

The influence of Internal Control effectiveness on Audit pricing: based on the empirical Evidence of Shenzhen Stock Exchange Manufacturing Industry

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Abstract: In recent years, incidents such as chairman Kant being arrested by the police for suspected crimes occur frequently. In the development process of these incidents, the negligence of internal control has played a guiding role. This warns us that listed companies in addition to timely disclosure of internal control reports, establish and improve the internal control system construction, but also the introduction of external supervision system, timely audit work, and the effectiveness of enterprise internal control on the follow-up audit work of audit pricing is worth discussing. This paper takes the data of 354 manufacturing companies listed in 2017 and 2018 in Shenzhen Stock Exchange from 2015 to 2017 in 2018 as samples to explore the impact of the effectiveness of internal control on audit pricing. The empirical results show that there is no significant negative correlation between the effectiveness of internal control of this year and the audit pricing of this year, and a significant negative correlation between the effectiveness of internal control of the previous year and the audit pricing of this year, indicating that the effectiveness of internal control of the previous year is an important influencing factor of the audit pricing of this year. Starting from the effectiveness of internal control, this paper discusses the influencing factors of audit pricing, enriches the research on the influencing factors of audit pricing, and provides relevant reference information for the government to standardize audit pricing.

Keywords: Effectiveness of internal control, Audit pricing, Self-evaluation report.

1. Introduction

In recent years, corporate financial fraud incident has occurred frequently, such as Kangmei Pharmaceutical, Furen Pharmaceutical, Enron Company and so on. In the development process of these incidents, the negligence of internal control played a guiding role, and the management even deliberately concealed and secretly, which caused the deterioration of the situation near. In addition to timely disclosing the internal control reports and establishing and improving the construction of the internal control system, the listed companies should also introduce an external supervision system and carry out timely audit work [1].

Audit pricing refers to the audit fee paid by the auditee after the CPA completes the audit work in accordance with the commercial audit agreement [2]. China's audit market is still in its infancy, and the audit pricing has not yet formed a unified law [3]. As one of the basic procedures of listed companies, audit is especially important. The pricing of the audit is affected by the risk assessment results, and is the result of the balance between the public interest and the interests of the industry, usually determined according to the size of the company's assets [4]. Usually, if the audit object is a listed company controlled by the state, the audit risk will be greatly reduced and the price will be lower; if the largest shareholder is too high, it is easy to escape the supervision of the board of directors, and the audit will face greater risks and the price will be higher [5]. Therefore, in the consideration factors of accounting firms, the effectiveness of the internal control system of the service object is also an index that cannot be ignored.

Internal control was first proposed by the American Institute of Certified Public Accountants. A set of comprehensive, reasonable and effective internal control

system can largely ensure the operation of the company according to the plan, reduce operational risks, enhance the core competitiveness, and achieve its own development [6]. In order to ensure the reliability of financial information, the internal control system should be needed, a set of strict and efficient internal control system can make the company more competitive [6]. Only by constantly establishing a relatively standard internal control system can we stand out in the competition and realize the business vision of the company [7]. However, many domestic enterprises have problems in corporate governance structure, internal control and supervision mechanism, internal risk management and other aspects, which makes enterprises unable to take measures in response to external pressure [8]. Therefore, in the audit business, a reasonable and effective internal control system can provide more reliable and convincing audit evidence for the external audit related business, and such a way can have a corresponding impact on the audit pricing to a certain extent.

In order to control the rational operation of the market economy, the concept of internal control was first put forward by the United States in the Securities Exchange Law in 1934, bringing the corporate management and finance under the regulatory system. After years of evolution and improvement, the most authoritative COS Risk Management Integration Framework issued in 2004 [9].

Domestically, in 1997, the Ministry of Finance promulgated the Specific Standards for Independent Audit No.9 — Internal Control and Audit Risk.

In 2008, the Ministry of Finance, the China Securities Regulatory Commission, the Audit Commission, the Bank of China Regulatory Commission and the China Insurance Regulatory Commission jointly formulated the Basic Standards for Internal Control of Enterprises to strengthen and standardize the company's internal control and improve

management and risk prevention. In 2010, China issued 18 guidelines, such as "Guidelines for Enterprise Internal Control Audit" and "Guidelines for Enterprise Internal Control Evaluation", to better regulate the internal control audit behavior of accounting firms on enterprises. In terms of policies and regulations, compared with the specific implementation rules, China's "Basic Standards for Enterprise Internal Control" focuses more on the reliability of financial reports. The supervisory body and the legislature should take corresponding measures, because the audit cost under the failure of internal control is a great pressure for enterprises [10].

The construction of internal control system increasingly relies on the participation of external audit, and the increase of audit projects has gradually become an expenditure that cannot be ignored by enterprises. Therefore, how to balance the effectiveness of internal control and

2. Literature References

Foreign scholars on the research on the relationship between internal control quality and audit pricing takes the Sarbanes — Oxley Act as the watershed. Before this, there has been no unified judgment [11]. Since then, foreign scholars generally believe that there is a positive correlation between the effectiveness of internal control and the audit pricing, that is, the more serious the defect of internal control, the higher the audit pricing. Raghunandan [12] selected 660 manufacturing companies as the sample, and found that accounting firms would add more execution procedures to support the development of evaluation business when the internal control of listed companies is chaotic, so as to improve the audit pricing. Hogan [13] studied the internal control, generally accepted accounting principles and audit risk models of financial reporting and found that companies with significant internal control weaknesses had much higher audit pricing. Munsif [14] found that, compared with enterprises with imperfect related measures of internal control, enterprises that take good and effective internal control measures have lower audit costs than the former. Renu Desai and Vikram [15] extended the findings of Frankel, Johnson, and Nelson on the audit pricing rules by providing empirical evidence of the relationship between non-audit fees and earnings management. Li Chan And Raman k.k. [16] studied the reduction of internal control defects in the audit work, indicating that additional audit work can effectively reduce the risk of financial errors. Li overwintering et al. [17] used 6,227 samples from Shanghai and Shenzhen as research objects, indicating that internal control and external audit have alternative roles, and certified As with major defects tend to charge higher fees, that is, they have a positive correlation.

In the case of statistical analysis of the samples of most actual enterprises, many scholars have not found a significant positive relationship between enterprise internal control and audit pricing through research.

In China, Jianxin Cao and Zhiyu Chen [18] found through research that due to excessive competition in China, the positive correlation between internal control and audit pricing is only established when accounting firms with higher audit quality participate in the audit, while such a correlation in ordinary accounting firms will be significantly weakened. Wangfeng Zhang et al., Yanxia Zhang, Ziwei Liu and Zhijie Xia [19-21] all found a negative correlation between the internal control quality and audit pricing of enterprises.

Earlier through the research believed that there is no correlation between internal control and audit pricing is the American scholar Mock TJ [22], he believes that the effectiveness of internal control measures has nothing to do with the audit workload of certified public accountants. In this way, the effect of internal control will not affect the audit cost and the audit plan made by the CPA, so it will not affect the audit pricing. Felix [23] and other scholars also checked the dependence on internal control audit behavior, and through the analysis and comparison of dependence, proved that there was no significant relationship between the two before. Domestic, similar conclusion of few scholars, only Heping Yao [24] through the Shanghai and Shenzhen main board listed companies released the internal control of self evaluation report, found that even if the listed company disclosed the major internal control defects, the enterprise audit cost is not significantly increased, namely there is no obvious correlation between the two.

Combined with domestic and foreign studies, there is a specific relationship between internal control and audit pricing, but domestic and foreign scholars have drawn different conclusions, but the mainstream view is that there is a positive relationship between the two. Most scholars believe that correcting internal control deficiencies can help reduce annual audit costs, except in exceptional circumstances, such as cross-border audit and cross-border statistics.

3. Theoretical Basis and Research Hypothesis

Based on the principal-agent theory and the information asymmetry theory, combined with the audit risk, this paper is proposed.

Audit risk = major misstatement risk * inspection risk = inherent risk * control risk * inspection risk.

Among them, the reasons for the existence of inherent risks are closely related to some factors of the enterprise itself, which cannot be changed. Risk control means that a misstatement of a certain transaction, account balance or disclosure occurs. The misstatement alone or together with other misstatements is a major misstatement, but it is not timely prevented or discovered or corrected by the internal control of the enterprise. Therefore, if the internal control is effective, it has a certain role in reducing the control risks of enterprises. Effective internal control can reduce the audit risk, and will affect the need to implement audit procedures, make the certified public accountants in the process of audit can rely on internal control, thus reducing part of the audit procedures, in order to reduce the workload, this will cause audit cost reduction, therefore, internal control effectiveness is an important factor.

Therefore, the first research hypothesis of this paper is that:

H1: The higher the effectiveness of internal control in this year, the lower the audit fee in this year.

In addition, the internal control is stable and will not be easy to change. The relevant information about the internal control in the previous year is likely to affect the professional judgment of auditors in the audit pricing in the audit process.

This, the second study hypothesis of this paper:

H2: The higher the effectiveness of the internal control of the last year, the lower the audit fee of this year.

4. Research Design

4.1. Data selection

The sample enterprises in this paper are the manufacturing enterprises listed in Shenzhen Stock Exchange in 2015-2017. The data year is the data of the sample enterprises from 2017-2018. Among them, the data of 2018 is selected as the data of "this year", and the data of 2017 is selected as the data of "last year".

In the sample screening:

(1) excluding the annual report without disclosure of audit

fees and audit costs are not all paid to the firm financial statements audit fees;

(2) excluding companies listed in the H shares listed and international audit standards to audit at the same time, so the annual audit fees disclosed in the enterprise includes the international audit costs, and there is no way to divide;

(3) Eliminate the sample enterprises with incomplete data.

After elimination, a total of 354 listed companies have been sampled, including 95 in 2015, 85 in 2016, and 174 in 2017.

4.2. Regression model and variable definition

Table 1. Variable interpretation

Type of variable	Variable symbol	Variable name	Variable interpretation		
Explained variable	LnFee	Audit expenses	Natural logarithm of the audit costs		
	Explanatory variable	IC	Internal control effectiveness	Internal control effectiveness, IC=1; otherwise IC=0	
Big4		Size of the accounting firms	The big Four accounting firms will audit 1, otherwise 0		
Opinion		Audit opinion	Take 1 for the non-standard audit opinion; otherwise, take 0		
LnAsset		Size of the audited units	Natural logarithm of the total assets of the auditee		
Subs		Business complexity	The square root of the number of participating subsidiaries held by the auditee		
LEV		Asset-liability ratio	+		
ROE		Return on equity	-		
Controlled variable		The Company's operations and financial risks	CAE	Correction of accounting errors	If there is a major accounting error in this period, CAE will take 1, otherwise take 0
			CAP	Changes in accounting policies and estimates	If there is an accounting estimate and policy change in this period, CAP takes 1, otherwise 0
			DIS	Geographical reason	The eastern coastal five provinces —— Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, and four municipalities —— Beijing, Tianjin, Shanghai, Chongqing as the developed areas. If the auditee is in the developed area, take 1, otherwise, take 0.
	Punish		Penalties for violations	The audited unit will be punished for violating 1, otherwise it will take 0	
	ICA	Internal control authentication	The audited unit shall take 1 for internal control verification; otherwise, it shall take 0		

On the basis of simunic audit pricing model, the following model 1, model 2 and model 3:

$$\text{LnFee} = \beta_0 + \beta_1 \text{IC} + \beta_2 \text{Big10} + \beta_3 \text{Opinion} + \beta_4 \text{LnAsset} + \beta_5 \text{Subs} + \beta_6 \text{ST} + \beta_7 \text{LEV} + \beta_8 \text{ROE} + \beta_9 \text{CAE} + \beta_{10} \text{CAP} + \beta_{11} \text{DIS} + \beta_{12} \text{Punish} + \beta_{13} \text{ICA} + \varepsilon \quad (1)$$

All variables in model 1 are the 2018 data

$$\text{LnFee} = \beta_0 + \beta_1 \text{LIC} + \beta_2 \text{Big10} + \beta_3 \text{Opinion} + \beta_4 \text{LnAsset} + \beta_5 \text{Subs} + \beta_6 \text{ST} + \beta_7 \text{LEV} + \beta_8 \text{ROE} + \beta_9 \text{CAE} + \beta_{10} \text{CAP} + \beta_{11} \text{DIS} + \beta_{12} \text{Punish} + \beta_{13} \text{ICA} + \varepsilon \quad (2)$$

LIC in Model 2 refers to the IC of the company in the previous year.

The above model 2 is the basic model of hypothesis two, based on the enterprise in the previous year whether the accounting error correction, accounting policy or accounting estimates changes and whether violations punishment will affect the enterprise internal control effectiveness judgment, so on the basis of improved model 2, further verify the

effectiveness of enterprise internal control and the audit pricing.

Thus, we propose model 3:

$$\text{LnFee} = \beta_0 + \beta_1 \text{LIC} + \beta_2 \text{Big10} + \beta_3 \text{Opinion} + \beta_4 \text{LnAsset} + \beta_5 \text{Subs} + \beta_6 \text{ST} + \beta_7 \text{LEV} + \beta_8 \text{ROE} + \beta_9 \text{LCAE} + \beta_{10} \text{LCAP} + \beta_{11} \text{DIS} + \beta_{12} \text{LPunish} + \beta_{13} \text{ICA} + \varepsilon \quad (3)$$

In model 3, the variables LIC, LCAE, LCAP, and LPunish respectively refer to the situation of IC, Opinion, CAE, CAP, and Punish in the previous year.

5. Empirical Analysis

5.1. Descriptive statistics

As can be seen from Table 2, the average value of internal control effectiveness of Shenzhen manufacturing enterprises is 0.0946, which shows that the overall effectiveness level of internal control of listed Shenzhen manufacturing companies is low.

Table 2. Descriptive statistics for each variable

Variable name	Mean	Median	Standard deviation	Maximum value	Minimum value	Observations
LnFee	13.4085	13.3630	0.4050	15.1102	12.3014	708
IC	0.0946	0.0000	0.2929	1.0000	0.0000	708
Big4	0.0056	0.0000	0.0750	1.0000	0.0000	708
Opinion	0.0071	0.0000	0.0838	1.0000	0.0000	708
LnAsset	21.0217	20.8749	0.6913	24.4877	19.6885	708
Subs	2.4963	2.2361	1.2046	7.9373	0.0000	708
LEV	0.2969	0.2681	0.1593	0.7899	0.0000	708
ROE	0.1082	0.1050	0.0831	0.6042	-0.8196	708
CAE	0.0028	0.0000	0.0531	1.0000	0.0000	708
CAP	0.9223	1.0000	0.2679	1.0000	0.0000	708
DIS	0.7768	1.0000	0.4167	1.0000	0.0000	708
Punish	0.0565	0.0000	0.2310	1.0000	0.0000	708
ICA	0.4986	0.0000	0.5004	1.0000	0.0000	708

In order to better analyze the data and observe the results, Table 3 provides descriptive statistics in terms of the effectiveness of internal control. As can be seen from Table 3, the higher the audit cost of enterprises with higher internal control effectiveness, which is contradictory to this hypothesis 1. Enterprises with high internal control

effectiveness are more inclined to choose the Big Four accounting firms for audit, and the audit costs will increase accordingly; enterprises are more willing to convey the internal control information about the enterprise to the outside world through the independent verification of certified public accountants.

Table 3. Descriptive statistics of the variables that distinguish the effectiveness of internal control

Project	Low internal control effectiveness				High effectiveness of internal control			
	Mean	Standard deviation	Maximum value	Minimum value	Mean	Standard deviation	Maximum value	Minimum value
LnFee	13.4019	0.3972	15.1102	12.3014	13.4719	0.4721	14.6910	12.6115
IC	0.0031	0.0558	1.0000	0.0000	0.0299	0.1715	1.0000	0.0000
Big4	0.0047	0.0683	1.0000	0.0000	0.0299	0.1715	1.0000	0.0000
Opinion	21.0060	0.6681	24.4877	19.9082	21.1725	0.8744	24.1903	19.6885
LnAsset	2.4796	1.1857	7.9373	0.0000	2.6561	1.3724	6.4031	0.0000
Subs	0.2929	0.1571	0.7899	0.0420	0.3347	0.1764	0.7554	0.0736
LEV	0.1109	0.0836	0.6042	-0.8196	0.0826	0.0741	0.2119	-0.2164
ROE	0.0016	0.0395	1.0000	0.0000	0.0149	0.1222	1.0000	0.0000
CAE	0.9158	0.2780	1.0000	0.0000	0.9851	0.1222	1.0000	0.0000
CAP	0.7707	0.4207	1.0000	0.0000	0.8358	0.3732	1.0000	0.0000
DIS	0.0484	0.2147	1.0000	0.0000	0.1343	0.3436	1.0000	0.0000
Punish	0.4883	0.5003	1.0000	0.0000	0.5970	0.4942	1.0000	0.0000
ICA	13.4019	0.3972	15.1102	12.3014	13.4719	0.4721	14.6910	12.6115
Observations			641				67	

5.2. Correlation analysis

Table 4 shows the correlation coefficient between the variables. From this table, we can see that among many control variables, except for the three variables of return on

equity, punishment for violations, and internal control verification, all these variables are related to audit costs and are significant. Such results show that the variables selected and used in this paper are correlated in statistical significance, so the model setting in this paper is reasonable.

Table 4. Pearson Correlation test

	LnFee	IC	Big4	Opinion	LnAsset	Subs	LEV	ROE	CAE	CAP	DIS	Punish	ICA
LnFee	1												
IC	0.064	1											
Big4	0.136*	0.108*	1										
Opinion	0.173**	0.129*	-0.009	1									
LnAsset	0.642**	0.062	0.052	0.066	1								
Subs	0.526**	0.007	0.045	0.056	0.497**	1							
LEV	0.459**	0.067	-0.003	0.183**	0.502**	0.347**	1						
ROE	-0.061	-0.123*	-0.050	0.214**	0.100	0.047	-0.073	1					
CAE	0.170**	-0.017	-0.004	0.445**	0.077	0.078	0.115*	-0.167**	1				
CAP	-0.170**	0.094	0.023	-0.052	-0.201**	-0.074	-0.106*	0.151**	0.016	1			
DIS	0.148**	0.051	0.040	0.007	0.003	0.045	0.092	0.093	0.029	0.038	1		
Punish	0.043	0.041	-0.019	0.267**	0.027	0.048	0.112*	-0.120*	0.207**	-0.008	-0.115*	1	
ICA	0.058	0.045	-0.079	0.019	0.041	-0.041	0.049	-0.052	0.051	-0.038	0.017	0.035	1

Ps: * represents significant at 0.05 level and ** represents significant at 0.01 levels (two-tailed)

5.3. Basic regression results

5.3.1. Hypothesis 1 regression results

Table 5 shows the results of multiple regression of model 1, from which it can be observed that the goodness of fit of model 1 is 0.5193 and the significance level was 0.0000,

indicating the good fit of model 1.

The results of the model estimation are:

$$\begin{aligned} \text{LnFee} = & 7.7133 - \\ & 0.0083\text{IC} + 0.5205\text{Big4} + 0.2308\text{Opinion} + 0.255\text{LnAsset} + 0.08 \\ & 14\text{Subs} + 0.2590\text{LEV} - 0.3673\text{ROE} + 0.4347\text{CAE} - \\ & 0.0569\text{CAP} + 0.1208\text{DIS} - 0.0318\text{Punish} + 0.0331\text{ICA} \end{aligned}$$

Table 5. Model 1 regression results

Project	Coefficient	2018(N=354) T price	Prob.
IC	-0.0083	-0.1561	0.8760
Big4	0.5205	2.6139	0.0093
Opinion	0.2308	1.5790	0.1153
LnAsset	0.2558	9.2682	0.0000
Subs	0.0814	5.8108	0.0000
LEV	0.2590	2.3831	0.0177
ROE	-0.3673	-2.1945	0.0289
CAE	0.4347	1.3755	0.1699
CAP	-0.0569	-1.0093	0.3135
DIS	0.1208	3.3374	0.0009
Punish	-0.0318	-0.4947	0.6211
ICA	0.0331	1.1121	0.2669
C	7.7133	13.5907	0.0000
	R-squared		0.5356
	Adjusted R-squared		0.5193
	F-statistic		32.7736
	Prob(F-statistic)		0.0000

In the regression analysis of model 1, there is a negative correlation between internal control effectiveness (IC) and audit pricing, but this correlation is not significant, so model 1 is not enough to be verified.

5.3.2. Hypothesis 2 regression results

In order to test hypothesis 2, some data from 2018 replaced the relevant data from 2018 with the relevant data in model 2 and Model 3 for regression analysis. The results are shown in

Table 6 and Table 7. Table 6 is the result of multiple regression of model 2, from which it can be observed that the goodness of fit of model 2 is 0.5228 and the significance level is 0.0000, indicating the good fit of model 2.

The results of the model estimation are:

$$\begin{aligned} \text{LnFee} = & 7.7133 - \\ & 0.0810\text{LIC} + 0.5492\text{Big4} + 0.2144\text{Opinion} + 0.2563\text{LnAsset} + 0. \\ & 0822\text{Subs} + 0.2655\text{LEV} - 0.3818\text{ROE} + 0.5102\text{CAE} - \\ & 0.0541\text{CAP} + 0.1226\text{DIS} - 0.0275\text{Punish} + 0.0361\text{ICA} \end{aligned}$$

Table 6. Model 2 regression results

Project	Coefficient	2018(N=354) T price	Prob.
IC	-0.0810	-1.6020	0.1101
Big4	0.5492	2.7678	0.0060
Opinion	0.2144	1.4833	0.1389
LnAsset	0.2563	9.3557	0.0000
Subs	0.0822	5.8929	0.0000
LEV	0.2655	2.4500	0.0148
ROE	-0.3818	-2.3045	0.0218
CAE	0.5102	1.6149	0.1073
CAP	-0.0541	-0.9707	0.3324
DIS	0.1226	3.4024	0.0007
Punish	-0.0275	-0.4279	0.6690
ICA	0.0361	1.2147	0.2253
C	7.7014	13.6790	0.0000
	R-squared		0.5390
	Adjusted R-squared		0.5228
	F-statistic		33.2298
	Prob(F-statistic)		0.0000

As can be seen from the regression results of model 2, the internal control effectiveness and audit pricing in the previous year still show no significant negative relationship, so it is not enough to verify hypothesis 2 through model 2, which needs

to be further verified for hypothesis 2 in model 3.

In order to better verify the hypothesis 2, model 3 is proposed in the hypothesis model, and the following is a regression analysis for model 3.

Table 7 is the result of multiple regression of model 3, from which it can be observed that the goodness of fit is 0.5235 and the significance level is 0.0000, indicating that model 3 fits better than Model 2.

The results of the model estimation are:

$$\begin{aligned} & \text{LnFee}=7.5698- \\ & 0.0912\text{LIC}+0.5529\text{Big4}+0.2575\text{Opinion}+0.2607\text{LnAsset}+0. \\ & 0816\text{Subs} \\ & +0.2461\text{LEV}-0.4254\text{ROE}+0.0568\text{LCAE}- \\ & 0.0197\text{LCAP}+0.1358\text{DIS}+0.1370\text{LPunish}+0.0398\text{ICA} \end{aligned}$$

Table 7. Model 3 regression results

Project	Coefficient	2018(N=354) T price	Prob.
IC	-0.0912	-1.7670	0.0781
Big4	0.5529	2.7871	0.0056
Opinion	0.2575	1.9641	0.0503
LnAsset	0.2607	9.6458	0.0000
Subs	0.0816	5.8437	0.0000
LEV	0.2461	2.2667	0.0240
ROE	-0.4254	-2.5927	0.0099
CAE	0.0568	0.2007	0.8410
CAP	-0.0197	-0.3434	0.7315
DIS	0.1358	3.7351	0.0002
Punish	0.1370	1.9487	0.0522
ICA	0.0398	1.3404	0.1810
C	7.5698	13.7409	0.0000
	R-squared		0.5397
	Adjusted R-squared		0.5235
	F-statistic		33.3130
	Prob(F-statistic)		0.0000

From the regression results of Model 3, we can see that: The internal control effectiveness (LIC) of the audited tee showed a significant negative relationship with the audit pricing at the confidence level of 0.1. Model 3 can verify that hypothesis 2 is true. The internal control of a construction enterprise is a process, which is continuous and continuously improved. The internal control status of the enterprise in this year is based on the effectiveness of the internal control of the enterprise in the last year, so the effectiveness of the internal control of the enterprise in the last year will provide a reference for the CPA in the audit pricing process of this year.

6. Conclusion

Considering the results of the above descriptive statistics and regression analysis, the following conclusions can be drawn from it:

First, there is an insignificant negative correlation between the effectiveness of internal control and the audit pricing of this year. The effectiveness of internal control in the last year will have an impact on the audit pricing of this year, and there is a significant negative correlation between them, which shows that the effectiveness of internal control in the last year is a key factor affecting the audit pricing.

Second, the asset scale and business complexity of the auditee will lead to the increase of the audit cost, which will increase the audit pricing. The Big Four accounting firms audit more audit than other firms, so there is a certain reputation premium. For regional factors, the higher the level of regional economic development, the greater the increase of audit pricing.

Third, in hypothesis 1, whether the enterprise is punished for violation has a significant negative correlation on the audit pricing of this year, indicating that the impact of external supervision on the audit pricing may be delayed. In Hypothesis 2, whether the enterprise was punished for violations in the previous year shows a significant positive

correlation on the audit pricing of this year, indicating that the external regulatory punishment will increase the audit cost.

Based on the previous empirical results, this paper will put forward relevant policy suggestions.

In terms of audit pricing, audit risks should be considered multiple ways, improve awareness, and improve the information disclosure system. In terms of internal control, we should constantly strengthen the construction of the internal control system and further improve the relevant and standard system.

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