Administrative Audit Regulation and the Quality of Accounting Information: Evidence from China Securities Regulatory Commission's Random Inspection System

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Abstract:

Based on the "double random" inspection system implemented by the China Securities Regulatory Commission (CSRC) on accounting firms, our study uses staggered DID method to examine the effect of administrative audit regulation on the quality of corporate accounting information. The results suggest: (1) The administrative audit regulation can effectively improve corporate accounting information quality; (2) The mechanism test reveals that the administrative audit regulation improves the quality of accounting information by improving internal control; (3) Further study reveals that the governance effect of the administrative audit regulation is more pronounced for firms with non-Big four auditing, high risk of misstatement and more agency costs. Our study investigates the governance effect of the CSRC's random inspection system on the quality of corporate accounting information, providing theoretical and empirical evidence for the effectiveness of administrative audit supervision from the perspective of corporate accounting information system.

Keywords: Administrative audit regulation; random inspection; quality of accounting information; internal control

1. Introduction

Accounting information is a comprehensive representation of a firm's financial position, operating results and development trends. In market economic activities, accounting information has become a main means of communication between firm managers and stakeholders, while accounting information, like other market economic information, manifests information asymmetry, and firm managers are likely to use information asymmetry to provide untruthful accounting information to stakeholders, thus causing accounting information distortion. Meanwhile, it is crucial to enhance the supervision of economic activities of audited firms. Existing studies have mostly examined the relationship between auditing and accounting information quality from the perspectives of characteristics of individual auditors in accounting firms [1], institutional environment and audit quality [2], audit fees [3], audit supervision [4], and regulatory enforcement [5].

In the China's administrative-type auditing system, local auditing institutions are subject to local governments, and administrative audit regulation has a decisive impact on the quality of corporate auditing work. There is an urgent need for China's administrative audit regulation to converge with international regulatory practices in order to improve the financial transparency and governance effectiveness of listed companies. The audit regulatory reform of the U.S. Public Company Accounting Oversight Board (PCAOB), an independent audit regulator in the United States, provides a reference for China's administrative audit regulation. The China Securities Regulatory Commission (CSRC), as the securities regulatory agency of the State

Council, executes centralized and unified supervision and management of China's securities market in accordance with the law. In recent years, China's CSRC has adjusted its regulatory focus on accounting firms in response to audit deficiencies by placing more emphasis on ex-ante regulatory objectives and combining them with ex-post administrative and non-ex-ante administrative penalties. Can this reform measure exert the expected regulatory pressure and thus improve the quality of accounting information? This paper addresses this issue and finds that the random inspection of accounting firms by the CSRC can improve the quality of accounting information of firms, because the random inspection system of the CSRC can have a deterrent effect on the external supervision of accounting firms, reducing the misbehavior of accounting firms to achieve economic benefits and breaking the red line of the law, which will improve the quality of accounting information of the firm level.

This paper uses the three random inspections organized by the CSRC in 2016, 2017 and 2018 (data from the official website of the CSRC) as the sample of the treatment group and uses a staggered DID method to assess the impacts of administrative audit regulation on accounting information quality of lists firms. In the model, we use random inspections by the CSRC to measure administrative audit regulation, and the absolute value of manipulative accruals calculated by the modified Jones model to measure accounting information quality. According to regression analysis, we find that without adding control variables, administrative audit regulation is significantly and negatively related to manipulative accruals, indicating that administrative audit regulation leads to an improvement of the quality of firms' accounting information, and this result remains robust after adding control variables. Besides, this paper also attempts to test the dynamic effect of administrative audit regulation on accounting information quality before and after the occurrence of random inspection by CSRC. The results show that the regression coefficients are insignificant in the first three years when the accounting firms are inspected, while the coefficients are all significant at the 10% level after being inspected. This indicates that the CSRC's random inspection system can play a monitoring role in effectively improving the quality of firms' accounting information.

To further confirm the role of administrative audit regulation in influencing the quality of accounting information, this paper performs a series of robustness tests. Firstly, we use entropy matching method (EBM test), which is done by assigning weights to observations through entropy matching (EBM) to eliminate the differences in each covariate between the treatment group that is affected by administrative audit regulation and the control group that is not subjected to administrative audit regulation [28], and we find that administrative audit regulation still significantly improves the quality of firms' accounting information, which indicates that the main test conclusion is robust. Second, in order to rule out the alternative explanation that the improvement in the quality of firms' accounting information may be the result of the confounding factors, such as other policies or random changes during the same period, we also conduct a placebo test, which shows that the improvement of corporate accounting information quality comes from the deterrent effect of

administrative audit regulation. That is, random inspection by the CSRC improves the level of accounting information quality of listed companies, which excludes the effects caused by other policies or random factors in the same period. In addition, considering that there are other measures of accounting information quality, this paper measures manipulable accruals with the residual value calculated by Jones model or replacing the explained variable with financial restatement occurred in the current year of the company. The results are still unchanged when replacing the explained variables with other measures. Therefore, our results regarding the impact of administrative audit regulation on accounting information quality are robust and reliable.

In addition, we argue that accounting firms are able to reduce audit risk and improve the internal control quality of audited firms by performing more auditing procedures, which enhances the quality of audited firms' accounting information. We perform a mechanism test using a mediation effect model and find that administrative audit regulation can enhance the quality of accounting information by improving firms' quality of internal control.

We also find that administrative audit supervision is more effective in improving the quality of accounting information for non-Big 4 accounting firms than for the Big 4 accounting firms. This is mainly because the Big 4 firms have more professional auditing capabilities and more sophisticated auditing procedures, and pay more attention to their own brand and reputation, and are less in need of external supervision to urge them to make adjustments or changes in their auditing. However, in the case of non-Big 4 firms, the clients have a greater likelihood to manipulate earnings upward, they are more willing to make changes under the guidance of external supervision, thus contributing to the improvement of the quality of corporate information. We also find that administrative audit regulation has a more pronounced effect on the improvement of accounting information quality for firms facing high risk of misstatement and firms with more agency costs. Finally, we analyze other economic consequences of administrative audit regulation on the audited firms' external financing, and the results show that the supervisory role of administrative audit regulation can reduce the cost of debt financing and alleviate the financing constraints faced by audited firms.

Our study makes contributions in the several following ways. First, from the perspective of administrative audit supervision, our study provides a new insight on the determinants of corporate accounting information quality. While the existing literature on accounting information quality mainly focuses on the effects of auditing effort [6] and corporate internal control [7-10], this paper highlights the supervisory role of the random inspection system of the CSRC on improving the quality of firms' accounting information.

Second, this paper expands the literature on the consequences of administrative audit supervision. The current literature mainly focuses on the impact of administrative audit regulation on audit quality [11-12], but this paper expands this stream of research to the impact of administrative audit regulation on corporate accounting information quality.

Third, the conclusions of this paper explain the positive effect of the CSRC's random inspection system on enhancing the quality of listed companies' accounting information, which provides the empirical evidence on the effectiveness of the reform of administrative audit regulation, and also has important practical implications for improving corporate accounting system.

The rest of the paper is organized as follows. Section 2 is the theoretical analysis and hypothesis development; section 3 describes the research design, and section 4 presents the empirical results; the final section 5 includes the conclusions and implications.

2. Hypothesis development

Against the background of the 19th CPC National Congress, which proposes to "deepen the simplification and decentralization of government, and innovate the way of supervision", in order to deepen the reform of the transformation of securities regulation, and standardize the market administrative and law enforcement behaviors, the General Office of the State Council PRC issued the "Circular on the Promotion of Random Inspection and Standardization of Supervision in the Aftermath of the Event" in July 2015. The circular requests all departments to promote random inspection in the field of securities and futures supervision, implement the "the random selection of inspectors and inspection targets and the prompt release of results" random inspection system, and establish a mechanism for regulating the supervision during and after the event, and subsequently issues the List of Random Inspection Matters, which covers 17 items, requiring that it be based on the daily supervision and oriented to the problems and risks, and making specific provisions. As an important part of administrative audit supervision, the CSRC's random inspection system will improve the quality of audits conducted by accounting firms and, in turn, improve the quality of accounting information of firms.

Adequate audit regulation is an important factor in improving audit quality [13]. Many literatures study the link between auditing and accounting information quality from different perspectives, and some scholars have found that improving audit committee transparency [14], audit committee information rights [15], disclosure of key audit matters, and the strength of internal control regulation [16] can effectively improve accounting information quality. High-quality audit services not only effectively prevent misstatements and omissions of material accounting information, but also can generally inhibit the behavioral tendency of surplus manipulation in IPO companies [17], improve corporate investment efficiency [18], and accelerate the speed of dynamic adjustment of capital structure [19]. The implementation of the "the random selection of inspectors and inspection targets and the prompt release of results" random inspection system of the CSRC will regulate accounting firms, requiring firms to carry out targeted rectification of the auditing business according to the "Random Inspection Matters List", while also pointing out that firms in the case of serious failure of auditing will face the suspension or cancellation of the firm's license to practice. The CSRC's random inspection system regulates the auditing

market and reduces the number of accounting firms touching the legal red line in order to realize economic benefits. In turn, this improves the quality of accounting information disclosed by listed companies.

On the one hand, the CSRC's random inspection system can have a deterrent effect on the external supervision of accounting firms. In the past, the conventional CSRC supervision of CPAs to implement the penalty is limited to suspension or termination of practice, the penalty is not strong enough to deter accounting firms, resulting in the failure of audit supervision [20-21]. However, the State Council explicitly proposed that the violations found by random inspection should be punished more vigorously in accordance with the law, so as to enhance the conscientiousness of market players to abide by the law. In other words, under the CSRC random inspection system, the administrative and market penalties increased, then with the increasing improvement of China's capital market, the CSRC random inspection system can play a positive role through effective monitoring and punishment, deterring accounting firms to take the initiative to comply with the requirements of the administrative audit supervision and improve the quality of the audit. In addition, the fair and transparent CSRC random inspection system follows the principle of openness and will publicize the inspection results. If the audit quality of accounting firms is poor, it will damage their own reputation, affecting the clientele and economic interests, resulting in a reduction in revenue [22-23]. In order to avoid this phenomenon, accounting firms will pay more attention to the audit quality during the year's audit. Because the auditor has the legal responsibility to supervise the accounting information of listed companies, it will be easier for accounting firms to find out the problems of corporate financial information disclosure in the process of high-quality auditing. Therefore, this improves the quality of accounting information of listed companies.

On the other hand, the CSRC's random inspection system can have regulatory spillover effects that improve the quality of firms' accounting information. The CSRC's inspection of the accounting treatment and disclosure of complex transactions of listed companies is consistent with the work of auditors [24], and when accounting firms are randomly inspected, the external attention it brings raises the risk of auditors. Auditors are important external supervisors that affect the quality of accounting information. If the audit quality of an accounting firm is poor, the possibility of regulatory intervention increases, which is independent of the audit results [25]. At this point the cost of non-compliance and reputational damage faced by the listed company will increase with the increase in the level of regulatory involvement [26]. Listed firms, as rational human beings, will improve their self-discipline under regulatory pressure and generate incentives to improve disclosure in order to reduce the associated compliance risk [27]. Therefore, when accounting firms are randomly inspected by the CSRC, firms that are their audit clients will also be affected by regulatory spillover effects and take the initiative to improve the quality of their accounting information.

Based on the above analysis, this paper proposes the following hypothesis:

Hypothesis: The CSRC's random inspection exercise of accounting firms can improve the quality of firms' accounting information.

3. Research design

3.1 Sample selection and data sources

This paper obtains the relevant data of listed companies and accounting firms from CSMAR database. On the basis of the original dataset, financial and insurance listed companies, companies with total assets less than 0, companies whose gearing ratio is greater than 1, and companies with missing data are excluded. In order to test hypothesis 1, this paper selects the three random inspections organized by the CSRC in 2016, 2017 and 2018 (data from the official website of the CSRC) as the sample of the treatment group and constructs the Time-varying DID model. In order to ensure the sample balance before and after the inspection, three years before the first inspection and two years after the third inspection, i.e., from 2013 to 2020, are selected as the research sample period. In order to avoid the influence of outliers, all continuous variables are winsorized at the 1% quantile and 99% quantile in this paper.

3.2 Definition of variables

3.2.1 Explained variable

Accounting information quality, consistent with |DA|. Drawing on Han-Wen Chen et al. (2022) [14], is measured by the absolute value of manipulative accruals calculated by the modified Jones model. Larger values of |DA| indicate larger manipulative accruals and lower accounting information quality.

3.2.2 Explanatory Variables

Since its official implementation in 2016, the random inspection system of the CSRC has adopted the innovative regulatory model of "the random selection of inspectors and inspection targets and the prompt release of results inspection system" to supervise financial fraud, violation of information disclosure and other behaviors, which has strengthened its authority and credibility conferred by the law. In this paper, the CSRC random inspection system is used to measure the administrative audit supervision, which is set as a dummy variable CHECK, taking the value of 1 in the current year and the following years when the accounting firms hired by the sample firms are inspected by the CSRC, and 0 otherwise.

3.2.3 Control variables.

Since some of the corporate governance level factors may have an impact on the quality of accounting information, this paper controls for corporate financial characteristics such as firm size, debt leverage, main business growth rate, profitability and other variables such as the nature of property rights, the proportion of shares held by the largest shareholder and the proportion of independent directors. The specific variable definitions are detailed in Table 1.

Table 1 Variable Definitions

Variable type	Variable name	Variable	Measurement method

		symbol	
Explained variable	Quality of accounting information	|DA|	Absolute value of manipulative accruals calculated by the modified Jones model
Explanatory Variable	Administrative Audit supervision	CHECK	Takes the value of 1 in the current year and the following years when the accounting firms hired by the sample firms are inspected by the CSRC, and 0 otherwise
Mediating Variables	Internal Control	ICQ	Dib Internal Control Index
Control variables	Firm size	SIZE	Asset size, is calculated as ln(total assets)
	Debt leverage	LEV	Gearing ratio, total debt to total assets ratio
	Growth rate of main business	GROWTH	Growth rate of the main business of the company for the year, i.e. current operating income minus previous period's income divided by the previous period's income.
	Profitability	ROA	Return on total assets of the company for the year, expressed as net profit margin of the company's operations
	Previous year's loss	LOSS	Considering the previous year's loss, if the previous year's net profit is negative, then take the value of 1, otherwise 0
	Age of the company	AGE	The company's listed years, equal to ln (the year - listed year +1)
	Nature of property rights	SOE	When the actual controller of the listed company is state-owned, take the value of 1, otherwise 0
	Largest Shareholder Shareholding ratio	TOP1	Shareholding ratio of the largest shareholder of the company
	Independent directors proportion	INDPR	Proportion of independent directors on the board of directors of the firm
	Dual role	DUAL	When the chairman of the board of directors and the chief executive officer of the company are combined into one role, the value is 1, otherwise it is 0.
	Big Four accounting firm	BIGN	When the company is audited by a Big Four accounting firm, the value is 1, otherwise it is 0.

3.3 Empirical model

In order to test the hypotheses, this paper draws on the scheme of Guangqiang Liu and Di Wang (2021) [27] and adopts a Time-varying DID model to examine the role of the CSRC's random on the quality of accounting information of listed firms, with the specific model set as follows:

$$|DA|_{i,t+1}=\beta_0+\beta_1 CHECK_{i,t}+\gamma \times Controls+\mu_i+\tau_t+\varepsilon_{i,t} \qquad (1)$$

This paper focuses on the magnitude and sign direction of the coefficient β1 of the treatment variable CHECK, whose coefficient is used to measure the impact of CSRC inspections on the quality of accounting information. When β1 is expected to be significantly negative, it indicates that the smaller the firm's client manipulation accruals are after being inspected, and the quality of accounting information is improved. Meanwhile, in order to mitigate endogeneity problems caused by omitted variables, etc., firm fixed effects (μ) and year fixed effects (τ) are controlled for in the regression model, and regressions are clustered at the firm level.

4. Empirical results
4.1 Descriptive statistics

Table 2 reports the results of descriptive statistics for the main variables. From Table 2, it can be seen that the mean and median values of accounting information quality (DA) are 0.061 and 0.041, respectively, and the standard deviation is 0.085 in Panel A. This indicates that there are some differences in the quality of accounting information among the sample companies, which, combined with the maximum value of 3.376, indicates that only some companies have serious accounting information distortion. Panels B and C present the treatment and control groups differences in variables such as mean, median and standard deviation. Overall, there is no particular difference between the treatment group and the control group on the control variables, indicating the randomness of the CSRC random sample.

Table 2 Descriptive statistics

Panel A: Full sample descriptive statistics

Variables	N	Mean	S.D.	P25	P50	P75	Max
|DA|	22085	0.061	0.085	0.018	0.041	0.075	3.376
CHECK	22098	0.087	0.283	0.000	0.000	0.000	1.000
Size	22098	22.240	1.296	21.320	22.070	22.980	26.070
Lev	22098	0.428	0.205	0.264	0.417	0.580	0.903
Growth	22098	0.174	0.484	-0.033	0.095	0.253	3.520
ROA	22098	0.035	0.063	0.013	0.035	0.064	0.199
LOSS	22098	0.105	0.307	0.000	0.000	0.000	1.000
SOE	22098	0.347	0.476	0.000	0.000	1.000	1.000
Age	22098	2.198	0.786	1.609	2.303	2.890	3.434
Top1	22098	0.339	0.146	0.225	0.318	0.436	0.743
INS	22098	0.388	0.233	0.195	0.395	0.570	0.876
Board	22098	2.382	0.306	2.197	2.398	2.565	3.178
Indpr	22098	0.373	0.092	0.308	0.364	0.429	0.625

Dual	22098	0.282	0.450	0.000	0.000	1.000	1.000
BigN	22098	0.594	0.491	0.000	1.000	1.000	1.000

Panel B: Descriptive statistics for the treatment group sample

Variables	N	Mean	S.D.	P25	P50	P75	Max
|DA|	3238	0.062	0.107	0.018	0.039	0.072	3.376
CHECK	3238	0.597	0.491	0.000	1.000	1.000	1.000
Size	3238	22.390	1.402	21.380	22.210	23.220	26.070
Lev	3238	0.447	0.206	0.283	0.440	0.598	0.903
Growth	3238	0.170	0.501	-0.047	0.086	0.239	3.520
ROA	3238	0.030	0.062	0.010	0.032	0.058	0.199
LOSS	3238	0.122	0.327	0.000	0.000	0.000	1.000
SOE	3238	0.402	0.490	0.000	0.000	1.000	1.000
Age	3238	2.285	0.766	1.792	2.398	2.944	3.367
Top1	3238	0.349	0.148	0.231	0.333	0.448	0.743
INS	3238	0.401	0.235	0.213	0.409	0.579	0.876
Board	3238	2.409	0.313	2.197	2.398	2.639	3.178
Indpr	3238	0.368	0.091	0.300	0.364	0.429	0.625
Dual	3238	0.256	0.437	0.000	0.000	1.000	1.000
BigN	3238	0.525	0.499	0.000	1.000	1.000	1.000

Panel C: Descriptive statistics for control group samples

Variables	N	Mean	S.D.	P25	P50	P75	Max
|DA|	18847	0.061	0.080	0.018	0.041	0.076	2.044
CHECK	18860	0.000	0.000	0.000	0.000	0.000	0.000
Size	18860	22.220	1.276	21.320	22.060	22.930	26.070
Lev	18860	0.424	0.204	0.261	0.413	0.576	0.903
Growth	18860	0.174	0.481	-0.030	0.097	0.256	3.520
ROA	18860	0.036	0.063	0.013	0.035	0.065	0.199
LOSS	18860	0.102	0.303	0.000	0.000	0.000	1.000
SOE	18860	0.338	0.473	0.000	0.000	1.000	1.000
Age	18860	2.183	0.788	1.609	2.303	2.890	3.434
Top1	18860	0.338	0.146	0.224	0.315	0.434	0.743
INS	18860	0.386	0.232	0.192	0.394	0.568	0.876
Board	18860	2.370	0.305	2.197	2.398	2.565	3.178
Indpr	18860	0.373	0.092	0.308	0.364	0.429	0.625
Dual	18860	0.287	0.452	0.000	0.000	1.000	1.000
BigN	18860	0.606	0.489	0.000	1.000	1.000	1.000

4.2 Baseline results

Table 3 reports the regression results between administrative audit regulation and the quality of firms' accounting information. Among them, column (1) demonstrates the regression results without adding control variables, the CHECK coefficient of

administrative audit regulation is -0.009, which is significant at the 1% level, indicating that administrative audit regulation is significantly negatively associated with manipulative accruals of surplus, which suggests that administrative audit regulation leads to an improvement in the quality of firms' accounting information. Column (2) reports the multivariate regression results of administrative audit regulation on the quality of accounting information after adding control variables, at which time the CHECK coefficient is -0.009, which is also significantly negative at the 1% level. This further indicates that administrative audit regulation can improve the quality of firms' accounting information and the hypothesis is tested.

Table 3 Administrative regulation and the quality of corporate accounting information

| | (1) | (2) |
	DA	DA
CHECK	-0.009***	-0.009***
	(-2.64)	(-2.61)
Size		-0.019***
		(-10.76)
Lev		-0.002
		(-0.36)
Growth		-0.001
		(-0.75)
ROA		0.018
		(1.05)
LOSS		0.011***
		(3.79)
SOE		0.005
		(0.91)
Age		0.008**
		(2.36)
Top1		-0.034***
		(-2.89)
INS		-0.003
		(-0.72)
Board		-0.000
		(-0.03)
Indpr		-0.002
		(-0.18)
Dual		-0.004*
		(-1.76)
BigN		0.000
		(0.21)
Constant	0.055***	0.457***
	(31.76)	(12.36)
Firm FE	Yes	Yes

Year FE	Yes	Yes
N	22085	22085
Adj.R2	0.012	0.022

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

Apart from testing the impact of administrative audit regulation on the quality of accounting information, this paper also tries to test the dynamic impact of administrative audit regulation on the quality of accounting information before and after the occurrence of CSRC random inspection. Since the CSRC random inspection system started in 2015, this paper tries to test the dynamic analysis of three years before and after 2015, CHECK-3 indicates the first three years prior to the occurrence of administrative audit regulation, and takes the value of 1, otherwise it is 0; CHECK0 indicates the year when administrative audit regulation occurs, and takes the value of 1, otherwise it is 0; CHECK+3 indicates the following three years after administrative audit regulation occurs, and takes the value of 1 , otherwise 0, and so on. As can be seen in Table 4, the regression coefficients are insignificant in the first three years that the accounting firms are inspected, while the coefficients are all significant at the 10% level after being inspected. This indicates that the CSRC's random inspection system can play a full role in effectively improving the quality of firms' accounting information.

Table 4 Dynamic analysis

	(1)
	DA
$CHECK^{-3}$	-0.005
	(-0.70)
$CHECK^{-2}$	-0.005
	(-0.71)
$CHECK^{-1}$	-0.009
	(-1.26)
$CHECK^{0}$	-0.012*
	(-1.72)
$CHECK^{+1}$	-0.017**
	(-2.34)
$CHECK^{+2}$	-0.013*
	(-1.71)
$CHECK^{+3}$	-0.016**
	(-2.11)
Size	-0.019***
	(-10.74)
Lev	-0.003
	(-0.37)
Growth	-0.001

	(-0.74)
ROA	0.018
	(1.04)
LOSS	0.011***
	(3.80)
SOE	0.005
	(0.92)
Age	0.008**
	(2.36)
Top1	-0.033***
	(-2.86)
INS	-0.003
	(-0.70)
Board	-0.000
	(-0.03)
Indpr	-0.002
	(-0.17)
Dual	-0.004*
	(-1.78)
BigN	0.000
	(0.17)
Constant	0.457***
	(12.36)
P-value: $CHECK^{-3} + CHECK^{-2} + CHECK^{-1} = 0$	0.3093
P-value: $CHECK^{0} + CHECK^{+1} + CHECK^{+2} + CHECK^{+3} = 0$	0.0271
Firm FE	Yes
Year FE	Yes
N	22085
Adj.R2	0.022

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.3 Robustness checks

4.3.1 EBM test

In order to better eliminate the differences in each covariate between the treatment group affected by administrative audit regulation and the control group not affected by administrative audit regulation [28], and to identify the impact of administrative audit regulation on the quality of accounting information, this paper employs Entropy Matching (EBM) to assign weights to observations to ensure that the treatment and control group covariates satisfy the assumption of equilibrium [29]. Specifically, this paper adjusts the covariates in model (1) to the first, second and third orders. The matching results are shown in Table 5 Panel A. After assigning weights to the observations, the variance of the covariate means of the treatment and

control groups becomes significantly smaller. Further, re-regressing the balanced sample after assigning weights, the results are shown in Table Panel B. It can be seen that CHECK is significantly negative at 1% confidence level, i.e., the regulation of administrative auditing significantly improves the quality of accounting information of firms, which indicates that the conclusion of the main test is robust.

Table 5 Robustness tests

Panel A Entropy Matching

	Treat			Control			Std Diff	Var Ratio
	mean	variance	skewness	mean	variance	skewness		
Size	22.440	1.937	0.493	22.440	1.937	0.493	0.000	1.000
Lev	0.438	0.041	0.217	0.438	0.041	0.217	0.000	1.000
Growth	0.148	0.181	3.825	0.148	0.182	3.826	0.000	1.000
ROA	0.029	0.005	-1.795	0.029	0.005	-1.795	0.000	1.000
LOSS	0.126	0.110	2.251	0.126	0.110	2.250	0.000	1.000
SOE	0.381	0.236	0.489	0.381	0.236	0.488	0.000	1.000
Age	2.303	0.624	-0.716	2.303	0.624	-0.716	0.000	1.000
Top1	0.341	0.022	0.560	0.341	0.022	0.560	0.000	1.000
INS	0.391	0.055	0.121	0.391	0.055	0.121	0.000	1.000
Board	2.380	0.093	0.081	2.380	0.093	0.081	0.000	1.000
Indpr	0.367	0.008	0.426	0.367	0.008	0.426	0.000	1.000
Dual	0.280	0.202	0.981	0.280	0.202	0.980	0.000	1.000
BigN	0.477	0.250	0.092	0.477	0.250	0.092	0.000	1.000

Panel B Test using a matching sample

	(1) |DA|
CHECK	-0.008***
	(-2.65)
Size	-0.012***
	(-6.65)
Lev	-0.037***
	(-5.27)
Growth	0.000
	(0.04)
ROA	0.035**
	(2.34)
LOSS	0.012***
	(4.74)
SOE	0.004
	(0.87)
Age	0.011***
	(3.10)
Top1	-0.023**

	(-1.97)
INS	0.001
	(0.15)
Board	-0.005
	(-1.51)
Indpr	-0.012
	(-1.32)
Dual	-0.003*
	(-1.73)
BigN	-0.001
	(-0.46)
Constant	0.329***
	(8.70)
Firm FE	Yes
Year FE	Yes
N	21881
Adj.R2	0.147

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.3.2 Placebo test

The above research shows that administrative audit regulation can improve the quality of corporate accounting information, but it does not exclude the effects caused by other policies or random factors in the same period. For this reason, this paper uses virtual inspection time and virtual treatment group. The treatment group would have been the policy time which is 2016-2018. This paper randomly assigns virtual policy time to the treatment group, that is, other time, rather than the sample period of 2016-2018, is allocated to the treatment group, and the virtual treatment group, that is, assuming that the original control group is subjected to the policy shocks, and the specific allocations are all using random sampling. After re-regression, if the explanatory variables in the regression results are still significantly negative, it means that the quality of corporate accounting information may be affected to other factors. The results in Table 6 show that the regression coefficients of FCHECK1 and FCHECK2 are not significant, which indicates that the improvement of corporate accounting information quality comes from the deterrent effect of administrative audit regulation - random inspection by the CSRC can improve the level of accounting information quality of listed companies. This indicates from another angle that the findings of this paper are robust.

Table 6 Placebo test

	(1)	(1)
	UNPERK	UNPERK
	Virtual inspection time	Virtual treatment group

FCHECK1	0.001	
	(0.21)	
FCHECK2		0.002
		(0.95)
Size	-0.019***	-0.019***
	(-10.76)	(-10.78)
Lev	-0.002	-0.003
	(-0.36)	(-0.38)
Growth	-0.001	-0.001
	(-0.71)	(-0.70)
ROA	0.018	0.018
	(1.05)	(1.05)
LOSS	0.011***	0.011***
	(3.80)	(3.81)
SOE	0.004	0.004
	(0.86)	(0.85)
Age	0.009**	0.009**
	(2.43)	(2.44)
Top1	-0.034***	-0.034***
	(-2.94)	(-2.92)
INS	-0.003	-0.004
	(-0.72)	(-0.73)
Board	-0.000	-0.000
	(-0.03)	(-0.04)
Indpr	-0.002	-0.002
	(-0.16)	(-0.18)
Dual	-0.004*	-0.004*
	(-1.76)	(-1.75)
BigN	0.001	0.001
	(0.41)	(0.37)
Constant	0.457***	0.458***
	(12.36)	(12.38)
Firm FE	Yes	Yes
Year FE	Yes	Yes
N	22085	22085
Adj.R2	0.021	0.021

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.3.3 Alternative measures for accounting information quality

Considering that there are other measures of accounting information quality, this paper measures manipulability accruals with the residual value calculated by Jones model or replacing the explained variable with financial restatement, which takes the

value of 1 for the company's occurrence of financial restatement in the current year and 0 otherwise. The regression results are shown in Table 7, from Table 7 column (1) it can be seen that administrative audit regulation is significantly and negatively related to manipulability accruals at the 5% level and to the occurrence of financial restatement in the company's current year at the 1% level. The experiment proves that the analytical conclusions of the model remain consistent when the explained variables are replaced with other measures. Therefore, the regression model of this paper to study the impact of administrative audit regulation on the quality of accounting information is robust and reliable.

Table 7 Replacement of measures for accounting information

	(1) DA_Jones	(2) Restatement
CHECK	-0.030**	-0.428***
	(-1.99)	(-2.62)
Size	0.061***	-0.035
	(7.81)	(-0.86)
Lev	-0.008	0.529**
	(-0.27)	(2.32)
Growth	0.125***	-0.053
	(21.31)	(-0.60)
ROA	-0.141*	-5.158***
	(-1.84)	(-6.38)
LOSS	-0.013	-0.100
	(-1.01)	(-0.61)
SOE	-0.022	-0.248**
	(-0.97)	(-2.42)
Age	-0.069***	0.296***
	(-4.36)	(4.11)
Top1	0.118**	-1.268***
	(2.25)	(-3.71)
INS	-0.024	-0.237
	(-1.10)	(-1.03)
Board	0.034**	0.221
	(2.14)	(1.46)
Indpr	0.041	-0.153
	(0.92)	(-0.32)
Dual	0.008	0.188**
	(0.88)	(2.06)
BigN	-0.000	-0.375***
	(-0.04)	(-4.61)
Constant	-1.333***	-3.107***
	(-8.00)	(-3.47)
Firm FE	Yes	Yes

	Yes	Yes
Year FE	Yes	Yes
N	22098	22098
Adj.R2/Pseudo.R2	0.035	0.059

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.4 Mechanism test

This paper further examines the path through which administrative audit supervision affects the quality of accounting information. It has been shown that after administrative supervision, auditors can reduce audit risk and improve internal control of the audited organization by performing more audit procedures, which ultimately improves the quality of the audited organization's accounting information. Based on this, this paper examines the path of "administrative audit supervision - internal control - accounting information quality". Drawing on the methodology of Wen Zhonglin and Ye Baojuan (2014)[30], this paper first examines the impact of administrative audit supervision (CHECK) on internal control (ICQ), and secondly, the internal control (ICQ) variable is added to the model and then regressed, and internal control is measured by the Dib Internal Control Index (DICI) divided by 1,000 in the light of previous literature.

According to the mediation effect research model, it can be seen from column (1) of Table 8 that administrative audit regulation can significantly affect the quality of accounting information of audited entities, and the basic conditions of the mediation effect are established accordingly; the regression coefficients of the explanatory variable administrative audit regulation and the mediator variable internal control in column (2) are significant at 1% level, and the regression coefficients of the mediator variable internal control and the explained variable accounting information quality in column (3) are also significantly negatively related; the regression coefficients of the explanatory variable administrative audit regulation and the explained variable accounting information quality in column (3) are also significantly negatively correlated, and the total absolute value of the total effect is larger than that of direct effect, which indicates that there is a partial mediation effect.

Table 8 Administrative audit supervision, internal control and accounting information quality

	(1) |DA|	(2) ICQ	(3) |DA|
CHECK	-0.009***	0.012***	-0.008**
	(-2.61)	(2.78)	(-2.53)
ICQ			-0.022***
			(-3.89)
Size	-0.019***	0.027***	-0.018***
	(-10.76)	(12.15)	(-10.37)
Lev	-0.002	-0.057***	-0.004

	(-0.36)	(-6.35)	(-0.54)
Growth	-0.001	0.015***	-0.001
	(-0.75)	(9.13)	(-0.49)
ROA	0.018	0.382***	0.026
	(1.05)	(17.27)	(1.53)
LOSS	0.011***	-0.017***	0.010***
	(3.79)	(-4.50)	(3.66)
SOE	0.005	-0.001	0.005
	(0.91)	(-0.09)	(0.91)
Age	0.008**	0.016***	0.009**
	(2.36)	(3.38)	(2.46)
Top1	-0.034***	0.070***	-0.032***
	(-2.89)	(4.64)	(-2.76)
INS	-0.003	0.016**	-0.003
	(-0.72)	(2.57)	(-0.65)
Board	-0.000	-0.014***	-0.000
	(-0.03)	(-3.20)	(-0.12)
Indpr	-0.002	-0.015	-0.002
	(-0.18)	(-1.15)	(-0.22)
Dual	-0.004*	0.001	-0.004*
	(-1.76)	(0.50)	(-1.75)
BigN	0.000	0.011***	0.001
	(0.21)	(4.48)	(0.33)
Constant	0.457***	0.044	0.458***
	(12.36)	(0.92)	(12.40)
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
N	22085	22098	22085
Adj.R2	0.022	0.098	0.022

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.5 Cross-sectional tests

4.5.1 Big four vs non-big four

The heterogeneity of accounting firms can lead to different impacts of administrative audit regulation on the quality of accounting information of listed companies. To address this issue, this paper categorizes accounting firms into International Big Four and non-International Big Four. This paper first sets a dummy variable, BIGN, which takes the value of 1 when the sampled accounting firms are Big 4 international accounting firms, and 0 otherwise. Table 9 presents the test results of the improvement of accounting information quality in the inspection of Big 4 and non-Big 4 international accounting firms as a result of administrative audit regulation. Column (1) indicates that administrative audit regulation contributes to Big 4 audits in

improving the quality of accounting information, but not significantly. Column (2) indicates that administrative audit regulation significantly improves accounting information quality for non-Big 4 audits at the 5% confidence level. Such a result is mainly due to the fact that the international Big Four accounting firms have more professional auditing capabilities and more sophisticated auditing procedures and pay more attention to their own brands and reputations, therefore, the Big Four auditing firms are more likely to issue non-standard unqualified auditing opinions without the need for external supervision, which improves the quality of corporate accounting information. In the case of non-Big Four audit firms, the audited entity has a greater degree of upward surplus management, faces higher audit risk, and they are more willing to make changes under external supervision, thus urging firms to improve the quality of accounting information. Therefore, administrative audit regulation is more effective in improving the quality of accounting information for non-International Big Four accounting firms [31].

Table 9 The cross-sectional test on audit firms

	(1)	(2)
	|DA|	|DA|
	Big four	Non-Big four
CHECK	-0.013	-0.009**
	(-1.13)	(-2.52)
Size	-0.002	-0.017***
	(-0.15)	(-9.57)
Lev	0.040	-0.004
	(0.89)	(-0.62)
Growth	-0.011	-0.001
	(-1.46)	(-0.68)
ROA	0.143	0.013
	(1.40)	(0.76)
LOSS	0.026*	0.010***
	(1.69)	(3.38)
SOE	-0.011	-0.001
	(-0.29)	(-0.27)
Age	-0.006	0.008**
	(-0.29)	(2.12)
Top1	-0.077	-0.038***
	(-1.33)	(-3.16)
INS	0.005	-0.003
	(0.21)	(-0.60)
Board	0.008	0.001
	(0.48)	(0.24)
Indpr	-0.026	-0.001
	(-0.58)	(-0.06)
Dual	-0.008	-0.004*

	(-0.71)	(-1.68)
BigN	0.056	-0.000
	(1.24)	(-0.07)
Constant	0.043	0.427***
	(0.14)	(11.20)
Firm FE	Yes	Yes
Year FE	Yes	Yes
N	1230	20855
Adj.R2	0.036	0.020

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.5.2 Risk of misstatement

Accounting misstatements can directly lead to low quality of accounting information, drawing on Han-Wen Chen et al. (2022) [14], this paper classifies firms as having high risk of misstatement when their current year ROE is lower than the current year's industry median, and vice versa for low risk of misstatement. Table 10 presents the results of the test of administrative audit regulation affecting the quality of firms' accounting information in different misstatement risks. Column (1) indicates the insignificant improvement of administrative audit regulation on the quality of accounting information when the ROE of the audited entity for the year is higher than the industry median for the year, i.e., when the risk of misstatement is low. Column (2) indicates that administrative audit regulation significantly improves the quality of accounting information at the 5% level when the ROE of the audited entity in the current year is lower than the industry median in the current year, i.e., when the risk of misstatement of the firm is high. Thus, administrative audit regulation is more significant in improving the quality of accounting information for firms facing high risk of misstatement.

Table 10 The cross-section test on risk of misstatement

	(1) |DA| Good operating results	(2) |DA| Bad operating result
CHECK	-0.005	-0.013**
	(-1.01)	(-2.41)
Size	-0.010***	-0.015***
	(-3.79)	(-5.31)
Lev	-0.001	-0.006
	(-0.09)	(-0.54)
Growth	0.002	-0.003
	(0.99)	(-1.16)
ROA	0.016	0.055**
	(0.49)	(2.04)

LOSS	-0.040	0.012***
	(-0.50)	(3.31)
SOE	0.009	0.004
	(1.22)	(0.50)
Age	0.001	0.010
	(0.16)	(1.38)
Top1	-0.025	-0.032
	(-1.63)	(-1.58)
INS	0.002	-0.005
	(0.40)	(-0.51)
Board	0.000	0.006
	(0.02)	(1.05)
Indpr	0.013	-0.003
	(0.99)	(-0.20)
Dual	-0.005*	-0.002
	(-1.89)	(-0.56)
BigN	-0.003	-0.001
	(-0.97)	(-0.27)
Constant	0.264***	0.367***
	(4.83)	(5.79)
Firm FE	Yes	Yes
Year FE	Yes	Yes
N	10958	11127
Adj.R2	0.019	0.022

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.5.3 Agency costs

The existing literature identifies agency costs as a typical agency problem for firms in weak institutional environments with large shareholders' hollowing out. Drawing on Han-Wen Chen (2022) [14], the agency problem is reflected by the majority shareholder's share, i.e., reflected by other receivables/total assets, and the two groups of high and low agency costs are divided according to the industry annual median. Table 11 represents the results of the test of administrative audit regulation on the quality of accounting information in the presence of different agency costs of firms. Column (1) denotes firms with high agency costs, and the results show that administrative audit regulation significantly improves the quality of accounting information at the 5% confidence level. Column (2) indicates that administrative audit regulation contributes to the improvement of accounting information quality for firms with low agency costs, but not significantly. Therefore, administrative audit regulation has a more significant effect on improving the quality of accounting information for firms with high agency costs.

Table 11 The cross-sectional test on agency costs

	(1) |DA| High agency cost	(2) |DA| Low agency cost
CHECK	-0.010**	-0.004
	(-2.03)	(-0.73)
Size	-0.015***	-0.017***
	(-5.65)	(-5.88)
Lev	-0.001	-0.018*
	(-0.09)	(-1.72)
Growth	-0.005***	0.004**
	(-2.76)	(2.26)
ROA	0.043*	-0.020
	(1.81)	(-0.75)
LOSS	0.009**	0.010**
	(2.25)	(2.32)
SOE	0.003	-0.001
	(0.51)	(-0.14)
Age	-0.000	0.008
	(-0.05)	(1.52)
Top1	-0.002	-0.054***
	(-0.11)	(-3.00)
INS	0.009	-0.008
	(1.27)	(-1.11)
Board	0.002	-0.001
	(0.30)	(-0.15)
Indpr	-0.005	0.009
	(-0.36)	(0.61)
Dual	-0.001	-0.002
	(-0.44)	(-0.66)
BigN	0.002	-0.005
	(0.73)	(-1.53)
Constant	0.374***	0.430***
	(6.62)	(7.10)
Firm FE	Yes	Yes
Year FE	Yes	Yes
N	11133	10952
Adj.R2	0.017	0.023

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

4.6 Other economic consequences

This paper analyzes other economic consequences of administrative audit regulation based on the perspective of corporate external financing. Firstly, high-quality audits can alleviate to some extent the increase in debt financing costs caused by controlling shareholders' equity pledges， and the supervisory role of administrative audit regulation may reduce the cost of corporate debt financing. This paper draws on Wu Xiancong et al. (2020) [32], reflected by (total interest expense/total liabilities) × 100. Column (1) of Table 12 reports the results of the test of administrative audit regulation on the cost of debt financing, with a CHECK coefficient of -0.030, administrative audit regulation is significantly negatively related to the cost of debt financing of the audited entity at the 5% confidence level.

Second, high-quality audit services can reduce the degree of information asymmetry between the audited entity and external fund providers, thus reducing the financing constraints faced by the audited entity during the financing process, and administrative audit regulation may alleviate the financing constraints faced by the audited entity. In this paper, we use the KZ index measure, the larger the KZ value, the higher the financing constraint. Column (2) of Table 12 reports the results of the test of administrative audit regulation on firms' financing constraints, with a CHECK coefficient of -0.428, administrative audit regulation reduces the financing constraints faced by audited units at the 1% confidence level. These results suggest that administrative audit regulation has corresponding economic consequences on the cost of debt financing and financing constraints of the audited entity.

Table 12 Other economic consequences caused by administrative audit supervision

	(1) FCOST	(2) KZ
CHECK	-0.030**	-0.428***
	(-1.99)	(-2.62)
Size	0.061***	-0.035
	(7.81)	(-0.86)
Lev	-0.008	0.529**
	(-0.27)	(2.32)
Growth	0.125***	-0.053
	(21.31)	(-0.60)
ROA	-0.141*	-5.158***
	(-1.84)	(-6.38)
LOSS	-0.013	-0.100
	(-1.01)	(-0.61)
SOE	-0.022	-0.248**
	(-0.97)	(-2.42)
Age	-0.069***	0.296***
	(-4.36)	(4.11)
Top1	0.118**	-1.268***
	(2.25)	(-3.71)
INS	-0.024	-0.237

	(-1.10)	(-1.03)
Board	0.034**	0.221
	(2.14)	(1.46)
Indpr	0.041	-0.153
	(0.92)	(-0.32)
Dual	0.008	0.188**
	(0.88)	(2.06)
BigN	-0.000	-0.375***
	(-0.04)	(-4.61)
Constant	-1.333***	-3.107***
	(-8.00)	(-3.47)
Firm FE	Yes	Yes
Year FE	Yes	Yes
N	22098	22098
Adj.R2	0.035	0.2301

Note: t-values are reported in parentheses, and *, **, and *** indicate that the regression coefficients are significant at the 10%, 5%, and 1% confidence levels, respectively.

5. Conclusions and implications

This paper examines the impact of the CSRC's random inspection as a form of administrative audit regulation on the quality of accounting information of listed firms, which has been implemented since 2016. The study finds that the regulatory measure of random inspection of accounting firms helps to improve the quality of corporate accounting information.

Further research shows that administrative audit regulation improves accounting information quality by improving internal control. The findings of this paper contribute new empirical evidence to the extended research in the area of accounting information quality and administrative audit regulation reform, and explore effective ways to improve the quality of corporate accounting information from a new research perspective. At the same time, the paper confirms that the current administrative audit regulatory reform measures focusing on ex ante regulation can help improve the effectiveness of internal control and the quality of accounting information. The "random selection of inspectors and inspection targets and the prompt release of results "random inspection system implemented by the CSRC effectively strengthens market supervision, gives full play to the role of third-party supervision, and strongly promotes the healthy development of the capital market.

In response to the findings of the study and the current situation of accounting information quality of listed firms, corresponding countermeasures are proposed in the following aspects: firstly, the random inspection system of the CSRC plays a positive external monitoring effect, and there is a need to further strengthen and improve this system; the motives of different firms' disclosure of information should also be taken into account in order to ensure effective implementation of the relevant

policies. Secondly, the intermediary mechanism reflects the positive transmission effect of internal control. When the CSRC conducts random inspections and accounting firms audit firms, they need to focus on the internal control situation of firms to ensure the compliance of their internal governance mechanisms. Finally, firms should also continue to improve the quality of accounting information disclosure, continuously improve the level of corporate governance, convey a good image of the firm to the market, and guide the healthy and sustainable development of the firm.

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