evidence on its effectiveness in improving audit quality. This review highlights the multifaceted nature of audit quality determinants and underscores the importance of a balanced approach that considers both market-driven and regulatory influences.

2.6 The New Securities Law and Audit Quality.

Competition is a fundamental driving force in any market economy (Coram, 2010). It serves as a selection mechanism where firms unable to adapt are less likely to survive, while those that learn and adapt thrive, enhancing the overall efficiency of the industry. In a competitive economy, sustained pressure can drive innovation and efficiency within organizations (Lin & Yi, 2023). The opening of the audit market can dynamically stimulate demand and supply for high-quality audits (Groot, 2018).

As competition in the audit market intensifies, listed companies are more likely to choose firms with higher audit quality. Consequently, small and medium-sized firms may enhance their risk awareness, proactively improve their internal control systems, and reduce collusion with clients to maintain their client base and lower their violation costs. Less qualified firms will likely be squeezed out, fostering healthy competition and improving overall audit quality. Additionally, as the market capacity for small and medium-sized firms expands, clients have more options, increasing the risk of auditors being replaced. This risk encourages auditors to be more conservative in their services to avoid having missed issues discovered by subsequent auditors (Hallman et al., 2022), which in turn forces an improvement in audit quality. Auditors who lack skills or experience are particularly motivated to enhance their audit quality to avoid being eliminated from the market. In this intensified competitive environment, auditors will proactively improve their service quality to gain a competitive edge, ultimately enhancing the overall market quality (Groot, 2018).

Reputation theory suggests that firms gain higher returns by building a strong reputation. Deceiving customers and losing reputation can lead to significant losses (Keh & Xie, 2009). For audit products, if the auditor's opinion can improve the accuracy of value

judgment and decision-making for investors and other users, and reduce the risk of their interests being infringed, the audit is considered high quality. A firm's reputation in the market will also be established, maintained, and enhanced (Bergner et al., 2020). Firms are unlikely to sacrifice their reputation for short-term gains (Klein & Leffler, 1981).

In an increasingly competitive audit market, audit quality becomes a critical factor in market competition. Under China's capital market registration system reform, the demand for high-quality audits, which focus on information disclosure, is stronger than ever. This implies an improved regulatory environment in China's securities auditing market, with new firms more inclined to increase their audit investment to capture market share. They will also actively reduce ethical deviations and provide high-quality services to gain market acceptance. Over time, competition favors ethical behaviour, leading to growth and increased revenue (Shleifer, 2004). The new securities law, with its measures like the special representative litigation system, increased penalties for securities violations, and changes in liability presumption, significantly raises the cost of violations. As a result, both clients and firms are likely to favor high-quality audits to minimize litigation risks and penalties (Kamarudin et al., 2022), which is likely to lead to an improvement in the quality of audits as well.

As a result, this research proposes the hypothesis as follow.

H1: The implementation of the China's new securities law has a significant positive impact on audit quality.

2.7 Internal Control and Audit Quality

For a company to achieve sustainable development, it requires both external governance oversight and internal governance constraints (Babatunde & Olaniran, 2009). Internal control is a system that effectively regulates corporate behaviour and prevents risks. An effective internal control system can enhance operational efficiency, improve the quality of information, ensure compliance with laws and regulations, and thereby reduce the risk of audit failure (Chang et al., 2019). According to Daif and Jalal (2022), internal control systems offer reasonable assurance through various safety measures to ensure company objectives are met and control risks impacting these objectives. Effective deployment of internal control systems enhances a company's ability to achieve its goals and avoid unforeseen and unexpected events. The Ministry of Finance of China issued the Guidelines for Internal Control of Listed Companies in 2006, the Basic Norms for Internal Control of Enterprises in 2008, and the Supporting Guidelines for Internal Control of Enterprises in 2010. The Ministry of Finance of China mandates that all listed companies strictly follow the Basic Norms for Internal Control of Enterprises and its supporting guidelines to continuously optimize their internal control systems.

As an internal governance mechanism, internal control risk factors are among the significant risk factors for material misstatements in financial statements. Auditors need to evaluate the reasonableness of the client's internal control design through risk assessment procedures and determine whether it has been implemented, then identify key audit areas and select appropriate audit procedures based on the client's internal control level. Therefore, the quality of a company's internal controls is a critical factor influencing auditors' determination of audit fees, issuance of audit opinions, and improvement of audit quality (Chen, 2018).

An extensive body of empirical literature underscores the critical role of internal control systems in enhancing audit quality. Within the context of Chinese state-owned enterprises, Yu (2024) provides evidence that well-functioning internal control frameworks contribute significantly to improved audit outcomes by mitigating operational risks and reinforcing the reliability of financial reporting. In a complementary study, Liu (2024) investigate the joint effects of social media scrutiny and internal control execution on audit quality. Their findings suggest that increased external visibility incentivizes firms to enhance internal control implementation, thereby promoting greater audit independence and improved audit quality.

The significance of internal control quality has also been validated in the international literature. Aobdia (2020) examine the relationship between auditors' internal review systems and audit performance, revealing that strong internal control environments are associated with enhanced financial reporting reliability and a lower incidence of audit failure. Chalmers and Khlif (2019) similarly argue that the effectiveness of internal controls directly influences auditor independence and impartiality, thereby increasing the credibility of audit reports.

Vahdani et al. (2019) extend this line of inquiry by exploring the intersection of corporate strategy and internal control mechanisms. Their study finds that strategically aligned internal controls facilitate more accurate auditor risk assessments and strengthen procedural rigor throughout the audit process. Abbott et al. (2020) further contend that robust internal control systems serve as a foundational prerequisite for the production of high-quality audits. Datsenko (2021) highlights the role of internal audit quality control in identifying firm-specific risks, asserting that effective internal oversight contributes to the

precision and reliability of audit outcomes.

Taken together, these studies converge on the view that internal control systems constitute a critical institutional infrastructure underpinning audit quality. They not only act as safeguards against financial misstatement and fraud but also provide a structured environment that enhances the transparency, credibility, and accuracy of financial reporting. As such, the integrity of internal control frameworks represents a core determinant of auditors' capacity to deliver reliable assurance services.

Following the implementation of China's new Securities Law, competition in the securities audit market has intensified, significantly increasing litigation risks and regulatory pressures for clients and firms. Audit risk theory and reputation theory provide valuable perspectives for understanding these dynamic market changes. The new Securities Law introduced several measures, such as the special representative litigation system, increased penalties for securities violations, and changes in the presumption of liability, all of which have significantly raised the costs of non-compliance for capital market participants. These measures not only increase the practice risks for auditors but also compel listed companies and audit firms to prioritize audit quality to mitigate the risks of litigation and penalties (Chen & Zhang, 2010). In this more competitive environment, auditors are more susceptible to client influence, and variations in internal control quality may play a critical role in this process (Brown et al., 2013).

Internal control, as a crucial component of corporate governance, plays a vital role in the effectiveness of overall management and operations within a company. High-quality internal controls not only help prevent errors and fraud in financial reporting but also enhance transparency in information disclosure, thereby building trust among external

investors. Specifically, an internal control system comprises five elements: control environment, risk assessment, control activities, information and communication, and monitoring. These elements interact to ensure the accuracy and completeness of a company's financial reporting, providing a reliable foundation for external auditors (Ashbaugh-Skaife et al., 2007; Doyle et al., 2007).

Auditors must assess and respond to various risk factors during the audit process. A high-quality internal control system can effectively reduce the risk of errors and fraud in a company's financial statements, thereby reducing the auditor's workload. Effective internal controls can prevent and detect potential financial statement errors in a timely manner, allowing auditors to rely more heavily on the effectiveness of the company's internal controls, thus reducing the need for substantive audit procedures (DeFond & Zhang, 2014; Ge & McVay, 2005). However, when a company's internal control quality is poor, the auditor must invest more resources and effort into conducting a thorough audit to ensure that audit quality is not compromised. This not only increases the cost of auditing but also heightens the risk to the auditor's career. In firms with weak internal controls, auditors may need to perform more extensive sample testing, more in-depth audit procedures, and conduct more management interviews to compensate for the deficiencies in internal controls. Consequently, the additional pressures from the new Securities Law are likely to be more pronounced in firms with poorer internal controls, leading auditors to be more cautious and rigorous, thereby enhancing audit quality.

Furthermore, reputation theory suggests that the reputation of firms and auditors significantly impacts their competitiveness in the market. To maintain and enhance their reputation, auditors are compelled to provide high-quality audit services (Svanström, 2013).

Reputation is key to an auditor's market position, especially in a more competitive environment where maintaining reputation is crucial. In firms with poor internal controls, auditors face greater reputational risks because errors and fraud in financial statements are more likely to be detected and exposed (Gul et al., 2013). If an audit failure occurs, it could damage the reputation of both the firm and the auditor, potentially leading to client loss and legal action. Therefore, in companies with weak internal controls, auditors are more likely to adopt a cautious approach, implementing stricter audit procedures to avoid the reputational damage associated with audit failure.

Therefore, we hypothesize that internal control quality negatively moderates the effect of the new Securities Law on enhancing audit quality. Specifically, the poorer the internal control quality, the more significant the impact of the new Securities Law on audit quality enhancement, and vice versa.

This research proposes the hypothesis as follow.

H2: Internal control quality weakened the effect of China's new securities law on improving audit quality.

2.8 Media Coverage and Audit Quality

The media environment of enterprises is rapidly evolving with the continuous development of digital technology. The transition from traditional media to social media has transformed the production and dissemination of information from a one-way to a multi-directional process (Kuselias et al., 2021). Social media posts, views, and comments, as products of this multi-directional interaction, serve as signals that convey various types of information, influencing investors' judgments on corporate value and reputation (Asante-

Appiah, 2020). Pittman et al. (2021) found that companies receiving high attention on social media engage in self-management through these platforms, where the attention garnered exerts both informational and reputational effects.

The separation of ownership and management in companies generates the need for audits. However, to maximize their own interests, management, who hold key financial information, may conceal relevant information from auditors or even provide false information. The information asymmetry between auditors and management exacerbates audit risk and lowers audit quality (Blum et al., 2022). Users on digital media can continuously monitor positive and negative events of companies through posting, commenting, and sharing, and exchange their views with a wide range of stakeholders to mitigate their information disadvantage and obtain valuable incremental information from collective wisdom (Cahan et al., 2021). Hancu-Budui et al. (2020) found that users with many followers on digital media prefer to analyze the financial information of highly followed companies, significantly accelerating the speed of information dissemination. This reduces the information asymmetry between auditors and companies, optimizes auditors' information environment, and lowers their information acquisition costs. Consequently, auditors can more easily comprehend the audited entities, aiding in the provision of accurate audit opinions and enhancing audit quality.

Sun and Yu (2016) found that media attention serves a supervisory function and can improve audit quality through the reputation mechanism. Their study suggests that increased media scrutiny helps to enhance the quality of audits. Zhang and Lu (2014) conducted an empirical study indicating that the issuance of standard unqualified audit opinions by certified public accountants is positively correlated with media evaluation and auditors' risk

tolerance. This finding implies that auditors are indeed influenced by media exposure when forming their audit opinions

Media coverage can expose a client's financial situation to public scrutiny, thereby increasing public attention on management efficiency and integrity (Cahan et al., 2021). In the securities market, media coverage plays a critical role in directing public focus towards corporate financial disclosures (Gong et al., 2018). As an essential mechanism of external corporate governance, media oversight exerts indirect pressure on corporate management and auditors through the dissemination of information and public scrutiny. This pressure not only stems from the direct attention of external investors and the public but also from market reactions and stock price fluctuations, which compel companies and auditors to place greater emphasis on the quality of information disclosure and the reliability of audits (Dyck et al., 2010).

Specifically, extensive media coverage can significantly enhance corporate transparency and accountability, thereby prompting auditors to pay more attention to audit quality (Dyck et al., 2010). Media reports can expose a company's financial information and potential risks to the public, increasing information transparency and improving investors' understanding of the company's operations. This makes the company's reputation and shareholder value more susceptible to public and market evaluation (Bushee & Miller, 2012). This function of media coverage is particularly important in the securities market, as it can quickly focus market attention on critical issues in a company's financial reports, further encouraging management and auditors to maintain high vigilance regarding the accuracy and timeliness of information disclosure (Miller, 2006).

Negative media coverage increases public pressure on auditors, prompting them to take their responsibilities and diligence more seriously. This external pressure is especially evident in the public's close attention to management behaviour and awareness of potential risks. When media reports expose issues in a company's financial management, the public quickly forms a negative impression of the company, which directly affects the company's stock price and market reputation (Li et al., 2023). In this context, auditors must exercise greater caution in executing audit procedures, particularly when reviewing the financial statements of high-risk clients. Auditors are required to conduct more detailed examinations and verifications to mitigate the risk of potential misstatements and fraud (Dyck et al., 2008). High media exposure further amplifies this need, as intense media scrutiny means that any audit failure could be quickly detected and magnified by the public and the market, leading to significant reputational damage and potential legal action (Li et al., 2024).

Moreover, media oversight not only influences the external environment of companies but also has a profound impact on internal management. Continuous media attention can compel companies to strengthen internal controls by optimizing internal processes and enhancing management efficiency to ensure the accuracy and authenticity of financial information (Zhang & Wiersema, 2009). This improvement is particularly evident in financial reporting, as management becomes more focused on the soundness of internal controls to avoid the negative impact and potential regulatory penalties brought by media exposure. Simultaneously, auditors, when performing their audit work, become more vigilant due to media coverage, actively identifying and reporting financial risks, thereby enhancing overall audit quality (Miller & Skinner, 2015).

Therefore, as a tool of external governance, media can exert continuous oversight on corporate management through market mechanisms, particularly when companies face significant financial decisions or potential risks, where media attention tends to be more concentrated. This supervisory role not only encourages companies to strengthen internal controls but also drives auditors to be more proactive in identifying and reporting financial risks during the audit process, thereby improving overall audit quality (Miller & Skinner, 2015). Ultimately, media oversight directly or indirectly influences audit quality through various channels, making it an indispensable force in external governance within the securities market.

As a result, this research proposes the hypothesis as follow.

H3: Media coverage strengthen the effect of China's new securities law on improving audit quality.

2.9 Impact Factors of of Audit Fees

Existing literature has conducted extensive research on the factors influencing audit fee. Since this paper primarily investigates the impact of the new securities law on auditor fee behaviour, the focus of this literature review is on examining the influencing factors of audit fees as identified in previous studies.

Simunic (1980) was the first to propose a model for factors affecting audit fees, suggesting that audit fees are a linear combination of marginal costs and expected loss due to legal liability. The auditor's loss exposure (measured by client size, client operational complexity, accounts receivable, and inventory investment) and the auditor's loss-sharing rate are positively correlated with audit fees. On one hand, the complexity of auditing client

financial reports determines audit costs; on the other hand, market competition and auditor characteristics determine the premium auditors can charge. The following sections organize the influencing factors of audit fees based on client characteristics, auditor characteristics, and external environmental factors.

From the perspective of client characteristics, factors such as client size and business complexity determine the audit workload and are positively correlated with audit fees (Simunic, 1980). The larger the client's size and the more complex their business, the greater the audit resources required, resulting in higher audit fees. Client financial risk also significantly impacts audit fees. In IPO audits, auditors face higher litigation risk, leading them to provide relatively higher audit quality and charge higher audit fees (Venkataraman et al., 2008). Beatty(1993) found that auditors assess loss exposure and price their services accordingly, often charging higher audit fees to clients subsequently delisted, filing for bankruptcy, or becoming subjects of shareholder litigation. Similarly, Oh et al. (2017) discovered that companies not meeting IPO requirements paid higher audit fees.

Furthermore, clients' demand for high audit quality has increased audit fees. Carcello et al. (2002) found that boards of directors that are more independent, diligent, and possess greater professional knowledge demand higher audit quality, thus increasing audit fees. Hay et al. (2006) explained this phenomenon by suggesting that boards with greater independence and professionalism place a higher emphasis on maintaining and enhancing the company's reputation. They actively request auditors to conduct comprehensive information reviews, which increases audit input costs and consequently raises audit fees. Larasati et al. (2019)also discovered that firms with independent audit committees in their board structure demand broader audit coverage from auditors, leading to higher audit fees. This effect is

more pronounced in firms with female audit committee members (Nekhili et al., 2020). However, Smith et al. (2019) found that active audit committees can effectively reduce corporate compliance risk, reducing the risk premium charged by auditors, resulting in lower audit fees. Zhang et al. (2011) argued that effective internal controls not only reduce auditors' resource input but also effectively lower the level of audit risk they face. In light of these combined effects, auditors choose to lower service pricing. Gai & Sheng (2013) provided further evidence from the perspective of internal control defects, showing that significant internal control defects increase the scope of subsequent audit tests, significantly raising audit input costs and leading to higher service pricing even after the defects are corrected. Wu et al. (2022) found that despite improvements in informatization, which enhance the effectiveness of internal corporate governance, these advancements also pose challenges to audit work. Increased audit resource input for reviewing information systems and higher audit risks associated with the use of information technology for earnings manipulation lead to higher compensation fees.

Li and Yang (2016) explored the factors influencing audit fees from the perspective of external guarantee business. The study found that the presence of external guarantee businesses in enterprises represents a high level of operational risk. Auditors identify this risk and increase their service fees to clients based on the increased audit risk. Oradi (2021) studied the impact of CEO succession sources on audit fees. The research found that internally appointed CEOs are more prone to opportunistic adverse behaviour compared to externally appointed CEOs, resulting in increased auditor liability risk. This not only leads to longer audit cycles but also increases the level of audit service fees accordingly. Wang et al. (2022) focused on the relationship between carbon emissions and audit fees. The study found that companies with high carbon emissions levels are more focused on green and

sustainable business development, resulting in relatively lower operational risks. Additionally, increased environmental protection investment helps in avoiding environmental regulatory penalties. Auditors reduce premium compensation due to the overall decrease in risk, leading to lower audit fees. Yang and Liao (2020) investigated the factors influencing audit fees from the perspective of customer suppliers. The research results indicate that when the risk information content in supplier reports increases, the likelihood of business failure for companies also increases. Auditors pay significant professional attention to this and enhance their perception of audit risk, consequently raising audit pricing based on risk compensation.

From the perspective of auditor characteristics, the reputation and industry expertise of audit firms are important factors influencing audit fees. Craswell et al. (1995) found that, on average, the Big Eight audit firms in Australia commanded a premium of 30% compared to non-Big Eight firms, with those possessing industry expertise charging even higher fees. Chung and Narasimhan (2002) also found that the Big Six audit firms charged higher audit fees than non-Big Six firms. DeFond et al. (2000) used data from Hong Kong companies and discovered that industry expertise among the Big Six audit firms could lead to fee premiums. Conversely, non-Big Six firms with industry expertise charged lower audit fees to gain more market share in auditing. Mayhew and Wilkins(2003) found that audit firms with expertise charged higher fees for IPO audits, while those lacking expertise charged lower fees.

Van (2010) confirmed that the Big Four audit firms consider more variables when providing audit services, leading to a premium in their fees. Numan and Willekens (2012) found that a larger market share of incumbent auditors and a greater gap with competitors

lead to higher audit fees, indicating that spatial competition influences audit fees. Cahan and Sun (2015) empirically demonstrated the impact of auditor expertise on audit fees, suggesting that the personal characteristics of auditors can also serve as signals during the audit process. Clients tend to choose auditors with more audit experience to obtain higher-quality audit services, resulting in increased audit fees.

Simon and Francis(1988) conducted early research to observe changes in service fees after auditors were changed. The data results indicate that within three years of auditor change, the audit fees of the new auditors are lower compared to the previous auditors. Possible reasons for this are analyzed as auditors aiming to establish long-term cooperation with clients through lower prices and compensating for initial low-profit levels through service continuity, thereby forming price stickiness (Craswell et al., 1995). Han and Chen (2008) identified a connection between auditor changes and audit pricing levels. Their study found that when large companies switch to smaller audit firms, these smaller firms tend to offer pricing discounts, which results in lower audit fees. On the other hand, when smaller companies transition to larger audit firms, these larger firms typically charge higher service premiums due to their market dominance, leading to increased audit fees. Building on this, Francis et al. (2017) demonstrated that client transitions not only affect audit fees in the immediate context but also have broader, dynamic effects on audit firms' reputation and fee premiums, influencing audit pricing across various industries.

From the perspective of external environmental characteristics, the strictness of a country's legal liability system is an important factor influencing the differences in audit fee structures among countries with different legal environments (Choi et al., 2008). Research has found that companies in developed countries pay higher audit fees than those in

developing countries, with manufacturing companies paying the lowest fees (Chung & Narasimhan, 2002). Additionally, the level of industry competition is also a significant factor affecting audit fees. When the audit market is more concentrated among the Big Four audit firms, a lack of competition in the audit market leads to higher audit fees (Gunn et al., 2019).

The institutional development environment is closely related to the auditing environment. In situations where the institutional environment is more robust, the costs of auditor risk exposure will be higher. In such cases, auditors adjust pricing strategies to compensate for potential future risk losses (DeFond & Lennox, 2011). Seetharaman et al. (2002) compared the differences in auditor service pricing levels in the regulatory environments of the United States and the United Kingdom. The results indicated that the legal system in the U.S. capital market is stricter than that in the United Kingdom, placing greater overall pressure on the risk exposure borne by the United States auditing industry, resulting in higher pricing standards for United States auditors. Choi et al. (2008) suggest that auditors' professional activities consider the legal environment level of the client's location as an important reference. When clients are located in regions with well-developed legal environments, they often need to pay higher audit service fees to auditors. Dai et al. (2017) conducted research based on the institutional backdrop of new accounting standards. The study found that the implementation of new accounting standards expands companies' discretion in applying accounting policies, increasing the likelihood of opportunistic behaviour that harms the quality of accounting information. As a result, auditors face greater liability risks, audit costs increase, and audit fees consequently rise. Li et al. (2022) studied the impact of industry information disclosure guidelines. The research found that industry-specific information disclosure conveys a strong regulatory signal, increasing regulatory

pressure on companies and raising auditors' practice risks. Auditors compensate for this by increasing audit fees.

Additionally, Zhang and Huang (2013) examined changes in auditors' pricing decisions from the macroeconomic perspective of financial crises. The research results indicate that the occurrence of financial crises increased the overall operational environment risk for Chinese enterprises. This led to an elevation in the benchmark service fee level in the auditing industry, resulting in a continuous upward trend in audit fees. This trend is particularly pronounced for foreign trade enterprises, which were more significantly affected by the financial crisis. Cheng and Chen (2016) investigated the impact of changes in product supply and demand environments on audit fees within the auditing industry market. The study found that under supply and demand mechanisms, a state of undersupply of audit service products would lead to higher audit service fees. However, the information market allows auditors to promptly adjust their market entry and exit based on supply and demand conditions, achieving a balance in the supply and demand of audit service products, and subsequently reducing service fees.

Based on the extensive literature reviewed, it is evident that audit fees are influenced by a multitude of factors, including client-specific characteristics, auditor attributes, and broader external environmental conditions. These determinants not only shape the cost structure of audit services but also reflect the underlying risks and complexities associated with the auditing process. The existing studies provide a solid foundation for understanding how these factors interact in different contexts, particularly in varying regulatory environments.

Given the implementation of China's new securities law, it is crucial to explore how these established factors may shift in response to the changing legal and regulatory landscape. The law's emphasis on stricter oversight and increased accountability is likely to impact auditor behaviour, including fee-setting practices.

2.10 The New Securities Law and Audit Fees

Audit fees reflect the compensation auditors require to cover the costs of audit inputs and the risks assumed in providing audit services. According to audit risk theory, auditors face inherent risks related to the possibility of material misstatements in financial statements, which they must mitigate through audit procedures (DeFond & Zhang, 2014). To address these risks, auditors typically pass them on to clients in the form of an audit fee premium or by increasing the demand for audit inputs to justify higher fees (Simunic, 1980; Widmann et al., 2021).

With the implementation of the new Securities Law, the threshold for audit firms to engage in audits of listed companies has been lowered, leading to the entry of new audit firms and intensifying competition within the industry. From the perspective of reputation theory, auditors must maintain a high-quality reputation to ensure their survival and growth in a highly competitive market (DeAngelo, 1981). To maintain their competitive advantage, auditors are compelled to provide high-quality auditing services to safeguard their reputation and secure their position in the market (Kamarudin et al., 2022). In a market with lower concentration, competition mechanisms are fully realized. Auditors providing low-quality services may fail to meet the needs of financial statement users, adversely affecting their professional survival and development. Therefore, auditors must adopt more prudent audit strategies, investing greater workload and resources. Comprehensive audit procedures are necessary to ensure the quality of audit services. According to Francis and Simon(1987),

auditors with superior quality are likely to command higher audit fees, as high-quality audit services typically correspond with higher prices.

In a competitive environment, the inability to effectively fulfill client engagements and provide reasonable assurance can result in audit failures, which in turn jeopardize the auditor's market position. The increased risk of replacement due to intensified competition places additional pressure on auditors, prompting them to invest more effort in their audits. To offset this increased effort, auditors may raise their fees for audit services (DeAngelo, 1981). According to audit risk theory, intensified competition and the potential reputational damage from audit failures compel auditors to demand higher fees to mitigate these risks (Bedard et al., 2010).

Furthermore, the new Securities Law has strengthened disclosure requirements for listed companies and increased penalties for violations, with the goal of enhancing market transparency and fairness. This has resulted in a more stringent external monitoring environment, significantly raising the risks and liabilities faced by audited entities and auditors (Yang et al., 2021). As a consequence, auditors' risk and audit costs are likely to increase, thereby impacting audit fees. Audit risk theory posits that as the complexity and associated risks of audits rise, auditors will require higher compensation to address these elevated risks (Bell et al., 2015). Additionally, reputation theory emphasizes that auditors must maintain their professional integrity to avoid reputational damage, especially in a stricter regulatory environment (Skinner & Srinivasan, 2012). Failure to uphold these standards may lead to long-term losses in client trust and market share, further justifying the need for higher audit fees.

The new Securities Law also raises compliance costs for listed companies by imposing stricter penalties for non-compliance. The law's implementation reflects an optimization of

the competitive policy framework and an enhancement of the external regulatory environment. The increased likelihood of penalties for disclosure violations raises the litigation risk for companies (DeFond & Lennox, 2011; Gunn et al., 2019). This heightened risk further complicates the auditing process, leading auditors to demand higher fees to compensate for the additional risks and complexities involved. According to reputation theory, auditors must avoid associations with clients involved in legal disputes or regulatory violations, as such associations can tarnish their professional reputation (Huang et al., 2009). Thus, under the new Securities Law, the increased litigation risk reinforces the need for higher audit fees to protect auditors' reputations.

Moreover, stricter disclosure requirements under the new Securities Law necessitate higher quality financial reporting from listed companies. High-quality financial reporting requires more detailed and comprehensive audits, which in turn increase auditors' workloads and responsibilities (Dresdner & Fischer, 2020; Hwang & Hong, 2022). To ensure the accuracy and compliance of financial reports, auditors may need to expand the scope of audits and increase audit procedures, leading to higher audit costs (Lee & Choi, 2023; Xu et al., 2020). Ultimately, these increased costs may be reflected in higher audit fees charged to listed companies. Audit risk theory supports the view that as the scope and complexity of audits increase, auditors' demands for higher fees to compensate for the additional workload and risk will also rise (Krishnan et al., 2017).

As a result, this research proposes the hypothesis as follow.

H4: The implementation of the China's new securities law has a significant positive impact on audit fee.

2.11 Internal Control and Audit Fees

Simunic(1980b) believes that certified public accountants have greater trust in companies with high-quality internal controls and therefore reduce the scope of substantive testing. Raghunandan and Rama (2006) found that companies disclosing significant internal control deficiencies under Sarbanes-Oxley Act Section 404 incur audit fees approximately 43% higher than those without such deficiencies. Hogan and Wilkins (2008) point out that companies with significant internal control deficiencies have higher inherent risk and a greater risk of financial misstatements, leading auditors to increase audit procedures.

The quality of a company's internal controls affects auditors' risk perception. Specifically, auditors perceive higher risk when a company's internal control quality is low. Doyle et al. (2007) found that whether due to unintentional estimation errors or intentional earnings manipulation by management, weak internal controls ultimately lead to a decline in the robustness of accounting information and an increase in auditors' perceived risk. According to Chen (2018), under the risk-oriented audit model, auditors must significantly improve audit quality by performing additional substantive procedures to reduce audit risk to an acceptable level.

Multiple empirical studies have shown that internal control deficiencies often lead to higher audit fees. For instance, when a firm's internal control deteriorates, auditors must devote more resources to addressing potential risks, which increases audit costs. Ji (2017) found that worsening internal control significantly increases audit fees, whereas improvements in internal control quality do not necessarily result in immediate fee reductions. Similarly, Buslepp et al. (2019) analyzed the misclassification of audit-related fees and confirmed that firms with weaker internal control are more likely to report material

weaknesses and experience delays in financial reporting, thus incurring higher audit fees. Their study also highlighted a potential link between internal control deficiencies and the quality of financial reporting. Wilamsari et al. (2024) further explained this from the perspective of internal auditing. They pointed out that high-quality internal audits, as a reflection of effective internal control, provide more reliable financial information for auditors, thereby reducing the workload and cost of external audits. Corporate governance structure also affects this relationship. Fathalipour and Abdollahi (2020) found that in firms with lower managerial ownership, the impact of internal control deficiencies on audit fees is more pronounced. This suggests that under weaker governance mechanisms, auditors tend to adopt a more cautious risk assessment approach, resulting in higher audit fees.

Internal controls have a direct effect on audit procedures, which in turn result in varying audit fees. Internal controls serve as the fundamental defense against misstatements in financial statements. Munsif et al. (2011) considered the audit fees of companies that corrected significant internal control deficiencies. Compared to companies that continually disclose significant internal control deficiencies, those that correct such deficiencies have lower audit fees. Chen et al. (2011) investigated the link between internal control and audit fees among Chinese listed firms and found that robust internal control can lower audit fees. Zhang and Gao (2014) tested the impact of internal control deficiencies on audit fees using data from Chinese listed firms and discovered that control deficiencies result in increased audit fees. Particularly, specific deficiencies have a more significant impact on audit fees, and correcting these deficiencies can reduce audit fees. However, other scholars have different findings. Zhang et al. (2011) constructed an evaluation index system for the achievement level of internal control objectives, measuring internal control quality by calculating the achievement level scores. Empirical results showed that there is an

insignificant correlation between audit fees and internal control quality, and when internal control quality changes, firms overlooked adjusting the audit fee levels.

From another perspective, Raghunandan and Rama (2006) believe that when the internal control risk of a listed company is high, auditors will increase corresponding audit procedures to reduce risk, thereby charging higher audit fees. Hogan and Wilkins (2008) argue that high internal control risk indicates higher overall client risk, and auditors may charge a risk premium, leading to increased audit fees. Bedard et al. (2010) empirically found that internal control deficiencies are positively correlated with audit fees, a relationship that has also been validated domestically. Gai and Sheng (2013) studied Chinese A-share listed companies and discovered that internal control deficiencies signal higher operational risk, prompting auditors to enhance audit procedures and time spent, which increases audit fees (Rajaei & Edalati, 2020).

With the implementation of the new securities law, competition in the securities audit market has intensified, leading to significantly increased litigation risks and regulatory pressures on both clients and audit firms. Internal control quality serves as a fundamental line of defense against financial statement misstatements (Raghunandan & Rama, 2006). To mitigate audit risk, auditors will need to enhance their audit procedures, which will result in variations in audit fees.

According to audit risk theory, auditors must test the client's internal controls when conducting risk response procedures after completing the audit risk assessment. When dealing with companies with high internal control risks, auditors are required to implement more meticulous and rigorous audit procedures (Hogan & Wilkins, 2008). This includes conducting detailed examinations and validations of the company's financial statements to

reduce the risk of potential misstatements and fraud. Audits of high-risk clients are inherently complex and time-consuming, thereby increasing the auditor's workload and responsibilities. To compensate for the increased risk, auditors may charge higher fees (Contessotto et al., 2021). This is because the additional time and resources invested by auditors inevitably lead to higher audit fees.

The presence of internal control deficiencies in listed companies signals a higher operational risk and implies a greater likelihood of financial statement misstatements (Raghunandan & Rama, 2006). As a result, auditors must perform additional audit procedures to identify and rectify these potential issues, which subsequently leads to an increase in audit fees.

As a result, this research proposes the hypothesis as follow.

H5: Internal control quality weakened the effect of China's new securities law on enhancing audit fees.

2.12 Media Coverage and Audit Fees

Auditor reputation is the overall assessment by stakeholders of whether auditors protect investors' interests and uphold professional ethics (Francis & Yu, 2009). It influences the business engagement and value of audit firms. The formation of auditor reputation usually requires a long process, whereas its damage can occur in an instant (Azghandi et al., 2023). High attention to companies on social media can amplify the risk of auditor reputation loss. Specifically, when a company receives high attention on social media, investors are more likely to repeatedly read and discuss related posts, increasing the likelihood of discovering potential misstatements and omissions by the company, which in turn heightens

the risk of reputation loss for auditors due to audit failures. Yao (2018) posits that news media reports significantly improve the purchase of internal control audit opinions. Particularly, negative reports increase the cost of auditors issuing standard opinions, inhibiting management's purchase of audit opinions. Moreover, this inhibitory effect is more pronounced in cases with severe agency problems and in some small firms.

Therefore, when auditing a company under intense scrutiny from social media, auditors will strictly adhere to the code of ethics throughout the audit process to reduce the risk of reputational loss. They will apply professional judgment judiciously and maintain professional skepticism to minimize audit decision errors and improve audit quality (Cahan et al., 2021).

In the context of China's legal system, news media monitoring also plays a key role in auditor fees. As an informal external governance mechanism, the news media can monitor the behaviour of corporate management, effectively curbing management's self-interested behaviour and alleviating the agency problem. This monitoring mechanism can reduce the agency cost of the firm, which in turn reduces the additional auditing effort required by the auditor during the audit process, ultimately leading to a reduction in audit fees. Huang (2023) shows that the extent of negative media coverage is positively related to the audit quality of listed companies, suggesting that media scrutiny can reduce audit fees while improving audit quality. However, there are also scholars' studies that are contrary to this, Burke et al. (2019) study found that firms with more negative ESG coverage are exposed to a higher risk of potential litigation, which leads to higher audit fees for auditors. Similarly, Cahan et al. (2021) noted that media exposure can amplify auditors' business risk by exposing them to greater risk of litigation and reputational damage, which can lead to an increase in audit fees. From

an auditor oversight perspective, media scrutiny can exacerbate the reputational and lawsuit risks faced by auditors. Auditors typically charge an additional risk premium in order to cope with these risks. Chao (2022) shows that when a firm's new CEO receives more negative media coverage, the auditor raises audit fees due to the greater public and regulatory attention faced, compensating for potential reputational loss and legal risk.

Lu and Ran (2012) examined the specific pathways through which media influence the professional judgment of auditors via agenda-setting effects. Their results reveal that media coverage affects auditors' assessments of information possession and earnings management risks during audit pricing negotiations, thereby increasing their attention to earnings manipulation risks. These effects are ultimately reflected in audit fees. Liu et al. (2014) argued that the effect of media attention on audit fees is conditional. Only in environments characterized by high litigation risk will negative media coverage lead to higher audit fees. Wu and Liu (2015) found that both media attention and government supervision positively contribute to improving the audit quality of accounting firms. However, they also noted that legal regulation alone does not necessarily enhance audit quality. Their findings offer practical implications for improving oversight mechanisms in the auditing profession.

The significant influence of news media enhances corporate transparency and increases market scrutiny (Yin et al., 2018). As professional providers of assurance services, auditors are particularly concerned about media coverage if they fail to identify and correct financial and other informational issues within the company. The pressure from such coverage heightens auditors' risk perception. Furthermore, under the strong influence of the news media, financial and operational issues are more likely to be investigated by regulators

(Dong et al., 2022). Regulators, operating within the framework of the new Securities Law, will assign responsibility and penalize the accountable parties. If investigations reveal that auditors failed to exercise due diligence in detecting corporate violations, media-driven public opinion may prompt regulators to impose the maximum penalties on the auditors. Additionally, auditors may face increased litigation risks, including a higher likelihood of being involved in legal cases and potentially elevated joint and several liabilities. These factors collectively heighten the auditors' risk perception, leading to an increase in the risk premium included in audit fees.

Moreover, media coverage may intensify auditors' awareness of the risks associated with the implementation of the new securities law, thereby increasing the audit costs incurred. To effectively mitigate the risks arising from media coverage, auditors must exert greater effort in their practices and allocate more audit resources to identify and rectify financial and operational issues within companies. The increased audit costs resulting from these efforts will consequently lead to higher audit fees (Cameran et al., 2016). Additionally, the information dissemination function of the news media provides auditors with extra insights into corporate insider trading and potential irregularities (Burke et al., 2019). Auditors must exercise professional judgment in addressing this information, dedicating resources to its identification and verification, which further drives up audit costs and, consequently, audit fees.

As a result, this research proposes the hypothesis as follow.

H6: Media coverage strengthen the effect of China's new securities law on enhancing audit fees.

2.13 Conceptual Framework

This study's conceptual framework is grounded in Reputation Theory, which originates from economics and organizational behaviour and has been extensively applied in the auditing literature to explain auditor motivation and decision-making. Reputation is viewed as an intangible asset that auditors strive to preserve, as it directly affects their ability to retain clients, attract new business, and maintain regulatory approval in a competitive market (DeAngelo, 1981). In markets characterized by information asymmetry and weak legal enforcement, reputation serves as a substitute governance mechanism, compelling auditors to act with greater diligence and independence to avoid potential reputational losses (Chalmers et al, 2019). This framework positions Reputation Theory as the overarching lens through which the study examines how legal reforms influence auditor behaviour.

The newly revised Securities Law introduces several interconnected reforms that significantly reshape audit practice in China. One of the most notable changes is the shift from a licensing system to a registration-based system for audit firms providing securities services, which reduces entry barriers and intensifies market competition. In addition, the law expands corporate information disclosure obligations and strengthens civil liabilities related to financial misstatements, thereby increasing the responsibility borne by both listed companies and their auditors. Furthermore, the revision imposes more severe penalties for audit failures, including higher monetary fines and potential personal accountability for individual auditors. The law also establishes a special representative litigation mechanism, making it easier for investors to initiate collective actions and substantially increasing the likelihood and financial consequences of auditor litigation. These institutional adjustments together raise the cost of non-compliance and exert greater pressure on auditors to enhance both diligence and audit quality (Liu & Cai, 2010). These institutional changes increase both

the litigation risk and the reputational cost of non-compliance, which theoretically should influence auditors' professional judgement, independence, and effort allocation.

Within this conceptual framework, the revised Securities Law serves as the main explanatory (independent) variable, which is expected to impact two key dimensions of auditor behaviour: audit quality and audit fees. Audit quality reflects the auditor's ability to detect and report material misstatements, and is a widely used proxy for professional diligence and independence (Francis, 2004). Audit fees represent the pricing of audit services and are influenced by the auditor's risk assessment, effort estimation, and client risk profile (Simunic, 1980). Increases in regulatory pressure and legal exposure are expected to elevate audit effort and therefore audit fees, while simultaneously incentivizing auditors to improve audit quality to avoid reputational or legal damage.

To account for heterogeneous responses to regulatory change, this study incorporates two moderating variables, internal control quality and media coverage, that may condition the relationship between the new Securities Law and audit outcomes. Internal control is an internal governance mechanism that affects auditors' risk perception and audit planning. A well-designed and effectively implemented internal control system reduces the likelihood of material misstatements and provides auditors with greater assurance, thereby reducing audit effort and associated costs (Ashbaugh-Skaife et al., 2007; Doyle et al., 2007). On the contrary, weak internal controls increase the need for extensive substantive testing, elevate audit risk, and prompt more conservative audit responses, including higher audit fees and stricter audit opinions (Hogan & Wilkins, 2008).

Media coverage represents an external governance force that shapes auditor behaviour through reputational pressure. When listed companies or their auditors are subject

to high media attention the perceived risk of reputational loss increases, which can heighten auditor vigilance and lead to improved audit quality (Zhang & Gao, 2014). It also increases auditors' litigation risk and professional liability, thereby driving them to adjust audit fees accordingly (Cahan et al., 2021). Media exposure may also enhance the effectiveness of the new Securities Law by strengthening its deterrent effect, especially in institutional environments where formal enforcement remains imperfect.

In sum, this study's conceptual framework builds a multi-level causal structure linking macro-level legal reform (the new Securities Law), meso-level governance mechanisms (internal control and media coverage), and micro-level audit outcomes (audit quality and audit fees). It leverages Reputation Theory as the foundational logic to explain how external and internal incentives jointly influence auditor behaviour in an evolving regulatory environment. This integrated framework allows for a nuanced empirical examination of the effectiveness of legal reform in promoting audit quality and market discipline in the context of China's transitional capital market.

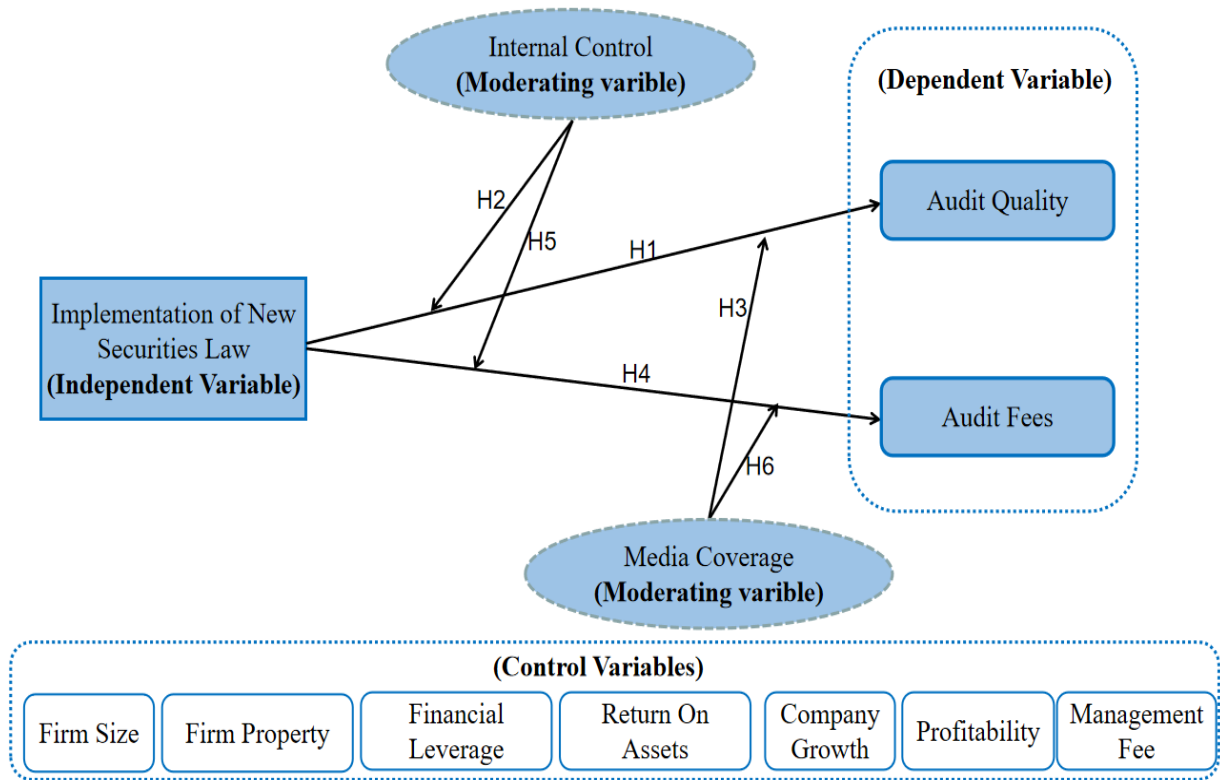


Figure 2.1: Conceptual Framework

2.14 Chapter Summary

This chapter provided a comprehensive review of the theoretical foundations and empirical studies relevant to this research, serving as the basis for the development of the study's hypotheses and conceptual framework.

The chapter began with an introduction to reputation theory, which underpins this study by explaining how auditors respond to changes in external regulatory and reputational pressures in order to maintain their credibility in the capital market. The subsequent section outlined the legal and regulatory framework of auditing in China, offering background on the country's auditing environment and highlighting the role of the Securities Law in shaping auditor responsibilities.

An overview of the economic consequences of the revision of China's Securities Law was then provided, emphasizing how the 2019 revision introduced new compliance requirements, increased penalties, and a shift to a registration-based audit firm admission system—factors that collectively influence auditor behaviour. The chapter then examined existing studies on the determinants of audit quality and audit fees, providing context for the variables selected in this study.

Building upon this foundation, the chapter systematically developed the study's hypotheses. Sections 2.6 to 2.8 focus on audit quality. Section 2.6 discusses the direct impact of the new Securities Law on audit quality. Sections 2.7 and 2.8 explore the moderating roles of internal control and media coverage, respectively, resulting in the formulation of Hypotheses H1, H2, and H3. Sections 2.10 to 2.12 address audit fees. Section 2.10 analyzes the effect of the new Securities Law on audit fees, while Sections 2.11 and 2.12 examine how internal control and media coverage moderate this relationship, leading to Hypotheses H4, H5, and H6. The chapter concludes with the presentation of the conceptual framework, which visually and logically illustrates the relationships between the key constructs examined in this study, including the moderating effects of internal control and media coverage.

Overall, Chapter 2 offers the theoretical and empirical grounding for the research model, articulating the rationale for each proposed hypothesis.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology employed in this study, focusing on the analysis of the impact of the new securities law on audit quality and audit fees. It begins with the conceptual framework, presenting the theoretical basis and relationships between key variables. The subsequent section details the research hypotheses, specifying the anticipated relationships and expected outcomes.

The chapter then defines the dependent variables, specifically audit quality and audit fees, and describes the independent variable using the Difference-in-Differences (DiD) approach. Additionally, it discusses the moderating variables, including internal control and media coverage, and incorporates various control variables such as firm size, property rights, financial leverage, return on assets, company growth, profitability, and management fee.

Following this, the chapter explains the sample selection and data sources, ensuring the relevance and reliability of the data. It also elaborates on the estimation models, particularly the DiD method, and various models to examine the effects of the new securities law on audit quality and fees. Finally, the chapter discusses the diagnostic tests conducted to validate the models, ensuring the robustness and validity of the empirical analysis.

Through this comprehensive approach, the methodology chapter provides a solid foundation for the empirical analysis, facilitating a thorough examination of the new securities law's impact on audit behaviour.

3.2 Dependent Variables

3.2.1 Audit Quality

In auditing research, discretionary accruals (DA) estimated through the Modified Jones Model are widely recognized as a key proxy for audit quality. Myers et al. (2003) suggests that the absolute value of discretionary accruals obtained via this model serves as an inverse indicator of audit quality—higher reflects greater earnings manipulation and thus lower audit quality. Similarly, Becker et al. (1998) demonstrate that higher levels of absolute value of discretionary accruals are associated with weaker professional skepticism from auditors, implying reduced audit quality. Heninger(2001) and Bartov et al. (2000) further find that elevated discretionary accruals significantly increase the probability of litigation against audit firms, particularly when modified audit opinions are issued.

Heninger (2001) emphasize that the Modified Jones Model is one of the most effective methods for detecting earnings management, as it accounts for industry effects and firm-specific performance factors. Dechow et al. (1995) show that the Modified Jones Model provides greater power and significance in detecting earnings management compared to the original Jones Model through empirical testing. Accordingly, discretionary accruals estimated using this approach are widely regarded as a robust measure of audit effectiveness, as they reflect the auditor's ability to constrain opportunistic reporting behavior.

DeFond and Zhang (2014) assert that higher audit quality is indicative of enhanced financial reporting quality. Following Christensen et al. (2023), we employ the Jones model to measure audit quality by calculating the absolute value of a company's discretionary accruals (Dechow et al., 1995). Represented as AbsDA, a higher value signifies lower audit quality.

The formula for calculating discretionary accruals is as follows.

The first step involves performing industry-specific and annual regression analyses on Model (3.1) to obtain coefficients k_1 , k_2 , and k_3 .

$$\frac{TA_{i,t}}{A_{i,t-1}} = k_1 \frac{1}{A_{i,t-1}} + k_2 \frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}} + k_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t} \quad (3.1)$$

The second step employs these coefficients to estimate each company's non-discretionary accruals.

$$\frac{NDA_{i,t}}{A_{i,t-1}} = k_1 \frac{1}{A_{i,t-1}} + k_2 \frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}} + k_3 \frac{PPE_{i,t}}{A_{i,t-1}} \quad (3.2)$$

The third step subtracts the non-discretionary accruals from total accruals to ascertain discretionary accruals.

$$DA_{i,t} = TA_{i,t} - NDA_{i,t} \quad (3.3)$$

The fourth step is to take the absolute value of $DA_{i,t}$, resulting in $AbsDA_{i,t}$.

In these equations:

$TA_{i,t}$ represents the total accruals for company i in period t , calculated as operating income minus net cash flow from operations. $A_{i,t-1}$ denotes the total assets of company i at the end of period $t-1$. $\Delta REV_{i,t}$ represents the change in accounts receivable for company i from period $t-1$ to t . $PPE_{i,t}$ refers to the original cost of property, plant, and equipment for company i at the end of period t . $NDA_{i,t}$ signifies the non-discretionary accruals for company i in period t . $DA_{i,t}$ represents the discretionary accruals for company i in period t . $\varepsilon_{i,t}$ refers to the residual.

3.2.2 Audit Fees

Audit fees are indicative of the compensation and remuneration auditors receive for the resources consumed and the risks they undertake in performing audit work, encompassing the total amount paid by clients to auditors (DeFond & Zhang, 2014). Simunic (1980) employed multiple regression analysis to explore ten factors influencing audit fees, establishing the empirical foundation for audit fee analysis. Subsequently, new variables have been introduced continuously to refine the model, contributing to the improvement of research on audit pricing. To reduce skewness and enhance the fit of regression models, following the precedent of previous scholars, the natural logarithm of audit fees is used as a measure of audit fees (Francis & Simon, 1987; Gist, 1995; Harjoto & Laksmana, 2022).

3.3 Independent Variable

This study primarily employs the Difference-in-Differences (DiD) method for empirical testing. The DiD method identifies the causal effects of policies by comparing changes between treatment and control groups before and after policy implementation (Ashenfelter, 1978). Specifically, changes in the treatment and control groups are calculated before and after policy implementation, and the differences between these changes are compared. This difference can be measured using the regression coefficient of the interaction term $Post \times Treat$ (Sytsma, 2022).

First, *Post* is a dummy variable that distinguishes between periods before and after the implementation of the new policy. The revised Securities Law of China was passed on December 28, 2019, by the 15th meeting of the Standing Committee of the 13th National People's Congress and came into effect on March 1, 2020. Therefore, the *Post* variable is used to indicate whether the data point falls before or after this critical date. For data from

2019 and earlier, *Post* is assigned a value of 0, representing the pre-law period. Conversely, for data from 2020 onwards, *Post* is assigned a value of 1, representing the period during which the new Securities Law was in effect. This binary classification allows for a systematic examination of the law's impact on the variables of interest.

Second, the variable *Treat* is a firm-level dummy variable. In the Difference-in-Differences (DiD) framework, the identification of treatment and control groups is essential for isolating the causal effect of policy shocks. As the revision of China's Securities Law applied uniformly across firms and lacked firm-specific eligibility criteria, the treatment distinction cannot be drawn directly from the law itself. To address this, the study follows the methodological precedent of Campello and Larrain (2018) by exploiting heterogeneous effects of regulation across audit firm types.

Specifically, the reform alters the competitive dynamics of the audit market—most notably by replacing the prior approval system with a filing system, thereby lowering entry barriers. This disproportionately affects smaller and mid-sized audit firms that were previously excluded from the securities market under the approval system but are now eligible to serve listed companies. These firms face intensified regulatory scrutiny, higher litigation risk, and increased market competition. As a result, they are more likely to adjust audit strategies and behaviours compared to large, already-established firms. Empirical research by Pan et al. (2023), conducted in the Chinese context, confirms that changes in regulatory intensity exert differential effects based on audit firm characteristics, especially scale and reputation.

Moreover, Hallman et al. (2022) argue that audit firms under increased competition are incentivized to improve quality in order to retain or attract clients. In the case of smaller

audit firms, this competitive pressure is intensified under the new legal regime. Pan et al. (2023) further demonstrate that regulatory shifts alter the bargaining power between clients and auditors, leading to observable shifts in equilibrium audit quality. Thus, the selection of audit firm size as the DiD treatment criterion is theoretically grounded and supported by both international and China-specific empirical studies.

Following Pittman and Yang (2022), audit firms are classified annually using the comprehensive rankings published by the Chinese Institute of Certified Public Accountants. Firms ranked in the top 10 are assigned to the control group ($Treat = 0$), while firms ranked outside the top 10 are designated as the treatment group ($Treat = 1$).

In distinguishing between the "Big 4" and the "Top 10 audit Firms" (Top 10), this study deliberately adopts the Top 10 classification, based on the unique structure of China's audit market and supported by existing empirical research.

Firstly, the Chinese Institute of Certified Public Accountants (CICPA) annually publishes a ranking of the Top 100 accounting firms. The top 10 firms on this list typically lead the industry in terms of business revenue, number of certified public accountants, number of branches, and overall market influence (Huang et al., 2019). In addition to the international Big Four, such as PricewaterhouseCoopers (PwC), Deloitte Touche Tohmatsu Limited (Deloitte), Ernst & Young Global Limited (EY), and KPMG International Limited (KPMG), several large domestic firms are also included. These domestic firms have reached or even surpassed the Big Four in certain aspects of scale and market share within the Chinese market. For example, BDO China Shu Lun Pan (Lixin), Pan-China CPA (Tianjian), RSM China (Rongcheng), and Grant Thornton China (Zhitong) are consistently among the top performers. At the same time, the composition of the Top 10 may vary slightly

each year depending on annual performance and rankings.

Secondly, under the Chinese context, a growing body of empirical research supports the use of the Top 10 classification as a benchmark for high-quality audit services. For example, the study by Su and Huang (2025) incorporates both the Big Four and leading domestic firms into the Top 10, arguing that in China, audit quality is jointly reflected by market share, reputation, and business capability—not solely by international firms. Furthermore, other studies adopt classifications such as Big 5 or Top 10 when comparing audit quality in mainland China and Taiwan, using indicators such as bid-ask spreads and accrual-based earnings quality. These findings demonstrate that the Top 10 classification is more representative and comparable within the Chinese audit market (Fan & Gao, 2025; Mohapatra et al., 2022)

Given the current landscape of the Chinese audit industry, major firms are not limited to the Big Four. Some domestic firms have also developed deep market penetration in terms of business capability, talent, and client base. Therefore, using the Top 10 classification in constructing a difference-in-differences (DID) model helps better capture the institutional pressure differences faced by international and domestic leading firms under legal reforms. This approach also aligns more closely with the actual competitive structure of the Chinese audit market (Su & Huang, 2025).

3.4 Moderating Variables

3.4.1 Internal Control

In this study, internal control is measured using an internal control index derived from the DIB Internal Control and Risk Management Database in China. The internal control index standardizes various aspects of a company's operations, including strategic,

operational, reporting, compliance, and asset security indices, making these variables comparable. The weights assigned to each variable are determined by the arithmetic average method. Using these weighted variables, an internal control index model is established, allowing the calculation of an internal control index that ranges from 0 to 999. A higher index value indicates a stronger level of internal control within the listed company.

The DIB database is widely recognized in China, making its internal control index a reliable measure for assessing the internal control levels of listed companies(Wang et al., 2018). For this study, the internal control index of the sample companies was obtained directly from the DIB database for each year. To reduce heteroskedasticity, the internal control index values were scaled by dividing by 100, following the approach of Du et al. (2017).

3.4.2 Media Coverage

Building on the work of Li et al. (2024) and Liu and Mo (2023), this study primarily examines the impact of media attention as an external oversight mechanism on listed companies, focusing on the comprehensive effects of media coverage. This study uses media coverage data sourced from a database, rather than calculating it independently. Specifically, the data is directly sourced from the Chinese Research Data Services (CNRDS), with media coverage data primarily derived from the sub-database Financial News Database of Chinese Listed Companies (CFND). It is the first large-scale database in China that employs AI algorithms to gather, organize, and analyze financial news on listed companies. The database sources data from over 400 online media outlets and more than 500 newspaper publications. The vast amount of financial news data on listed companies is the core strength of this database. Based on the vast data, the database uses data cleansing, expert judgment, and AI

algorithms to provide scholars with basic information on financial news of listed companies, quantitative statistics on financial news, and news similarity metrics.

In this study, media attention is measured by taking the natural logarithm of the total number of annual reports on a company by online media, plus one Yu (2023). To ensure the reliability and authority of the data, the study relies on widely recognized databases for data collection and analysis, thereby minimizing the risk of errors associated with manual calculations.

3.5 Control Variables

3.5.1 Firm Size

In this study, Firm Size is selected as a control variable because company size is typically associated with auditor behaviour. Different company sizes face varying levels of risk and complexity, leading auditors to employ different strategies and allocate resources accordingly (Bepari et al., 2022). Following Sellami and Cherif(2020), firm size is used as a control variable to mitigate potential side effects and provide a more accurate assessment of the impact of independent variables on auditor behaviour.

In this study, firm size is measured using the Natural logarithm of the firm's total assets (Gull et al.,2018), represented by the variable Size.

3.5.2 Firm Property Rights

The nature of firm property rights is determined based on the ownership attributes of the actual controllers of the enterprises. Companies are classified into state-owned and non-state-owned categories based on their property rights (Wan & Xu, 2012). State-owned enterprises are controlled by the state, while non-state-owned enterprises are controlled by

other entities such as individuals, families, or foreign corporations (Lei et al.,2022). These different ownership identities result in varying business objectives, governance mechanisms, and expectations regarding corporate management, which in turn affect auditor decision-making (Wang et al., 2008). This study represents this variable as Property with a dummy variable set to 1 if the actual controller of the firm is state-owned and 0 otherwise.

3.5.3 Financial Leverage

Financial leverage refers to the degree to which a company uses debt financing relative to equity financing, reflecting the company's financial risk (Harjoto et al., 2015). Higher financial leverage indicates that a company has relatively higher debt, leading to greater debt repayment pressure and increased sensitivity to its financial condition (Almustafa et al., 2023). Auditors perceive different levels of risk when dealing with clients with varying financial risks, leading to different audit risk response behaviours. The inclusion of "Financial Leverage" as a control variable aims to account for the potential impact of financial structure on auditor behaviour, allowing for a more accurate examination of the influence of other factors on auditor behaviour.

This study uses Leverage to represent this variable, following the approach of Nekhili and Gatfaoui (2013), calculated as total debt divided by total assets to measure financial leverage.

3.5.4 Return On Assets

Return On Assets (ROA) is an important indicator of a company's profitability, representing the efficiency with which a company uses its assets to generate profit. Companies with higher ROA typically exhibit stronger profitability and financial stability, which may influence their demand for high-quality audit services and their willingness to

pay for such services (Ghazi & Rim, 2014; Giroud & Mueller, 2017). ROA reflects the financial health of a company. Companies with better financial health may be more inclined to maintain high-quality financial reporting to meet the expectations of investors and stakeholders, which directly impacts audit quality (Mardessi, 2022). Auditors assess risk based on the client's profitability and financial health during the audit process. Companies with higher ROA are generally considered lower risk, so auditors may need to spend less time and resources auditing these companies, which can affect audit fees (Xiang & Chen, 2019).

Using ROA as a control variable helps researchers account for the influence of profitability when analyzing the impact of other factors on auditor behaviour. This approach enables more accurate identification and interpretation of the effects of other variables on audit fees and quality (Ball et al., 2012). In this research, ROA is calculated as the ratio of earnings before extraordinary items to total assets, following Christensen et al. (2023).

3.5.5 Company Growth

Company growth is typically measured by the sales growth rate, indicating the company's development speed and expansion potential over a specific period. Companies experiencing high growth may necessitate additional audit resources to manage complex financial situations and challenges associated with growth, thereby impacting audit fees and quality (Cheng et al., 2021; Liu & Xu, 2021). High-growth enterprises typically undergo rapid expansion, potentially resulting in increased uncertainty and complexity in financial reporting and internal control systems. Auditors may perceive these companies as higher risk, requiring more time and resources for audits (Guizani & Abdalkrim, 2021). High-growth companies may incur higher audit fees due to more frequent financial adjustments

and reporting needs; using growth as a control variable helps to more clearly observe the impact of other factors (Shan et al., 2023). Auditors need to consider these factors to develop appropriate audit strategies and pricing, thereby affecting audit quality and fees (Mazza et al., 2023).

When examining audit quality and fees, including growth as a control variable assists in isolating the effects of other factors on auditor behaviour, enhancing the accuracy and reliability of the study. This study follows Willekens et al. (2023) in using Growth to denote firm growth, measured as the percentage change in sales compared to the previous fiscal year.

3.5.6 Profitability

The profitability status of a company refers to its profit level over a certain period. If a company's net profit in a specific period is greater than 0, it is considered profitable; if the net profit is less than 0, it is considered a loss. Due to clear regulations on the profitability of listed companies in China's securities laws, listed companies face profit pressure. Listed companies with different profitability statuses adopt different strategies in their financial reporting, and loss-making listed companies tend to engage in earnings management more actively (Burgstahler & Dichev, 1997). Controlling for profitability helps isolate the effects of other factors on auditor behaviour

If a company's net profit is negative for the year, the variable Loss is assigned a value of 1; if the net profit is positive, the variable is assigned a value of 0 (Hsieh et al., 2020).

3.5.7 Management Fee

The management expense ratio, calculated as the ratio of management expenses to total revenue, is often viewed as a measure of agency conflicts (Ang et al., 2000; Jensen & Meckling, 2019). A higher management expense ratio may indicate that management is prioritizing personal interests over shareholder value, suggesting inefficiency or resource misallocation (Khan et al., 2016). The management expense ratio also reflects the quality of corporate governance; poorly governed companies often have higher management expense ratios as management may prioritize personal interests (Koh et al., 2013). These agency issues can elevate a company's overall management costs and potentially influence the auditors' risk assessment of the company. During the evaluation of a client's financial condition, auditors may interpret a high management expense ratio as a sign of inefficiency or resource misallocation, leading to heightened perceived audit risk. Auditors may need to allocate more resources to address these potential risks, which will directly impact audit fees (Guizani & Abdalkrim, 2021).

Using the management expense ratio as a control variable in studies on audit quality and fees helps isolate the impact of agency conflicts, allowing for a more accurate observation of other variables' effects, thus enabling a more precise evaluation of the influence of other factors on audit quality and fees (Shan et al., 2023). Following Jensen & Meckling (2019), the management expense ratio is calculated as the ratio of a company's total management expenses to its total revenue.

Table 3.1: Variables Calculation

Variables	Abbreviation	Measurement	Authors and Year
Dependent Variables			
Audit Quality	AbsDA	Measured using the Jones model by calculating the absolute value of a company's discretionary accruals, as detailed in Chapter 3.4.1.	DeFond & Zhang (2014) ,Christensen et al. (2023),Dechow et al. (1995)
Audit Fee	Fee	Natural logarithm of the audit fees paid by the company to the auditor.	Francis & Simon(1987), Harjoto & Laksmana(2022), DeFond & Zhang(2014)
Independent Variable			
Post*Treat	DID	Interaction term of 'Treat' and 'Post'. Treat is a dummy variable equal to 1 if the auditor is not among the Top 10 audit firms in China (Treatment group) , and 0 otherwise (Control group) . Post is a dummy variable equal to 1 for observations from 2020 onwards, and 0 for observations before 2020.	Sytsma(2022), Campello & Larrain (2018), Vig (2013), Pittman & Yang (2022)
Moderating Variables			
Internal control	Incontrol	Measured by a score ranging from 0 to 999 at the start of the fiscal year, scaled by dividing the initial score by 100.	Wang et al. (2018),Du et al. (2017)

Media Coverage	Media	Natural logarithm of (the total number of annual online media reports on the company plus one).	Li et al. (2024), Liu & Mo (2023)
Control Variables			
Firm Size	Size	Natural logarithm of the company's total assets.	Bepari et al. (2022), Sellami & Cherif (2020), Gull et al. (2018)
Firm Property Rights	Property	Dummy variable equal to 1 if the company is state-owned, and 0 if otherwise.	Wang et al. (2008), Lei et al. (2022), Wan & Xu (2012)
Financial Leverage	Leverage	Ratio of total debt to total assets.	Harjoto et al. (2015), Almustafa et al. (2023), Nekhili & Gatfaoui (2013)
Profitability	Loss	Dummy variable equal to 1 if the company reports a net loss for the year, and 0 if it reports a net profit.	Hsieh et al. (2020), Burgstahler & Dichev (1997)
Return on Assets	ROA	Ratio of net profit to average total assets.	Ball et al. (2012), Christensen et al. (2023)
Company Growth	Growth	Ratio of current year's revenue to the previous year's revenue, minus one.	Willekens et al. (2023), Mazza et al. (2023)
Management Fee	Managefee	Ratio of management expenses to total revenue.	Jensen & Meckling (2019), Guizani & Abdalkrim (2021)

3.6 Sample Selection and Data Resource

This study employs panel data for empirical analysis, focusing on A-share listed companies on the Shanghai and Shenzhen Stock Exchanges in China from 2016 to 2022. The A-share market, where stocks are denominated in RMB and traded on these exchanges, represents a crucial segment of China's capital markets. The decision to focus on A-share listed companies is strategic; this market is dominated by individual investors, which enhances its transparency. Furthermore, the A-share market serves as a vital barometer of China's economic health and capital market dynamics, providing a rich dataset for analyzing corporate behaviour, market efficiency, and the impacts of regulatory changes, particularly during periods of economic transition.

The implementation of the new Securities Law in 2020 marks a significant regulatory shift in China's capital markets. This law introduced stricter compliance requirements, enhanced transparency obligations, and increased penalties for violations, fundamentally altering the landscape in which auditors and companies operate.

The chosen window enables a balanced pre- and post-treatment analysis, consistent with prior Difference-in-Differences (DID) literature such as Hallman et al. (2022) and Berkowitz et al. (2015). The year 2020 marks the implementation of China's new Securities Law, a significant regulatory turning point. Using data from 2016–2022 allows the model to capture auditor behaviour over several years prior to and following the law's enforcement, ensuring both short-term and longer-term regulatory effects are adequately examined.

Before conducting the empirical analysis, the study undertook several critical data preprocessing steps to ensure the robustness and reliability of the results.

The first step involved excluding companies with incomplete data, which could not provide all the necessary variables for the analysis. The study minimizes the risk of biased results and enhances the accuracy and validity of the empirical findings. Ensuring data completeness is vital for maintaining the integrity of the regression models and for drawing reliable conclusions from the analysis.

Given the unique financial characteristics of companies under special treatment (ST and *ST status) in China, these firms were excluded from the sample. In China's stock market, the "ST" designation indicates that a company is experiencing financial distress or has reported negative net profits for two consecutive years. The "*ST" designation further flags companies that have violated securities laws or exchange regulations, making them subject to stricter trading restrictions and presenting higher investment risks. The exclusion of these companies prevents potential outliers from skewing the analysis and ensures that the study's findings are reflective of the broader market.

The financial and insurance sectors were also excluded from the sample due to their distinct operational and financial structures, which could introduce heterogeneity into the dataset. These sectors often have different risk profiles, regulatory environments, and financial reporting practices compared to other industries, which could complicate the interpretation of results. By focusing on non-financial firms, the study aims to provide a clearer analysis of the effects of the new Securities Law on auditor behaviour.

To further enhance the robustness of the empirical analysis, a 1% Winsorization was applied to all continuous variables. Winsorization is a statistical technique that limits extreme values to reduce the influence of outliers. By applying this technique, the study

mitigates the potential distortions that extreme data points could introduce into the regression models, thereby improving the reliability of the findings.

After these preprocessing steps, the final dataset consisted of 19,256 observations, providing a substantial and diverse sample for the analysis. This large dataset enhances the generalizability of the study's findings and allows for a more nuanced examination of the relationships between the variables under consideration.

The study draws on data from multiple reputable sources to ensure the accuracy and reliability of the variables used in the analysis. The Internal Control (Incontrol) variable is sourced from the DIB Internal Control and Risk Management Database, which is widely recognized for its comprehensive coverage of internal control practices in Chinese firms. Media Coverage (Media) data is obtained from the Chinese Research Data Services (CNRDS) Platform, specifically from the Financial News Database of Chinese Listed Companies (CFND). This database aggregates financial news from over 400 online media outlets and 500 newspaper publications, offering a rich source of data on how companies are portrayed in the media. The remaining variables, such as firm size, leverage, and profitability, are drawn from the China Stock Market & Accounting Research Database (CSMAR), which provides publicly disclosed financial information on Chinese listed companies. The use of these well-established databases ensures that the study's findings are based on reliable and valid data, further strengthening the credibility and robustness of the research.

3.7 Estimation Models

3.7.1 Difference-in-Differences (DiD) Method

This study will employ the Difference-in-Differences (DiD) method to examine the impact of the implementation of the new Securities Law in China on auditor behaviour. The

DiD method has become a widely used research tool in the social sciences due to its clarity, intuitiveness, and ease of operation. Its ability to address endogeneity issues makes it a popular choice for scholars studying policy effects (Baker et al., 2022; Roth et al., 2023). The international use of the DiD method in the fields of economics and management can be traced back to Ashenfelter (1978) who used it to assess the impact of training programs on earnings. In China, the first application of the DiD method was pioneered by Zhou and Chen (2005) in studying the policy effects of rural tax and fee reform. Currently, the DiD method is widely applied by scholars internationally in various research areas related to the effects of economic policies, and it continues to be refined and improved (Chen et al., 2020; Clò & Fumagalli, 2019; Hong et al., 2020; Laufer & Paciorek, 2022; Lin & Yen, 2022; Srulovici et al., 2019; Sytsma, 2022; Tazhitdinova, 2022).

The DiD approach enhances identification by integrating concepts from comparisons between treatment and control groups with before-and-after studies. To begin with, imagine an evaluation aimed at determining the impact of a policy that was not implemented randomly. This is done by comparing the outcomes of a treatment group with those of a control group, using data collected after the policy was put into effect. Assume that a difference in outcomes is observed between the two groups (Fredriksson & Oliveira, 2019).

When evaluating the impact of a specific policy, it is essential to compare differences among economic entities before and after its implementation. However, a simple before-and-after comparison is insufficient, as entities may also be influenced by factors such as time, macroeconomic conditions, and random disturbances. These factors may not purely reflect the policy's effects, which is where the DiD method proves valuable.

The DiD (Difference-in-Differences) method is a quantitative approach to estimating causal effects. Its fundamental concept treats public policies as natural experiments. To evaluate the net impact of a policy implementation, all sample data is divided into two groups: one group is affected by the policy, referred to as the treatment group; and the other group is not affected by the same policy, known as the control group. An economic indicator of interest is selected, and a first differencing is performed based on the policy's implementation before and after (in terms of time), resulting in two sets of changes. The first differencing helps eliminate individual heterogeneity that does not vary with time. Subsequently, a second differencing is applied to the two sets of changes to remove time-varying increments, ultimately yielding the net effect of policy implementation.

First-order difference:

The difference in the treatment group before and after policy implementation =

$$Treatment_{after} - Treatment_{before}$$

= Difference caused by policy implementation (treatment effect) + Differences in the treatment group before and after policy implementation caused by other factors

The difference in the control group before and after policy implementation

$$= Control_{after} - Control_{before}$$

= Differences in the control group before and after policy implementation caused by other factors

Second-order difference:

The difference in the treatment group before and after the policy change point - The difference in the control group before and after the policy change point

$$= (Treatment_{after} - Treatment_{before}) - (Control_{after} - Control_{before})$$

= Difference caused by policy implementation (treatment effect) + Differences in the treatment group before and after policy implementation caused by other factors - Differences in the control group before and after policy implementation caused by other factors

If the differences caused by other factors in the treatment group before and after policy implementation are equal to the differences caused by other factors in the control group before and after policy implementation, satisfying the parallel trends assumption. In this case, the result of the second-order difference is the difference caused by policy implementation (treatment effect), allowing the use of the Difference-in-Differences method to eliminate the influence of factors other than the policy on the sample.

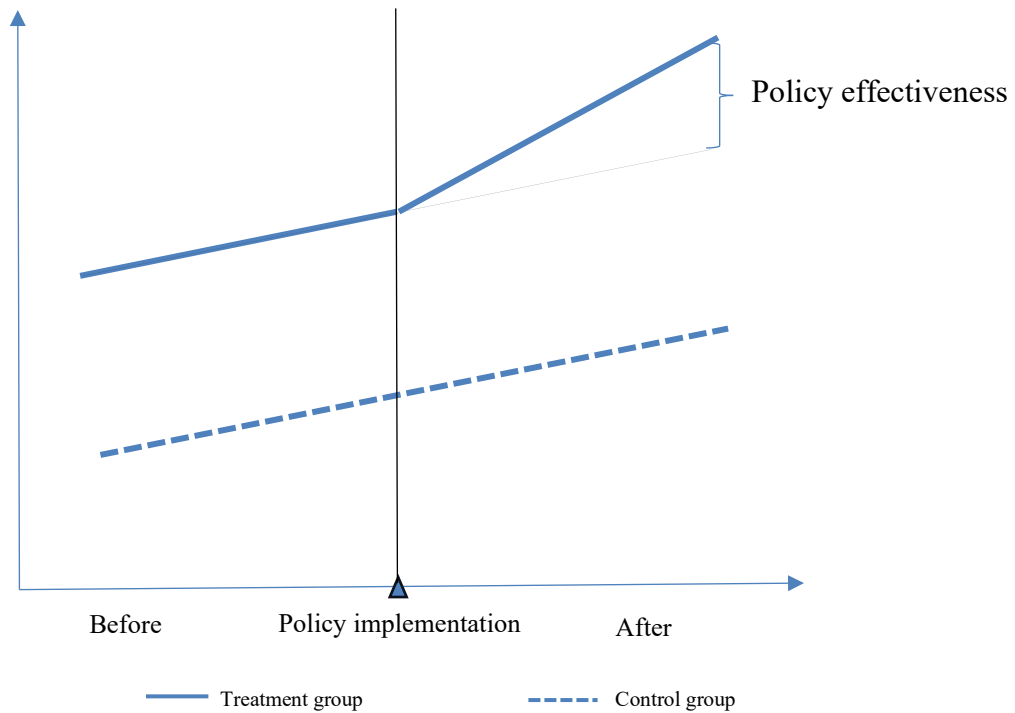


Figure 3.1: Basic Principles of Difference-in-Differences

The basic model of the Difference-in-Differences method is as follows:

$$Y_{i,t} = \alpha_0 + \alpha_1 Treat + \alpha_2 Post + \alpha_3 Treat * Post + \varepsilon_{i,t}$$

Where *Treat* is a grouping dummy variable. If individual *i* is influenced by policy implementation, individual *i* belongs to the treatment group, and the corresponding value of *Treat* is 1. If individual *i* is not affected by policy implementation, individual *i* belongs to the control group, and the corresponding value of *Treat* is 0. *Post* is a dummy variable for policy implementation. The value of *Post* is 0 before policy implementation and 1 after policy implementation. *Treat*Post* is the interaction term between the grouping dummy variable and the policy implementation dummy variable, and its coefficient α_3 reflects the net effect of the policy.

The table below illustrates the calculation process of $Y_{i,t}$ being affected by the policy by plugging in the values of *Treatment* and *Post* into the model using the Difference-in-Differences method.

Table 3.2: Difference-in-Differences Model Coefficient Calculation Method

	Before policy	After policy	Difference
Treatment group	$\alpha_0 + \alpha_1$	$\alpha_0 + \alpha_1 + \alpha_2 + \alpha_3$	$\alpha_2 + \alpha_3$
Control group	α_0	$\alpha_0 + \alpha_2$	α_2
Difference	α_1	$\alpha_1 + \alpha_2$	α_3 (Difference-in-Differences)

Since α_3 reflects the net effect of the policy, we perform regression on the constructed model. If α_3 is negative, it indicates that the policy implementation has a

negative impact on the dependent variable. If α_3 is positive, it indicates that the policy implementation has a positive impact on the dependent variable.

In conducting Difference-in-Differences studies, the parallel trends assumption is crucial for identifying causal effects (Lechner, 2011). This assumption implies that, in the absence of the intervention, the treatment group would follow a similar time trend as the control group, particularly concerning the outcome variable. Although the levels of the outcome may differ between the treatment and control groups due to observable and unobservable factors, the trend over time for these differences should remain constant. If the parallel trends assumption holds, any observed difference in the outcome variable can be attributed to the policy intervention. However, because data for the treatment group are only observed post-intervention, this assumption cannot be directly tested.

To indirectly support this assumption, researchers can analyze data from multiple pre-intervention periods to demonstrate that the treatment and control groups exhibit similar trends before the intervention. Such evidence strengthens the credibility of the conclusion that the observed effects are primarily due to the intervention itself, rather than other factors. However, if the dataset includes only a single pre-intervention period, it is impossible to verify the parallel trends assumption, which may undermine the robustness of the study. Therefore, incorporating multiple pre-intervention periods in Difference-in-Differences studies is considered an essential practice for enhancing the reliability of the research and is regarded as the current best practice. The examination of parallel trends will be discussed in Chapter 3.10.

When conducting analyses using the Difference-in-Differences model, the placebo test is frequently considered an effective method for validating the robustness of research

findings. This approach is similar to the "control group" testing commonly used in scientific experiments. In such experiments, researchers might administer an actual drug to one group while giving a "placebo" (a substance with no therapeutic effect) to another group, ensuring that any observed effects can be genuinely attributed to the drug rather than to other factors. Similarly, in Difference-in-Differences analyses, researchers may randomly assign a "false" treatment group and policy implementation time to verify that the observed policy effects are not influenced by unobservable factors, such as social trends or economic changes. By conducting repeated experiments, they can observe whether these "false" treatment groups display effects similar to those of the actual policy intervention.

If the placebo tests show no significant effects in these "false" experiments, researchers can be more confident that the observed outcomes are genuinely caused by the actual policy intervention rather than by other random factors. This method enables researchers to eliminate the influence of randomness or other potential confounding factors in the data, thereby ensuring the reliability of the research results.

3.7.2 New Securities Law and Audit Quality

This study will first use the Ordinary Least Squares model to conduct a simple overall time trend analysis, using the time dummy variable for the implementation of the new Securities Law as the independent variable to observe changes in the dependent variable, audit quality. After completing the initial analysis, the study will primarily employ a full DiD model to identify the specific impact of the new Securities Law on audit quality. By comparing the results of these two models, a better assessment can be made regarding whether the policy has achieved its intended effects, leading to more robust conclusions.

According to the analysis in Chapter 3.3, the implementation of the new Securities Law is expected to enhance audit quality. Initially, the study employs the Ordinary Least Squares model to conduct a preliminary analysis. In this model, the time dummy variable *Post* is used to distinguish whether the new Securities Law has been implemented, serving as the primary independent variable to observe changes in audit quality, as shown in Model (3.4). According to Hypothesis 1, since a higher *AbsDA* value indicates lower audit quality, it is expected that the new Securities Law will positively impact audit quality, resulting in a significantly negative coefficient β_1 for $Post_{i,t}$.

$$AbsDA_{i,t} = \beta_0 + \beta_1 Post_{i,t} + \beta_2 Size_{i,t} + \beta_3 Property_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 ROA_{i,t} + \beta_6 Growth_{i,t} + \beta_7 Loss_{i,t} + \beta_8 Managefee_{i,t} + \varepsilon_{i,t} \quad (3.4)$$

As discussed in Chapter 3.9.1, the study employs the Difference-in-Differences model to evaluate the impact of the new Securities Law on audit quality. The key independent variable in constructing Model (3.5) is the interaction term $DID(Treat*Post)$, which is derived from the *Post* and *Treat* variables. Specifically, *Treat* is a dummy variable that equals 1 if the auditor is not among the Top 10 audit firms in China, representing the treatment group, and 0 if the auditor is among the Top 10, representing the control group. *Post* is a dummy variable that equals 0 for observations before the implementation of the new Securities Law in 2020 and equals 1 for observations from 2020 onwards. The coefficient β_1 associated with the *DID* variable reflects the net effect of the policy implementation. According to Hypothesis 1, given that a higher *AbsDA* value indicates lower audit quality, and since the new Securities Law is anticipated to positively influence audit quality, the coefficient β_1 for *DID* is expected to be significantly negative.

$$AbsDA_{i,t} = \beta_0 + \beta_1 DID + \beta_2 Size_{i,t} + \beta_3 Property_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 ROA_{i,t} + \beta_6 Growth_{i,t} + \beta_7 Loss_{i,t} + \beta_8 Managefee_{i,t} + \varepsilon_{i,t} \quad (3.5)$$

3.7.3 New Securities Law, Internal control and Audit Quality

To verify the moderating effect of internal control on the relationship between the new Securities Law and audit quality, Model (3.6) is developed by incorporating the variable *Incontrol* and the interaction term between *Incontrol* and *DID* into the base Model (3.5). *Incontrol* represents the company's internal control index, where a lower index indicates poorer internal control quality. According to Hypothesis 2, in the stricter regulatory environment following the implementation of the new Securities Law, companies with weaker internal controls are expected to see both the audited entities and auditors exert more effort to improve audit quality. Consequently, internal control is anticipated to negatively moderate the relationship between the new Securities Law and audit quality. Therefore, the study expects the coefficient β_3 for the interaction term $Incontrol_{i,t} * DID$ to be significantly positive.

$$AbsDA_{i,t} = \beta_0 + \beta_1 DID + \beta_2 Incontrol_{i,t} + \beta_3 Incontrol_{i,t} * DID + \beta_4 Size_{i,t} + \beta_5 Property_{i,t} + \beta_6 Leverage_{i,t} + \beta_7 ROA_{i,t} + \beta_8 Growth_{i,t} + \beta_9 Loss_{i,t} + \beta_{10} Managefee_{i,t} + \varepsilon_{i,t} \quad (3.6)$$

3.7.4 New Securities Law, Media Coverage and Audit Quality

To test the moderating effect of media coverage on the relationship between the new Securities Law and audit quality, this study constructs Model (3.7) by including the variable *Media* and the interaction term *Media**DID** in the base Model (3.5). *Media* indicates the level of media attention a listed company receives; the greater the value, the more media

coverage the company has. According to Hypothesis 3, in the strict regulatory environment following the implementation of the new Securities Law, increased media attention leads both the audited entities and auditors to work harder to improve audit quality. Thus, media coverage is expected to positively moderate the relationship between the new Securities Law and audit quality. This study expects the coefficient β_3 for $Media_{i,t} * DID$ to be significantly negative.

$$\begin{aligned}
 AbsDA_{i,t} = & \beta_0 + \beta_1 DID + \beta_2 Media_{i,t} + \beta_3 Media_{i,t} * DID + \beta_4 Size_{i,t} + \\
 & \beta_5 Property_{i,t} + \beta_6 Leverage_{i,t} + \beta_7 ROA_{i,t} + \beta_8 Growth_{i,t} + \beta_9 Loss_{i,t} + \\
 & \beta_{10} Managefee_{i,t} + \varepsilon_{i,t}
 \end{aligned} \tag{3.7}$$

3.7.5 New Securities Law and Audit Fees

This study will initially utilize the Ordinary Least Squares method to perform an overall time trend analysis, with the time dummy variable *Post* representing the implementation of the new Securities Law as the independent variable, to observe changes in the dependent variable, audit fees. Following this initial examination, a full Difference-in-Differences (DiD) model will be employed to pinpoint the specific effects of the new Securities Law on audit fees. By comparing the outcomes of these two models, the study aims to more accurately determine whether the policy has achieved its intended goals, resulting in more robust conclusions.

As analyzed in Chapter 3.3, the implementation of the new Securities Law is projected to lead to an increase in audit fees. This study uses the natural logarithm of audit fees ($\ln fee$), reported by listed companies, as the dependent variable to develop a model evaluating the impact of the new Securities Law on audit fees. Initially, the research employs the Ordinary Least Squares model for a preliminary analysis. The time dummy variable *Post*

serves as the primary independent variable to examine changes in audit fees after the implementation of the new Securities Law, as outlined in Model (3.8). Given that a higher $Lnfee$ corresponds to higher fees, and the new Securities Law is expected to positively influence audit fees, the coefficient β_1 for $Post_{i,t}$ is expected to be significantly positive.

$$Lnfee_{i,t} = \beta_0 + \beta_1 Post_{i,t} + \beta_2 Size_{i,t} + \beta_3 Property_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 ROA_{i,t} + \beta_6 Growth_{i,t} + \beta_7 Loss_{i,t} + \beta_8 Managefee_{i,t} + \varepsilon_{i,t} \quad (3.8)$$

Additionally, the study primarily utilizes the Difference-in-Differences model to evaluate the impact of the new Securities Law on audit fees. Model (3.9) is constructed using the interaction term DID ($Treat*Post$) as the main independent variable. The coefficient β_1 of DID represents the net effect of the policy implementation. Since a higher $Lnfee$ value indicates higher audit fees, and given that the new Securities Law is expected to positively influence audit fees, the coefficient β_1 for DID is anticipated to be significantly positive.

$$Lnfee_{i,t} = \beta_0 + \beta_1 DID + \beta_2 Size_{i,t} + \beta_3 Property_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 ROA_{i,t} + \beta_6 Growth_{i,t} + \beta_7 Loss_{i,t} + \beta_8 Managefee_{i,t} + \varepsilon_{i,t} \quad (3.9)$$

3.7.6 New Securities Law, Internal control and Audit Fees

To examine the moderating effect of internal control on the relationship between the new Securities Law and audit fees, Model (3.10) is developed by incorporating the variable $Incontrol$ and its interaction term with DID into the base Model (3.9).

$Incontrol$ represents the company's internal control index, where a lower index signifies poorer internal control quality. According to Hypothesis 5, under the stricter regulatory environment following the implementation of the new Securities Law, auditors may demand a higher risk premium from companies with weaker internal control due to

heightened risk concerns. Consequently, internal control is expected to negatively moderate the relationship between the new Securities Law and audit fees. Therefore, the coefficient β_3 for $Incontrol_{i,t} * DID$ is anticipated to be significantly negative.

$$\begin{aligned} Lnfee_{i,t} = & \beta_0 + \beta_1 DID + \beta_2 Incontrol_{i,t} + \beta_3 Incontrol_{i,t} * DID + \beta_4 Size_{i,t} + \\ & \beta_5 Property_{i,t} + \beta_6 Leverage_{i,t} + \beta_7 ROA_{i,t} + \beta_8 Growth_{i,t} + \beta_9 Loss_{i,t} + \\ & \beta_{10} Managefee_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (3.10)$$

3.7.7 New Securities Law, Media Coverage and Audit Fees

To examine the moderating effect of media coverage on the relationship between the new Securities Law and audit fees, this study develops Model (3.11) by incorporating the variable Media and its interaction term with DID into the base Model (3.9).

Media represents the level of media attention a listed company receives, where a higher value indicates greater media coverage. According to Hypothesis 6, in the stricter regulatory environment following the implementation of the new Securities Law, increased media attention may prompt auditors to raise audit fees. As a result, media coverage is expected to positively moderate the relationship between the new Securities Law and audit fees. Therefore, the study anticipates that the coefficient β_3 for the interaction term $Media_{i,t} * DID$ will be significantly positive.

$$\begin{aligned} Lnfee_{i,t} = & \beta_0 + \beta_1 DID + \beta_2 Media_{i,t} + \beta_3 Media_{i,t} * DID + \beta_4 Size_{i,t} + \\ & \beta_5 Property_{i,t} + \beta_6 Leverage_{i,t} + \beta_7 ROA_{i,t} + \beta_8 Growth_{i,t} + \beta_9 Loss_{i,t} + \\ & \beta_{10} Managefee_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (3.11)$$

3.8 Diagnostic Test

Multicollinearity is a common issue in regression models that arises when two or more explanatory variables are highly correlated with each other. This condition can lead to significant problems in the estimation of regression coefficients, such as inflated standard errors, reduced statistical power, and potentially misleading inferences (Lindner et al., 2022). When multicollinearity is present, the regression model may produce unstable coefficient estimates, meaning that small changes in the model or data can result in large variations in the estimated coefficients. This instability makes it difficult to determine the true relationship between the explanatory variables and the dependent variable, potentially leading to incorrect conclusions about the significance and impact of the predictors.

To diagnose and address the issue of multicollinearity, researchers typically calculate the Variance Inflation Factor (VIF) for each explanatory variable. The VIF quantifies how much the variance of a regression coefficient is inflated due to multicollinearity with other predictors in the model. A VIF value is calculated by taking the ratio of the variance of a coefficient in a model with multiple predictors to the variance of a coefficient from a model with only one predictor. The higher the VIF, the more severe the multicollinearity problem is likely to be. Generally, a VIF value exceeding 10 is considered indicative of serious multicollinearity (O'Brien, 2007), although some researchers may use a more conservative threshold, such as 5, depending on the context of the study and the specific field of research.

In this study, the VIF for each explanatory variable was carefully calculated to ensure that multicollinearity would not compromise the validity of the regression analysis. The results of the VIF calculations indicated that all values were well below the commonly accepted threshold of 10, suggesting that multicollinearity is not a significant concern in the model. This finding is crucial as it ensures the robustness of the regression estimates and

supports the reliability of the conclusions regarding the relationships between the independent variables and the dependent variable.

The Chow test was performed to assess whether there was a structural break in the regression model before and after the implementation of the new Securities Law. This test divides the sample based on the policy intervention (pre- and post-reform) and estimates separate regressions for each period. The null hypothesis of the Chow test posits that there is no structural change in the model across these two timeframes. As originally introduced by Chow (1960), this method evaluates whether the relationships among variables differ significantly before and after an external change. In this study, the test returned a statistically significant F-statistic, confirming that a structural shift occurred. This supports the study's premise that the legal reform substantively altered the institutional and behavioral context of the audit market.

The Breusch and Pagan Lagrange Multiplier (BPLM) test was utilized to detect the presence of unobserved individual-specific effects in the panel dataset. According to Breusch and Pagan (1980), the LM test evaluates whether variance across cross-sectional units justifies the use of panel modeling techniques over pooled OLS. The results provided strong evidence in favor of significant panel effects, thereby confirming that the dataset exhibits individual heterogeneity that must be accounted for. Based on this outcome, the study proceeded with fixed-effects or random-effects estimation, with further guidance provided by the Hausman test.

The Breusch-Pagan test for heteroskedasticity was employed to test the assumption of homoskedasticity in the error terms. This diagnostic, first proposed by Breusch and Pagan (1979), evaluates whether the variance of residuals is constant across observations. The results revealed no statistically significant heteroskedasticity at the 5% level, though mild

indications at the 10% level suggest caution. This finding, in combination with the Chow test results, suggests that changes in model structure are more likely attributable to coefficient shifts rather than variance instability.

The Wooldridge test for first-order autocorrelation in panel data was conducted to diagnose potential serial correlation in the fixed-effects model. The Wooldridge (2010) test, supported by Drukker (2003), is particularly suited for short-panel settings with large cross-sections. A highly significant test result indicated the presence of autocorrelation, which, if uncorrected, could bias standard errors and affect inference reliability. To mitigate this issue, the study employed robust standard errors clustered at the firm level, ensuring more accurate estimation under autocorrelation and heteroskedasticity conditions.

The study conducted a parallel trends test specifically for the Difference-in-Differences model. In conducting Difference-in-Differences analysis, the parallel trends assumption is a critical prerequisite for ensuring the validity and reliability of the DID estimates. This assumption posits that, in the absence of any treatment or intervention, the outcome variables for both the treatment and control groups should exhibit similar trends over time. Specifically, the trend lines of the two groups should be parallel before the intervention occurs. If this assumption holds true, it allows the DID estimator to attribute the post-intervention differences to the treatment effect rather than to other potential time-varying factors (Wing et al., 2018).

The parallel trends test is essential for verifying this core assumption of the DiD methodology. By confirming that the treatment and control groups would have followed parallel paths in the absence of the intervention, the test ensures that the DiD results can be interpreted as the causal effect of the policy or treatment. Conversely, if the parallel trends assumption does not hold, the DiD estimates may be biased due to unobserved factors

causing divergent trends, thereby undermining the method's validity (Atthey & Imbens, 2017).

To conduct the parallel trends test, one approach involves regressing the outcome variable on time dummy variables and the interaction terms between the treatment group and the time dummies. This regression allows researchers to test whether these interaction terms are significant prior to the intervention. The insignificance of these interaction terms supports the parallel trends assumption (Angrist & Pischke, 2009). Additionally, plotting the mean values of the outcome variable over time for both the treatment and control groups provides a straightforward visual assessment of whether significant differences exist between the groups. However, this graphical method offers only a basic assessment and does not statistically verify the differences (Zhang & Yang, 2017).

An alternative, more rigorous approach to the parallel trends test, as suggested by Nunn and Qian (2011), involves generating interaction terms between year dummy variables and treatment group dummy variables within a regression model. The coefficients of these interaction terms reflect the differences between the treatment and control groups in specific years. If these coefficients are not statistically significant before the intervention, it indicates that no heterogeneous time trends exist between the groups prior to the policy change, thereby confirming the validity of the parallel trends assumption and the effectiveness of the DiD methodology (Goodman-Bacon, 2021). This study will employ this method to conduct the parallel trends test. Thus, by rigorously testing the parallel trends assumption, researchers can confidently attribute the observed effects to the policy intervention rather than to other unobserved time-varying factors.

3.9 Chapter Summary

This chapter provides an exploration of the methodological approach selected for this study. A quantitative research method was employed to empirically test the hypotheses. The dependent variables—audit quality and audit fees—were clearly defined first, followed by the operationalization of the independent variable using the Difference-in-Differences method to capture the effect of the new securities law.

The chapter also introduces moderating variables, specifically internal control and media coverage, which are expected to influence the relationship between the new securities law and auditor behaviour. Additionally, a discussion of control variables is presented, covering firm size, property rights, financial leverage, return on assets, company growth, profitability, and management fees, to account for potential confounding factors.

Detailed descriptions of sample selection and data sources are provided, ensuring that the empirical analysis is based on a robust and representative dataset. The chapter then thoroughly explains the estimation models, particularly focusing on the DiD method, which is employed to assess the impact of the new securities law on auditor behaviour. These models are designed to evaluate the law's effects on audit quality and audit fees, while also considering the moderating effects of internal control and media coverage.

The chapter concludes with a series of diagnostic tests to ensure the robustness and reliability of the research findings. Special emphasis is placed on the parallel trends test, which is a crucial step in validating the DiD methodology. This test is essential for confirming that the treatment and control groups exhibited similar trends before the implementation of the new law, thus supporting the validity of the DiD approach.

In summary, this chapter meticulously outlines the research methods used to test the hypotheses. By integrating theoretical foundations with advanced econometric techniques, it provides a rigorous framework for analyzing the impact of China's New Securities Law on auditor behaviour, including the moderating effects of internal control and media coverage.

CHAPTER 4

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the empirical results and discussions based on the analysis of the impact of China's new Securities Law on audit quality and audit fees. The chapter is structured into three main sections to comprehensively address the research questions and hypotheses.

The first section provides a detailed overview of the descriptive statistics for all variables used in the study. This section will examine the central tendencies, dispersions, and distributions of the variables, offering insights into the basic characteristics of the data set. Understanding these descriptive statistics is essential as they set the stage for the subsequent analyses.

The second section delves into the relationship between the new Securities Law and audit quality. This part begins with a set of diagnostic tests, ensuring the robustness of the regression results. Additionally, a parallel trends test is performed to validate the Difference-in-Differences (DiD) approach. The core of this section is the DiD regression analysis, which investigates the effect of the new Securities Law on audit quality. To ensure the robustness of the findings, the results are further validated using placebo tests and Propensity Score Matching (PSM)-DID analyses. Finally, this section examines the moderating effects of internal control and media coverage on the relationship between the new Securities Law and audit quality.

The third section mirrors the second but focuses on the impact of the new Securities Law on audit fees instead of audit quality. Similar to the analysis of audit quality, this section includes a correlation analysis, multicollinearity test, Hausman test, and parallel trends test, followed by DiD regression analysis. The robustness of these findings is also tested using placebo tests and PSM-DID. This section concludes by exploring the moderating effects of internal control and media coverage on the relationship between the new Securities Law and audit fees.

The structure of this chapter allows for a comprehensive examination of the effects of the new Securities Law on both audit quality and audit fees, considering the roles of internal control and media coverage as moderating factors.

4.2 Descriptive Statistics

Descriptive statistics offer a clear and concise way to summarize and interpret data, helping to identify anomalies and outliers within the dataset. The summary includes key metrics such as the mean, standard deviation, and the range (minimum and maximum values) of the variables analyzed in this study. Table 4.1 and Table 4.2 presents these detailed descriptive statistics, based on a sample of 19,256 firm-year observations.

Table 4.1: Descriptive Statistics of Dummy Variables

Variable	Max	Min	Mean	Median	SD	Obs
Treat	1	0	0.393	0	0.488	19256
Post	1	0	0.509	1	0.500	19256
Property	1	0	0.290	0	0.454	19256
Loss	1	0	0.112	0	0.315	19256

Table 4.2: Descriptive Statistics of Continuous Variables

Variable	Max	Min	Mean	Median	SD	Obs
AbsDA	6.356	0	0.068	0.043	0.119	19256
Fee	11800000	360000	1532551	1050000	1648747	19256
Incontrol	7.774	3.224	6.478	6.597	0.755	19256
Media	6.109	1.386	4.162	4.234	0.917	19256
Size	273319000	23842	2089548	417741	10228353	19256
Leverage	0.796	0.071	0.407	0.402	0.187	19256
ROA	0.185	-0.141	0.043	0.041	0.058	19256
Growth	1.113	-0.402	0.150	0.111	0.289	19256
Managefee	0.274	0.011	0.077	0.063	0.054	19256

The dependent variable, audit quality (AbsDA), shows a mean value of 0.068 and a standard deviation of 0.119, with maximum and minimum values of 6.356 and 0, respectively, indicating significant variation in audit quality among different firms. This level is consistent with prior studies on Chinese A-share listed firms. For instance, Liu and Tang (2009) used modified Jones models to measure audit quality and reported similar mean absolute discretionary accruals of around 0.066 to 0.068. Audit fees (Fee) have a mean of 1,532,551, with a standard deviation of 1,648,747. The maximum and minimum values are 11,800,000 and 360,000 respectively, illustrating substantial differences in audit fees across firms. The units used here are in Chinese Yuan. This is similar to the analysis results found in Liu et al. (2014).

The treatment dummy variable (Treat) has a mean value of 0.393 and a standard deviation of 0.488, indicating that approximately 39.3% of the observations were in the

treatment group. The time dummy variable (Post) reflects an even distribution before and after the treatment period, with a mean of 0.509 and a standard deviation of 0.500. This shows that 50.9% of the observations are from the post-implementation period of China's New Securities Law, indicating a nearly equal distribution of data before and after the policy came into effect.

Internal control (Incontrol) has a mean value of 6.478, with a standard deviation of 0.755, and maximum and minimum values of 7.774 and 3.224, highlighting variations in internal control scores among firms. This result aligns with Zhao and Zhou(2021), who used the same DIB scoring system and reported an average value of 6.43 across their sample.

Media coverage (Media) shows a mean of 4.162, with a standard deviation of 0.917, and maximum and minimum values of 6.109 and 1.386, indicating significant variability in media attention across firms. Although fewer Chinese studies provide direct comparisons of log-transformed media exposure, the level is comparable to that reported in Wang and Qian (2022), who used similar metrics in studying media supervision in listed companies.

Firm size (Size) has a mean of 2,089,547.823, with a standard deviation of 10,228,352.77, and maximum and minimum values of 273,319,000.000 and 23,841.974, respectively, with a median of 417,740.828. Firm ownership (Property) reveals that approximately 29% of the firms are state-owned, with a mean value of 0.290 and a standard deviation of 0.454. Financial leverage (Leverage) has a mean of 0.407, with a standard deviation of 0.187, and maximum and minimum values of 0.796 and 0.071. Return on assets (ROA) presents a mean of 0.043, with a standard deviation of 0.058, and maximum and minimum values of 0.185 and -0.141.

The growth rate (Growth) varies significantly among firms, with a mean of 0.150, a standard deviation of 0.289, and maximum and minimum values of 1.113 and -0.402. The mean value of Loss is 0.112, indicating that approximately 11.2% of the sample firms reported losses, with a standard deviation of 0.315. Management fees (Managefee) show significant differences across firms, with a mean of 0.077, a standard deviation of 0.054, and maximum and minimum values of 0.274 and 0.011.

These descriptive statistics provide a comprehensive overview of the variables' characteristics, setting the stage for the subsequent empirical analyses.

4.3 New Securities Law and Audit Quality

4.3.1 Correlation Analysis

When analyzing the relationships between variables, both Pearson's correlation coefficient and Spearman's rank correlation provide valuable perspectives, each through distinct methodologies. Reporting both Pearson and Spearman correlations has become increasingly common in social science research (Wasserstein & Lazar, 2016), especially in cases where the data may not satisfy the assumptions necessary for Pearson's correlation, such as normality and homoscedasticity (Hauke & Kossowski, 2011). By utilizing both Pearson's and Spearman's correlations, researchers can examine potential linear and non-linear associations, offering a more detailed interpretation of the data.

Table 4.3 presents the correlation matrix, with Pearson's correlation coefficients displayed in the lower left and Spearman's correlation coefficients in the upper right. This analysis offers valuable insights into the relationships among the variables studied, which could significantly influence the subsequent empirical analyses.

Firstly, the correlation between Audit Quality (AbsDA) and the Post variable is statistically significant. Specifically, the Pearson correlation coefficient between AbsDA and Post is -0.060, significant at the 1% level, while the Spearman correlation coefficient is -0.065, also significant at the 1% level. These findings suggest a preliminary indication that audit quality has improved following the implementation of the new Securities Law.

The Pearson correlation between AbsDA and Treat is 0.025, significant at the 1% level. This result indicates that the treatment group—comprised of audits conducted by non-Top 10 auditors in China—exhibits lower audit quality compared to those conducted by larger audit firms. This finding aligns with DeAngelo (1981) assertion regarding auditor size and quality.

Secondly, the control variables exhibit various correlations with the dependent and independent variables. For instance, Firm Size (Size) is negatively correlated with AbsDA (-0.085), significant at the 1% level. This suggests that larger firms tend to have higher audit quality. Additionally, Firm Property Rights (Property) shows a significant negative correlation with AbsDA (-0.071), indicating that state-owned enterprises generally achieve higher audit quality in China.

Table 4.3: Correlation Matrix

	AbsDA	Post	Treat	Size	Property	Leverage	ROA	Growth	Loss	Managefee
AbsDA	1	-0.065***	0.030***	-0.085***	-0.077***	0.016**	0.010	0.069***	0.142***	0.048***
Post	-0.060***	1	-0.008	0.027***	-0.041***	0.020***	-0.038***	-0.077***	0.137***	-0.135***
Treat	0.025***	-0.008	1	-0.073***	0.003	-0.010	-0.095***	-0.039***	0.058***	0.059***
Size	-0.085***	0.029***	-0.091***	1	0.378***	0.512***	-0.038***	0.045***	-0.082***	-0.385***
Property	-0.071***	-0.041***	0.004	0.399***	1	0.233***	-0.130***	-0.079***	-0.033***	-0.123***
Leverage	0.012*	0.020***	-0.010	0.526***	0.239***	1	-0.378***	0.036***	0.138***	-0.307***
ROA	-0.048***	-0.054***	-0.091***	0.010	-0.080***	-0.347***	1	0.362***	-0.546***	-0.155***
Growth	0.087***	-0.067***	-0.033***	0.047***	-0.077***	0.040***	0.342***	1	-0.267***	-0.154***
Loss	0.125***	0.137***	0.058***	-0.080***	-0.033***	0.147***	-0.666***	-0.239***	1	0.192***
Managefee	0.054***	-0.123***	0.061***	-0.339***	-0.097***	-0.273***	-0.239***	-0.156***	0.234***	1

Note: ***, ** and * denote significance levels at 1%, 5%, and 10%, respectively. Table 4.3 displays the correlation matrix between the dependent variable and explanatory variables. The lower-triangular cells report Pearson's correlation coefficients, while the upper-triangular cells present Spearman's rank correlation. This table illustrates the direction and strength of the relationships between variables. The correlations are shown among variables including AbsDA, Post, Treat, Size, Property, Leverage, ROA, Growth, Loss, and Managefee.

These correlations provide preliminary insights into the relationships between variables, implying that factors such as firm size and profitability may influence audit quality. Further analysis is necessary to clarify these relationships and explore the underlying mechanisms. The varying degrees of correlation observed among the variables offer initial insights into how these factors interact and potentially impact audit quality.

However, correlation analysis is relatively simplistic and may not fully capture the true relationships between variables while providing useful preliminary insights (Shmueli, 2010). Correlations only indicate the strength and direction of linear or monotonic associations, but they do not account for potential confounding factors or complex interactions between variables. Therefore, to gain a more accurate and comprehensive understanding, it is essential to conduct regression analysis or other advanced modeling techniques that can control for various factors and better elucidate the underlying relationships.

4.3.2 Multicollinearity Test

An in-depth analysis of multicollinearity among the independent variables was carried out using the Variance Inflation Factor (VIF), which is a widely accepted statistical tool for identifying and measuring the degree of multicollinearity in regression models. Multicollinearity arises when two or more independent variables are highly correlated with one another, which can distort the statistical inferences drawn from the model. Specifically, multicollinearity leads to inflated standard errors of the regression coefficients, making it difficult to determine the true relationship between the independent variables and the dependent variable. This issue can result in unstable coefficient estimates, reducing the model's reliability and interpretability.

Table 4.4: Multicollinearity Test Result

Variable	VIF	1/VIF
DID	1.02	
Size	1.71	0.5842
Property	1.22	0.8226
Leverage	1.85	0.5415
ROA	2.42	0.4138
Growth	1.19	0.8433
Loss	1.86	0.539
Managefee	1.3	0.771
Mean VIF	1.57	-

Table 4.4 shows that all variables have VIF values below the widely accepted threshold of 10, which is generally used as an indicator of potential multicollinearity issues (O'brien, 2007). The variable ROA has the highest VIF value of 2.42, while the "DID" variable has the lowest at 1.02. A VIF value exceeding 10 typically signals problematic multicollinearity, which could result in unreliable regression coefficients (Neter et al., 1996). However, since all VIF values in this analysis are well below this threshold, there is no evidence of severe multicollinearity affecting the model.

On average, the VIF across all variables is 1.57, further supporting the conclusion that multicollinearity is not a significant concern in this dataset. Additionally, the tolerance values (1/VIF) for each variable are all above 0.1, confirming that the independent variables in the regression model exert minimal influence on each other. This low level of multicollinearity enhances the reliability of the regression coefficients and strengthens the explanatory power and stability of the empirical analysis.

4.3.3 Chow Test

In this study, the Chow Test was employed to examine whether there was a structural change in the regression model before and after the implementation of the new Securities Law. As shown in the Table 4.5, the test produced an F-statistic of 5.42 with a corresponding p-value of 0.0000, indicating that the result is highly statistically significant.

This strongly rejects the null hypothesis of no structural change, thereby providing robust evidence that the implementation of the new Securities Law has introduced a significant structural shift in the model. This supports our core hypothesis that institutional reforms, such as legal amendments, can alter the underlying structure of accounting and auditing relationships by reshaping the regulatory environment of the audit market.

The Chow test originally developed by Chow (1960) is widely used to detect structural breaks in linear regression models. The method involves splitting the full sample into two groups, estimating separate regressions, and comparing the residual sum of squares. A significant difference implies that the relationship between independent and dependent variables differs across the two sub-periods.

In the context of our study, the sample is divided using the post variable, where post=1 indicates the post-reform period and post=0 the pre-reform period. The test results clearly indicate that the structural relationship in the audit-related model changed significantly after the law came into force.

Table 4.5: Chow Test Result

Chow Test Statistic	Degrees of Freedom (df1, df2)	P-value	Conclusion
5.42	(7, 19232)	0.0000	Reject H0 : Structural change exists

4.3.4 Breusch and Pagan Lagrange Multiplier test

To examine whether individual-specific effects exist in the panel data model, this study employed the Breusch and Pagan Lagrange Multiplier (LM) test, as proposed by Breusch and Pagan (1980). The test evaluates the presence of cross-sectional heterogeneity by testing the null hypothesis that the variance of the individual-level error component is zero, indicating that a pooled OLS model would be appropriate.

The results of the test indicate that $\text{chibar2}(01) = 303.91$, with a p-value of 0.0000, which is highly significant. Therefore, strongly reject the null hypothesis. This suggests that individual-specific effects are present, implying that unobserved heterogeneity across entities has a meaningful influence on the dependent variable.

As a result, it is evident that the panel structure of the data cannot be appropriately modeled using a pooled OLS approach. A panel data model that accounts for individual effects must be adopted. Consequently, the next step in the analysis will involve performing a Hausman test to determine whether a fixed effects or random effects model is more suitable for this study.

Table 4.6: Breusch and Pagan Lagrange Multiplier Test Result

Test Statistic	Value	P-value	Conclusion
chibar2(01)	303.91	0.0000	Reject Ho: Significant panel effects exist

4.3.5 Hausman Test

The Hausman test was conducted to determine whether a fixed effects model or a random effects model would be more appropriate for analyzing the panel data in this study. This test is designed to compare the consistency and efficiency of the parameter estimates generated by the two models. When significant differences are found between the estimates, the fixed effects model is generally preferred because it accounts for time-invariant characteristics that may correlate with the independent variables (Hausman, 1978).

Table 4.7 presents the results of the Hausman test conducted on model 3.5. In Stata, the Hausman test can be directly performed using the Hausman command. After running this command, Stata outputs a P-value, which is used to determine whether to reject the null hypothesis of the random effects model. The P-value in the table is 0.0002, which is significantly below the conventional threshold of 0.05. This result leads us to reject the null hypothesis of the random effects model, supporting the adoption of the fixed effects model and confirming it as the more appropriate choice for obtaining precise estimates in this study (Talloen et al., 2019).

Table 4.7: Hausman Test Result

AbsDA	(b) Fixed	(B) Random	(b-B) Difference	Sqrt(diag(V _b -V _B)) S.E.
DID	0.0021306	0.000723	0.0014076	0.0010037
Chi2(8)	30.36			
Prob>chi2	0.0002			

Note: Table 4.7 shows the Hausman test results for model 3.5, conducted using Stata. With a P-value of 0.0002, the null hypothesis for the random effects model is rejected, confirming that the fixed effects model is the appropriate choice for this analysis.

4.3.6 Heteroskedasticity Test

To ensure the validity of our regression model, this study conducted the Breusch-Pagan heteroskedasticity test to examine whether the variance of the residuals remains constant (Breusch & Pagan, 1979). The null hypothesis (H_0) assumes constant variance with no heteroskedasticity.

As shown in the Table 4.8, the chi2(1) statistic is 3.09, with a p-value of 0.0785. This result is not statistically significant at the 5% level, though it approaches significance at the 10% level. Hence, we fail to reject the null hypothesis at 5%, suggesting no strong evidence of heteroskedasticity in the model. However, the marginal significance may indicate slight heteroskedasticity that warrants attention.

When considered in conjunction with the Chow test results, which revealed significant structural breaks before and after the new Securities Law ($p < 0.01$), it becomes evident that the structural change is unlikely to be driven by residual variance shifts. Rather, it more plausibly reflects changes in the regression coefficients themselves, implying that institutional reforms have structurally altered the model.

Table 4.8: Heteroskedasticity Test Result

Chi2(1) Statistic	P-value	Conclusion
3.09	0.0785	Fail to reject H_0 : No significant heteroskedasticity

4.3.7 Autocorrelation Diagnostic Test

To ensure the robustness of the panel regression results, this study conducted a first-order autocorrelation diagnostic test following the fixed-effects estimation. Specifically, the Wooldridge (2010) test for serial correlation in panel data was applied. This test, implemented via the `xtserial` command in Stata, is based on the differences in OLS residuals and is particularly effective for unbalanced panel datasets. The null hypothesis assumes no first-order autocorrelation within panel units over time.

Wooldridge (2010) demonstrated that this test offers greater power and reliability in short time-span, large cross-sectional panel settings, compared to traditional alternatives such as the Durbin-Watson or Breusch-Godfrey tests. Drukker (2003) further validated its robustness, emphasizing its adaptability to heteroskedasticity and missing data.

The test results from our model returned an F-statistic of 42.687 with a p-value of 0.0000, rejecting the null hypothesis. This indicates the presence of first-order autocorrelation, which, if unaddressed, may bias standard error estimates and compromise inference accuracy.

Table 4.9: Autocorrelation Diagnostic Test Result

F-statistic	Degrees of Freedom	P-value	Conclusion
42.687	(1, 2891)	0.0000	Reject H ₀ : Significant first-order autocorrelation exists

To mitigate this issue, this study employed robust standard errors in the subsequent regression analyses. Robust standard errors help correct for both autocorrelation and heteroskedasticity, thereby enhancing the validity of statistical inference. This approach relaxes classical assumptions and improves the stability of coefficient significance tests, ultimately strengthening the explanatory power and credibility of the model. The theoretical foundation of robust covariance estimation was established by White (1980), with further extensions to panel data models by Arellano (1987) and Hoechle (2007), who addressed intra-cluster and cross-sectional dependence in panel structures.

4.3.8 Parallel Trends Test

As discussed in Chapter 3.10, the importance of verifying the parallel trends assumption when using the Difference-in-Differences model to evaluate the impact of policy changes cannot be overstated. Ensuring that the treatment and control groups exhibit similar trends before the policy implementation is crucial to the validity of DiD analysis (Bertrand et al., 2004). To further enhance the robustness of the study and improve the accuracy of the conclusions, a parallel trends test was conducted for the DiD model. This test involved performing regression analysis on dummy variables representing different time periods to assess whether the treatment and control groups maintained consistent trends before the policy intervention. Dummy variables representing different time points before and after the intervention were generated and included in the regression model. The results were then

visually evaluated by plotting the regression coefficients of these dummy variables, providing an intuitive assessment of trend consistency between the two groups before the intervention.

The statistical analysis for the parallel trends test was conducted using Stata commands, which generated the dummy variables and performed the subsequent regression analysis. The validity of the parallel trends assumption was assessed by observing the coefficients of the pre-intervention dummy variables and their confidence intervals: if the confidence intervals included zero and showed no significant deviation, the assumption was considered valid. Similarly, the treatment effect was evaluated by analyzing the coefficients of the post-intervention dummy variables: if these coefficients significantly deviated from zero and exhibited noticeable changes around the intervention time, the treatment effect was considered significant.

Figure 4.1 presents the results of this analysis. The horizontal axis represents the time relative to the policy implementation, with "current" marking the policy implementation year, 2020. The vertical lines indicate the confidence intervals. Before the policy implementation, the coefficients associated with the pre-intervention dummy variables included zero and did not significantly deviate, indicating that the trends between the treatment and control groups were consistent, thereby supporting the parallel trends assumption. In contrast, after the policy implementation, the coefficients associated with the post-intervention dummy variables significantly deviated from zero, indicating the emergence of significant differences between the treatment and control groups following the implementation of the new securities law. This outcome demonstrates that the parallel trends test was successful, confirming that the sample data satisfy the necessary conditions for applying the DiD model.

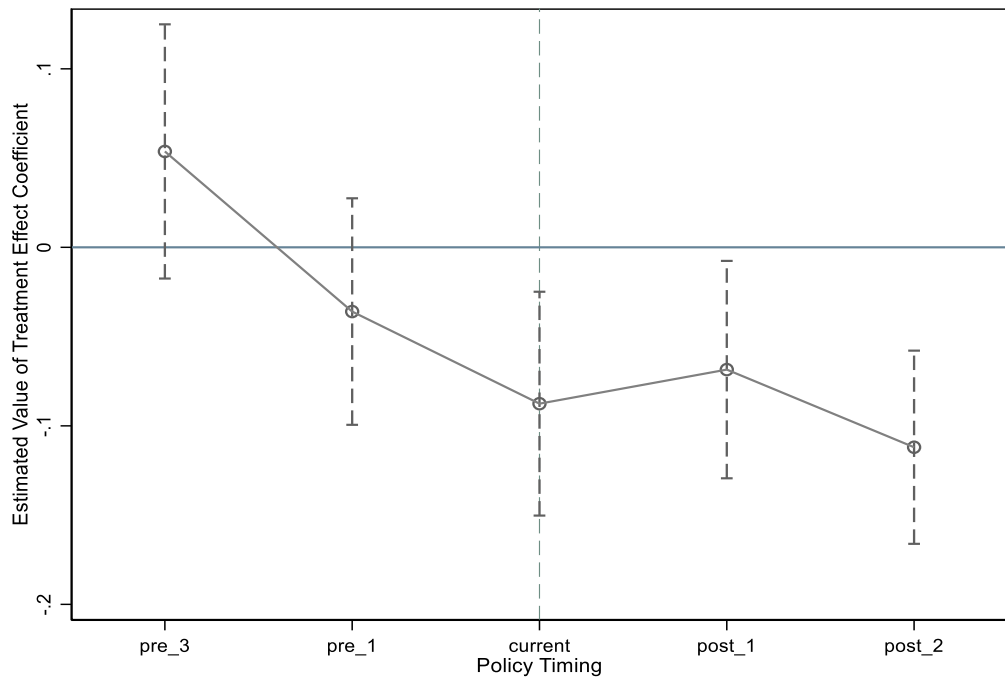


Figure 4.1: Parallel Trends Test for DiD Model of New Securities Law and Audit Quality

4.3.9 Results on the Impact of China's New Securities Law on Audit Quality

To address the potential presence of heteroscedasticity in the error terms, robust standard errors were applied in the regression analysis. This adjustment ensures that the statistical inferences remain reliable, even if the assumptions of homoscedasticity and the absence of autocorrelation are not satisfied (Arellano & Bond, 1991; De Chaisemartin & Haultfoeuille, 2020). By employing robust standard errors, the credibility of the statistical conclusions is enhanced, thus strengthening the overall validity of the findings (Bertrand et al., 2004).

Before applying the Difference-in-Differences model, a preliminary test was conducted using the model 3.4. In this test, Post was used as the independent variable to observe changes in audit quality following the implementation of the new Securities Law. The model incorporates both time fixed effects and individual fixed effects, allowing for

control over heterogeneity across both time periods and entities. Furthermore, robust standard errors are used to address potential issues such as heteroskedasticity and autocorrelation, ensuring that the regression estimates are more reliable and robust to violations of classical assumptions. This specification enhances the validity of the results and provides a more accurate assessment of the impact of the new Securities Law on audit quality. The same approach has been applied in subsequent regressions. The regression results in Table 4.10 support Hypothesis 1, indicating that the implementation of the new Securities Law has a significant positive impact on corporate audit quality.

The first column in Table 4.10 presents the regression results without control variables, showing that the policy implementation variable (Post) has a significantly negative coefficient at the 1% level. The second column, which includes control variables, similarly shows a significantly negative coefficient at the 10% level. Since a smaller AbsDA value indicates improved audit quality, these results suggest that corporate audit quality has indeed improved following the implementation of the new Securities Law. This finding aligns with theoretical expectations that the new Securities Law would enhance the auditing process and improve audit quality.

However, relying solely on OLS to examine policy effects may introduce estimation bias due to unobserved variables correlated with the independent variables. These variables could include time-related factors, macroeconomic conditions, and random disturbances, leading to endogeneity issues (Fredriksson & Oliveira, 2019).

In contrast, the DiD method, which utilizes the double difference of time and group, effectively controls for these unobserved characteristics that remain constant over time, thereby reducing their impact on the estimation results (Baker et al., 2022; Roth et al., 2023).

Therefore, this study continues to employ the Difference-in-Differences model to examine the impact of the new Securities Law on audit quality.

To enhance the validity of causal inference in panel data settings, this study includes both firm fixed effects and year fixed effects in all regression specifications. Firm fixed effects absorb time-invariant, unobservable heterogeneity across firms, such as management philosophy, internal control culture, risk preferences, and regional regulatory environments, which might otherwise confound the estimated policy effect. Year fixed effects control for time-varying shocks that are common across firms, such as macroeconomic trends or regulatory reforms.

This two-way fixed effects approach is standard in empirical accounting and finance research examining regulatory impacts on audit outcomes. Francis and Yu (2009) incorporate both firm and year fixed effects to isolate the influence of auditor industry specialization on audit fees using a large sample of Chinese firms. Similarly, Kim (2021) include both effects in their South Korean study on audit effort and partner characteristics, highlighting how controlling for firm-level unobservables is crucial in explaining variations in audit quality.

In studies employing Difference-in-Differences designs, two-way fixed effects are particularly crucial to meet the parallel trends assumption and absorb confounding trends (Bertrand et al., 2004). More recent works such as Legenzova and Raudonienė (2025) on audit regulations in emerging markets and Feng et al. (2022) on China's regulatory enforcement also adopt firm and year fixed effects to robustly identify treatment effects in regulatory studies. Therefore, the inclusion of firm and year fixed effects in this study is both methodologically justified and consistent with established empirical practice in the literature. The same approach has been applied in subsequent regressions.

Table 4.10: OLS Results on the Impact of China's New Securities Law on Audit Quality

VARIABLES	(1) AbsDA	(2) AbsDA
Post	-0.1640*** (-8.63)	-0.1376*** (-6.29)
Size		-0.1557*** (-4.11)
Property		-0.1690** (-2.28)
Leverage		0.5930*** (4.20)
ROA		0.1298 (0.35)
Growth		0.4233*** (10.66)
Loss		0.5312*** (10.99)
Managefee		1.9384*** (5.34)
Constant	-3.2289*** (-333.82)	-0.2317 (-0.28)
Observations	19,256	19,256
R-squared	0.055	0.034
Firm fixed effect	YES	YES
Year fixed effect	YES	YES

Note: Table 4.10 reports regression results on the impact of the new Securities Law on audit quality. Column (1) shows results without control variables; Column (2) includes them. The independent variable *Post* indicates the period after the new securities law's implementation. The negative and significant coefficients for *Post* suggest the law has significantly improved audit quality, as lower *AbsDA* reflects better audit quality. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, ** and * denote significance levels at 1%, 5%, and 10%.

In Table 4.11, column (1) presents the full-sample regression results of the impact of the new Securities Law on audit quality, utilizing the Difference-in- Differences model 3.5. The results indicate that the regression coefficient for the key independent variable DID, is -0.1072, and is significant at the 1% level. Column (2) includes the results with control variables added, where the coefficient for the interaction term (DID) is -0.0750, also significant at the 1% level. These findings suggest that audit quality has significantly improved following the implementation of the new Securities Law, supporting the Hypothesis 1.

The new Securities Law has intensified penalties for illegal activities in firm audits, thereby increasing the audit risk for both signing auditors and firms. Simultaneously, the law has lowered the entry threshold for audit firms engaged in securities business, which has led to heightened competition in the audit market. This intensified competition has pushed firms to improve audit quality in order to maintain their market position (Huang et al., 2016). Consequently, auditors who fail to provide high-quality audit services face the risk of being eliminated from the market. Through a combination of stringent legal requirements and competitive market forces, the new Securities Law has effectively enhanced the overall audit quality within the industry.

Size shows a negative and highly significant coefficient, indicating that larger firms tend to have lower absolute discretionary accruals (AbsDA), which serves as an indicator of higher audit quality. This finding aligns with previous research, such as (Fernando et al., 2010). This suggests that state-owned enterprises in China tend to have higher audit quality, which includes strong government oversight and political connections. These factors contribute to enhanced audit quality compared to private enterprises (Ji et al., 2015).

Table 4.11: DiD Result of New Securities Law and Audit Quality

VARIABLES	(1) AbsDA	(2) AbsDA
DID	-0.1072*** (-3.86)	-0.0750*** (-2.59)
Size		-0.2369*** (-6.75)
Property		-0.2036*** (-2.73)
Leverage		0.5971*** (4.21)
ROA		0.1767 (0.48)
Growth		0.4439*** (11.14)
Loss		0.5053*** (10.48)
Managefee		2.1127*** (5.78)
Constant	-3.2911*** (-597.94)	1.5207** (1.96)
Observations	19,256	19,256
R-squared	0.010	0.032
Firm fixed effect	YES	YES
Year fixed effect	YES	YES

Note: Table 4.11 presents Difference-in-Differences regression results on the new Securities Law's impact on audit quality of model 3.5. The key independent variable *DID*, is the interaction term between *Treat* and *Post*. The negative and significant *DID* coefficients indicate improved audit quality after new Securities Law. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

In contrast, Leverage is positively associated with AbsDA, implying that highly leveraged firms are more inclined toward earnings management, which negatively impacts audit quality. This observation is consistent with the findings of DeFond and Jambalvo (1994). Moreover, Growth exhibits a positive relationship with AbsDA, indicating that high-growth firms are more prone to earnings management, which challenges auditors' ability to ensure high-quality audits. Furthermore, Loss show a significant positive coefficient, suggesting that firms reporting losses are more likely to engage in earnings management, which leads to lower audit quality. Financially distressed firms face greater incentives to manipulate financial results, posing additional challenges for auditors (DeAngelo et al., 1994). Finally, the positive coefficient for Managefee suggests that higher fees could undermine auditor independence and reduce audit quality. This aligns with the findings of (Kinney et al., 2004), which explore how increased management fees can lead to conflicts of interest, ultimately affecting the quality of audits.

4.3.10 Robustness tests

4.3.10.1 Placebo Test

As discussed in Chapter 3.9.1, the placebo test is frequently considered an effective method for validating the robustness of research findings. In the Difference-in-Differences model, the placebo test serves to exclude the influence of other unobservable factors (McKenzie, 2012). To further minimize the impact of potential confounding variables on the relationship between DID and the dependent variable, this study employs a counterfactual assumption in conducting the placebo test. Specifically, the treatment and control groups are randomly shuffled, and an equal number of groups are drawn to form a new "treatment group." The timing of the policy is similarly adjusted, with the interaction between the newly created false treatment group and the time dummy variables generating a new DID variable.

This experiment is repeated 500 times, and the coefficient kernel density plot is subsequently generated.

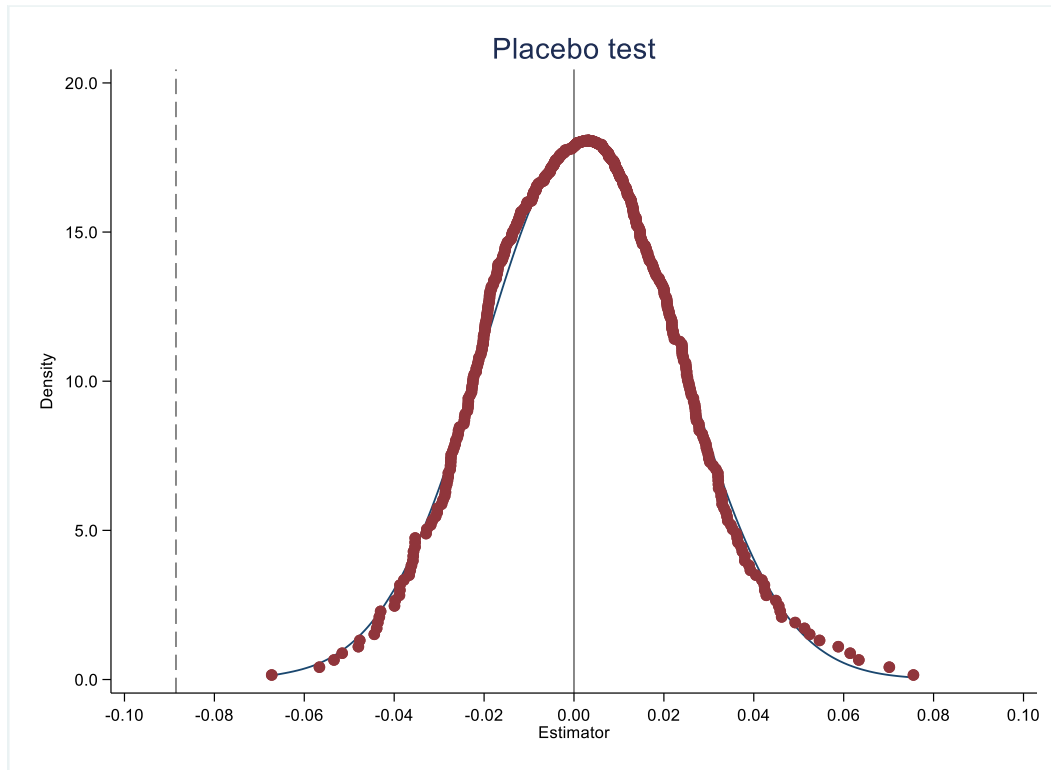


Figure 4.2: Placebo Test Result For DiD Regression of New Securities Law and Audit Quality

The results, presented in Figure 4.2, reveal that the majority of the randomly estimated coefficients lie to the right of the actual estimated coefficient, with the actual estimated coefficient represented by the dashed line in the figure. This pattern suggests that unobservable factors have minimal impact on the baseline regression results, as the coefficient distribution approximately follows a normal distribution. The random sample selection process ensures there are no endogenous issues arising from human interference. Additionally, the actual regression coefficient falls within the low-probability rejection region, confirming that the placebo test is passed. Consequently, the robustness of the conclusion is affirmed.

4.3.10.2 Propensity Score Matching (PSM)

To minimize the characteristic differences between the treatment and control groups before the implementation of the new securities law and to correct for endogenous selection bias, this study used Propensity Score Matching (PSM) method to match the samples of the treatment and control groups.

The Propensity Score Matching (PSM) combined with the Difference-in-Differences (DiD) method is frequently employed in empirical research to enhance the robustness of causal inference, particularly when dealing with observational data. By using PSM-DID, researchers can effectively control for observable covariates and mitigate sample selection bias, thereby ensuring a more accurate estimation of the treatment effect (Heckman et al., 1997). This approach is particularly valuable in contexts where the treatment assignment is not random, and the risk of bias is high (Abadie, 2005). The PSM-DID method has been widely applied in various fields, including economics, public policy, and finance, to examine the impact of policy changes and interventions (Smith & Todd, 2005).

By collecting multiple control variables from model 3.5 as covariates, the one-to-one nearest neighbor matching method was used to match the treatment and control groups. The calculation of propensity scores was based on a logistic regression model of these covariates, ensuring each treatment group company found a control group company as similar as possible on all significant covariates. This method aims to maximize the effectiveness of the experimental design by controlling observable covariates to reduce sample selection bias, thereby making the estimation of the new securities law's implementation effects more accurate and reliable (Rosenbaum & Rubin, 1983). The PSM method allows for a fairer assessment of the true differences in audit quality resulting from the new securities law (Austin, 2011).

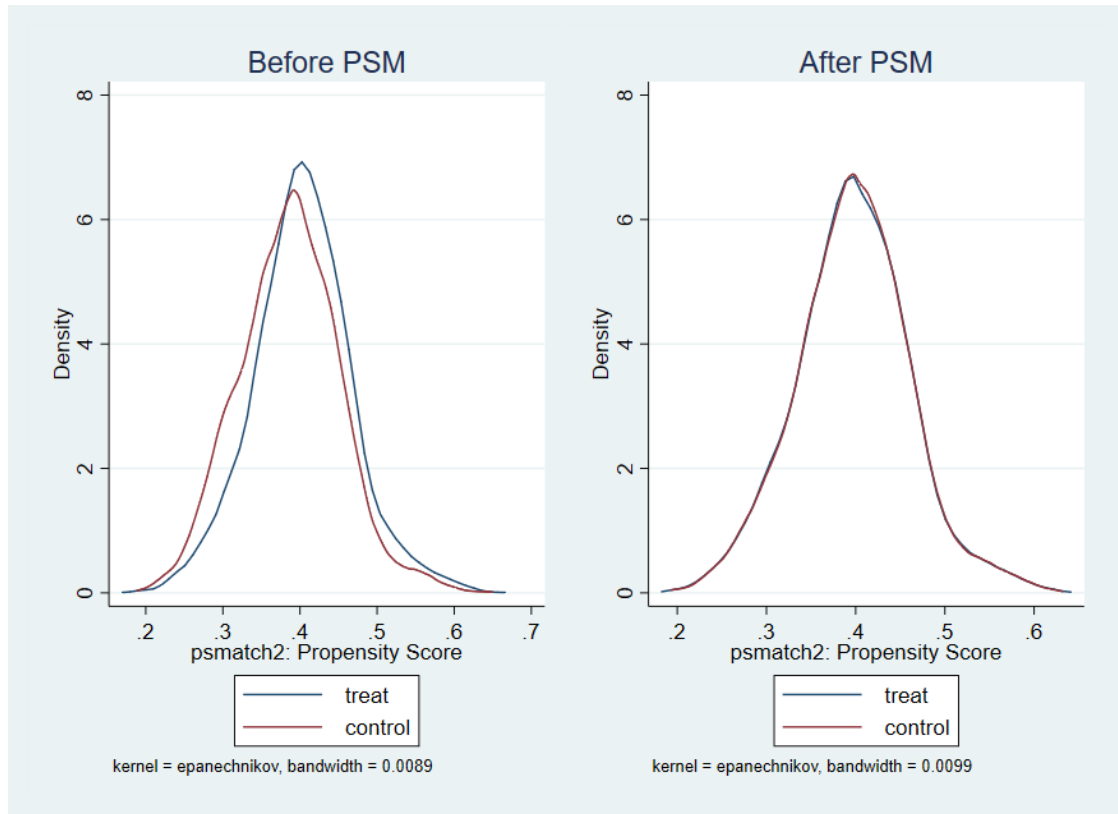


Figure 4.3: Comparison of Kernel Density Before and After PSM Matching

Figure 4.3 presents a comparison of kernel density estimates before and after propensity score matching (PSM), illustrating the distribution of propensity scores for the treatment and control groups. The left panel (before PSM) shows the distributions prior to matching, where the treatment and control groups overlap somewhat, but differences in certain score ranges are evident. This suggests that before matching, the groups differed in covariates that could affect treatment assignment. The right panel (after PSM) displays the distributions post-matching, where the two groups nearly completely overlap. This indicates that the matching process successfully balanced the observed covariate differences between the groups. The figure demonstrates that the discrepancies in propensity score distributions between the treatment and control groups were effectively eliminated after PSM, which is a key indicator of the success of the matching process. Overall, this figure highlights that the

propensity score matching method effectively controlled for potential initial systematic differences between the treatment and control groups, providing a more reliable foundation for subsequent analysis.

Considering the sample size and the number of control groups, this study employed caliper 1:1 nearest neighbor matching. In this method, each listed company audited by a non-TOP10 Chinese audit firm (treatment group) was matched with a listed company audited by a TOP10 Chinese audit firm (control group). To evaluate the quality of the matching results, it is essential to analyze whether the matching passes the balance hypothesis test, which examines if the data were adequately balanced through matching. After propensity score matching, if the standardized bias of the relevant variables is less than 10%, and the P-value of the mean difference T-test is not significant at the 10% level, it indicates that there is no significant difference between the treatment and control groups. This outcome suggests that the balance hypothesis test is passed, the matching effect is satisfactory, and to some extent, the endogeneity problem associated with sample selection is alleviated.

The results of the propensity score matching balance hypothesis test are presented in Table 4.12. A comparison of the data in Table 4.12 reveals that the standardized biases of all covariates have significantly decreased compared to the pre-matching results, indicating that the differences between variables have notably reduced after matching, with all standardized biases falling below 10%. This confirms that after PSM, there are no significant differences between the variables in the two groups.

Table 4.12: Results of the Propensity Score Matching Balance Hypothesis Test

Variable	Before Matching (U)	Mean		Standardized Bias (%)	Standardized Bias Reduction (%)	T-Test	
	After Matching (M)	Treatment Group	Control Group			T-Statistic	p> t
Size	U	22.22	22.46	-19.2		-12.81	0
	M	22.22	22.18	3.3	82.8	2.14	0.03
Property	U	0.292	0.289	0.7		0.47	0.63
	M	0.292	0.284	1.8	-155.1	1.1	0.27
Leverage	U	0.405	0.409	-1.9		-1.31	0.19
	M	0.405	0.401	2.3	-16.7	1.4	0.16
ROA	U	0.0363	0.047	-18.5		-12.64	0
	M	0.0363	0.038	-3.7	80.1	-2.25	0.02
Growth	U	0.139	0.159	-6.7		-4.56	0
	M	0.139	0.14	-0.4	94.1	-0.24	0.80
Loss	U	0.134	0.097	11.7		8.03	0
	M	0.134	0.119	4.7	59.9	2.76	0.00
Managefe e	U	0.0813	0.074	12.3		8.41	0
	M	0.0812	0.080	0.5	95.6	0.32	0.74

Note: Table 4.12 shows that after propensity score matching, the standardized biases of all covariates drop below 10%, confirming that the differences between the treatment and control groups have been effectively minimized, passing the balance hypothesis test.

After completing the Propensity Score Matching (PSM), a Difference-in-Differences regression analysis was conducted on the matched samples to examine the impact of the new Securities Law implementation on audit quality. As shown in Table 4.13, this regression analysis revealed that the coefficient for the key explanatory variable DID was -0.0939, and it remained significant at the 5% level. This result is consistent with the Difference-in-Differences regression results before PSM, indicating that the impact of the key explanatory variable DID on the dependent variable is robust. The implementation of the new Securities

Law has improved audit quality, further strengthening the reliability and robustness of the study findings.

Table 4.13:Result of PSM-DID

VARIABLES	(1) AbsDA
DID	-0.0939** (-2.50)
Size	-0.1240** (-2.36)
Property	-0.3474*** (-3.22)
Leverage	0.4833** (2.32)
ROA	-0.7463 (-1.47)
Growth	0.4990*** (8.98)
Loss	0.5084*** (7.42)
Managefee	1.5899*** (3.25)
Constant	-0.8311 (-0.72)
Observations	9,927
R-squared	0.036
Firm fixed effect	YES
Year fixed effect	YES

Note: Table 4.13 reports that the Difference-in-Differences regression results for the matched treatment and control groups after applying propensity score matching still show a significant negative coefficient for the independent variable *DID*. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

4.3.10.3 Replacement of the Dependent Variable

Audit quality refers to the auditor's ability to identify and correct non-compliant or misleading content in financial statements during the audit process (Becker et al., 1998). Higher audit quality usually indicates that auditors can effectively identify and prevent earnings management behaviors, ensuring the authenticity and clarity of the company's financial reports (Lin & Hwang, 2010). Conversely, poor audit quality may suggest that auditors fail to effectively identify earnings management, thus failing to ensure the accuracy of the financial statements. Therefore, a strong connection exists between earnings management and audit quality.

In earnings management research, measuring discretionary accruals is a common method to assess the level of earnings management. The cross-sectional earnings management model introduced by Kothari et al. (2005) is a commonly used method for evaluating earnings management levels. This model improves upon the traditional Jones model (Jones, 1991), particularly by incorporating control variables such as the investment opportunity set and firm size, further enhancing the precision of earnings management measurement.

The presence of earnings management generally suggests that a firm has exercised discretion in financial reporting to influence reported earnings. This often involves manipulating accounting estimates or choices to achieve certain targets, such as meeting analyst expectations or avoiding losses. Although these practices may comply with accounting standards on the surface, they can reduce the transparency and reliability of financial statements.

As auditors are responsible for detecting and correcting such manipulative behavior, the extent of earnings management is widely viewed as inversely related to audit quality. When audit quality is high, auditors are more likely to constrain managerial discretion and ensure that reported earnings reflect economic reality.

Higher discretionary accruals, a common proxy for earnings management, usually indicate lower audit quality, as they suggest that the auditor did not effectively detect or prevent earnings manipulation. In contrast, lower discretionary accruals imply limited managerial discretion, which often reflects stronger auditor oversight and higher audit quality.

Next, the model introduced by Kothari et al. (2005) is employed to measure the level of earnings management of firms, using it as an explanatory variable for audit quality, which is represented as AuditQuality. It is applied in the difference-in-differences model 3.5 to conduct a robustness test of the impact of the new securities law on audit quality.

The results are shown in Table 4.14. It presents the results of the difference-in-differences regression analysis with discretionary accruals as the dependent variable. The first column presents the results without control variables, where the DID coefficient is -0.1510, significant at the 1% level, indicating a significant increase in audit quality after the policy change. This effect remains significant even after controlling for other variables. As shown in the second column, the coefficient for the DID variable is -0.1022, still significant at the 1% level. This is consistent with the previous conclusion that the implementation of the new securities law significantly improved audit quality, thus enhancing the robustness of the study.

Table 4.14: DiD Result on Replacement of the Dependent Variable

VARIABLES	(1) AuditQuality	(2) AuditQuality
DID	-0.1510*** (-5.66)	-0.1022*** (-3.68)
Size		-0.2340*** (-6.71)
Property		-0.1997*** (-2.68)
Leverage		0.6017*** (4.26)
ROA		0.1616 (0.44)
Growth		0.4366*** (10.95)
Loss		0.5059*** (10.50)
Managefee		2.0250*** (5.51)
Constant	-3.2742*** (-485.82)	1.4738* (1.91)
Observations	19,248	19,248
R-squared	0.002	0.033
Firm fixed effect	YES	YES
Year fixed effect	YES	YES

Note: Table 4.14 presents robustness test results of the Difference-in-Differences regression result on replacement of the dependent variable. The key independent variable *DID*, is the interaction term between *Treat* and *Post*. The negative and significant *DID* coefficients indicate improved audit quality after new Securities Law. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

4.4 New Securities Law, Internal Control and Audit Quality

To explore the moderating effect of internal control on the relationship between the new Securities Law implementation and audit quality, the interaction term $\text{Incontrol} \times \text{DID}$ was incorporated into Model 3.6.

As shown in Table 4.15, the regression coefficient for the interaction term $\text{Incontrol} \times \text{DID}$ with AbsDA is 0.0005, positive and significant at the 10% level. This suggests that internal control significantly influences the impact of the new Securities Law on audit quality. Specifically, since the regression results for Model 3.5 have already confirmed that the DID coefficient is significantly negative, and the dependent variable AbsDA is an inverse indicator, internal control acts as a negative moderating variable. This implies that the positive effect of the new Securities Law on audit quality is more pronounced in companies with weaker internal controls, confirming the critical role of internal control systems in moderating audit outcomes in the context of regulatory changes.

Following the implementation of the new Securities Law, competition in the audit market has intensified. Auditors are increasingly incentivized to enhance their efforts for high-risk clients, particularly those with weak internal controls, to safeguard their reputation and maintain their market position (Blum et al., 2022). By demonstrating higher professionalism and delivering superior audit quality, auditors can build greater client trust and expand their market share. This competitive dynamic is crucial for ensuring the reliability of audit reports, especially in firms with weaker internal controls, ultimately leading to overall improvements in audit quality (Lennox & Wu, 2022). Auditors tend to increase their scrutiny and efforts when dealing with high-risk clients, thereby enhancing the robustness of audit outcomes in challenging environment.

Table 4.15: Result of Moderating Effect of Internal Control

VARIABLES	(1) AbsDA
<i>Incontrol</i> * <i>DID</i>	0.0005* (1.62)
Size	-0.2398*** (-6.79)
Property	-0.1965*** (-2.66)
Leverage	0.6156*** (4.36)
ROA	-0.3558 (-0.96)
Growth	0.3749*** (9.28)
Loss	0.5225*** (10.92)
Managefee	2.1419*** (5.91)
<i>DID</i>	-0.4113* (-1.90)
<i>Incontrol</i>	0.0015*** (8.40)
Constant	0.6175 (0.77)
Observations	19,256
R-squared	0.040
Firm fixed effect	YES
Year fixed effect	YES

Note: Table 4.15 presents the regression results of Model 3.6, showing that the interaction term *Incontrol***DID* has a significantly positive coefficient. This contrasts with the negative *DID* coefficient in the baseline regression, indicating that internal control negatively moderates the relationship between the new Securities Law and audit quality. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

Under the strict supervision of the new Securities Law, auditors face heightened professional responsibilities and legal risks, which elevate the standards for audit quality, particularly in environments where internal control mechanisms are weak. Companies with inadequate internal controls are more prone to attract regulatory scrutiny, pressuring them to provide more comprehensive and accurate financial information (Donelson et al., 2017). This collaboration between companies and auditors, driven by regulatory demands, significantly enhances audit quality. Increased regulatory scrutiny, especially in companies with weaker internal controls, leads to greater cooperation with auditors to improve audit quality and reduce the likelihood of sanctions.

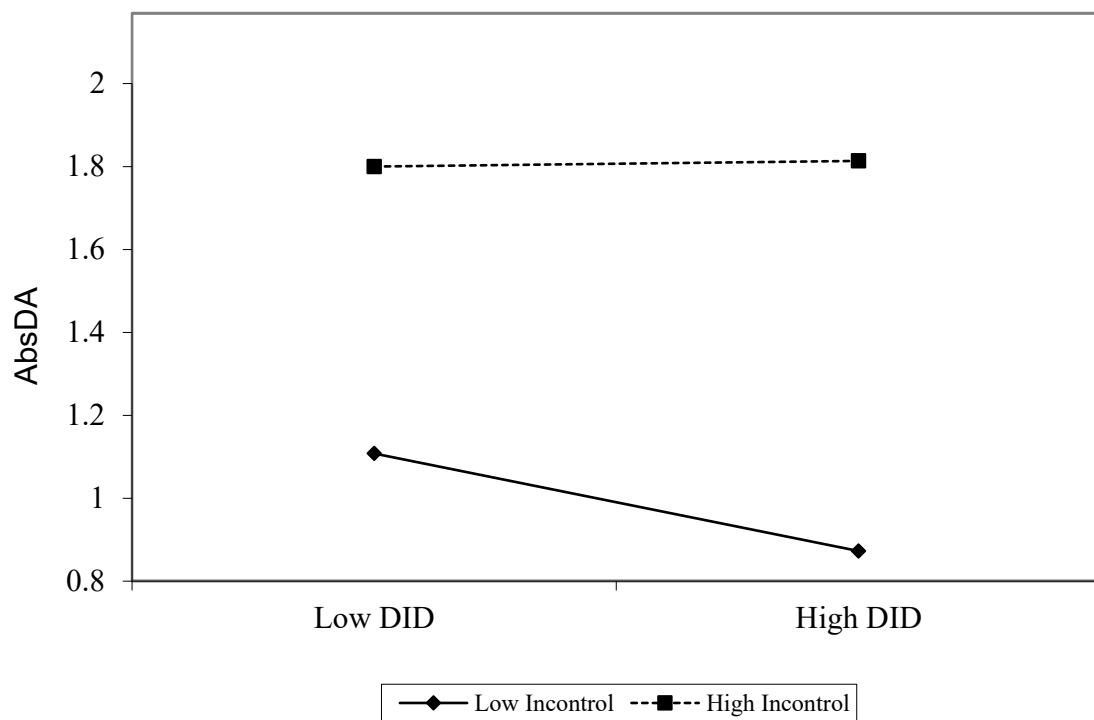


Figure 4.4: Moderating Effect of Internal Control Between the New Securities Law and Audit Quality

The Figure 4.4 presents a typical interaction graph of a moderating effect, following the visualization method proposed by Dawson (2014). The x-axis represents the treatment variable (DID, indicating before and after the implementation of the New Securities Law), and the y-axis represents the proxy variable for audit quality (AbsDA). The two lines represent firms with low and high levels of internal control, respectively.

It is clear that among firms with low internal control, AbsDA decreases significantly after the implementation of the New Securities Law (High DID), indicating an improvement in audit quality. However, among firms with high internal control, the change in DID has almost no effect on AbsDA, as the two lines are nearly parallel. This result supports the moderating role of internal control in the relationship between the New Securities Law and audit quality. Specifically, firms with weaker internal control are more affected by the implementation of the new law, showing a more significant improvement in audit quality, while in firms with stronger internal control, the marginal effect of the new law is relatively weaker. This indicates that internal control weakens the positive relationship between the implementation of the Securities Law and audit quality.

In conclusion, the analysis of the interaction term reveals that internal control quality significantly negatively moderates the relationship between the new Securities Law implementation and audit quality. This finding underscores the importance of considering internal control quality when assessing the impact of regulatory changes on audit practices. It also highlights the need for auditors to closely monitor a company's internal control environment to more accurately assess the effects of the new Securities Law and effectively reduce audit risk.

Table 4.16: Result of Moderating Effect of Media Coverage

VARIABLES	(1) AbsDA
Media*DID	-2.0459*** (-2.67)
Size	-0.1929*** (-8.35)
Property	0.0264 (0.52)
Leverage	0.5375*** (3.54)
ROA	3.3869*** (6.10)
Growth	0.1763** (2.21)
Loss	0.5486*** (5.70)
Managefee	-0.2284 (-0.50)
DID	0.1941** (2.05)
Media	0.9587*** (3.41)
Constant	0.8997* (1.83)
Observations	19,256
R-squared	0.011
Firm fixed effect	YES
Year fixed effect	YES

Note: Table 4.16 presents the regression results of Model 3.7, showing that the interaction term *Media *DID* has a significantly negative coefficient. This contrasts with the negative *DID* coefficient in the baseline regression, indicating that media coverage positively moderates the relationship between the new Securities Law and audit quality. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

4.5 New Securities Law, Media Coverage and Audit Quality

To examine the moderating effect of media coverage on the relationship between the new Securities Law implementation and audit quality, the interaction term Media*DID was included in Model 3.7.

The results, presented in Table 4.16, indicate that the regression coefficient of Media*DID with AbsDA is -2.0459, which is negative and significant at the 1% level. This finding suggests that media coverage significantly influences the impact of DID on audit quality. Specifically, media coverage enhances the positive effect of the new Securities Law on audit quality.

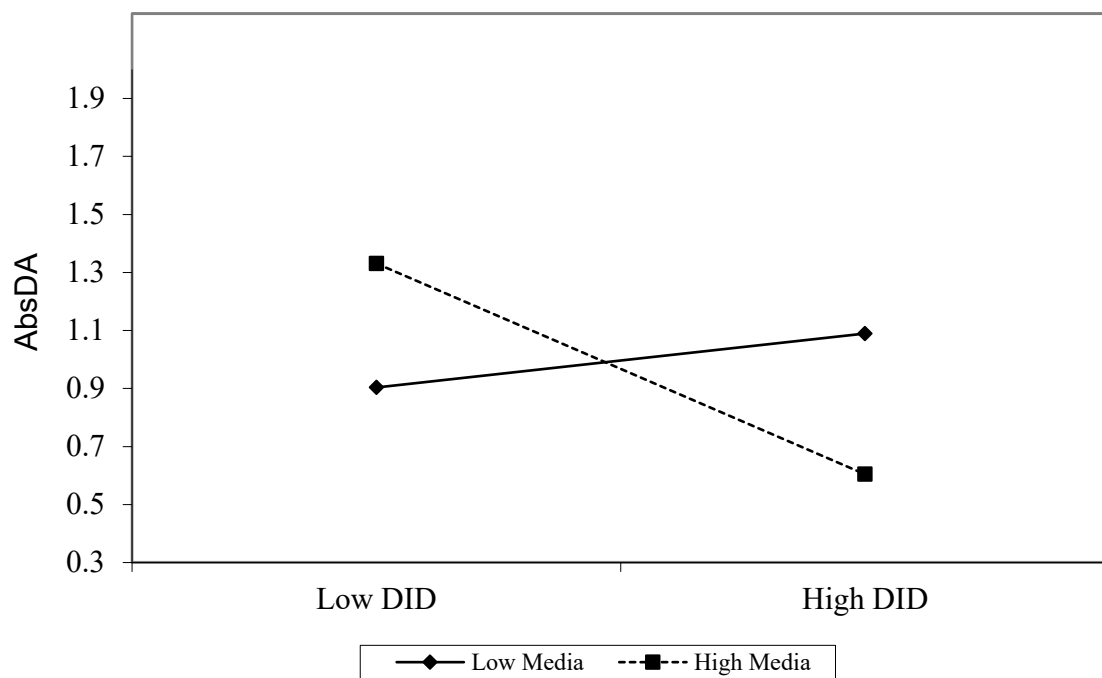


Figure 4.5: Moderating Effect of Media Coverage Between the New Securities Law and Audit Quality

The Figure 4.5 presents an interaction graph of a moderating effect, following the visualization approach proposed by Dawson (2014). The x-axis represents the treatment variable (DID, indicating before and after the implementation of the New Securities Law), and the y-axis represents the proxy variable for audit quality (AbsDA). The two lines correspond to firms with low and high levels of media coverage, respectively.

The results show that among firms with high media coverage, the implementation of the New Securities Law is associated with a significant decrease in AbsDA, indicating a notable improvement in audit quality. Conversely, for firms with low media coverage, AbsDA slightly increases after the policy change, suggesting that audit quality did not improve and may have even deteriorated slightly. The two lines cross clearly, confirming that media coverage significantly moderates the relationship between the Securities Law implementation and audit quality. In other words, media supervision strengthens the positive effect of the Securities Law on audit quality.

High media coverage of companies and audit firms increases reputational risk (Blum et al., 2022). Following the implementation of the new Securities Law, audit firms are motivated to protect and enhance their reputation, avoiding negative publicity or loss of client trust due to audit quality issues. Consequently, for companies with high media coverage, audit firms implement stricter audit procedures and allocate more resources and time to ensure the reliability and accuracy of audit reports, significantly improving audit quality.

Additionally, increased regulatory scrutiny heightens compliance risks and legal liabilities for companies, particularly those with high media coverage that are more vulnerable to exposure. These companies tend to be more cautious during the audit process,

ensuring compliance and high audit quality to mitigate the risks associated with negative reporting (Brivot et al., 2017). This pressure encourages companies to cooperate more actively with auditors, providing comprehensive and accurate information, which further enhances audit quality.

In conclusion, the analysis of the interaction term reveals that media coverage has a significant positive moderating effect on the relationship between the new Securities Law implementation and audit quality.

4.6 New Securities Law and Audit Fees

4.6.1 Correlation Analysis

The correlation matrix in Table 4.18 provides both Pearson's and Spearman's correlation coefficients, allowing for a comprehensive analysis of the relationships between the variables (Wasserstein & Lazar, 2016). The correlation between audit fees (Lnfee) and the Post variable is statistically significant. Specifically, the Pearson correlation coefficient between Lnfee and Post is 0.082, and the Spearman correlation coefficient is 0.094, both significant at the 1% level. These findings suggest that audit fees have increased following the implementation of the new Securities Law, likely due to more stringent auditing requirements.

The variable Treat shows a negative correlation with audit fees, with a Pearson coefficient of -0.144, significant at the 1% level. This negative correlation indicates that firms in the treatment group, which are likely audited by non-Top 10 audit firms in China, tend to incur lower audit fees compared to those audited by Top 10 firms. This finding aligns with the understanding that larger, more reputable audit firms often charge higher fees due to their perceived higher quality and extensive resources (DeAngelo, 1981).

The correlation between Lnfee and Size is strong and positive, with a Pearson correlation of 0.759, significant at the 1% level. This indicates that larger companies tend to pay higher audit fees, likely due to the increased complexity of their audits. Additionally, the correlation between Lnfee and Property is 0.244, which may suggest that state-owned enterprises generally incur higher audit fees, possibly due to higher audit quality requirements or more complex auditing needs.

These correlations offer valuable insights into how factors like company size, ownership structure, financial health, and the choice of audit firm can influence audit fees. For instance, larger companies might face higher audit fees due to more complex financial structures, while the choice of a well-known audit firm could also lead to higher costs due to its reputation for quality. However, while correlation analysis provides useful initial insights, it has its limitations. Correlation only measures the strength and direction of relationships between variables and does not indicate causation. It also fails to account for potential confounding factors or complex interactions among variables. To fully understand the underlying relationships, further analysis, such as regression or advanced modeling techniques, is necessary. These approaches can control for confounding variables and explore more complex relationships, providing a clearer picture of how these factors influence audit fees.

4.6.2 Multicollinearity Test

The multicollinearity analysis for Model 3.9 is presented in Table 4.17. As discussed in Chapter 4.3.2, all variables have Variance Inflation Factor (VIF) values below the widely accepted threshold of 10, confirming the absence of multicollinearity issues. The average VIF value across all variables is 1.57, which further indicates that there is no significant

multicollinearity present in the dataset. This suggests that the interaction among the independent variables in the regression model is minimal. Consequently, the regression coefficient estimates in this study are unlikely to be biased due to multicollinearity, thereby enhancing the reliability and interpretability of the empirical analysis. In this case, the low VIF values suggest that the explanatory variables do not exhibit excessive linear correlation with one another. This implies that each variable contributes uniquely to the explanation of the dependent variable and that the individual effect of each predictor can be interpreted with greater confidence.

It ensures that the estimated regression coefficients are stable and not overly sensitive to small changes in model specification. As a result, the conclusions drawn from the analysis are more likely to reflect genuine relationships rather than statistical artifacts arising from variable interdependence. Therefore, it can be concluded that Model 3.9 provides a reliable framework for examining the relationship between the variables under study.

Table 4.17: Multicollinearity Test

Variable	VIF	1/VIF
DID	1.02	
Size	1.71	0.5842
Property	1.22	0.8226
Leverage	1.85	0.5415
ROA	2.42	0.4138
Growth	1.19	0.8433
Loss	1.86	0.539
Managefee	1.3	0.771
Mean VIF	1.57	-

Table 4.18: Correlation Matrix

	Lnfee	Post	Treat	Size	Property	Leverage	ROA	Growth	Loss	Managefee
Lnfee	1	0.094***	-0.123***	0.706***	0.220***	0.427***	-0.109***	-0.017**	0.052***	-0.231***
Post	0.082***	1	-0.008	0.027***	-0.041***	0.020***	-0.037***	-0.077***	0.137***	-0.135***
Treat	-0.144***	-0.008	1	-0.073***	0.004	-0.010	-0.096***	-0.039***	0.058***	0.059***
Size	0.759***	0.029***	-0.091***	1	0.378***	0.512***	-0.038***	0.045***	-0.082***	-0.386***
Property	0.244***	-0.041***	0.004	0.399***	1	0.233***	-0.130***	-0.079***	-0.033***	-0.123***
Leverage	0.429***	0.020***	-0.010	0.526***	0.239***	1	-0.378***	0.037***	0.138***	-0.307***
ROA	-0.081***	-0.054***	-0.091***	0.010	-0.080***	-0.347***	1	0.362***	-0.546***	-0.155***
Growth	-0.006	-0.067***	-0.033***	0.047***	-0.077***	0.040***	0.342***	1	-0.267***	-0.154***
Loss	0.036***	0.137***	0.058***	-0.080***	-0.033***	0.147***	-0.666***	-0.239***	1	0.193***
Managefee	-0.214***	-0.123***	0.061***	-0.339***	-0.097***	-0.273***	-0.239***	-0.156***	0.234***	1

Note: ***, ** and * denote significance levels at 1%, 5%, and 10%, respectively. Table 4.11 displays the correlation matrix between the dependent variable and explanatory variables. The lower-triangular cells report Pearson's correlation coefficients, while the upper-triangular cells present Spearman's rank correlation. This table illustrates the direction and strength of the relationships between variables. The correlations are shown among variables including Lnfee, Post, Treat, Size, Property, Leverage, ROA, Growth, Loss, and Managefee.

4.6.3 Chow Test

The Chow test introduced by Chow (1960) is widely employed in linear regression models to detect structural breaks. The method involves splitting the overall sample into two groups, estimating separate regression models for each, and comparing the residual sum of squares. A significant difference between the two groups suggests that the relationship between the independent and dependent variables differs across the two sub-periods.

The Chow test is used to examine whether there is a structural change in the audit fee regression model before and after the implementation of the new Securities Law. As shown in Table 4.19, the test yields an F-statistic of 11.74, with a corresponding p-value of 0.0000, indicating that the result is highly statistically significant.

This result strongly rejects the null hypothesis of no structural change, providing compelling evidence that the implementation of the new Securities Law has indeed introduced a significant structural shift in the model.

This study uses the post variable to divide the sample, with post=1 indicating the post-reform period and post=0 representing the pre-reform period. The test results clearly indicate that the structural relationship in the audit fee model changed significantly after the implementation of the new Securities Law.

Table 4.19: Chow Test Result

Chow Test Statistic	Degrees of Freedom (df1, df2)	P-value	Conclusion
11.74	(7, 19240)	0.0000	Reject H0 : Structural change exists

4.6.4 Breusch and Pagan Lagrange Multiplier test

To assess the presence of individual-specific effects in the panel data model, this study employed the Breusch and Pagan Lagrange Multiplier test proposed by Breusch and Pagan(1980). This test evaluates cross-sectional heterogeneity by testing the null hypothesis that the variance of the individual-specific error component is zero, which would suggest that a pooled OLS model is appropriate for the data.

The test results, as shown in Table 4.20, yielded a $\chi^2(01)$ statistic of 34528.88, with a p-value of 0.0000. The highly significant p-value strongly rejects the null hypothesis of no individual effects. This result indicates that individual-specific effects are indeed present in the data, suggesting that unobserved heterogeneity across entities significantly influences the dependent variable, audit fees in this case.

As a result, it is evident that a pooled OLS approach is not suitable for modeling the data due to the significant individual effects. A panel data model that accounts for these individual-specific effects must be adopted. Therefore, the next step in the analysis involves performing a Hausman test to determine whether a fixed effects or random effects model is more appropriate for this study.

Table 4.20: Breusch and Pagan Lagrange Multiplier Test Result

Test Statistic	Value	P-value	Conclusion
$\chi^2(01)$	34528.88	0.0000	Reject H_0 : Significant panel effects exist

4.6.5 Hausman Test

In accordance with the methodology described in Chapter 4.3.3, we conducted a Hausman test on the data from Model 3.9 to determine whether a fixed effects model or a

random effects model would be more appropriate for the analysis. This test was an essential step in ensuring the robustness and credibility of our research results. As presented in Table 4.21, the P-value for the Hausman test is 0.0000, which is statistically significant. This finding provides strong evidence to reject the null hypothesis, which favors the random effects model. Therefore, we conclude that the fixed effects model is the more suitable choice, as it yields more consistent and reliable estimates by accounting for unobserved heterogeneity and reducing the potential bias from omitted variables in the dataset.

Table 4.21: Hausman Test

Lnfee	(b) Fixed	(B) Random	(b-B) Difference	Sqrt(diag(V_b-V_B)) S.E.
DID	0.0493719	0.0410122	0.0083596	0.0009681
Chi2(8)	494.01			
Prob>chi2	0.0000			

Note: Table 4.21 shows the Hausman test results for model 3.9, conducted using Stata. With a P-value of 0.0000, the null hypothesis for the random effects model is rejected, confirming that the fixed effects model is the appropriate choice for this analysis.

4.6.6 Heteroskedasticity Test

To ensure the validity of our regression model, this study conducted the Breusch-Pagan heteroskedasticity test to examine whether the variance of the residuals remains constant (Breusch & Pagan, 1979). The null hypothesis (H_0) assumes constant variance, indicating no heteroskedasticity.

The test results, as shown in Table 4.22, indicate a $\chi^2(1)$ statistic of 928.96, with a corresponding p-value of 0.0000. This result is highly statistically significant. Therefore, the null hypothesis was rejected, suggesting the presence of significant heteroskedasticity in the

model. This implies that the variance of the residuals is not constant, which could affect the standard error estimates and, consequently, the validity of hypothesis testing.

When considered alongside the results of the Chow test, which revealed significant structural breaks before and after the implementation of the new Securities Law ($p < 0.01$), it becomes evident that the structural change is unlikely to be driven by shifts in residual variance. Rather, it more plausibly reflects changes in the regression coefficients themselves, suggesting that institutional reforms have structurally altered the model. As a result, the presence of heteroskedasticity indicates the need to employ robust standard errors to ensure the accuracy of the regression results.

Table 4.22: Heteroskedasticity Test Result

Chi2(1) Statistic	P-value	Conclusion
928.96	0.0000	Fail to reject H_0 : No significant heteroskedasticity

4.6.7 Autocorrelation Diagnostic Test

To ensure the robustness of the panel regression results, this study conducted a first-order autocorrelation diagnostic test following the fixed-effects estimation. Specifically, the Wooldridgetest for serial correlation in panel data was applied. This test is based on the differences in OLS residuals and is particularly effective for unbalanced panel datasets. The null hypothesis assumes no first-order autocorrelation within panel units over time.

Wooldridge (2010) showed that this test provides enhanced power and reliability in panel data settings with short time spans and large cross-sectional dimensions. Drukker (2003) further confirmed its robustness, highlighting its ability to handle heteroskedasticity and missing data effectively.

The test results from our model yielded an F-statistic of 0.0478, with a p-value of 0.8210. This result suggests that the p-value is much greater than 0.05, and we fail to reject the null hypothesis, indicating that there is no significant first-order autocorrelation in the model. This implies that the variance of the residuals is constant and there is no systematic time dependence, ensuring that the standard errors of the model estimates are reliable.

Table 4.23: Autocorrelation Diagnostic Test Result

F-statistic	Degrees of Freedom	P-value	Conclusion
0.0478	(1, 2891)	0.8210	Fail to Reject H_0 : No significant first-order autocorrelation

4.6.8 Parallel Trends Test

To verify the parallel trends assumption in the Difference-in-Differences analysis, this study conducted a thorough examination of the data concerning the impact of the new securities law on audit fees. This step is crucial for ensuring the validity of the DiD method, as it confirms that the treatment and control groups exhibited similar trends prior to the policy intervention (Bertrand et al., 2004).

The parallel trends test involved estimating the treatment effect coefficients for several periods before and after the implementation of the new securities law. As shown in Figure 4.6, which plots these coefficients, the horizontal axis represents the time relative to the policy change, with "current" marking the policy implementation year, 2020. The vertical axis displays the estimated values of the treatment effect coefficients, while the error bars represent the 95% confidence intervals.

Prior to the policy implementation, the coefficients were close to zero, with their confidence intervals including zero, indicating that the treatment and control groups followed parallel trends during these periods. This finding supports the parallel trends assumption, a fundamental requirement for the Difference-in-Differences method. However, following the policy implementation, the coefficients showed significant increases, with their confidence intervals no longer crossing zero. This shift suggests that significant differences emerged between the treatment and control groups after the enactment of the new securities law, confirming the presence of a treatment effect and indicating that the law had a measurable impact on audit fees.

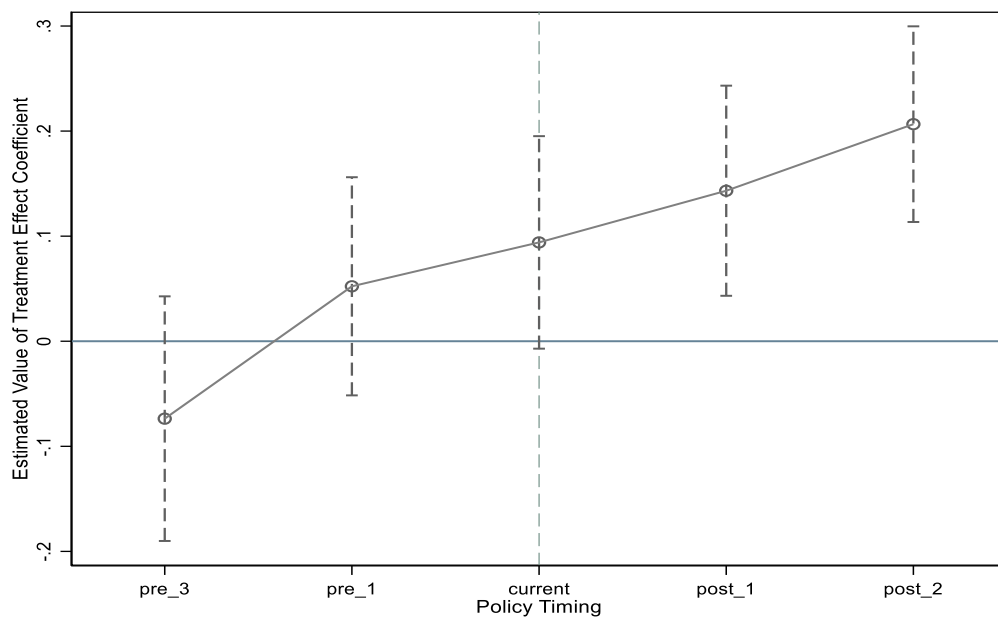


Figure 4.6: Parallel Trends Test of DiD Regression of New Securities Law and Audit Fees

4.6.9 Results on the Impact of China's New Securities Law on Audit Fees

Before applying the Difference-in-Differences (DiD) model, an initial test was conducted using OLS model 3.8, with "Post" as the explanatory variable to capture the impact of the law and observe changes in audit fees following the implementation of the new

securities law. In the first column of Table 4.24, where control variables are not included, the coefficient for the Post is significantly positive at the 1% level. This significance remains in the second column, where control variables are included, with the coefficient continuing to be positive at the 1% level. These results indicate that audit fees increased after the new securities law was enacted, which is consistent with theoretical expectations, supporting Hypothesis 4 that audit fees rise following the implementation of the new securities law. However, by accounting for both time and group differences, the DiD model provides a more robust approach to controlling for endogeneity issues caused by time, macroeconomic changes, or other random disturbances, thereby improving the accuracy of the estimates (Fredriksson & Oliveira, 2019). The study will therefore proceed by using the DiD model for further analysis.

In Table 4.25, column (1) presents the full-sample regression results utilizing the Difference-in-Differences model 3.9 to evaluate the impact of the new Securities Law on audit fees, with the dependent variable being the natural logarithm of audit fees (Lnfee). The coefficient for the key independent variable, DID, is 0.1530 and is significant at the 1% level. This suggests that the implementation of the new Securities Law has resulted in a substantial increase in audit fees, supporting Hypothesis 4, which posits that the law introduces additional compliance requirements and risks, thereby driving up audit fees. In column (2), where control variables such as Size, Property, Leverage, ROA, Growth, and Loss are included, the DID coefficient remains positive and significant at the 1% level, although its magnitude decreases to 0.0494. The consistency of these results, both with and without the inclusion of control variables, underscores the robustness of the findings and confirms that the new Securities Law exerts upward pressure on audit fees.

Table 4.24: OLS Results on the Impact of China's New Securities Law on Audit Fees

VARIABLES	(1) Lnfee	(2) Lnfee
Post	0.1805*** (60.78)	0.0658*** (21.18)
Size		0.3068*** (59.21)
Property		0.0545*** (5.20)
Leverage		0.0653*** (3.24)
ROA		-0.2910*** (-6.04)
Growth		-0.0257*** (-4.80)
Loss		0.0413*** (6.25)
Managefee		-0.4168*** (-8.64)
Constant	13.8696*** (6,743.28)	7.0709*** (62.05)
Observations	19,256	19,256
R-squared	0.192	0.384
Firm fixed effect	YES	YES
Year fixed effect	YES	YES

Note: Table 4.24 reports regression results on the impact of the new Securities Law on audit quality. Column (1) shows results without control variables; Column (2) includes them. The independent variable *Post* indicates the period after the law's implementation. The positive and significant coefficients for *Post* suggest the law has significantly improved audit fees. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, ** and * denote significance levels at 1%, 5%, and 10%.

The application of the new securities law has likely increased compliance costs and added complexity for firms, necessitating that auditors allocate more time and resources to their audit work, which, in turn, raises audit fees. Additionally, the implementation of these new regulations compels audit firms to undertake more comprehensive audit procedures and adhere to stricter audit standards to ensure compliance. To maintain audit quality and effectively manage audit risk, auditors are required to conduct more extensive testing and gather high-quality audit evidence to mitigate risks to an acceptable level (Cohen et al., 2017). Consequently, the increased learning and implementation costs incurred by auditors are strategically passed on to clients, contributing to higher audit fees.

The variable Size has a positive and highly significant coefficient, indicating that larger companies are associated with higher audit fees. This result aligns with expectations, as larger firms typically have more complex organizational structures, operations, and financial systems, which require more comprehensive and time-consuming audit procedures (Kim et al., 2012). The larger the company, the more resources and audit effort are needed to thoroughly examine its financial statements, leading to increased audit costs.

Similarly, the positive and significant coefficient for the Property variable indicates that state-owned listed companies in China pay higher audit fees. Although the Leverage variable shows a positive coefficient, it is not statistically significant. On the other hand, ROA displays a negative and significant coefficient, suggesting that more profitable companies tend to have lower audit fees, possibly due to lower perceived audit risk (Beattie et al., 2001). The variable Loss has a positive and significant coefficient, indicating that companies reporting losses tend to pay higher audit fees. This could be due to the fact that loss-making companies are often perceived as riskier, with a greater likelihood of financial statement misstatements or irregularities, which requires auditors to perform additional

procedures and tests. This finding is consistent with previous research, such as (Sundgren & Svanström, 2014), which suggests that auditors demand higher fees when auditing financially distressed companies due to the increased audit risk involved.

Table 4.25:DiD Result of New Securities Law and Audit Fees

VARIABLES	(1) Lnfee	(2) Lnfee
DID	0.1530*** (26.59)	0.0494*** (8.49)
Size		0.3424*** (28.62)
Property		0.0683*** (3.23)
Leverage		0.0600 (1.60)
ROA		-0.3104*** (-4.71)
Growth		-0.0342*** (-4.74)
Loss		0.0522*** (6.67)
Managefee		-0.4936*** (-6.23)
Constant	13.9312*** (12,231.43)	6.3036*** (24.02)
Observations	19,256	19,256
R-squared	0.064	0.372
Firm fixed effect	YES	YES
Year fixed effect	YES	YES

Note: Table 4.25 presents Difference-in-Differences regression results on the new Securities Law's impact on audit quality of model 3.9. The key independent variable *DID*, is the interaction term between *Treat* and *Post*. The positive and significant *DID* coefficients indicate improved audit fees after new Securities Law. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

4.6.10 Robustness tests

4.6.10.1 Placebo Test

As discussed in Chapter 3.9.1, in the Difference-in-Differences (DiD) model, the placebo test is used to exclude the influence of other unobservable factors (McKenzie, 2012). To further reduce the impact of potential confounding variables on the relationship between the DID variable and the dependent variable, this study conducted a placebo test targeting the DiD model for the new Securities Law and audit fees.

In this process, the treatment and control groups were randomly shuffled, and an equal number of groups were randomly selected as the new "treatment group." The policy time points were handled similarly. A new DID variable was then generated by interacting the fake treatment group with the time dummy variable. This experiment was repeated 500 times, and a coefficient kernel density plot was generated.

The results are shown in Figure 4.7. The 500 red dots represent the distribution of the randomly estimated coefficients, which roughly follows a normal distribution, indicating that the sample selection was random and that there was no endogenous problem caused by human interference. The dashed line in the figure represents the true estimated coefficient. Most of the randomly estimated coefficients are positioned to the left of the true estimated coefficient and are concentrated near zero. Therefore, we conclude that the DiD model assessing the impact of the new Securities Law on audit fees has successfully passed the placebo test, confirming the robustness of the results.

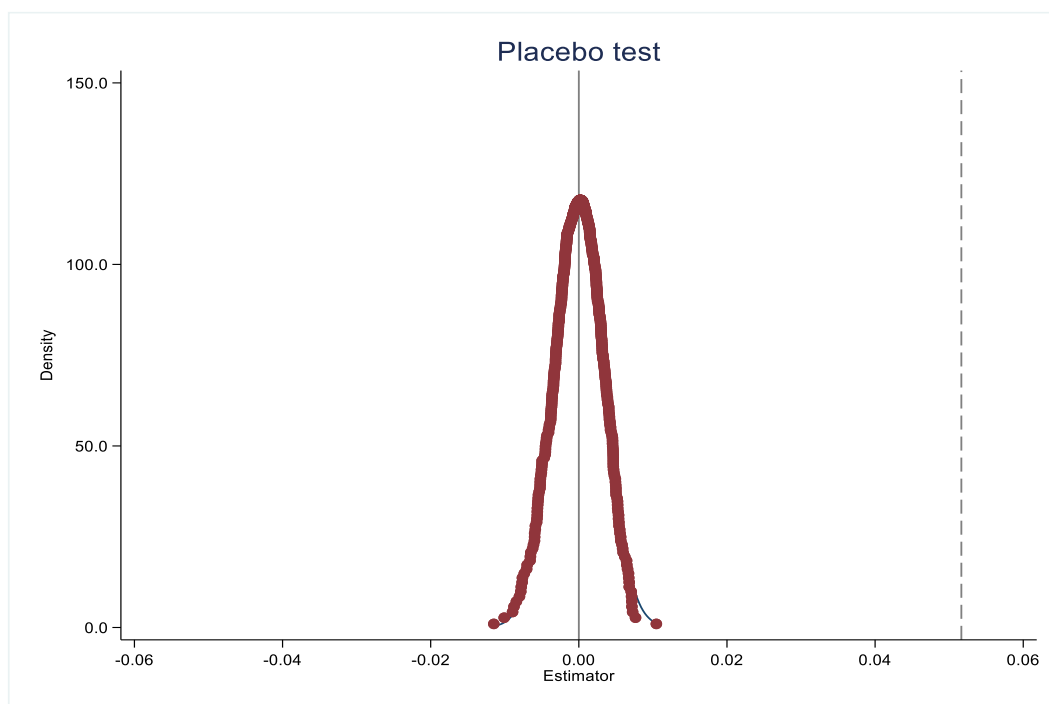


Figure 4.7: Placebo Test Result For DiD Regression of New Securities Law and Audit Fees

4.6.10.2 Propensity Score Matching (PSM)

By employing propensity score matching (PSM), the sample selection bias between the treatment and control groups was effectively minimized. This matching process helped ensure that firms in both groups were comparable based on their observable characteristics, thus creating a more balanced dataset for further analysis. After reducing the selection bias, a Difference-in-Differences (DiD) regression analysis was then performed on the matched samples. This approach allowed for a more accurate estimation of the causal impact of the new Securities Law on audit fees by comparing changes over time between the two groups. The combined use of PSM and DiD methods enhanced the robustness of the analysis, ensuring that the results more reliably reflected the true effect of the law on audit pricing. Using the same propensity score matching method described in Chapter 4.3.6.2, a Difference-in-Differences (DiD) regression analysis was conducted on the matched sample

to evaluate the impact of the new securities law on audit fees. The results are presented in Table 4.26.

Table 4.26: Result of PSM-DID

VARIABLES	(1) Lnfee
DID	0.0621*** (11.38)
Size	0.3142*** (41.17)
Property	0.0621*** (3.96)
Leverage	0.0584* (1.93)
ROA	-0.4011*** (-5.45)
Growth	-0.0425*** (-5.27)
Loss	0.0307*** (3.09)
Managefee	-0.4134*** (-5.82)
Constant	6.9077*** (41.13)
Observations	9,927
R-squared	0.350
Firm fixed effect	YES
Year fixed effect	YES

Note: Table 4.26 reports that the Difference-in-Differences regression results for the matched treatment and control groups after applying propensity score matching still show a significant positive coefficient for the independent variable *DID*. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

The result shows that the coefficient for the key explanatory variable DID is 0.0621, remaining significantly positive at the 1% level. This finding is consistent with the DiD regression results obtained before performing PSM, suggesting that the impact of the key explanatory variable DID on the dependent variable is robust. The implementation of the new securities law has resulted in an increase in audit fees, which further reinforces the reliability and robustness of the study's conclusions.

4.7 New Securities Law, Internal Control and Audit Fees

To examine the moderating effect of internal control on the relationship between the implementation of the new Securities Law and audit fees, the interaction term $\text{Incontrol} \times \text{DID}$ was included in Model 3.10. As presented in Table 4.27, the regression coefficient for the interaction term $\text{Incontrol} \times \text{DID}$ with Lnfee is -0.0002, negative and significant at the 1% level. This indicates that internal control significantly moderates the impact of the new Securities Law on audit fees. Given that the regression results from Model 3.9 have already confirmed a significantly positive DID coefficient, internal control functions as a negative moderating variable. This suggests that the increase in audit fees resulting from the new Securities Law is more pronounced in companies with weaker internal controls, highlighting the important role internal control systems play in influencing audit costs under the new regulatory environment.

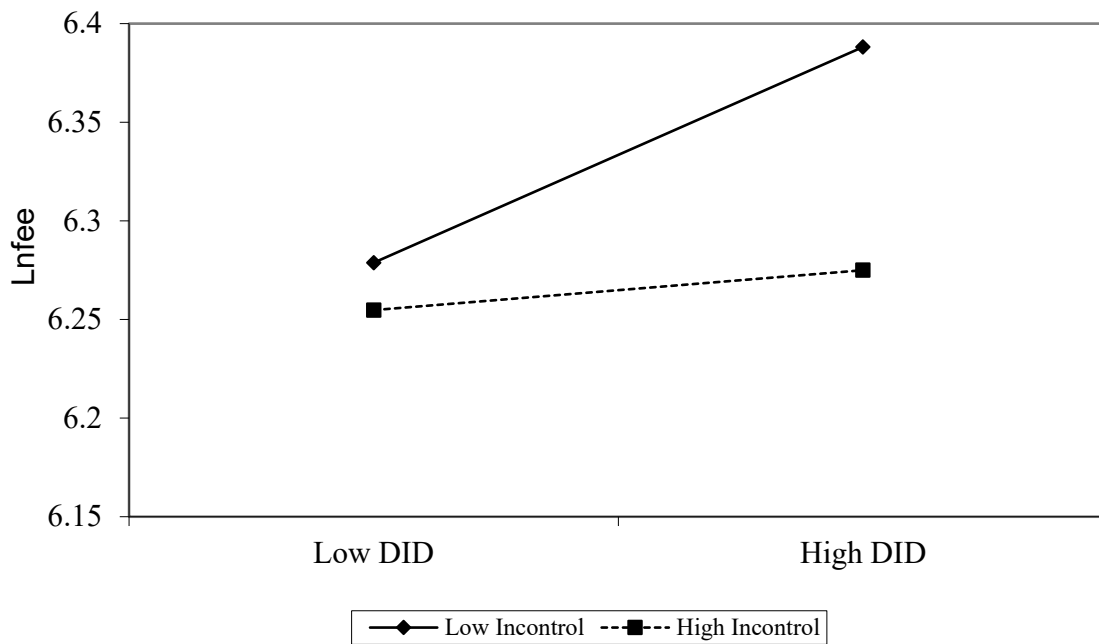


Figure 4.8: Moderating Effect of Internal Control Between the New Securities Law and Audit Fees

The Figure 4.8 presents the moderating effect of internal control on the relationship between the implementation of the New Securities Law (DID) and audit fees (LnFee), following the visual framework proposed by Dawson (2014). The x-axis distinguishes between the pre- and post-implementation periods of the law (Low DID vs. High DID), and the y-axis represents the natural logarithm of audit fees. The two lines reflect firms with low and high levels of internal control, respectively.

As shown in the graph, for firms with low internal control, the implementation of the New Securities Law leads to a substantial increase in audit fees. This suggests that auditors charge higher fees to compensate for greater audit risk when internal controls are weak and regulatory pressure intensifies. In contrast, for firms with high internal control, audit fees also rise slightly, but the increase is much smaller.

The difference in slopes between the two lines clearly illustrates that internal control significantly moderates the effect of the Securities Law on audit fees. Specifically, weaker internal controls amplify the positive impact of the law on audit fees, while stronger internal controls buffer this effect. In other words, internal control weakens the positive relationship between the implementation of the Securities Law and audit fees.

Following the implementation of the new securities law, firms are confronted with heightened compliance risks and legal liabilities due to increased regulatory scrutiny. In this stricter regulatory environment, auditors face greater professional responsibilities and legal risks, which compel them to exercise increased caution in their audit procedures.

For companies with poor internal control, auditors must allocate more resources and time to conduct more rigorous audits to ensure that no significant misstatements or omissions occur (Ettredge et al., 2018). This heightened caution inevitably leads to higher audit fees. Additionally, firms with weak internal controls often produce lower-quality financial information, requiring auditors to put in extra effort to verify and validate this information, further driving up audit costs.

As a result, for firms with inadequate internal controls, audit firms enforce more stringent procedures and dedicate additional resources to ensure the reliability and accuracy of the audit reports, resulting in a significant increase in audit fees (Raghunandan & Rama, 2006).

Table 4.27: Result of Moderating Effect of Internal Control

VARIABLES	(1) Lnfee
Incontrol*DID	-0.0002*** (-3.44)
Size	0.3443*** (28.66)
Property	0.0672*** (3.19)
Leverage	0.0563 (1.51)
ROA	-0.2847*** (-4.29)
Growth	-0.0304*** (-4.13)
Loss	0.0503*** (6.47)
Managefee	-0.5003*** (-6.34)
Constant	6.2958*** (23.59)
DID	0.1725*** (4.65)
Incontrol	-0.0001* (-1.72)
Observations	19,256
R-squared	0.374
Firm fixed effect	YES
Year fixed effect	YES

Note: Table 4.27 presents the regression results of Model 3.10, showing that the interaction term *Incontrol*DID* has a significantly negative coefficient. This contrasts with the positive *DID* coefficient in the baseline regression, indicating that internal control negatively moderates the relationship between the new Securities Law and audit fees. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels.

In summary, the analysis of the interaction term suggests that internal control levels have a significant negative moderating effect on the relationship between the implementation of the new securities law and audit fees, thereby supporting Hypothesis 5.

4.8 New Securities Law, Media Coverage and Audit Fees

To investigate the moderating effect of media coverage on the relationship between the new securities law implementation and audit fees, the interaction term Media*DID was incorporated into Model 3.11. The regression results, presented in Table 4.28, show that the coefficient for Media*DID with Lnfee is -0.2232, which is negative but not statistically significant. This suggests that media coverage does not significantly moderate the impact of DID on audit fees, leading to the conclusion that Hypothesis 6 is not supported. Specifically, although the interaction term's coefficient is negative, its lack of significance indicates that media coverage does not play a meaningful role in influencing the relationship between the new securities law implementation and audit fees.

There are several reasons why media coverage may not significantly influence the impact of the new securities law on audit fees. First, while the implementation of the new securities law has heightened regulatory scrutiny and increased compliance risks, companies with high levels of media coverage are often already subject to public and regulatory attention (Dyck et al., 2010). Although one might expect that these companies would incur higher audit fees due to the added pressure of maintaining a positive public image, their established practices and ongoing scrutiny often mean that auditors do not need to substantially increase their audit efforts. As a result, the increase in audit fees remains marginal.

Table 4.28: Result of Moderating Effect of Media Coverage

VARIABLES	(1) Lnfee
Media*DID	-0.2232 (-1.30)
Size	0.3522*** (61.78)
Property	-0.1061*** (-8.44)
Leverage	0.1974*** (5.31)
ROA	-0.3365** (-2.46)
Growth	-0.0533*** (-2.77)
Loss	0.0832*** (3.74)
Managefee	0.0690 (0.64)
DID	0.0021 (0.11)
Media	0.2556*** (3.64)
Constant	5.9838*** (49.53)
Observations	19,256
R-squared	0.291
Firm fixed effect	YES
Year fixed effect	YES

Note: Table 4.28 presents the regression results of Model 3.11, showing that the interaction term Media*DID has a negative coefficient, but it is not statistically significant. This indicates that media coverage does not have a significant moderating effect on the relationship between the new Securities Law and audit fees. Robust t-statistics are in parentheses. The model includes firm and year fixed effects. ***, **, and * denote 1%, 5%, and 10% significance levels

Moreover, while increased media coverage can elevate reputational risks, firms that are frequently in the public eye typically have already adopted stringent governance practices to manage these risks (Anderson et al., 2011). The auditors of these firms are likely to be consistently vigilant, adhering to high audit standards as a matter of routine. Consequently, the introduction of new regulatory changes, such as the new securities law, may have a limited additional impact on audit fees because the auditors are already operating under high scrutiny and rigorous expectations.

In conclusion, while media coverage intensifies reputational risk, the already high standards and established practices in firms with significant media exposure may diminish the need for substantial adjustments in audit fees in response to the new securities law.

4.9 Chapter Summary

This chapter summarizes the empirical research findings and discusses the analysis of the impact of China's new Securities Law on audit quality and audit fees. The study employed a rigorous methodological framework, including the Difference-in-Differences (DiD) model, as well as parallel trends tests, placebo tests, and Propensity Score Matching (PSM) suitable for the DiD model to ensure the robustness and reliability of the results.

The findings strongly support five out of the six hypotheses. First, the study found that the implementation of the new Securities Law has a significant positive impact on audit quality. This confirms Hypothesis 1, indicating that the implementation of the new Securities Law has improved the audit quality of listed companies.

Second, the study shows that the quality of internal control negatively moderates the effect of the new Securities Law on improving audit quality. This means that the effect of

the new Securities Law on improving audit quality is more pronounced in companies with lower levels of internal control. This finding supports Hypothesis 2.

Third, the results indicate that media coverage positively moderates the effect of the new Securities Law on improving audit quality. Companies with higher media exposure benefit more from regulatory changes in terms of audit quality improvements, thereby confirming Hypothesis 3.

Fourth, the study found that the implementation of the new Securities Law also has a significant positive impact on audit fees, supporting Hypothesis 4. The increased compliance requirements and strengthened regulatory scrutiny associated with the new Securities Law have led to a rise in audit fees.

Fifth, the study found that internal control quality negatively moderates the effect of the new Securities Law on increasing audit fees. Similar to its effect on audit quality, stronger internal controls reduce the extent to which the new law increases audit fees. This provides support for Hypothesis 5.

However, the Hypothesis 6, which posited that media coverage would positively moderate the effect of the new Securities Law on increasing audit fees, was not supported by the data. The interaction term between media coverage and the new Securities Law did not produce a statistically significant effect on audit fees, indicating that media coverage does not play a significant role in influencing audit fees under the new regulatory environment.

The robustness of the study's findings was rigorously tested. The parallel trends assumption was validated, and the results from placebo tests and PSM- DiD regressions were consistent with the baseline findings, confirming the reliability and robustness of the study's

conclusions. These results provide valuable insights into how the new Securities Law, along with factors such as internal control quality and media coverage, influences audit quality and fees.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the entire study, responding all findings and addressing the research questions and objectives, followed by a discussion of the findings. Subsequently, the chapter outlines the theoretical and practical implications of this study. Finally, the chapter identifies the limitations of this study and suggests directions for future research.

5.2 Discussion of the Findings

In China, where the legal litigation system is underdeveloped and the costs of legal proceedings are high (Burke & Wong, 2012), the lack of robust governmental regulation may hinder the effectiveness of reputation and legal mechanisms, thereby failing to curb opportunistic behaviours among auditors (Wang et al., 2008). Due to the lack of incentives for independent scrutiny and the absence of mandatory sanctions within the reputation system, it has been difficult to effectively promote high-quality auditing practices. However, China's new Securities Law, implemented in 2020, seems to have changed this situation. In the context of further liberalizing China's securities market, the new Securities Law shifts the auditing of listed companies by audit firms from an approval-based system to a registration-based one. This shift has led to an influx of auditors into the securities auditing market, thereby intensifying competition within the sector.

Moreover, the new Securities Law has introduced several significant measures, including the special representative litigation system, increased penalties for securities violations, and changes in the presumption of responsibility. These measures substantially

raise the costs associated with legal and regulatory infractions in the capital markets, thereby increasing the professional risks for auditors. As a result, auditors are now performing their duties with greater caution (Chen & Zhang, 2010).

The general objective of this research is to examine the impact of China's newly revised Securities Law on auditor behaviour. Audit risk theory and reputation theory provide valuable frameworks for understanding the dynamic changes occurring in China's listed company audit market. Using Chinese A-share listed companies as the sample, and grounded in these theories, this study employs a difference-in-differences approach to analyze how auditor behavioural decisions are influenced following the implementation of the new Securities Law. This analysis occurs within the context of heightened audit market competition and the increased risk of punitive actions for violations.

The study finds that the implementation of the new Securities Law positively impacts audit quality. Internal control levels are found to negatively moderate the positive relationship between the implementation of the new Securities Law and audit quality, while media coverage positively moderates this relationship. Additionally, the study finds that the implementation of the new Securities Law has a positive impact on audit fees. Internal control levels negatively moderate the positive relationship between the implementation of the new Securities Law and audit fees, whereas media coverage does not significantly moderate the relationship between the new Securities Law and audit quality.

More specifically, this study has fulfilled six research objectives, each of which is explained in detail below.

This study finds that the implementation of the new Securities Law The implementation of the new Securities Law has effectively improved audit quality.

Furthermore, the new Securities Law's enhanced penalties for securities violations have heightened both clients' and auditors' preferences for high-quality audits, echoing the conclusions of Kamarudin et al. (2022) on the impact of regulatory risk on audit quality. The changes introduced by the new Securities Law have led auditors to improve their professional capabilities, strengthen their risk perception, and enhance audit quality. This study utilizes Difference-in-Differences models to analyze the impact of the new Securities Law on audit quality, revealing a significant positive correlation between the law's implementation and audit quality. The robustness of the Difference-in-Differences model was confirmed through rigorous diagnostic tests for parallel trends. Even after conducting placebo tests and robustness checks using PSM-DID, the empirical results consistently support the findings.

Auditors generally trust companies with high-quality internal controls, which allows them to reduce the scope of substantive testing (Simunic, 1980). Conversely, auditors perceive greater risks in companies with lower quality internal controls (Doyle et al., 2007). This study incorporates an interaction term between internal controls and the core explanatory variable (DID) into the model to explore the moderating effect of internal controls on the relationship between the new Securities Law and audit quality. The findings reveal a negative moderating effect of internal controls, indicating that the positive influence of the new Securities Law on audit quality is more significant in companies with lower levels of internal control. DeFond and Zhang (2014) suggest that when a company's internal control quality is poor, auditors must allocate more resources and effort to conduct thorough audits to maintain audit quality. This study provides new supporting evidence for their perspective.

Previous research has shown that media coverage, particularly when it involves negative disclosures, exposes a client's financial and managerial aspects to public scrutiny, prompting auditors to incorporate these factors into their risk assessments (Burke et al., 2019). In an effort to mitigate reputational risk, auditors rigorously adhere to ethical codes throughout the audit process, apply professional judgment judiciously, and maintain professional skepticism, thereby reducing errors in audit decisions and enhancing audit quality (Cahan et al., 2021). This study integrates an interaction term between media attention and the core explanatory variable DID into the model to investigate the moderating effect of media attention on the relationship between the new Securities Law and audit quality. The results indicate that media coverage positively moderates this relationship, meaning that for companies with higher media visibility, the positive impact of the new Securities Law on audit quality is more pronounced.

The implementation of the new Securities Law represents an optimization of the competitive policy system and an enhancement of the external regulatory environment. This change increases the likelihood of penalties for non-compliance with information disclosure by market entities, thereby directly raising the litigation risks for firms (Gunn et al., 2019). In response, auditors may transfer these increased risks to clients through higher audit fees premiums or by demanding higher fees to compensate for the additional audit efforts required (DeFond & Zhang, 2014; Widmann et al., 2021). This study employs Difference-in-Differences models to investigate the impact of the new Securities Law on audit fees, revealing a significant positive correlation between the law's implementation and audit fees. The Difference-in-Differences model has been rigorously tested for parallel trends, confirming its effectiveness. Even after placebo tests and PSM-DID robustness checks, the

empirical results consistently validate the study's conclusions. This finding strongly supports the classical view that audit fees compensate for auditor risk (Simunic, 1980).

Hogan and Wilkins (2008) assert that high internal control risks indicate a higher overall client risk, which may lead auditors to charge a risk premium, resulting in higher audit fees. In this study, the interaction of internal controls with the core explanatory variable DID is integrated into the model to examine how internal controls moderate the positive association between the new Securities Law and audit fees. The results indicate that internal controls negatively moderate this relationship. Specifically, the positive impact of the new Securities Law on audit fees is more significant in companies with lower levels of internal control.

In this study, the interaction between media coverage and the core explanatory variable (DID) is incorporated into the model to assess how media coverage moderates the positive correlation between the new Securities Law and audit fees. However, the results show that media attention does not significantly moderate this relationship. It is possible that companies attracting significant media attention already possess higher levels of management (Miller, 2006). This leads to auditors not needing to significantly increase their audit workload and resources in these companies, resulting in no substantial increase in audit fees. Additionally, the differing effects of positive and negative media attention may represent a potential direction for future research following Cahan et al. (2021).

This study deepens the understanding of how legal regulatory reforms reshape auditor behavior, particularly in China's uniquely institutionalized emerging market. While prior literature has examined the influence of audit risk (Simunic, 1980) and reputational pressures (M. DeFond & Zhang, 2014) on auditor behavior, most empirical research has

concentrated on mature markets, with limited attention to emerging markets experiencing rapid institutional transitions. This study constructs a multidimensional difference-in-differences (DID) model to systematically evaluate the impact of China's new Securities Law on audit quality and audit fees. Furthermore, it incorporates media attention and internal control as moderating mechanisms, thereby contributing new empirical evidence to the literature on auditor behavior.

Compared to existing studies, this research uses legal reform as an exogenous shock and a causal identification strategy for changes in auditor behavior. This approach not only addresses the endogeneity concerns often present in audit behavior studies but also enhances the explanatory power of the results. By comparing the heterogeneous moderating effects of internal governance (internal control) and external monitoring (media coverage), the study reveals that reputational mechanisms can serve a compensatory role in environments where legal sanctions are insufficient, extending the applicability of reputation theory to transitional markets like China (Fang et al., 2023; He et al., 2016).

Furthermore, while previous studies have largely focused on audit quality as the sole metric, this paper incorporates audit fees into the analytical framework to examine auditor responses from a cost-based risk re-pricing perspective, broadening the theoretical scope of audit behavior research (Zhang et al., 2024). The findings indicate that audit fees generally increased after the implementation of the new *Securities Law*, especially in firms with weak internal controls. This suggests that auditors adjusted their strategies by increasing risk premiums in response to the new regulation, supporting the classic economic logic of “risk-price matching” (Elliott et al., 2013; Schelleman & Knechel, 2010).

In summary, this study employs a Difference-in-Differences model and utilizes a large sample of China A-share listed companies to conduct empirical research, providing novel and robust evidence on the impact of China's Securities Law, revised in 2019 and officially implemented in 2020, on the audit market. Ultimately, this study addresses the six initial research questions, with five of the six hypotheses set forth in the study being confirmed. Under the new legal framework, changes in the competitive landscape, along with stricter legal liabilities and regulatory oversight, are expected to prompt auditors to enhance audit quality and charge higher risk premiums. This trend is particularly evident in companies with lower levels of internal control and higher media exposure. However, high media attention does not necessarily lead to an increase in audit fees following the implementation of the new Securities Law.

5.3 Theoretical Implications

Firstly, this study examines the new Securities Law, a milestone in China's legal infrastructure, for its effect on auditor behavioural choices, thereby enriching research on the consequences of its implementation. This research also contributes to the literature on factors influencing auditor behaviour. The implementation of the new Securities Law has significantly impacted the behaviour of capital market participants. However, existing research primarily focuses on the legal aspects, with a lack of comprehensive studies on its implementation and effects. Moreover, there is minimal focus on its impact within the field of societal auditing, particularly from the perspective of auditor behavioural choices. This study addresses this gap by focusing on the listed company audit market and examining the effects of the new Securities Law's implementation on auditor behaviour, specifically through the lenses of audit risk response and reputation management, using audit quality and

audit fees as proxies. This approach enhances the literature on how legal reforms influence auditor behaviour.

The findings of this study provide significant theoretical insights, particularly in the context of reputation theory. Reputation theory posits that auditors, as repeat players in the capital market, have strong incentives to maintain a credible professional image, especially when formal legal enforcement is weak or costly (DeAngelo, 1981). In emerging markets like China, where litigation mechanisms are underdeveloped and legal remedies are expensive (Burke et al., 2019), the effectiveness of reputation as an informal enforcement tool becomes particularly salient.

This study shows that under the revised Securities Law, media coverage significantly strengthens the positive relationship between the regulatory reform and audit quality, suggesting that reputation-related pressure can play a compensatory role when legal deterrence is limited. This supports prior research by Cahan et al. (2021), which finds that public exposure, especially through negative media reports, amplifies reputational concerns and leads auditors to act more conservatively. In this sense, media attention functions as an external governance mechanism that elevates the reputational stakes of audit failure, thereby promoting higher-quality audit outcomes.

Moreover, the expanded discussion on investor litigation and public scrutiny under the new law highlights how reputation risk is no longer confined to client satisfaction or peer perception, but increasingly shaped by broader market visibility and stakeholder reactions. This represents an important extension of reputation theory by situating it in a regulatory environment that is in transition—where traditional enforcement is strengthening, but informal reputation mechanisms still dominate behavioral incentives. The results

demonstrate that auditors operating in high-media-attention contexts are more responsive to reputational threats, even in the absence of direct legal penalties, illustrating how non-institutional forces can meaningfully affect audit behavior.

Overall, this study enriches reputation theory by showing how it operates under partial institutionalization of legal norms, and how media exposure, investor activism, and shifting client expectations can jointly shape auditor behavior in transitional legal systems. It also underscores the need for future research to integrate media dynamics and informal governance into the broader study of audit regulation and market discipline.

5.4 Practical Implications

The findings of this study hold significant value for policymakers, regulators, and market participants in China and other emerging economies. On one hand, The findings of this study suggest that China's revised Securities Law has made notable progress toward enhancing market transparency, deterring corporate misconduct, and protecting investor interests. The increase in audit fees can be seen as a necessary cost to enhance the credibility and reliability of financial reporting. On the other hand, the results also underscore the potential unintended consequences of legal reforms, such as increased compliance burdens and transaction costs for listed companies, particularly those with weaker internal control quality and higher media coverage.

With the implementation of the new Securities Law, audit firms face heightened responsibilities and professional risks. In order to maintain service quality and secure a stable market position, audit firms should actively respond by standardizing audit practices. This includes establishing more rational and transparent pricing mechanisms that reflect increased audit risks and resource demands. Furthermore, they should enhance their awareness of legal

accountability, invest in audit process improvements, and increase risk assessment efforts to meet the higher expectations of both regulators and market participants.

In response to these challenges, it is advised that policymakers and regulators in China and other emerging markets further enhance the legal and institutional frameworks governing securities regulation. The government should ensure that auditors entering the securities audit market through the registration system maintain high standards of practice by raising the registration requirements, thereby curbing opportunistic behaviours among auditors. To further improve the legal accountability system for auditors, the government should increase the penalties for auditors who violate legal regulations. Additionally, the government should clarify the criteria for identifying fraudulent financial reports and increase the costs associated with reputation and litigation. Possible actions include creating an independent disciplinary committee for auditors, instituting strict penalties, and applying stringent legal sanctions for infractions. By ensuring that the cost of non-compliance exceeds the benefits, these measures aim to fundamentally deter auditor opportunistic behaviour prompted by malicious competition.

Innovative regulatory approaches are essential for fostering a sound capital market. First, stock exchanges should leverage their market surveillance capabilities to proactively detect irregularities in corporate disclosures and issue timely inquiry letters as a soft warning mechanism, thereby indirectly reinforcing auditors' information verification duties. Second, the Chinese Institute of Certified Public Accountants should enhance auditors' understanding of their legal responsibilities through structured communication, such as formal interviews or guidance sessions, especially when potential compliance issues are identified.

Meanwhile, all market participants—including clients, audit firms, market analysts, and investors—should place greater emphasis on the quality and pricing of audit services in the wake of these reforms. This is crucial as they serve as significant indicators of the credibility and risk profile of corporate financial reporting.

With the implementation of the new Securities Law, the responsibilities imposed on auditors and other intermediary service providers have been significantly enhanced. This creates both opportunities and challenges for audit firms. To safeguard audit quality and maintain competitive positioning in a more stringent regulatory environment, audit firms should actively respond by standardizing their audit practices. Audit firms should also strengthen their risk awareness and adjust audit resource allocation to ensure high-quality assurance services under the new legal framework. In response to the deregulation of audit firm qualifications, companies must improve their internal governance to secure the demand for high-quality audits.

In terms of audit fees, auditors should enhance the rationality of their pricing standards. Under the new Securities Law, which emphasizes auditors' responsibility and increases the risk of disciplinary penalties, audit pricing should, while ensuring reasonable profits based on market positioning, place greater emphasis on sensitivity to audit risk and workload. Pricing should be determined from the perspective of the audit work itself, thereby providing a fundamental safeguard for the quality of subsequent audit engagements.

Companies should strengthen their internal controls to enhance the accuracy, authenticity, and completeness of information disclosure. This will not only meet investors' expectations for high-quality accounting information under the new Securities Law but may also reduce associated audit fee costs. When selecting audit firms, companies should

comprehensively assess their past performance and reputation, prioritizing firms with strong reputations and extensive experience to ensure high-quality and reliable audit work.

The media should also play a more active role by delving deeper into corporate financial and operational information, thereby expanding auditors' access to information through disclosure. This can enhance auditors' analytical and identification capabilities. Additionally, by shaping public opinion, the media can raise auditors' awareness of punitive risks under the new Securities Law, motivating them to perform their duties more rigorously to avoid such risks.

Overall, these policy recommendations aim to foster the healthy development of the audit market, enhance audit quality and market transparency, protect investor interests, and ensure the effective implementation and lasting impact of the new Securities Law. These initiatives will further bolster confidence among market stakeholders and promote the stable growth of the capital markets.

5.5 Limitations of the Study

While this study has tried to comprehensively consider relevant factors, certain limitations remain, as detailed below.

The study uses the years 2016 to 2022 as the observation period for the sample subjects, which meets the criteria for applying the Difference-in-Differences methodology. However, since the new Securities Law was enacted in 2019 and implemented in 2020, this study primarily explores the short-term effects on auditor behaviour, marking an initial stage of investigation. The long-term effects of this legislation on auditor behaviour warrant further research.

Regarding the depth of observation into auditor behaviour, this study predominantly uses audit quality and audit fees as classical metrics to assess auditor behaviour. However, other dimensions of auditor behaviour, such as the alignment between auditors and clients and the issuance of audit opinions, have also garnered scholarly interest and could be further explored.

Lastly, this study mainly focuses on internal controls and media attention as moderating factors in the influence of the new Securities Law on auditor behaviour. Nevertheless, there are other potential moderators that might influence the relationship between the new Securities Law and auditor behaviour, including, but not limited to, analyst focus, the nature of client ownership, and the regional rule of law environment. These factors were not exhaustively addressed in this study and could be considered in future research.

5.6 Suggestions for Further Research

While this study offers initial insights into the impact of China's revised Securities Law on auditor behavior, numerous avenues remain open for further scholarly exploration. To advance the depth and relevance of future inquiry, several promising research directions merit attention.

First, future studies could adopt a longer observation window and more granular measures to investigate the enduring implications of the Securities Law reform for audit quality, financial reporting transparency, and capital market efficiency. Leveraging expanded datasets and diversified proxies for audit outcomes may yield a more comprehensive understanding of how legal reforms reshape market discipline and informational environments over time.

Second, research could extend beyond audit-specific dimensions to examine broader corporate responses in areas such as investment efficiency, financing strategies, and innovation activity. The regulatory shifts introduced by the revised law may indirectly influence firms' operational and strategic choices through changes in governance and assurance mechanisms. Empirical work that integrates firm-level outcomes with audit market dynamics would enrich our understanding of these interdependencies.

Third, future research could consider the heterogeneous effects of the law across firm ownership structures, industries, and regional legal environments. Investigating the moderating roles of internal governance quality and external oversight, such as legal enforcement or media scrutiny, could provide valuable insights into the contingent nature of regulatory impact. In particular, further attention to the differential influence of media narratives, distinguishing between favorable and adverse coverage, may shed light on the reputational channels through which market discipline operates under the new legal regime.

In summary, future research could benefit from utilizing a longer timeframe, a broader range of data sources, and more detailed analytical methods to deeply explore the multifaceted impacts of the new Securities Law on the audit market and corporate behaviour. By developing clearly defined research questions and testable hypotheses, as illustrated above, future studies can provide more actionable insights and empirical evidence. This would not only contribute to a better understanding of the long-term effects of legal reforms, but also offer practical guidance for regulators, audit professionals, and investors. Furthermore, such research would serve as a valuable reference for regulatory development in other emerging capital markets undergoing similar reforms.

REFERENCES

- Abadie, A. (2005). Semiparametric difference-in-differences estimators. *The Review of Economic Studies*, 72(1), 1–19.
- Aghaei Chadegani, A., & Muhammaddun Mohamed, Z. (2014). Reporting errors and misstatements: a measurement for the quality of auditors' work. *Asian Journal of Business Ethics*, 3, 83–96.
- Almustafa, H., Jabbouri, I., & Kijkasiwat, P. (2023). Economic policy uncertainty, financial leverage, and corporate investment: evidence from US Firms. *Economies*, 11(2), 37-64
- Anderson, R. I., Stowe, J. D., & Xing, X. (2011). Does corporate diversification reduce firm risk? Evidence from diversifying acquisitions. *Review of Pacific Basin Financial Markets and Policies*, 14(03), 485–504.
- Ang, J. S., Cole, R. A., & Lin, J. W. (2000). Agency costs and ownership structure. *The Journal of Finance*, 55(1), 81–106.
- Angrist, J. D., & Pischke, J.-S. (2009). *Mostly harmless econometrics: An empiricist's companion*. Princeton university press.
- Antle, R., Gordon, E., Narayanamoorthy, G., & Zhou, L. (2006). The joint determination of audit fees, non-audit fees, and abnormal accruals. *Review of Quantitative Finance and Accounting*, 27, 235–266.
- Aobdia R. C., D. and P. (2020). Audit firm internal governance, auditor behavior, and financial reporting quality. *S&P Global Market Intelligence Research Paper Series*, 93, 59–64.

- Arellano, M., & Bond, S. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *The Review of Economic Studies*, 58(2), 277–297.
- Asante-Appiah, B. (2020). Does the severity of a client's negative environmental, social and governance reputation affect audit effort and audit quality? *Journal of Accounting and Public Policy*, 39(3), 106713.
- Ashbaugh-Skaife, H., Collins, D. W., & Kinney Jr, W. R. (2007). The discovery and reporting of internal control deficiencies prior to SOX-mandated audits. *Journal of Accounting and Economics*, 44(1–2), 166–192.
- Ashenfelter, O. (1978). Estimating the effect of training programs on earnings. *The Review of Economics and Statistics*, 47–57.
- Asthana, S., & Boone, J. (2012). Abnormal audit fee and audit quality. *Auditing: A Journal of Practice & Theory*, 31(3), 1–22.
- Athey, S., & Imbens, G. W. (2017). The state of applied econometrics: Causality and policy evaluation. *Journal of Economic Perspectives*, 31(2), 3–32.
- Austin, P. C. (2011). An introduction to propensity score methods for reducing the effects of confounding in observational studies. *Multivariate Behavioral Research*, 46(3), 399–424.
- Azghandi, M. M., Jabbari, S., Ranjbar, H. R., & Al-janabi, A. (2023). The Effect of Social Capital on Auditor's Performance. *Journal of Risk and Financial Management*, 16(2), 119. 119-145.
- Babatunde, M. A., & Olaniran, O. (2009). The effects of internal and external mechanism on governance and performance of corporate firms in Nigeria. *Corporate Ownership & Control*, 7(2), 330–344.

- Bai, J., Yang, Q., & Dong, Y. (2022). Have changes in client relationships increased audit fees? *Audit & Economy Research*, 37(3), 10-21.
- Baker, A. C., Larcker, D. F., & Wang, C. C. Y. (2022). How much should we trust staggered difference-in-differences estimates? *Journal of Financial Economics*, 144(2), 370–395.
- Ball, R., Jayaraman, S., & Shivakumar, L. (2012). Audited financial reporting and voluntary disclosure as complements: A test of the confirmation hypothesis. *Journal of Accounting and Economics*, 53(1–2), 136–166.
- Bartov, E., Gul, F. A., & Tsui, J. S. (2000). Discretionary-accruals models and audit qualifications. *Journal of Accounting and Economics*, 30(3), 421–452.
- Beattie, V., Goodacre, A., Pratt, K., & Stevenson, J. (2001). The determinants of audit fees—Evidence from the voluntary sector. *Accounting and Business Research*, 31(4), 243–274.
- Beatty, R. P. (1993). The Economic Determinants of Auditor Compensation in the Initial Public Offerings Market. *Journal of Accounting Research*, 31(2), 294-332.
- Becker, C. L., DeFond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research*, 15(1), 1–24.
- Bedard, J. C., Johnstone, K. M., & Smith, E. F. (2010). Audit quality indicators: A status update on possible public disclosures and insights from audit practice. *Current Issues in Auditing*, 4(1), C12–C19.
- Bell, T. B., Causholli, M., & Knechel, W. R. (2015). Audit firm tenure, non-audit services, and internal assessments of audit quality. *Journal of Accounting Research*, 53(3), 461–509.

- Bentley, J. W., Lambert, T. A., & Wang, E. (Ying). (2021). The Effect of Increased Audit Disclosure on Managers' Real Operating Decisions: Evidence from Disclosing Critical Audit Matters. *The Accounting Review*, 96(1), 23–40.
- Bepari, M. K., Mollik, A. T., Nahar, S., & Islam, M. N. (2022). Determinants of accounts level and entity level key audit matters: Further evidence. *Accounting in Europe*, 19(3), 397–422.
- Bergner, J., Marquardt, B. B., & Mohapatra, P. (2020). The auditor reputation cycle: A synthesis of the literature. *International Journal of Auditing*, 24(2), 292–319.
- Berkowitz, D., Lin, C., & Ma, Y. (2015). Do property rights matter? Evidence from a property law enactment. *Journal of Financial Economics*, 116(3), 583–593.
- Bertrand, M., Duflo, E., & Mullainathan, S. (2004). How much should we trust differences-in-differences estimates? *The Quarterly Journal of Economics*, 119(1), 249–275.
- Blankespoor, E., deHaan, E., & Zhu, Z. (2020). Capital market effects of media synthesis and dissemination: Evidence from Robo-Analysts. *The Accounting Review*, 95(5), 1–31.
- Blum, E. S., Hatfield, R. C., & Houston, R. W. (2022). The effect of staff auditor reputation on audit quality enhancing actions. *The Accounting Review*, 97(1), 75–97.
- Boolaky, P., & O'Leary, C. (2012). Positive influences of governance, legal, educational and market factors on audit environments. *Corporate Board: Role, Duties and Composition*, 8(1), 69–80.
- Boone, J. P., Khurana, I. K., & Raman, K. K. (2012). Audit market concentration and auditor tolerance for earnings management. *Contemporary Accounting Research*, 29(4), 1171–1203.

- Boone, J. P., Khurana, I. K., & Raman, K. K. (2015). Did the 2007 PCAOB disciplinary order against Deloitte impose actual costs on the firm or improve its audit quality? *The Accounting Review*, 90(2), 405–441.
- Breusch, T. S., & Pagan, A. R. (1979). A simple test for heteroscedasticity and random coefficient variation. *Econometrica: Journal of the Econometric Society*, 1287–1294.
- Breusch, T. S., & Pagan, A. R. (1980). The Lagrange multiplier test and its applications to model specification in econometrics. *The Review of Economic Studies*, 47(1), 239–253.
- Brivot, M., Gendron, Y., & Guénin, H. (2017). Reinventing organizational control: Meaning contest surrounding reputational risk controllability in the social media arena. *Accounting, Auditing & Accountability Journal*, 30(4), 795–820.
- Brown-Liburd, H. L., Cohen, J., & Trompeter, G. (2013). Effects of earnings forecasts and heightened professional skepticism on the outcomes of client–auditor negotiation. *Journal of Business Ethics*, 116, 311–325.
- Brown, S. V., & Knechel, W. R. (2016). Auditor–client compatibility and audit firm selection. *Journal of Accounting Research*, 54(3), 725–775.
- Burgstahler, D., & Dichev, I. (1997). Earnings management to avoid earnings decreases and losses. *Journal of Accounting and Economics*, 24(1), 99–126.
- Burke, J. J., Hoitash, R., & Hoitash, U. (2019). Auditor response to negative media coverage of client environmental, social, and governance practices. *Accounting Horizons*, 33(3), 1–23.
- Bushee, B. J., & Miller, G. S. (2012). Investor relations, firm visibility, and investor following. *The Accounting Review*, 87(3), 867–897.

- Bushman, R. M., & Landsman, W. R. (2010). The pros and cons of regulating corporate reporting: A critical review of the arguments. *Accounting and Business Research*, 40(3), 259–273.
- Buslepp, W., Legoria, J., Rosa, R., & Shaw, D. (2019). Misclassification of audit-related fees as a measure of internal control quality. *Advances in Accounting*, 46, 100425.
- Cahan, S., Chen, C., & Wang, R. (2020). Does Media Exposure Affect Financial Reporting Quality Through Auditors? *Journal of Accounting, Auditing & Finance*, 36, 750–775.
- Cahan, S. F., Chen, C., & Wang, R. (2021). Does media exposure affect financial reporting quality through auditors? *Journal of Accounting, Auditing & Finance*, 36(4), 750–775.
- Cahan, S. F., & Sun, J. (2015). The effect of audit experience on audit fees and audit quality. *Journal of Accounting, Auditing & Finance*, 30(1), 78–100.
- Cai, W., Haung, T., Leng, J., & Miao, Y. (2021). Problems of China in the Implementation of Investor Protection Mechanism from the New Securities Law. *Local Legislation Journal*, 6(4), 1–24.
- Cameran, M., Prencipe, A., & Trombetta, M. (2016). Mandatory audit firm rotation and audit quality. *European Accounting Review*, 25(1), 35–58.
- Campello, M., & Larrain, M. (2018). Enlarging the Contracting Space: Collateral Menus, Access to Credit, and Economic Activity. *SSRN Electronic Journal*, 212, 1–45.
- Cao, F. (2020). From Approval to Registration: the Core and Progress of the New Securities Law. *Finance Forum*, 4, 3–6.
- Carcello, J. V., Hermanson, D. R., Neal, T. L., & Riley Jr, R. A. (2002). Board characteristics and audit fees. *Contemporary Accounting Research*, 19(3), 365–384.
- Carpenter, J. N., Lu, F., & Whitelaw, R. F. (2021). The real value of China's stock market. *Journal of Financial Economics*, 139(3), 679–696.

- Chalmers D.; Khlif, H., K. . H. (2019). Internal control in accounting research: A review. *Journal of Accounting Literature*, 42(1), 80–103.
- Chalmers D., Khlif, H., K. and H. (2019). Internal control in accounting research: A review. *Journal of Accounting Literature*, 42, 92–103.
- Chang, Y.-T., Chen, H., Cheng, R. K., & Chi, W. (2019). The impact of internal audit attributes on the effectiveness of internal control over operations and compliance. *Journal of Contemporary Accounting & Economics*, 15(1), 1–19.
- Chao, C.-L. (2022). CEO turnover and audit pricing: the role of media tone. *Managerial Auditing Journal*, 37(6), 721–741.
- Chen, C.-H. (2009). An update on China's capital markets: focus on China's securities industry. *China's Emerging Financial Markets: Challenges and Opportunities*, 547–580.
- Chen, D., Kim, J.-B., Li, O. Z., & Liang, S. (2018). China's closed pyramidal managerial labor market and the stock price crash risk. *The Accounting Review*, 93(3), 105–131.
- Chen, F., Hope, O.-K., Li, Q., & Wang, X. (2011). Financial reporting quality and investment efficiency of private firms in emerging markets. *The Accounting Review*, 86(4), 1255–1288.
- Chen, G., Firth, M., Gao, D. N., & Rui, O. M. (2005). Is China's securities regulatory agency a toothless tiger? Evidence from enforcement actions. *Journal of Accounting and Public Policy*, 24(6), 451–488.
- Chen, J. J., & Zhang, H. (2010). The impact of regulatory enforcement and audit upon IFRS compliance—Evidence from China. *European Accounting Review*, 19(4), 665–692.
- Chen, R. (2018). Internal control audit fee and internal control audit quality—Evidence from integrated audits. *Open Journal of Business and Management*, 7(1), 292–311.

- Chen, S., Zhang, H., & Wang, S. (2022). Trade openness, economic growth, and energy intensity in China. *Technological Forecasting and Social Change*, 179(March), 121608.
- Chen, W., Zhang, L., Jiang, P., Meng, F., & Sun, Q. (2022). Can digital transformation improve the information environment of the capital market? Evidence from the analysts' prediction behaviour. *Accounting & Finance*, 62(2), 2543–2578.
- Chen, Y., Deng, Y., & Li, Z. (2019). Effectiveness of the Front-line Regulation of the Chinese Stock Exchanges: Evidence From Comment Letters. *Management World*, 3, 169–186.
- Chen, Y., & Song, S. (2017). A good name is more desirable than great riches: the Consequence of penalty shock on underwriter reputation. *Jurnal Penelitian Pendidikan Guru Sekolah Dasar*, 17(1), 431–448.
- Chen, Y., & Sun, Y. (2021). *Analysis of the Independence of 'Gatekeepers' after the Implementation of the New Securities Law*. 3(1), 27–32.
- Chen, Y., Yuan, W., & Lan, T. (2020). Legal Infrastructure and High-Quality Development of Capital Market: An Event Study Based on the New Securities Law. *Journal of Finance and Economics*, 46(10), 79–92.
- Cheng, L., & Chen, S. (2016). Provincial Audit Market, Client Auditor Choice and Audit Fees: Based on Supply-Demand Trade-off. *Accounting Research*, 5, 87–94.
- Cheng, Y., Haynes, C. M., & Yu, M. D. (2021). The effect of engagement partner workload on audit quality. *Managerial Auditing Journal*, 36(8), 1068–1091.
- China Securities Regulatory Commission. (2020, March). *Full text and key amendments of the new Securities Law*. [online] Available at: <http://www.csrc.gov.cn/shanghai/c105573/c1282295/content.shtml>

- Choi, J.-H., & Wong, T. J. (2002). Audit markets and legal environments: An international investigation. *SSRN Electronic Journal*.
- Choi, J. H., Kim, J. B., & Zang, Y. (2010). Do abnormally high audit fees impair audit quality? *Auditing: A Journal of Practice & Theory*, 29(2), 115–140.
- Choi, J., Kim, J., Liu, X., & Simunic, D. A. (2008). Audit pricing, legal liability regimes, and Big 4 premiums: Theory and cross-country evidence. *Contemporary Accounting Research*, 25(1), 55–99.
- Chow, G. C. (1960). Tests of equality between sets of coefficients in two linear regressions. *Econometrica: Journal of the Econometric Society*, 591–605.
- Christensen, B., Smith, K. W., Wang, D., & Williams, D. (2023). The Audit Quality Effects of Small Audit Firm Mergers in the United States. *Auditing*, 42(2), 75–99.
- Chun, C., Yijian, H., & Sha, Z. (2005). An Empirical Study on the Impact of Audit Quality on Earnings Management - Empirical evidence from the Manufacturing Industry in Shanghai Stock Exchange. *Auditing Research*, 2, 3–10.
- Chun, Y. L., Kim, Y. Y., & Yang, J. (2005). Audit quality and earnings management in China. *China Accounting and Finance Review*, 7(2), 1–28.
- Chung, S., & Narasimhan, R. (2002). An international study of cross-sectional variations in audit fees. *International Journal of Auditing*, 6(1), 79–91.
- Circle, U., Antonio, S., Boone, J., Khurana, I. K., & Raman, K. K. (2012). *Working Paper SERIES from the author(s). Audit Market Concentration and Auditor Tolerance for Earnings Management*.
- Clarke, D., Murrell, P., & Whiting, S. (2008). The role of law in China's economic development. *China's Great Economic Transformation*, 375–428.

- Clò, S., & Fumagalli, E. (2019). The effect of price regulation on energy imbalances: A Difference in Differences design. *Energy Economics*, 81, 754–764.
- Cohen, J., Krishnamoorthy, G., & Wright, A. (2017). Enterprise risk management and the financial reporting process: The experiences of audit committee members, CFO s, and external auditors. *Contemporary Accounting Research*, 34(2), 1178–1209.
- Contessotto, C., Knechel, W. R., & Moroney, R. (2021). How do audit team industry and client-specific experience impact audit effort and audit fees? *International Journal of Auditing*, 25(1), 249–268.
- Coram, P. J. (2010). The effect of investor sophistication on the influence of nonfinancial performance indicators on investors' judgments. *Accounting & Finance*, 50(2), 263–280.
- Craswell, A. T., Francis, J. R., & Taylor, S. L. (1995). Auditor brand name reputations and industry specializations. *Journal of Accounting and Economics*, 20(3), 297–322.
- Dai, W., Liu, X., Chen, H., & Zhai, H. (2017). Government Accounting Standards Implementation Mechanisms Study Based on the Institutional Theory. *Accounting Research*, 2, 29–34.
- Daif, A., & Jalal, A. (2022). The Contribution of Internal Audit to the Performance of the Internal Control System. *European Scientific Journal, ESJ*, 18, 25–32.
- Datsenko, H. (2021). Main aspects of quality control of internal audit of enterprises. *Herald UNU. International Economic Relations and World Economy*, 23, 34–42.
- Davies, G., & Miles, L. (1998). Reputation management: theory versus practice. *Corporate Reputation Review*, 2, 16–27.
- Dawson, J. F. (2014). Moderation in management research: What, why, when, and how. *Journal of Business and Psychology*, 29(1), 1–19.

- De Chaisemartin, C., & d'Haultfoeuille, X. (2020). Two-way fixed effects estimators with heterogeneous treatment effects. *American Economic Review*, 110(9), 2964–2996.
- DeAngelo, H., DeAngelo, L., & Skinner, D. J. (1994). Accounting choice in troubled companies. *Journal of Accounting and Economics*, 17(1–2), 113–143.
- DeAngelo, L. E. (1981a). Auditor independence, ‘low balling’, and disclosure regulation. *Journal of Accounting and Economics*, 3(2), 113–127.
- DeAngelo, L. E. (1981b). Auditor size and audit fees. *Journal of Accounting and Economics*, 3(3), 183–199.
- DeAngelo, L. E. (1981c). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183–199.
- Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. *Accounting Review*, 193–225.
- DeFond, M. L., & Francis, J. R. (2005). Audit research after sarbanes-oxley. *Auditing: A Journal of Practice & Theory*, 24(s-1), 5–30.
- DeFond, M. L., Francis, J. R., & Wong, T. J. (2000). Auditor industry specialization and market segmentation: Evidence from Hong Kong. *Auditing: A Journal of Practice & Theory*, 19(1), 49–66.
- DeFond, M. L., & Jiambalvo, J. (1994). Debt covenant violation and manipulation of accruals. *Journal of Accounting and Economics*, 17(1–2), 145–176.
- DeFond, M. L., & Lennox, C. S. (2011). The effect of SOX on small auditor exits and audit quality. *Journal of Accounting and Economics*, 52(1), 21–40.
- DeFond, M. L., Raghunandan, K., & Subramanyam, K. R. (2002). Do non-audit service fees impair auditor independence? Evidence from going concern audit opinions. *Journal of Accounting Research*, 40(4), 1247–1274.

- DeFond, M., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2–3), 275–326.
- Diamond, D. W., & Verrecchia, R. E. (1991). Disclosure, liquidity, and the cost of capital. *The Journal of Finance*, 46(4), 1325–1359.
- Donelson, D. C., Ege, M. S., & McInnis, J. M. (2017). Internal control weaknesses and financial reporting fraud. *Auditing: A Journal of Practice & Theory*, 36(3), 45–69.
- Dong, T., Wang, Y., & Sun, C. (2022). Social Media Attention and Audit Quality - A Test Based on the Perspective of Public Opinion Pressure. *Auditing Research*, 2, 71–80.
- Doyle, J., Ge, W., & McVay, S. (2007). Determinants of weaknesses in internal control over financial reporting. *Journal of Accounting and Economics*, 44(1–2), 193–223.
- Dresdner, H., & Fischer, D. (2020). Definitions and determinants of audit quality. *Journal of Corporate Accounting and Finance*, 31(4), 197–201.
- Drukker, D. M. (2003). Testing for serial correlation in linear panel-data models. *The Stata Journal*, 3(2), 168–177.
- Du, X., Weng, J., Zeng, Q., Chang, Y., & Pei, H. (2017). Do lenders applaud corporate environmental performance? Evidence from Chinese private-owned firms. *Journal of Business Ethics*, 143, 179–207.
- Duan, T., Li, K., Rogo, R., & Zhang, R. (2019). The Myth about Public versus Private Enforcement of Securities Laws—Evidence from Chinese Comment Letters. *Available at SSRN 3281505*.
- Duong Thi, C. (2023). Audit quality, institutional environments, and earnings management: An empirical analysis of new listings. *Sage Open*, 13(2), 21582440231180670.
- Dyck, A., Morse, A., & Zingales, L. (2010). Who blows the whistle on corporate fraud? *The Journal of Finance*, 65(6), 2213–2253.

- Dyck, A., Volchkova, N., & Zingales, L. (2008). The corporate governance role of the media: Evidence from Russia. *The Journal of Finance*, 63(3), 1093–1135.
- Ehrmann, T., & Prinz, A. (2023). The auditing game: the dark side of the private provision of a public good. *European Journal of Law and Economics*, 1–48.
- El-Deeb, M. S., & Mohamed, L. (2024). The moderating role of board gender diversity on the association between audit committee attributes and integrated reporting quality. *Future Business Journal*, 10(1), 85.
- Elliott, J., Ghosh, A., & Peltier, E. (2013). Pricing of Risky Initial Audit Engagements. *Auditing-a Journal of Practice & Theory*, 32, 25–43.
- Ettredge, M., Sherwood, M. G., & Sun, L. (2018). Effects of SOX 404 (b) implementation on audit fees by SEC filer size category. *Journal of Accounting and Public Policy*, 37(1), 21–38.
- Fan, C. (2023). Walk out of the road of stable and healthy development of capital in the Chinese market. *Theoretical Exploration*, 3, 115–122.
- Fathali pour, F., & Abdollahi, A. (2020). An Examination of the Relationship between Weakness in Internal Control and Audit Fees with an Emphasis on the Moderating Role of Managerial Stock Ownership. *Journal of Humanities Insights*, 4, 118–128.
- Feng, T., Zhang, C., Liu, L., & Lin, X. (2025). How does negative new media coverage impact audit fees, cost cover, or risk premium? Based on the data from WeChat official account by Crawler Technology. *PLOS One*, 20.
- Fernando, G. D., Abdel-Meguid, A. M., & Elder, R. J. (2010). Audit quality attributes, client size and cost of equity capital. *Review of Accounting and Finance*, 9(4), 363–381.
- Francis, J. R. (2004). What do we know about audit quality? *The British Accounting Review*, 36(4), 345–368.

- Francis, J. R. (2011). A framework for understanding and researching audit quality. *Auditing: A Journal of Practice & Theory*, 30(2), 125–152.
- Francis, J. R., Khurana, I. K., & Pereira, R. (2003). The role of accounting and auditing in corporate governance and the development of financial markets around the world. *Asia-Pacific Journal of Accounting & Economics*, 10(1), 1–30.
- Francis, J. R., Mehta, M. N., & Zhao, W. (2017). Audit office reputation shocks from gains and losses of major industry clients. *Contemporary Accounting Research*, 34(4), 1922–1974.
- Francis, J. R., & Simon, D. T. (1987). A test of audit pricing in the small-client segment of the US audit market. *Accounting Review*, 145–157.
- Francis, J. R., & Yu, M. D. (2009a). Big 4 office size and audit quality. *The Accounting Review*, 84(5), 1521–1552.
- Francis, J. R., & Yu, M. D. (2009b). Big 4 office size and audit quality. *Accounting Review*, 84(5), 1521–1552.
- Fredriksson, A., & Oliveira, G. M. de. (2019a). Impact evaluation using Difference-in-Differences. *RAUSP Management Journal*, 54, 519–532.
- Fredriksson, A., & Oliveira, G. M. De. (2019b). *Impact evaluation using Difference-in-Differences*. 54(4), 519–532.
- Frost, T., Shan, L., Tsang, A., & Yu, M. (2022). Media coverage of corporate social irresponsibility and audit fees: International evidence. *International Journal of Auditing*, 26(4), 467–493.
- Fung, S. Y. K., Wang, Z., Zhang, L., & Zhu, X. (2023). Exogenous loss of analyst coverage and choice of audit quality. *Accounting Horizons*, 37(1), 71–92.

- Gai, D., & Sheng, C. (2013). Influence of Defect and Correction of Internal Control on Audit Fees: Data from China A-Share Listed Companies. *Audit & Economy Research*, 3, 21–27.
- Gao, F. (2020). An Empirical Study of Independent Directors' Background Characteristics and Audit Quality. *Audit & Economy Research*, 35(2), 13.
- Ge, W., & McVay, S. (2005). The disclosure of material weaknesses in internal control after the Sarbanes-Oxley Act. *Accounting Horizons*, 19(3), 137–158.
- Gimbar, C., Hansen, B., & Ozlanski, M. E. (2016). The effects of critical audit matter paragraphs and accounting standard precision on auditor liability. *Accounting Review*, 91(6), 1629–1646.
- Giroud, X., & Mueller, H. M. (2017). Firm leverage, consumer demand, and employment losses during the great recession. *The Quarterly Journal of Economics*, 132(1), 271–316.
- Gist, W. E. (1995). A Test of Audit Pricing in the Small-Client Segment: A Comment. *Journal of Accounting, Auditing & Finance*, 10(2), 223–233.
- Gong, S. X., Gul, F. A., & Shan, L. (2018). Do auditors respond to media coverage? Evidence from China. *Accounting Horizons*, 32(3), 169–194.
- Goodman-Bacon, A. (2021). Difference-in-differences with variation in treatment timing. *Journal of Econometrics*, 225(2), 254–277.
- Greenstone, M., Oyer, P., & Vissing-Jorgensen, A. (2006). Mandated disclosure, stock returns, and the 1964 Securities Acts amendments. *The Quarterly Journal of Economics*, 121(2), 399–460.

- Guizani, M., & Abdalkrim, G. (2021). Ownership structure and audit quality: the mediating effect of board independence. *Corporate Governance: The International Journal of Business in Society*, 21(5), 754–774.
- Gul, F. A., Wu, D., & Yang, Z. (2013). Do individual auditors affect audit quality? Evidence from archival data. *The Accounting Review*, 88(6), 1993–2023.
- Gull, A. A., Nekhili, M., Nagati, H., & Chtioui, T. (2018). Beyond gender diversity: How specific attributes of female directors affect earnings management. *The British Accounting Review*, 50(3), 255–274.
- Gunn, J. L., Kawada, B. S., & Michas, P. N. (2019). Audit market concentration, audit fees, and audit quality: A cross-country analysis of complex audit clients. *Journal of Accounting and Public Policy*, 38(6), 106693.
- Hallman, N. J., Kartapanis, A., & Schmidt, J. J. (2022). How do auditors respond to competition? Evidence from the bidding process. *Journal of Accounting and Economics*, 73(2–3), 101475.
- Han, H., & Chen, H. (2008). Corporate Governance Mechanism and the Need for High Quality External Audit-Empirical evidence from the Chinese audit market. *Finance and Trade Economy*, 1, 61–66.
- Hancu-Budui, A., Zorio-Grima, A., & Blanco-Vega, J. (2020). Audit institutions in the European Union: Public service promotion, environmental engagement and Covid crisis communication through social media. *Sustainability*, 12(23), 9816.
- Hao, J., Pham, V., & Guo, M. (2022). The gender effects of audit partners on audit outcomes: evidence of rule 3211 adoption. *Journal of Business Ethics*, 177(2), 275–304.

- Harjoto, M. A., & Laksmana, I. (2022). The impact of COVID-19 lockdown on audit fees and audit delay: international evidence. *International Journal of Accounting and Information Management*, 30(4), 526–545.
- Harjoto, M. A., Laksmana, I., & Lee, R. (2015). The impact of demographic characteristics of CEOs and directors on audit fees and audit delay. *Managerial Auditing Journal*, 30(8/9), 963–997.
- Hassan, S., Aksar, M. A., Khan, S., Ahmed, T., & Zahoor, M. (2023). Impact of audit quality on real earnings management: Moderating role of corporate governance. *Reviews of Management Sciences*, 5(1), 1–12.
- Hauke, J., & Kossowski, T. (2011). Comparison of values of Pearson's and Spearman's correlation coefficients on the same sets of data. *Quaestiones Geographicae*, 30(2), 87–93.
- Hay, D. C., Knechel, W. R., & Wong, N. (2006). Audit fees: A meta-analysis of the effect of supply and demand attributes. *Contemporary Accounting Research*, 23(1), 141–191.
- He, X., Pittman, J., & Rui, O. (2016). Reputational Implications for Partners After a Major Audit Failure: Evidence from China. *Journal of Business Ethics*, 138, 703–722.
- Heckman, J. J., Ichimura, H., & Todd, P. E. (1997). Matching as an econometric evaluation estimator: Evidence from evaluating a job training programme. *The Review of Economic Studies*, 64(4), 605–654.
- Heninger, W. G. (2001). The association between auditor litigation and abnormal accruals. *The Accounting Review*, 76(1), 111–126.
- Hoechle, D. (2007). Robust standard errors for panel regressions with cross-sectional dependence. *The Stata Journal*, 7(3), 281–312.

- Hogan Michael S., C. E. A.-W. (2008). The Effects of Internal Control Quality and Its Changes on Audit Fees. *Auditing: A Journal of Practice & Theory*, 27(1), 55–78.
- Hogan, C. E., & Wilkins, M. S. (2008). Evidence on the audit risk model: Do auditors increase audit fees in the presence of internal control deficiencies? *Contemporary Accounting Research*, 25(1), 219–242.
- Hong, M., Drakeford, B., & Zhang, K. (2020). The impact of mandatory CSR disclosure on green innovation: evidence from China. *Green Finance*, 2(3), 302–322.
- Hsiao-Lun, L., & Chan-Jane, L. (2016). Review of studies on audit quality in Asia. *Tai Da Guan Li Lun Cong*, 27(1), 305.
- Hsieh, T. S., Kim, J. B., Wang, R. R., & Wang, Z. (2020). Seeing is believing? Executives' facial trustworthiness, auditor tenure, and audit fees. *Journal of Accounting and Economics*, 69(1), 101260.
- Huang, H., Raghunandan, K., & Rama, D. (2009). Audit fees for initial audit engagements before and after SOX. *Auditing: A Journal of Practice & Theory*, 28(1), 171–190.
- Huang, J., & Gao, Q. (2021). Can Violation Penalties Effectively Suppress Audit Opinion Purchase Behavior? *Friends of Accounting*, 24, 92–99.
- Huang, M. (2023). Research on the Influence Mechanism of Media Supervision on Audit Fees. *Frontiers in Business, Economics and Management*, 8(2), 78–82.
- Huang, T.-C., Chang, H., & Chiou, J.-R. (2016). Audit market concentration, audit fees, and audit quality: Evidence from China. *Auditing: A Journal of Practice & Theory*, 35(2), 121–145.
- Huang, T., Lin, Y., & Hairston, S. (2019). Is there an association between accounting firm ranks and audit quality? An examination of the top 100 accounting firms in China. *International Journal of Auditing*, 23(2), 204–230.

- Hurley, P. J., Mayhew, B. W., & Obermire, K. M. (2019). Realigning auditors' accountability: Experimental evidence. *The Accounting Review*, 94(3), 233–250.
- Hwang, S., & Hong, P. K. (2022). Auditors' workload and audit quality under audit hour budget pressure: Evidence from the Korean audit market. *International Journal of Auditing*, 26(3), 371–387.
- Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate governance* (pp. 77–132). Gower.
- Ji, X., Ahmed, K., & Lu, W. (2015). The impact of corporate governance and ownership structure reforms on earnings quality in China. *International Journal of Accounting & Information Management*, 23(2), 169–198.
- Jones, J. J. (1991). Earnings management during import relief investigations. *Journal of Accounting Research*, 29(2), 193–228.
- Kamarudin, K. A., Ariff, A. M., & Wan Ismail, W. A. (2022). Product market competition, board gender diversity and corporate sustainability performance: international evidence. *Journal of Financial Reporting and Accounting*, 20(2), 233–260.
- Kantsir, I., & Plekan, M. (2017). Reform of regulatory policy in the field of supervision of audit activity. *Baltic Journal of Economic Studies*, 3(5), 170–174.
- Keh, H. T., & Xie, Y. (2009). Corporate reputation and customer behavioral intentions: The roles of trust, identification and commitment. *Industrial Marketing Management*, 38(7), 732–742.
- Khan, A., Mihret, D. G., & Muttakin, M. B. (2016). Corporate political connections, agency costs and audit quality. *International Journal of Accounting & Information Management*, 24(4), 357–374.

- Kim, Y., Park, M. S., & Wier, B. (2012). Is earnings quality associated with corporate social responsibility? *The Accounting Review*, 87(3), 761–796.
- Kinney Jr, W. R., Palmrose, Z., & Scholz, S. (2004). Auditor independence, non-audit services, and restatements: Was the US government right? *Journal of Accounting Research*, 42(3), 561–588.
- Klein, B., & Leffler, K. B. (1981). The role of market forces in assuring contractual performance. *Journal of Political Economy*, 89(4), 615–641.
- Koh, K., Rajgopal, S., & Srinivasan, S. (2013). Non-audit services and financial reporting quality: Evidence from 1978 to 1980. *Review of Accounting Studies*, 18, 1–33.
- Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics*, 39(1), 163–197.
- Kouaib, A., & Almulhim, A. (2019). Earnings manipulations and board's diversity: The moderating role of audit. *The Journal of High Technology Management Research*, 30(2), 100356.
- Kowaleski, Z. T., Sutherland, A. G., & Vetter, F. W. (2020). Can ethics be taught? Evidence from securities exams and investment adviser misconduct. *Journal of Financial Economics*, 138(1), 159–175.
- Kreps, D. M., Milgrom, P., Roberts, J., & Wilson, R. (1982). Rational cooperation in the finitely repeated prisoners' dilemma. *Journal of Economic Theory*, 27(2), 245–252.
- Krishnan, J., Krishnan, J., & Song, H. (2017). PCAOB international inspections and audit quality. *The Accounting Review*, 92(5), 143–166.
- Krishnan, G. V., Patatoukas, P. N., & Wang, A. Y. (2019). Customer-base concentration: Implications for audit pricing and quality. *Journal of Management Accounting Research*, 31(1), 129–152.

- Kuselias, S., Lauck, J. R., & Williams, S. (2021). Social media content and social comparisons: An experimental examination of their effect on audit quality. *Auditing: A Journal of Practice & Theory*, 40(1), 55–72.
- La Porta, R., Lopez-De-Silanes, F., & Shleifer, A. (2006). What works in securities laws? *Journal of Finance*, 61(1), 1–32.
- Larasati, D. A., Ratri, M. C., Nasih, M., & Harymawan, I. (2019). Independent audit committee, risk management committee, and audit fees. *Cogent Business & Management*, 6(1), 1707042.
- Le, B., & Moore, P. H. (2023). The impact of audit quality on earnings management and cost of equity capital: evidence from a developing market. *Journal of Financial Reporting and Accounting*, 21(3), 695–728.
- Lechner, M. (2011). The estimation of causal effects by difference-in-difference methods. *Foundations and Trends® in Econometrics*, 4(3), 165–224.
- Lee, W. J., & Choi, S. U. (2023). Abnormal audit fees and accounting quality: further evidence from audit hours. *Applied Economics*, 55(36), 4239–4257.
- Lei, X., Xu, Q., & Jin, C. (2022). Nature of property right and the motives for holding cash: Empirical evidence from Chinese listed companies. *Managerial and Decision Economics*, 43(5), 1482–1500.
- Lennox, C., & Pittman, J. (2010). Auditing the auditors: Evidence on the recent reforms to the external monitoring of audit firms. *Journal of Accounting and Economics*, 49(1–2), 84–103.
- Lennox, C. S., & Wu, X. (2022). Mandatory internal control audits, audit adjustments, and financial reporting quality: Evidence from China. *The Accounting Review*, 97(1), 341–364.

- Li, J., & Yang, F. (2016). Does the External Guarantee Affect Audit Fees or Audit Opinion Types? *Audit & Economy Research*, 1, 27–37.
- Li, K. (2020). The Impact and Response of the New Securities Law on Independent Audit. *Finance and Accounting Monthly*, 16, 91–95.
- Li, Q., Guo, M., & Tong, M. (2023). Stock pledge and media slant: evidence from China. *Asia-Pacific Journal of Accounting & Economics*, 30(6), 1587–1609.
- Li, X., Dong, L., Kot, H. W., & Liu, M. (2024). Regulatory investigations, media coverage, and audit opinions. *Journal of International Accounting, Auditing and Taxation*, 54, 100596.
- Li, X., & Sun, L. (2021a). Its Supervisi on Accounting Firms: Evidence from the Case of ST Xinyi Transferring To Shenzhen Tangtang Office. *Journal of Yangzhou University (Humanities and Social Sciences)* , 25(1), 41–53.
- Li, X., & Sun, Y. (2021b). Market response to audit regulatory reforms: Evidence from China's filing system. *Asia-Pacific Journal of Accounting & Economics*, 28(5), 543–562.
- Li, X., Zhang, J., & Wang, Y. (2022). The Spillover Effect of Information Disclosure Regulation by Industries on Auditors -Evidence from the industry information disclosure guidelines. *Auditing Research*, 5, 95–105.
- Li, Y., & Kang, Q. (2020). Study on Exemption Rules of Voluntary Disclosure of Securities Information in China. *Social Sciences*, 9, 104–111.
- Lin, H. L., & Yen, A. R. (2022). Auditor rotation, key audit matter disclosures, and financial reporting quality. *Advances in Accounting*, 57(February), 100594.
- Lin, J. W., & Hwang, M. I. (2010). Audit quality, corporate governance, and earnings management: A meta-analysis. *International Journal of Auditing*, 14(1), 57–77.

- Lin, Q., & Yi, L. (2023). Survival of the fittest: the multiple paths of entrepreneurial leadership driving adaptive innovation in uncertain environment. *European Journal of Innovation Management*, 26(4), 1150–1167.
- Lin, Z. J. (2004). Auditor's responsibility and independence: Evidence from China. *Research in Accounting Regulation*, 17, 167–190.
- Lindner, T., Puck, J., & Verbeke, A. (2022). Beyond addressing multicollinearity: Robust quantitative analysis and machine learning in international business research. *Journal of International Business Studies*, 53(7), 1307–1314.
- Liu, W. and W. (2024). Social media attention, internal control, and audit quality. *Commercial Accounting*, 10, 29–34.
- Liu, C., & Xu, C. (2021). The effect of audit engagement partner professional experience on audit quality and audit fees: early evidence from Form AP disclosure. *Asian Review of Accounting*, 29(2), 128–149.
- Liu, E.-P., & Mo, F. (2023). Do firms actively manage media coverage when issuing convertible bonds? Evidence from China. *Applied Economics Letters*, 30(11), 1411–1416.
- Liu, G., & Cai, L. (2010). Study on Audit Controls, Audit Responsibility and Audit Quality - An Analysis Based on the Impact of Uncertainty in Legal Standards. *Auditing Research*, 3, 8.
- Liu Q. L., & Tang J. X. (2009). Audit quality, earnings management and investor protection: Evidence from China. *China Accounting and Finance Review*, 11(3), 83–102.
- Liu, Q., Li, H., & Zhao, C. (2014). The impact of media attention on audit fees: Evidence under high litigation risk. *Accounting Research*, 8, 78–85.

- Liu, W. (2015). Market Economic Order and Legal System and the Spirit of Rule of Law. *Economic Research Journal*, 1, 14–16.
- Liu, X. (2022). Research on Market Reaction Based on the Litigation of Kangmei Pharmaceutical's Special Representative. *Shanghai Finance*, 3, 68–79.
- Lü, M., & Ran, M. (2012). Media agenda-setting and auditor judgment: Evidence from audit pricing and earnings management. *Auditing Research*, 2, 72–80.
- Mao, Y., Zhang, J., & Yang, Y. (2017). A Review of Research on Auditor Reputation. *Friends of Accounting*, 9, 124–126.
- Mardessi, S. (2022). Audit committee and financial reporting quality: the moderating effect of audit quality. *Journal of Financial Crime*, 29(1), 368–388.
- Mayhew, B. W. (2001). Auditor reputation building. *Journal of Accounting Research*, 39(3), 599–617.
- Mayhew, B. W., & Wilkins, M. S. (2003). Audit firm industry specialization as a differentiation strategy: Evidence from fees charged to firms going public. *Auditing: A Journal of Practice & Theory*, 22(2), 33–52.
- Mazza, T., Azzali, S., & Simonov, A. (2023). Audit fee premium for national and local level of industry expertise in Italy. *Managerial Auditing Journal*, 38(2), 129–157.
- McKenzie, D. (2012). Beyond baseline and follow-up: The case for more T in experiments. *Journal of Development Economics*, 99(2), 210–221.
- Miller, G. S. (2006). The press as a watchdog for accounting fraud. *Journal of Accounting Research*, 44(5), 1001–1033.
- Miller, G. S., & Skinner, D. J. (2015). The evolving disclosure landscape: How changes in technology, the media, and capital markets are affecting disclosure. *Journal of Accounting Research*, 53(2), 221–239.

- Mnif Sellami, Y., & Cherif, I. (2020). Female audit committee directorship and audit fees. *Managerial Auditing Journal*, 35(3), 398–428.
- Mohapatra, P. S., Elkins, H., Lobo, G. J., & Chi, W. (2022). The impact of PCAOB international registration on audit quality and audit fees: Evidence from China. *Journal of Accounting and Public Policy*, 41(4), 106947.
- Munsif, V., Raghunandan, K., Rama, D. V., & Singhvi, M. (2011). Audit fees after remediation of internal control weaknesses. *Accounting Horizons*, 25(1), 87–105.
- Myers, J. N., Myers, L. A., & Omer, T. C. (2003). Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation? *The Accounting Review*, 78(3), 779–799.
- Nekhili, M., & Gatfaoui, H. (2013). Are demographic attributes and firm characteristics drivers of gender diversity? Investigating women's positions on French boards of directors. *Journal of Business Ethics*, 118, 227–249.
- Nekhili, M., Gull, A. A., Chtioui, T., & Radhouane, I. (2020). Gender-diverse boards and audit fees: What difference does gender quota legislation make? *Journal of Business Finance & Accounting*, 47(1–2), 52–99.
- Neter, J., Kutner, M. H., Nachtsheim, C. J., & Wasserman, W. (1996). *Applied linear statistical models*.
- Newman, N. F., & Trautman, L. J. (2021). Securities Law: Overview and Contemporary Issues. *Ohio St. Bus. LJ*, 16, 149.
- Newton, N. J., Persellin, J. S., Wang, D., & Wilkins, M. S. (2016). Internal control opinion shopping and audit market competition. *The Accounting Review*, 91(2), 603–623.

- Newton, N. J., Wang, D., & Wilkins, M. S. (2013). Does a lack of choice lead to lower quality? Evidence from auditor competition and client restatements. *Auditing: A Journal of Practice & Theory*, 32(3), 31–67.
- Numan, W., & Willekens, M. (2012). An empirical test of spatial competition in the audit market. *Journal of Accounting and Economics*, 53(1–2), 450–465.
- Nunn, N., & Qian, N. (2011). The potato's contribution to population and urbanization: evidence from a historical experiment. *The Quarterly Journal of Economics*, 126(2), 593–650.
- O'brien, R. M. (2007). A caution regarding rules of thumb for variance inflation factors. *Quality & Quantity*, 41, 673–690.
- Oh, K. W., Jeong, S. W., Kim, S. M., & Yoo, S. W. (2017). The effect of IPO risks on auditors' decisions: Auditor designation case. *Australian Accounting Review*, 27(4), 421–441.
- Oradi, J. (2021). CEO succession origin, audit report lag, and audit fees: Evidence from Iran. *Journal of International Accounting, Auditing and Taxation*, 45, 100414.
- Pan, Y., Shroff, N., & Zhang, P. (2023). The dark side of audit market competition. *Journal of Accounting and Economics*, 75(1), 101520.
- Pharoah, A. (2003). Corporate reputation: the boardroom challenge. *Corporate Governance: The International Journal of Business in Society*, 3(4), 46–51.
- Piotroski, J. D., & Wong, T. J. (2012). Institutions and information environment of Chinese listed firms. *Capitalizing China*, 2, 201–242.
- Pittman, J. A., & Fortin, S. (2004). Auditor choice and the cost of debt capital for newly public firms. *Journal of Accounting and Economics*, 37(1), 113–136.

- Pittman, J., Qi, B., Zhang, G., & Zhao, Y. (2021). The importance of social networks to individual auditors. *Available at SSRN 3365474*.
- Pittman, J., & Yang, Z. (2023). China audit research: Achievements, challenges, and opportunities. *Journal of Accounting and Public Policy*, 42(6), 106962
- Ponticelli, J., & Alencar, L. S. (2016). Court enforcement, bank loans, and firm investment: evidence from a bankruptcy reform in Brazil. *The Quarterly Journal of Economics*, 131(3), 1365–1413.
- Porta, R. La, Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113–1155.
- Quick, R., Schenk, N., Schmidt, F., & Towara, T. (2018). The impact of corporate governance on auditor choice: evidence from Germany. *Journal of Management and Governance*, 22, 251–283.
- Raghunandan, K., & Rama, D. V. (2006). SOX Section 404 material weakness disclosures and audit fees. *Auditing: A Journal of Practice & Theory*, 25(1), 99–114.
- Rajaei Khoramabad, R., & Edalati Shakib, S. (2020). The Effect of Abnormal Audit Fees on Internal Control Weakness. *Iranian Journal of Accounting, Auditing and Finance*, 4(3), 81–96.
- Robert Knechel, W., Vanstraelen, A., & Zerni, M. (2015). Does the identity of engagement partners matter? An analysis of audit partner reporting decisions. *Contemporary Accounting Research*, 32(4), 1443–1478.
- Rosenbaum, P. R., & Rubin, D. B. (1983). The central role of the propensity score in observational studies for causal effects. *Biometrika*, 70(1), 41–55.
- Schelleman, C., & Knechel, W. (2010). Short-Term Accruals and the Pricing and Production of Audit Services. *Ear and Hearing*, 29, 221–250.

- Seetharaman, A., Gul, F. A., & Lynn, S. G. (2002). Litigation risk and audit fees: Evidence from UK firms cross-listed on US markets. *Journal of Accounting and Economics*, 33(1), 91–115.
- Shan, L., Tsang, A., & Zhang, X. (2023). Transporting audit quality across countries: Returnee CEOs and audit fees. *Journal of Business Ethics*, 1–30.
- Shapiro, C. (1983). Premiums for high quality products as returns to reputations. *The Quarterly Journal of Economics*, 98(4), 659–679.
- Shleifer, A. (2004). Does competition destroy ethical behavior? *American Economic Review*, 94(2), 414–418.
- Simon, D. T., & Francis, J. R. (1988). The effects of auditor change on audit fees: Tests of price cutting and price recovery. *Accounting Review*, 255–269.
- Simunic, D. A. (1980). The pricing of audit services: Theory and evidence. *Journal of Accounting Research*, 161–190.
- Simunic, D. A., & Wu, X. (2009). China-related research in auditing: A review and directions for future research. *China Journal of Accounting Research*, 2(2), 1–25.
- Skinner, D. J., & Srinivasan, S. (2012). Audit quality and auditor reputation: Evidence from Japan. *The Accounting Review*, 87(5), 1737–1765.
- Smith, J. A., & Todd, P. E. (2005). Does matching overcome LaLonde’s critique of nonexperimental estimators? *Journal of Econometrics*, 125(1–2), 305–353.
- Smith, T. J., Higgs, J. L., & Pinsker, R. E. (2019). Do auditors price breach risk in their audit fees? *Journal of Information Systems*, 33(2), 177–204.
- Srulovici, E., Leventer-Roberts, M., Curtis, B., He, X., Hoshen, M., Rotem, M., Bachrach, A., Reges, O., Key, C., & Levin-Iaina, N. (2019). Effectiveness of managing diabetes

- during Ramadan conversation map intervention: a difference-in-differences (self-comparison) design. *International Journal of Nursing Studies*, 95, 65–72.
- Standing Committee of the National People's Congress. (1998). *Securities Law of the People's Republic of China*. [online] Available at: <http://www.npc.gov.cn/>
- Standing Committee of the National People's Congress. (2020). *Securities Law of the People's Republic of China*. [online] Available at: <http://www.npc.gov.cn/>
- Su, K., & Huang, H. J. (2025). Do auditors value social trust? Evidence from China. *Applied Economics*, 57(19), 2441–2458.
- Sun, K., & Yu, Y. (2016). Media supervision and audit quality: Evidence from the reputation mechanism. *Finance and Accounting Monthly*, 9, 109–115.
- Sundgren, S., & Svanström, T. (2014). Auditor-in-charge characteristics and going-concern reporting. *Contemporary Accounting Research*, 31(2), 531–550.
- Svanström, T. (2013). Non-audit services and audit quality: Evidence from private firms. *European Accounting Review*, 22(2), 337–366.
- Sytsma, T. (2022). Improving preferential market access through rules of origin: Firm-level evidence from Bangladesh. *American Economic Journal: Economic Policy*, 14(1), 440–472.
- Talloon, W., Loeys, T., & Moerkerke, B. (2019). A bootstrap version of the Hausman test to assess the impact of cluster-level endogeneity beyond the random intercept model. *Multivariate Behavioral Research*, 54(1), 1–14.
- Tang, W. (2020). Securities Representative Litigation with Chinese Characteristics. *People's Justice*, 28, 42–47.

- Tang, X., Liao, Q., & Bai, J. (2023). Legal infrastructure and cooperate Information disclosure decisions: A Quasi-natural experiment based on the new securities law. *Modern Economic Science*, 45(3), 127–138.
- Tazhitdinova, A. (2022). Increasing hours worked: Moonlighting responses to a large tax reform. *American Economic Journal: Economic Policy*, 14(1), 473–500.
- Vahdani R.; Mehr, J. M., M. . R. (2019). Investigating the effect of business strategy and internal control on audit quality. *Humanities & Social Sciences Reviews*, 7(6), 787–798.
- Van Caneghem, T. (2010). Audit pricing and the Big4 fee premium: evidence from Belgium. *Managerial Auditing Journal*, 25(2), 122–139.
- Venkataraman, R., Weber, J. P., & Willenborg, M. (2008). Litigation risk, audit quality, and audit fees: Evidence from initial public offerings. *The Accounting Review*, 83(5), 1315–1345.
- Vig, V. (2013). Access to Collateral and Corporate Debt Structure: Evidence from a Natural Experiment. *Journal of Finance*, 68(3), 881–928.
- Walker, K. (2010). A systematic review of the corporate reputation literature: Definition, measurement, and theory. *Corporate Reputation Review*, 12, 357–387.
- Wan, S., & Xu, S. (2012). An Empirical Study on the Cost Stickiness Behavior from Chinese Listed Companies- Base on Difference Nature of Actual Controller. *Journal of Audit and Economics*, 27(4), 79–86.
- Wang, B. (2011). Can administrative penalties improve audit quality? —Evidence based on penalties imposed by the China Securities Regulatory Commission. *Accounting Research*, 12, 86–92.

- Wang, F., Xu, L., Zhang, J., & Shu, W. (2018). Political connections, internal control and firm value: Evidence from China's anti-corruption campaign. *Journal of Business Research*, 86, 53–67.
- Wang, F., & Zhang, L. (2012). On Auditor Reputation: Review and Prospects. *Accounting Research*, 11, 74–78.
- Wang, J., Sun, M., & Yu, X. (2022). The Porter Hypothesis Under Carbon Risk and Audit Pricing —Evidence based on the Paris Agreement. *Auditing Research*, 5, 75–84.
- Wang, Q., Wong, T.-J., & Xia, L. (2008). State ownership, the institutional environment, and auditor choice: Evidence from China. *Journal of Accounting and Economics*, 46(1), 112–134.
- Wang, W. (2023). Judicial Review of Securities Fraud Class Actions under the New Securities Act- Taking the U.S. Federal Rule of Civil Procedure 23 as a Pattern. *Securities and Futures of China.*, 2, 85–96.
- Wang, X., & Qian, Y. (2022). Media supervision, corporate governance, and information disclosure: Empirical evidence from Chinese listed firms. *Journal of Financial Regulation and Compliance*, 30(1), 22–39.
- Wang, Y., & Qian, L. (2022). Regulatory disclosure, enforcement, and investor protection in China. *Journal of International Financial Markets, Institutions and Money*, 77, 101480.
- Wang, Y., & Shang, K. (2010). Government regulation and audit opinion: Evidence from China's capital market. *Accounting Research*, 5, 74–80.
- Wasserstein, R. L., & Lazar, N. A. (2016). The ASA statement on p-values: context, process, and purpose. In *The American Statistician* (Vol. 70, Issue 2, pp. 129–133). Taylor & Francis.

- Weber, J., Willenborg, M., & Zhang, J. (2008). Does auditor reputation matter? The case of KPMG Germany and ComROAD AG. *Journal of Accounting Research*, 46(4), 941–972.
- White, H. (1980). A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity. *Econometrica: journal of the Econometric Society*, 817-838.
- Willekens, M., Dekeyser, S., Bruynseels, L., & Numan, W. (2023). Auditor Market Power and Audit Quality Revisited: Effects of Market Concentration, Market Share Distance, and Leadership. *Journal of Accounting, Auditing and Finance*, 38(1), 161–181.
- Wing, C., Simon, K., & Bello-Gomez, R. A. (2018). Designing difference in difference studies: best practices for public health policy research. *Annual Review of Public Health*, 39(1), 453–469.
- Wooldridge, J. M. (2010). *Econometric analysis of cross section and panel data*. MIT press.
- Wu, H., Wu, C., & Yang, X. (2015). Disciplinary Risk, Firm Size and Audit Quality: Empirical Evidence from the Chinese Audit Market. *Auditing Research*, 01, 77–85.
- Wu, W., Li, J., & Bao, X. (2017). Overconfidence of Signatory CPAs, Government Regulation and Audit Quality Research. *Auditing Research*, 5, 9-23
- Wu, W., & Liu, Y. (2015). Media attention, government supervision, and audit quality: Empirical evidence from Chinese accounting firms. *Friends of Accounting*, 10, 58–64.
- Wu, W., Zhao, Y., & Su, Z. (2022). Corporate IT Construction and Audit Fees—New evidence in the era of digitalization. *Auditing Research*, 1, 106–117.
- Wu, X., Fan, Y., & Yang, Y. (2019). Do Critical Audit Matters Signal Higher Quality of Audited Financial Information? — Evidence from Asset Impairment. *Accounting Research*, 12, 10–27.

- Wu, Y. (2023). Evolutionary Trajectory of China's Financial Regulatory Regime. In *A Financial History of China (1949–2019)* (pp. 161–193). Springer.
- Xiang, R., & Chen, K. (2019). Do scholar independent directors improve audit quality?—The evidence from China. *Proceedings of the Twelfth International Conference on Management Science and Engineering Management*, 597–608.
- Xing, H. (2021). The Standards of Diligence and Defenses in False Statements in the Securities Market. *Tsinghua University Law Journal*, 15(5), 69–85.
- Xu, Q., Fernando, G., Tam, K., & Zhang, W. (2020). Financial report readability and audit fees: a simultaneous equation approach. *Managerial Auditing Journal*, 35(3), 345–372.
- Xu, W. (2022). China's Securities Market and Anti-Securities-Fraud “Law on the Book”. In *The Enforcement of Securities Law in China: A Law and Economics Assessment* (pp. 25–48). Springer.
- Xu, W., & Liu, S. (2020). Research on the ‘Materiality’ Standards of Information Disclosure from the Perspective of the New Securities Law. *Securities Market Herald*, 9, 70–78.
- Xu Y. (2024). Audit market competition and audit fee behavior of Chinese listed firms. *Contemporary Accounting Review*, 3(1), 15–32.
- Yang, D., Han, H., Mao, Y., & Liu, S. (2023). Special representative actions, the insurance value of audits, and investor protection: an empirical study based on the ruling against Kangmei Pharmaceutical Co. Ltd. *China Journal of Accounting Studies*, 11, 516–542.
- Yang, T., Chen, Y., Zhang, S., Qiao, V., Wang, Z., & Zheng, S. (2021). Highlights of the new PRC securities law. *Journal of Investment Compliance*, 22(1), 20–28.
- Yang, Y., & Liao, Y. (2020). Supplier Enterprise Risk Information and Customer Audit Fees: Empirical Evidence Based on Annual Report MD&A Text. *Securities Market Herald*, 7, 61–71.

- Yang, Y., & Yang, H. (2019). Client Importance, Accounting Firm Reputation and Financial Restatements. *Journal of Shandong Social Sciences*, 9, 5-10.
- Yao, Y. (2018). Press and Media Coverage and Internal Control Opinion Buying. *Auditing Research*, 4, 111–119.
- Yin, C., & He, X. (2004). New Progress in Western Regulatory Economics Research. *Social Sciences in Nanjing*, 9, 28–32.
- Yin, M., Sheng, L., & Li, W. (2018). Executive Incentives, Innovation Investment and Firm Performance: An Empirical Study by Industry with an Endogeneity Perspective. *Nakai Economic Studies*, 21(1), 9-22.
- Yu, C.-C., & Huang, H.-W. (2023). Audit Office's unused capacity and audit quality. *Asia Pacific Management Review*, 28(2), 146–162.
- Yu, D. (2023). Media coverage, real earnings management, and long-run market performance: Evidence from Chinese IPOs. *Asia-Pacific Financial Markets*, 30(4), 729–760.
- Yu, K. (2024). Research on the current situation, challenges, and optimization paths of internal control systems in state-owned enterprises. *Tianjin Economy*, 8, 42–44.
- Yu, Y., Zhang, S., & Yang, X. (2017). Tax Burden and 'Mass Entrepreneurship, Mass Innovation' - Evidence from Cross border Experience. *Journal of Economic Management*, 6, 16–23.
- Zhang, C., Luo, W., & Fan, H. (2020). The Impact of CFO Background Characteristics on Corporate Financial Restatements - The Moderating Effect of Audit Quality. *Journal of Nanjing Audit Institute*, 017(004), 1–10.
- Zhang, L., & Lü, M. (2014). Media evaluation, auditor risk tolerance, and audit opinion: Evidence from Chinese listed companies. *Audit Research*, 3, 65–71.

- Zhang, L., Su, W., & Liu, S. (2024). Enterprise innovation and audit pricing: An evidence
- Zhang, T., & Huang, J. (2013). The Analysis of the Risk Premium of Audit Fees under the Financial Crisis. *Accounting Research*, 5, 81–86.
- Zhang, W. (2017). Analysis and Reference of Securities Market Regulation in the United States. *Oriental Law Journal*, 2, 42–55.
- Zhang, W., Zhang, Z., & Yang, Q. (2011a). Research on Internal Control and Audit Pricing - Empirical Evidence Based on Listed Companies in China. *Auditing Research*, 5, 8.
- Zhang, W., Zhang, Z., & Yang, Q. (2011b). Study on the Internal Control and Audit Pricing—Based on the evidences of Chinese listed companies. *Auditing Research*, 65–72.
- Zhang, Y., & Wiersema, M. F. (2009). Stock market reaction to CEO certification: The signaling role of CEO background. *Strategic Management Journal*, 30(7), 693–710.
- Zhang, Y., & Zheng, Y. (2022). An Empirical Analysis of the Duty of Due Diligence of Securities Lawyers from the Perspective of the New Securities Law. *Journal of SJTU (Philosophy and Social Science)*, 30(144), 89–102.
- Zhao Z., & Zhou Y. (2021). Internal control quality and firm risk: Evidence from DIB ratings. *Accounting Research*, 4, 45–58.
- Zheng, Y., & Li, J. (2020). Perfection of the Information Disclosure System in the Context of New Securities Law from the Perspective of Major Security Issues. *Journal of Yunnan Normal University (Philosophy and Social Sciences)*, 52(4), 129–137.
- Zhou, L., & Chen, Y. (2005). The Policy Effect of Tax-and-Fees Reforms in Rural China: A Difference-in-Differences Estimation. *Finance Research*, 8, 44–53.

APPENDICES

Appendix A: Journal Publications

Zhang, L., & Balia, S. S. (2024). Digital transformation and corporate audit risk: Mediating effects of auditor behaviour. *Finance Research Letters*, 67, 105754.

Zhang, L., & Balia, S. S. (2024). Legal liability, institutional environment and audit pricing: insights from China's securities law revision. *International Journal of Economics and Financial Issues*, 14(6), 46-54.

Zhang, L., & Balia, S. S. (2024). Relaxation of Access Regulations for Securities Audit and Audit Quality: Evidence from the Implementation of China's New Securities Law. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 14(1), 516-530.

Appendix B: Results Output From Stata

Table I OLS Results on the Impact of China's New Securities Law on Audit Quality(without control variables)

Fixed-effects (within) regression	Number of obs	=	19,256
Group variable: stkcd	Number of groups	=	3,712
R-squared:	Obs per group:		
Within = 0.0054	min	=	1
Between = 0.0019	avg	=	5.2
Overall = 0.0036	max	=	7
	F(1, 3711)	=	74.41
corr(u_i, Xb) = -0.0125	Prob > F	=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)			

	Robust		
AbsDA	Coefficient	std. err.	t P> t [95% conf. interval]

Post	-.1640092	.0190131	-8.63 0.000 -.2012863 -.1267321
_cons	-3.228904	.0096725	-333.82 0.000 -3.247868 -3.209941

sigma_u	.76594656		
sigma_e	1.1680903		
rho	.30068753	(fraction of variance due to u_i)	

Table II OLS Results on the Impact of China's New Securities Law on Audit Quality(with control variables)

Fixed-effects (within) regression				Number of obs	=	19,256	
Group variable: stkcd				Number of groups	=	3,712	
R-squared:				Obs per group:			
Within = 0.0343				min	=	1	
Between = 0.0330				avg	=	5.2	
Overall = 0.0365				max	=	7	
				F(8, 3711)	=	57.32	
corr(u_i, Xb) = -0.1591				Prob > F	=	0.0000	
(Std. err. adjusted for 3,712 clusters in stkcd)							

		Robust					
AbsDA		Coefficient	std. err.	t	P> t	[95% conf. interval]	

Post		-.1376412	.0218845	-6.29	0.000	-.180548	-.0947344
Size		-.1557014	.0379214	-4.11	0.000	-.2300503	-.0813525
Property		-.1690406	.074211	-2.28	0.023	-.314539	-.0235423
Leverage		.5929733	.1413386	4.20	0.000	.3158643	.8700824
ROA		.1298109	.3696274	0.35	0.725	-.5948819	.8545037
Growth		.423333	.0397297	10.66	0.000	.3454388	.5012272
Loss		.5312379	.0483542	10.99	0.000	.4364345	.6260412
Managefee		1.938383	.362951	5.34	0.000	1.22678	2.649986
_cons		-.2316652	.8360587	-0.28	0.782	-1.870845	1.407514

sigma_u		.76563568					
sigma_e		1.1512172					
rho		.30666925	(fraction of variance due to u_i)				

Table III DiD Result of New Securities Law and Audit Quality (without control variables)

Fixed-effects (within) regression	Number of obs	=	19,256
Group variable: stkcd	Number of groups	=	3,712
R-squared:	Obs per group:		
Within = 0.0011	min	=	1
Between = 0.0008	avg	=	5.2
Overall = 0.0000	max	=	7
	F(1, 3711)	=	14.88
corr(u_i, Xb) = -0.0563	Prob > F	=	0.0001
(Std. err. adjusted for 3,712 clusters in stkcd)			

	Robust		
AbsDA	Coefficient	std. err.	t P> t [95% conf. interval]

DID	-.107234	.0277993	-3.86 0.000 -.1617374 -.0527305
_cons	-3.291109	.0055041	-597.94 0.000 -3.3019 -3.280317

sigma_u	.76816009		
sigma_e	1.1706062		
rho	.30099637	(fraction of variance due to u_i)	

Table IV DiD Result of New Securities Law and Audit Quality(with control variables)

Fixed-effects (within) regression			Number of obs		=	19,256		
Group variable: stkcd			Number of groups		=	3,712		
R-squared:			Obs per group:					
Within			=	0.0322	min		=	1
Between			=	0.0250	avg		=	5.2
Overall			=	0.0290	max		=	7
			F(8, 3711)		=	53.94		
corr(u_i, Xb)			=	-0.3011	Prob > F		=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)								

		Robust						
AbsDA		Coefficient	std. err.	t	P> t	[95% conf. interval]		

DID		-.0749627	.0289474	-2.59	0.010	-.1317172	-.0182082	
Size		-.2368755	.0350959	-6.75	0.000	-.3056846	-.1680663	
Property		-.2036055	.074622	-2.73	0.006	-.3499096	-.0573015	
Leverage		.5970685	.1418112	4.21	0.000	.3190329	.875104	
ROA		.1766929	.3713145	0.48	0.634	-.5513075	.9046934	
Growth		.4438793	.0398456	11.14	0.000	.3657579	.5220006	
Loss		.5053263	.0482002	10.48	0.000	.4108248	.5998278	
Managefee		2.112691	.3655459	5.78	0.000	1.396	2.829381	
_cons		1.520744	.7755085	1.96	0.050	.000279	3.041208	

sigma_u		.79303969						
sigma_e		1.1525048						
rho		.32133588	(fraction of variance due to u_i)					

Table V Robustness Test Results of New Securities Law and Audit Quality(without control variables)

Fixed-effects (within) regression	Number of obs	=	19,248
Group variable: stkcd	Number of groups	=	3,712
R-squared:	Obs per group:		
Within = 0.0022	min	=	1
Between = 0.0013	avg	=	5.2
Overall = 0.0001	max	=	7
	F(1, 3711)	=	32.07
corr(u_i, Xb) = -0.0835	Prob > F	=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)			

	Robust		
AuditQuality	Coefficient	std. err.	t P> t [95% conf. interval]

DID	-.1510059	.0266641	-5.66 0.000 -.2032836 -.0987282
_cons	-3.274173	.0067394	-485.82 0.000 -3.287387 -3.26096

sigma_u	.76998737		
sigma_e	1.1699218		
rho	.30224373	(fraction of variance due to u_i)	

Table VI Robustness Test Results of New Securities Law and Audit Quality(with control variables)

Fixed-effects (within) regression				Number of obs	=	19,248
Group variable: stkcd				Number of groups	=	3,712
R-squared:				Obs per group:		
Within = 0.0326				min = 1		
Between = 0.0247				avg = 5.2		
Overall = 0.0294				max = 7		
				F(8, 3711)	=	55.46
corr(u_i, Xb) = -0.2915				Prob > F	=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)						

		Robust				
AuditQuality		Coefficient	std. err.	t	P> t	[95% conf. interval]

DID		-.1022157	.0277839	-3.68	0.000	-.156689 -.0477424
Size		-.2340402	.0348759	-6.71	0.000	-.3024179 -.1656625
Property		-.1997315	.0745936	-2.68	0.007	-.3459799 -.0534831
Leverage		.6016574	.1412111	4.26	0.000	.3247985 .8785164
ROA		.161625	.3711576	0.44	0.663	-.5660679 .8893179
Growth		.436558	.0398621	10.95	0.000	.3584043 .5147117
Loss		.5058952	.0481733	10.50	0.000	.4114465 .6003438
Managefee		2.02498	.3672518	5.51	0.000	1.304945 2.745015
_cons		1.473814	.7701298	1.91	0.056	-.0361052 2.983733

sigma_u		.79144064				
sigma_e		1.1522322				
rho		.32055924	(fraction of variance due to u_i)			

Table VII Result of Moderating Effect of Internal Control between New Securities Law and Audit Quality

Fixed-effects (within) regression	Number of obs	=	19,256
Group variable: stkcd	Number of groups	=	3,712
R-squared:	Obs per group:		
Within = 0.0397	min	=	1
Between = 0.0273	avg	=	5.2
Overall = 0.0348	max	=	7
	F(10, 3711)	=	55.07
corr(u_i, Xb) = -0.2689	Prob > F	=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)			

	Robust		
AbsDA	Coefficient	std. err.	t P> t [95% conf. interval]
-----+			
DID	-.4112825	.2167106	-1.90 0.058 -.8361661 .013601
Incontrol	.0015209	.0001811	8.40 0.000 .0011659 .0018759
Incontrol*DID	.0005465	.0003368	1.62 0.100 -.0001137 .0012068
Size	-.2397592	.035321	-6.79 0.000 -.3090096 -.1705088
Property	-.1965367	.0739744	-2.66 0.008 -.3415711 -.0515022
Leverage	.615621	.1413221	4.36 0.000 .3385444 .8926976
ROA	-.3557721	.3705392	-0.96 0.337 -1.082253 .3707083
Growth	.3748972	.0404012	9.28 0.000 .2956864 .4541079
Loss	.5225408	.0478642	10.92 0.000 .4286981 .6163834
Managefee	2.141911	.3626613	5.91 0.000 1.430876 2.852946
_cons	.6175493	.7978735	0.77 0.439 -.9467641 2.181863
-----+			
sigma_u	.78726508		
sigma_e	1.1480567		
rho	.31983681	(fraction of variance due to u_i)	

Table VIII Result of Moderating Effect of Media Coverage between New Securities Law and Audit Quality

Fixed-effects (within) regression		Number of obs	=	19,256	
Group variable: stkcd		Number of groups	=	3,712	
R-squared:		Obs per group:			
Within = 0.0346		min =		1	
Between = 0.0292		avg =		5.2	
Overall = 0.0329		max =		7	
		F(10, 3711)	=	46.94	
corr(u_i, Xb) = -0.2753		Prob > F	=	0.0000	
(Std. err. adjusted for 3,712 clusters in stkcd)					

		Robust			
AbsDA	Coefficient	std. err.	t	P> t	[95% conf. interval]

DID	.1941387	.0947854	2.05	0.041	.0083482 .3799292
Media	.9586602	.2813885	3.41	0.001	.4071057 1.510215
Media*DID	-2.04589	.7670923	-2.67	0.008	-3.549481 -.5422992
Size	-.1929453	.0231166	-8.35	0.000	-.2382566 -.1476341
Property	.0264315	.0506947	0.52	0.602	-.0729362 .1257991
Leverage	.5375202	.1518777	3.54	0.000	.2398221 .8352183
ROA	3.386943	.5554755	6.10	0.000	2.298146 4.47574
Growth	.1763282	.0796529	2.21	0.027	.0201992 .3324572
Loss	.5485585	.0962449	5.70	0.000	.3599072 .7372098
Managefee	-.2283802	.4529829	-0.50	0.614	-1.11628 .6595195
_cons	.8996962	.4920716	1.83	0.068	-.0648218 1.864214

sigma_u	.78590355				
sigma_e	1.151129				
rho	.317924 (fraction of variance due to u_i)				

Table IX OLS Results on the Impact of China's New Securities Law on Audit Fees(without control variables)

Fixed-effects (within) regression	Number of obs	=	19,256			
Group variable: stkcd	Number of groups	=	3,712			
R-squared:	Obs per group:					
Within = 0.1920	min	=	1			
Between = 0.0287	avg	=	5.2			
Overall = 0.0067	max	=	7			
	F(1, 3711)	=	1620.18			
corr(u_i, Xb) = -0.0635	Prob > F	=	0.0000			
(Std. err. adjusted for 3,712 clusters in stkcd)						

		Robust				
Lnfee		Coefficient	std. err.	t	P> t	[95% conf. interval]
-----+						
Post		.1805474	.0044855	40.25	0.000	.1717531 .1893416
_cons		13.86957	.0022826	6076.29	0.000	13.8651 13.87405
-----+						
sigma_u		.59534585				
sigma_e		.19353022				
rho		.90442756	(fraction of variance due to u_i)			

Table X OLS Results on the Impact of China's New Securities Law on Audit Fees(with control variables)

Fixed-effects (within) regression				Number of obs		=	19,256
Group variable: stkcd				Number of groups		=	3,712
R-squared:				Obs per group:			
Within = 0.3842				min		=	1
Between = 0.5813				avg		=	5.2
Overall = 0.5752				max		=	7
				F(8, 3711)		=	306.29
corr(u_i, Xb) = 0.1685				Prob > F		=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)							

		Robust					
Lnfee		Coefficient	std. err.	t	P> t	[95% conf. interval]	

Post		.0658167	.0049633	13.26	0.000	.0560856	.0755479
Size		.306763	.0134776	22.76	0.000	.2803387	.3331873
Property		.05455	.021029	2.59	0.010	.0133205	.0957794
Leverage		.0652517	.0364992	1.79	0.074	-.0063087	.1368121
ROA		-.2910148	.0645423	-4.51	0.000	-.4175568	-.1644729
Growth		-.0256734	.0069911	-3.67	0.000	-.0393801	-.0119667
Loss		.0413349	.0076944	5.37	0.000	.0262492	.0564206
Managefee		-.416786	.0773446	-5.39	0.000	-.5684282	-.2651439
_cons		7.070873	.2959679	23.89	0.000	6.490597	7.651149

sigma_u		.3843482					
sigma_e		.16898898					
rho		.83800123	(fraction of variance due to u_i)				

Table XI DiD Result of New Securities Law and Audit Fees(without control variables)

Fixed-effects (within) regression			Number of obs	=	19,256
Group variable: stkcd			Number of groups	=	3,712
R-squared:			Obs per group:		
Within = 0.0641			min	=	1
Between = 0.0383			avg	=	5.2
Overall = 0.0022			max	=	7
			F(1, 3711)	=	707.29
corr(u_i, Xb) = -0.1487			Prob > F	=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)					
	Robust				
Lnfee	Coefficient	std. err.	t	P> t	[95% conf. interval]
DID	.1529709	.0057519	26.59	0.000	.1416938 .1642481
_cons	13.93116	.001139	1.2e+04	0.000	13.92893 13.93339
sigma_u	.59658467				
sigma_e	.20828924				
rho	.89134821	(fraction of variance due to u_i)			

Table XII DiD Result of New Securities Law and Audit Fees(with control variables)

Fixed-effects (within) regression			Number of obs		=	19,256	
Group variable: stkcd			Number of groups		=	3,712	
R-squared:			Obs per group:				
Within = 0.3724			min		=	1	
Between = 0.5720			avg		=	5.2	
Overall = 0.5687			max		=	7	
			F(8, 3711)		=	268.38	
corr(u_i, Xb) = 0.0444			Prob > F		=	0.0000	
(Std. err. adjusted for 3,712 clusters in stkcd)							
		Robust					
Lnfee		Coefficient	std. err.	t	P> t	[95% conf. interval]	
DID		.0493719	.0058168	8.49	0.000	.0379674	.0607763
Size		.3423635	.0119641	28.62	0.000	.3189068	.3658203
Property		.0682663	.0211056	3.23	0.001	.0268865	.109646
Leverage		.0599647	.0375008	1.60	0.110	-.0135594	.1334889
ROA		-.3103956	.0659099	-4.71	0.000	-.4396189	-.1811724
Growth		-.0342181	.0072141	-4.74	0.000	-.0483621	-.0200741
Loss		.0521792	.0078202	6.67	0.000	.036847	.0675115
Managefee		-.4935906	.079288	-6.23	0.000	-.649043	-.3381383
_cons		6.303636	.2624326	24.02	0.000	5.78911	6.818163
sigma_u		.38356561					
sigma_e		.17059835					
rho		.83484994	(fraction of variance due to u_i)				

Table XIII Result of Moderating Effect of Internal Control between New Securities Law and Audit Fees

Fixed-effects (within) regression		Number of obs		=	19,256	
Group variable: stkcd		Number of groups		=	3,712	
R-squared:		Obs per group:				
Within = 0.3740		min		=	1	
Between = 0.5728		avg		=	5.2	
Overall = 0.5695		max		=	7	
		F(10, 3711)		=	218.61	
corr(u_i, Xb) = 0.0426		Prob > F		=	0.0000	
(Std. err. adjusted for 3,712 clusters in stkcd)						

		Robust				
Lnfee		Coefficient	std. err.	t	P> t	[95% conf. interval]

DID		.1725001	.0370784	4.65	0.000	.0998041 .2451961
Incontrol		-.0000528	.0000307	-1.72	0.086	-.000113 7.41e-06
Incontrol*DID		-.0001959	.0000569	-3.44	0.001	-.0003075 -.0000844
Size		.3442884	.0120141	28.66	0.000	.3207334 .3678433
Property		.0671613	.0210529	3.19	0.001	.025885 .1084377
Leverage		.0563439	.037311	1.51	0.131	-.0168081 .1294959
ROA		-.2847375	.0663168	-4.29	0.000	-.4147584 -.1547165
Growth		-.030438	.007366	-4.13	0.000	-.0448799 -.0159961
Loss		.0502997	.0077755	6.47	0.000	.035055 .0655443
Managefee		-.5003463	.0788653	-6.34	0.000	-.6549699 -.3457226
_cons		6.295807	.2668762	23.59	0.000	5.772569 6.819046

sigma_u		.38319398				
sigma_e		.17039168				
rho		.83491689	(fraction of variance due to u_i)			

Table XIV Result of Moderating Effect of Media Coverage between New Securities Law and Audit Fees

Fixed-effects (within) regression			Number of obs	=	19,256
Group variable: stkcd			Number of groups	=	3,712
R-squared:			Obs per group:		
Within = 0.3736			min = 1		
Between = 0.5682			avg = 5.2		
Overall = 0.5660			max = 7		
			F(10, 3711)	=	215.10
corr(u_i, Xb) = 0.0479			Prob > F	=	0.0000
(Std. err. adjusted for 3,712 clusters in stkcd)					

		Robust			
Lnfee	Coefficient	std. err.	t	P> t	[95% conf. interval]

DID	.0021187	.0198087	0.11	0.915	-.0367081 .0409455
Media	.2555844	.0702507	3.64	0.000	.1178869 .3932819
Media*DID	-.223175	.1715923	-1.30	0.193	-.559511 .1131609
Size	.3522384	.0057012	61.78	0.000	.3410635 .3634133
Property	-.1061246	.0125763	-8.44	0.000	-.1307753 -.0814738
Leverage	.1973555	.0371412	5.31	0.000	.1245555 .2701556
ROA	-.3365427	.1369868	-2.46	0.014	-.6050488 -.0680366
Growth	-.05332	.0192741	-2.77	0.006	-.0910989 -.0155411
Loss	.0831998	.0222221	3.74	0.000	.0396426 .1267571
Managefee	.0690231	.1075592	0.64	0.521	-.1418024 .2798485
_cons	5.983831	.1208219	49.53	0.000	5.74701 6.220653

sigma_u	.38528199				
sigma_e	.17045676				
rho	.83630491	(fraction of variance due to u_i)			
