

# Research on the Influence Mechanism of Media Supervision on Audit Fees

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**Abstract:** As an informal external governance mechanism, media supervision is known as the "fourth party right" independent of the legislative, judicial and administrative systems, and plays the role of "economic police". Its corporate governance effect has been unanimously recognized by scholars at home and abroad. Audit fees have always been a hot issue in the field of finance. There are many factors that affect audit fees, from the characteristics of companies and firms to risk factors such as corporate governance, and then to the external environment. At present, formal external environmental mechanisms such as laws and regulations and government supervision are considered in the study of the influence of external environmental factors on audit fees. Based on the audit contract theory and signal transmission theory, the "agenda-setting" theory of journalism and communication, the "bedding effect" and "framework" theory of psychology as the analytical framework, this paper uses the controllable accrued profit as the measurement index of audit quality, and studies the mechanism of media supervision on the audit quality from the perspective of negative media reports and media supervision environment, as well as the impact of media supervision on the audit quality of auditor changes. The research shows that the degree of negative media coverage of listed companies and the media supervision environment are positively correlated with audit quality.

**Keywords:** Media supervision, Audit expenses, Impact mechanism.

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## 1. Introduction

CPA audit originated from the development of commodity economy, and is also the main form of the state's maintenance of economic order and implementation of economic supervision mechanism. The audit report issued by an accounting firm can effectively enhance the credibility of financial statements, thereby facilitating decision-making by report users, and improving the efficiency of investment in the enterprise. Therefore, the quality of the audit report issued by the accounting firm is crucial to the enterprise and the entire capital market [1]. However, since the 21st century, a series of financial fraud scandals of listed companies have erupted in the capital market. Before that, many accounting firms did not report the existing financial fraud, accounting fraud and other problems in the audit report to remind investors, regulatory authorities and other external information users to pay attention to them, thus causing the audit failure of accounting firms [2].

In recent years, the negative media coverage of Sanlu's "tainted milk powder" incident and Sinopec's "sky-high wine" incident shows that the supervision of negative media coverage plays an important role in restraining corporate behavior and protecting investors' interests by affecting the reputation of the company and its management or triggering administrative intervention [3]. At the same time, from "Enron & Andersen" to "Yinguangxia & Zhongtianqin", from Kelon Electric to China Stock Exchange Crisis, many typical cases show that the media plays a "double-edged sword" function in the capital market, which can expose accounting fraud in the capital market and indirectly affect the auditor's reputation cost and its trust mechanism [4]. In order to solve the problem of allocation of audit resources in high-risk and low-risk areas under the traditional audit model, certified public accountants generally assess the audit risks of various business sectors of enterprises, and increase the input of audit resources for the parts with high audit risks. On the contrary,

for the parts with low audit risks, in order to avoid excessive waste of audit resources, the input of audit resources will be appropriately adjusted [5]. Certified public accountants give consistent audit opinions based on audit risks, which is also called risk-oriented audit. By auditing the financial statements of enterprises, certified public accountants can reasonably audit and supervise the financial situation of enterprises, ensure the authenticity and reliability of the accounting information disclosed by enterprises, alleviate the information asymmetry between investors and managers, effectively solve the problem that the market is the agent of various stakeholders, to a certain extent, inhibit the risk of adverse selection, and improve the efficiency of resource allocation [6].

Judging from the punishment of certified public accountants and accounting firms by relevant departments in recent years, there are serious problems in the audit quality in China at present. It not only affects the healthy development of the capital market, but also relates to the survival and development of certified public accountants and accounting firms, so it is necessary to study the influencing factors of audit quality in this paper. There are many factors that affect the audit quality, such as auditor's independence, audit tenure, the financial status of the audited entity, etc., but few scholars have studied the impact on audit quality by combining the internal control quality of the company and media supervision [7].

This paper takes the manufacturing industry as the object to conduct an empirical study on the relationship between media supervision, corporate social responsibility and audit fees, aiming to study whether the accounting firms under the background of China's system will react to the negative reports of the media and the social responsibility information of the audited companies in terms of audit fees, and whether it will affect the fees of the audited companies. The research results can provide a reference for our country's accounting firms to formulate charging policies.

## **2. Overview of Research on The Impact Mechanism of Audit Costs**

### **2.1. Media supervision and audit expenses**

As an informal external environmental factor, the media can have a significant impact on the external information environment of the company and even directly form the external information environment of the company by discovering and exposing new information and information dissemination mechanism, thus helping to alleviate the problem of information asymmetry [8]. At the same time, the attention of the media is also like a "spotlight", pushing the companies with problems onto the "stage", causing public pressure on the companies with problems and their management, forcing them to take action to respond to the market attention. With the rapid development of mobile terminal internet, the information generated by financial media and users' reading tend to be fragmented, which also makes the competition between financial media increasingly intense [9]. Fragmentation does not mean superficiality. On the contrary, users put forward higher requirements for the quality of information, requiring in-depth mining of the interests behind the financial events, real-time tracking of the context of the report, and a comprehensive view of the overall situation of the financial events from a high perspective, so as to make the report in-depth and systematic [10]. At the same time, in the theory of agenda setting, the effect of agenda setting is particularly important for some little-known issues that rely on the media as the main source of information dissemination, and the supervision of related issues of listed companies obviously conforms to these characteristics. Subsequently, the contract theory branches into two directions: complete contract theory and incomplete contract theory. In the theory of complete contract, both parties to the contract can foresee the related events during the execution of the contract, so that both parties to the contract will abide by the contract terms between them; When the two parties to a contract have disputes over the terms of the contract, a third party (such as a court) independent of the two parties to the contract has the right to enforce it, which makes it less likely that there is a contract performance problem in a complete contract.

Due to the existence of information asymmetry between enterprises and external stakeholders, the groups at the disadvantage of information need to work hard to obtain more information related to enterprises and reduce their own risks. Based on its own advantages, the media may spread valuable information to more groups to meet the needs of different stakeholders; On the other hand, there is such information asymmetry between enterprises and external stakeholders. Enterprises will actively disclose non-financial information such as corporate social responsibility for the purpose of increasing the external public's understanding of the enterprise and enhancing the enterprise's social reputation, which will reduce the degree of information asymmetry inside and outside the enterprise.

### **2.2. Theoretical analysis of the impact of auditor change on audit quality under media supervision**

As far as the real capital market is concerned, among the market participants, the information is generally asymmetric and uncertain because there is one party who owns private

information. In information economics, those who have private information are often regarded as "agents", while those who are at an information disadvantage are regarded as "clients", which may also form the principal-agent relationship in the audit contract, and the clients need to entrust an independent third party (auditor) to audit the agents and disclose the financial report information in time. The existence of information asymmetry leads to adverse selection and moral hazard, which will increase the transaction cost of the market to a certain extent and is not conducive to the healthy and orderly development of the market. The signal transmission theory, which originated from information economics, is widely used in efficiency analysis and adverse selection in the market to achieve Pareto improvement. As a standard to evaluate the signal quality in the labor market, the level of equality has alleviated the problem of adverse selection in the labor market to some extent. Subsequently, the information transmission theory was applied to the analysis of financial research field, and relevant scholars expanded the application research of signal transmission theory from the perspectives of independent audit and accounting information disclosure.

At the same time, in the modern information society, many audit and supervision policies are mostly on the agenda of the media, especially for listed companies with auditor changes, which have the policy effect of transmitting supervision and improving the independence of successor auditors. As the industry most closely related to people's life, the media will allocate more resources to the report of listed companies in the industry. The negative reports of the media can not only play a supervisory role on enterprises, but also have a direct or indirect impact on the audit fees of accounting firms. At the same time, the media can form or affect the external information environment of enterprises based on the information transmission mechanism and reputation mechanism. The more enterprises that are negatively reported by the media will attract more attention from the external interest groups (consumers, investors, regulators, etc.), which means that the audit results of the certified public accountants will receive more attention from the regulatory authorities than those of other enterprises, This increases the likelihood of economic consequences or legal penalties that firms will bear after issuing inappropriate audit opinions, which increases the audit risk of accounting firms, which indirectly makes certified public accountants require higher fees as compensation for risk premiums. Based on the above analysis, both the explanatory variables and the control variables are related to the absolute value of the manipulative accruals, and there is basically no multicollinearity between their respective variables. On the one hand, the first two assumptions of this paper are preliminarily verified, and on the other hand, it also shows that these control variables selected in this paper are relatively appropriate. This part is to simply and roughly understand the correlation between the two variables without considering the control variables, so as to preliminarily test whether there is no multicollinearity in the regression model.

### 3. Research on the Influence Mechanism of Media Supervision on Audit Costs

#### 3.1. Regression analysis of the impact of auditor change on audit quality under media supervision

In recent years, with the popularity of Internet media, there are more and more Internet media, and the information transmitted by the media has become the main way for modern people to obtain external information. According to the announcement issued by China Press and Publication Research Institute, the comprehensive reading rate of the national media kept increasing, from 76.3% in 2012 to 79.9% in 2016, and the contact rate of digital reading and the reading rate of paper books increased. By the end of 2016, there were more than 600,000 websites registered in China, and the terminal equipment of new network media had become quite popular. The market scale of communication connection equipment increased from 17.66 billion yuan in 2012 to 23.49 billion yuan in 2016. The rapid development of the Internet

has made financial media more mobile, social and service-oriented. The development of financial media has witnessed the gradual improvement of China's securities market and the continuous improvement of external supervision means. Quality audit service can not only supervise the effective operation of social economy, but also promote the stable and healthy development of economy. The role of audit is mainly reflected in the audit of enterprises by certified public accountants to ensure the authenticity and reliability of the financial information of enterprises to a certain extent, or to remind investors of possible risks, so that the expected users of enterprise financial reports can make more accurate judgments about the possible risks of enterprises in the future, so as to make investment and operation decisions beneficial to themselves. In order to protect the interests of the stakeholders of the audited entity, and the CPA's liability for compensation in case of audit failure is also a protection of shareholders' rights and interests. Based on the above theory, this paper believes that the impact path of media supervision on audit opinions is shown in Figure 1.

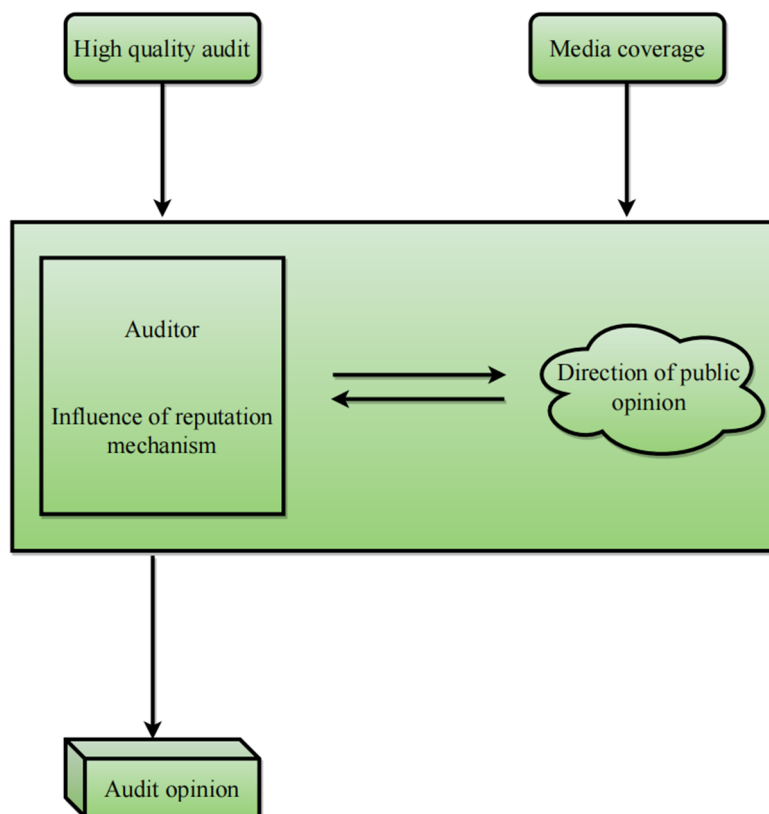


Figure 1. Path map of the impact of media supervision on audit opinions

As a corporate governance mechanism, independent audit can reduce information asymmetry and transaction costs by authenticating accounting information and issuing audit opinions, which has a positive impact on corporate governance. Because the information between investors, creditors and managers of enterprises is not equal, high-quality audit needs have emerged for the purposes of reducing information uncertainty, reducing agency costs, standardizing managers' behavior and restraining earnings management. Therefore, from the theoretical analysis, there is a positive correlation between negative media reports and non-standard audit opinions issued by auditors, that is, the more negative

media reports, the more likely auditors are to issue non-standard audit opinions.

#### 3.2. Descriptive statistics and correlation analysis

On the one hand, the negative reports of the media provide more comprehensive information about the audited company, thus exposing the possible problems of the audited company, making the firm need to invest more resources in order to perform its audit duties more effectively, resulting in higher audit costs; on the other hand, the negative reports of the

media will attract public attention, make the firm face greater risks, and require higher risk premiums. This may be because non-standard audit opinions convey information about the higher risk of the financial report of the audited company, which increases the risk premium and thus increases the audit costs. The risk information conveyed by the type of audit opinions in the previous period has been directly and fully reflected in the audit costs, so it will no longer affect the effect of negative media reports on the audit costs. In the process of data collection, most of the negative media reports in the industry are about the profit decline, poor performance and even the possibility of huge losses of listed companies, which is different from the expected earnings of listed companies before the release of the annual report. Generally, companies

that have been issued with non-standard audit opinions will make a statement before the annual report is published, that is, the so-called "big change in performance", which is significantly different from the expected full-year profit of the previous quarter. Therefore, these negative media reports can sometimes be said to be an early warning to investors.

Therefore, both the highly centralized and decentralized structure will have a negative impact on the audit quality. Only when the equity is moderately concentrated, the interests of all parties will be restrained, and shareholders can actively exercise their supervisory functions to the management and maintain the quality of accounting information and audit services. As shown in Table 1.

**Table 1.** Division Table of Equity Concentration

Shareholding ratio	CR<20%	20%≤CR≤50%	CR>50%
Degree of equity concentration	Height score	Moderate concentration	Highly concentrated

This model mainly focuses on the regression coefficient It of the media supervision variable (Media). If the regression coefficient&is significantly greater than zero, it indicates that negative media reports are positively correlated with non-standard audit opinions. That is, under the condition that other conditions remain unchanged, the more negative media reports on listed companies, the higher the probability that auditors will issue non-standard audit opinions. Hypothesis 1 is true; On the contrary, suppose 1 is not true. If the enterprise's future solvency is insufficient, it may face litigation and other risks. The certified public accountants are in the principle of prudence and are more inclined to issue non-standard audit opinions. The correlation coefficient between ROA and media negative reports is significantly negative at the statistical level of 1%. That is, the income level of shareholders' equity is high and the use efficiency of shareholders' capital is high, which reflects the strong ability of enterprises' own capital to obtain net income. Certified public accountants face low audit and litigation risks, and the probability of issuing non-standard audit opinions is low.

According to the results, we find that there is always a positive correlation between media supervision and non-standard audit opinions in both state-owned and non-state-owned enterprises. According to the column of enterprise nature in the table, we can see that in non-state-owned enterprises, media supervision and non-standard audit opinions are significant at 1% significance level, while in state-owned enterprises, media supervision and non-standard audit opinions are only significant at 10% significance level, indicating that the significance level of non-state-owned enterprises is higher than that of state-owned enterprises; Similarly, according to the column of equity concentration in the table, in the listed companies with non-moderate concentration of equity, that is, high concentration or high dispersion of equity, media supervision and non-standard audit opinions are significant at the level of 5%, while in the enterprises with moderate concentration of equity, media supervision and non-standard audit opinions are significant at the level of 10%, indicating that the listed companies with moderate concentration of equity are more significant than those with non-moderate concentration of equity. Therefore, the government should give appropriate support and reduce relevant interventions, relax the development of media

enterprises, so that media enterprises can compete freely in the development of market economy. A fully competitive media market will reduce the bias of media reports and enhance the reliability of media reports, thus creating a relaxed and good media market competition environment and public opinion environment, preventing the alienation of media supervision functions and the deviation of media reports, and giving full play to the governance effect of media supervision.

#### 4. Conclusions

Compared with other western countries, China's CPA audit started later, but the reform and development of the market economy system has promoted the significant improvement of the type and quality of audit services in China, and also provided a broader field for the academic research on audit. The level of audit quality will not only affect the reputation cost and benefits of auditors, but also affect the decision-making behavior of other market participants. In recent years, the media has exposed a series of scandals of accounting fraud and audit failure both at home and abroad (such as the crisis of the Chinese stock market), which has had a negative impact on the reputation and behavior of auditors to varying degrees, and has attracted widespread attention from the academic and practical circles. Therefore, media supervision can be regarded as an alternative law. Through its information dissemination mechanism, it brings pressure from public opinion, which has a certain impact on the reputation of company managers and auditors, and urges them to standardize their own behavior, improve the accuracy of accounting information, ensure audit quality, etc., thus effectively protecting the legitimate rights and interests of investors. Through legislation and other means to guide the media to correctly perform the role of supervision and governance of the capital market, so as to ensure the more reasonable and stable development of China's capital market.

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