

Local Government Audit Information Disclosure and Audit Pricing: Evidence from China

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Abstract—Audit disclosure, as a critical component of government information transparency, plays a significant role in promoting democratic governance, constructing a transparent government, and supporting the modernization of national governance systems. Local government audit information disclosure has become an essential tool for enhancing government credibility and strengthening fiscal oversight. This paper, grounded in the information disclosure practices of local government audit accounts on Weibo and WeChat public platforms, utilizes financial data from Chinese publicly listed companies from 2000 to 2023 as sample data. By constructing a Difference-In-Differences (DID) model, we empirically examine the impact of government audit information disclosure on audit pricing. The results indicate that local government audit information disclosure contributes to an increase in corporate audit pricing. Specifically, such disclosure improves audit transparency, potentially elevating auditors' reputational risk, which in turn encourages auditors to enhance audit quality and increase audit efforts, thereby raising audit fees for firms. From the perspective of government-business interactions, this study adds to the literature on factors influencing audit fees and provides a basis for government policymakers regarding governance modernization and supervisory practices.

Keywords—audit information disclosure, audit pricing, audit effort, local government

I INTRODUCTION

In China, audit disclosure, as a key component of government information transparency, holds significant importance in promoting democratic governance, constructing a transparent government, and supporting the modernization of the national governance system. With the continuous deepening of public administration and the increasing demand for government transparency from the public, local government audit information disclosure has gradually become a crucial tool for enhancing government credibility and strengthening fiscal oversight. The practice of audit information disclosure in China began with the promulgation of the “Standards for the Publication of Audit Results by Audit Institutions” in 2001. Following the release and implementation of the “Interim Measures for the Announcement of Audit Results by the National Audit Office” in 2002, government audit information disclosure rapidly advanced, with the scope and intensity of disclosures continuously expanding. In 2015, the National Audit Office issued relevant documents to further strengthen the disclosure of audit results and other information by domestic audit departments, enhancing public rights to supervision and access to audit-related information. The report of the 19th National Congress of the Communist Party of China emphasized the need to “improve the public service system to continuously meet people's growing needs for a better life.”

Government audit information disclosure enables the timely and accurate release and interpretation of policies, addresses concerns from the public and businesses, helps convey government actions to market participants, and promotes internal government self-supervision and risk management, thereby enhancing government credibility to a certain extent (Zhou & Ye, 2023). The existence of government credibility helps resolve the issue of distrust between the government and the public, thereby reducing the transaction costs between the two parties. It also decreases the time and effort required by the public to obtain information regarding the government's governance capabilities, while simultaneously enhancing the government's governance capacity. This credibility forms the foundation for the government to establish a positive external image and maintain its governing capability. However, the impact of audit information disclosure on the audit services market, particularly on the audit pricing mechanism, has not been sufficiently researched. Audit pricing is a critical aspect of the audit services market as it affects both the economic performance of accounting firms and the compliance costs and audit quality for the audited entities. Traditional audit pricing mechanisms consider factors such as audit risk, workload, and market competition, but in the context of information disclosure, audit pricing may be influenced by additional factors. For instance, disclosed audit information may reduce information asymmetry and lower the uncertainty auditors face when assessing risk, thereby affecting their pricing decisions (Pan & Bian, 2023). At the same time, increased transparency in audit information may raise the reputational risk for auditors, prompting them to improve service quality, which in turn influences audit costs and pricing.

The disclosure of audit information is not only a service to the public but also a form of power. Since the promulgation of the “Regulations of the People's Republic of China on the Disclosure of Government Information,” audit departments have annually disclosed their work under the “Statutory Information Disclosure” section on official websites. However, there are still issues with insufficient government information disclosure: singular format, incomplete disclosure, and outdated content, resulting in ineffective information disclosure that fails to meet the public's information needs. In the context of the big data era, to meet and enhance interaction between government audit departments and the public, local governments have launched audit Weibo and WeChat official accounts. This helps the public, enterprises, and accounting firms to timely understand and grasp audit policies, enhancing the importance of auditing. Existing research has shown that the establishment of local government audit WeChat public accounts has helped

expand the dissemination and influence of local audits, advancing information disclosure efforts by various audit institutions and other government departments (Zheng & Zhu 2020). However, there is still limited research on the relationship between local government audit information disclosure and audit pricing. Most studies have focused on the externalities of audit pricing from the perspective of government oversight, with little attention paid to the role of audit information disclosure.

Therefore, this paper, based on the information disclosure practices of local government audit Weibo accounts and WeChat public platforms, constructs a Difference-in-Differences (DID) model to empirically examine the impact of government audit information disclosure on the audit pricing mechanism. The marginal contribution of this paper lies in filling the existing research gap by offering new perspectives and insights for understanding and optimizing the relationship between local government audit information disclosure and audit pricing mechanisms. This, in turn, enriches the literature on factors influencing audit pricing, which has important theoretical and practical implications for improving the audit services market and enhancing audit quality and efficiency. Additionally, this paper provides a crucial basis for promoting the modernization of government governance and improving governance standards, while offering valuable reference and guidance for government policymakers, accounting firms, and audited entities.

II LITERATURE REVIEW

The development of government information disclosure in China can be traced back to the establishment of early government information disclosure websites. In 2015, the State Council issued the Action Plan for Promoting the Development of Big Data, which called for strengthening top-level design and coordination, vigorously advancing the interconnection, openness, and sharing of government information systems and public data. The plan emphasized the need to integrate government information platforms, eliminate information silos, and promote the opening of data resources to society. These efforts aim to enhance government transparency, foster social development, and better serve the needs of the public and enterprises. As an integral part of public fiscal management, local government audit departments play a crucial role in enhancing government transparency and strengthening public trust through audit information disclosure. Government audit information disclosure is a subset of government public data openness. Serving as a platform with both public and data-related attributes, it is a necessary step in transitioning government governance from a unilateral approach to a collaborative one (Wang & Zhang 2019). Audit information disclosure is a key mechanism for increasing government transparency and fostering public trust. Information disclosure and policy transparency help reduce information asymmetry between the government and the public, serving to enhance public understanding of, and support for, public policies (Porumbescu, 2017). Audit information disclosure not only aids the public in understanding government audit activities and recent policy practices but also promotes internal government self-supervision and risk management. Furthermore, audit information disclosure is a significant

method for advancing internal control and risk management within the government. By opening data to the public, the government encourages societal engagement in the application and innovation of open data, which enhances the governance effects of public data. Public participation, in turn, enables data to exert a positive influence on social life, thereby achieving collaborative governance (Liu, 2022).

Audit pricing is a key indicator for assessing the quality of audit services and has become an important basis for regulators to evaluate audit activities and for market participants to assess the quality of corporate information disclosure. The pricing of audit services reflects the supply-demand dynamics of the audit market. Audit pricing not only influences auditor independence but also directly affects audit quality. Since Simunic (1980) first proposed the audit pricing model, a lot of scholars have conducted extensive and in-depth research on the factors influencing audit pricing. This paper reviews the existing research on the influencing factors of audit pricing from three aspects: the subject, the object, and the external environment of audit pricing. First, on the auditor side, listed companies tend to hire reputable accounting firms to send positive corporate governance signals to their stakeholders (Dong, 2018). Reputable accounting firms can provide high-value audit services, and their fees are correspondingly higher. The Big Four accounting firms charge significantly higher fees for large clients, aiming to cover the required audit resources and the potential reputational damage and litigation risks associated with the high public and media attention they receive (Alexey, 2019). By hiring certified public accountants with industry expertise, listed companies can signal their commitment to corporate governance, resulting in an audit fee premium for auditors with specialized industry knowledge (Mikko, 2012). Second, on the client side, the size of a company determines its audit fees. Larger companies typically require longer audit cycles and incur higher audit costs, directly leading auditors to charge higher fees for these clients. J. R. Francis (1984) examined the Australian audit market using a modified version of the Simunic audit fee model and found a significant positive correlation between the size of a listed company's assets and audit fees. Existing research also shows that auditors charge higher fees for clients with higher risk (Ranasinghe *et al.*, 2022; Raghunandan & Rama, 2006), in their study of listed companies in 2004, verified that audit fees for companies disclosing material weaknesses in internal controls are higher than those without such weaknesses. Li (2014) found that, compared to non-state-owned enterprises, Chinese state-owned enterprises have higher audit fees. Third, regarding the external governance environment, audit-related policies and regulations also have a significant impact on audit pricing. For instance, the introduction of the audit partner signature requirement in the UK enhanced audit quality control, leading to an increase in audit fees (Carcello & Li, 2013), consistent with previous research findings that audit fees reflect changes in legal frameworks and the litigation risks faced by auditors (Bikki & Pek, 2011; Srinidhi *et al.*, 2009). Fang and Peress (2009) argue that media coverage, as an information intermediary, serves as a signal of potential issues and risks within companies, which increases auditors' potential litigation risk. This heightened scrutiny leads to an increased risk of internal control audits

and subsequently raises audit pricing. Although there is substantial research on the factors influencing audit pricing, most studies on government audit information disclosure remain at the theoretical level, particularly regarding China's government audit transparency. Empirical analyses on this topic, however, are scarce. Therefore, our study extends existing literature on audit pricing by investigating the role of a new variable –local government audit information disclosure in the audit pricing process.

III THEORETICAL ANALYSIS AND RESEARCH HYPOTHESES

The audit cost hypothesis forms the foundation of the audit pricing model. Based on this hypothesis, the level of audit pricing depends on the extent of audit costs and the resources invested in the audit process. Higher audit fees can compensate for the allocation of resources, thereby helping the audited entities enhance the informational content of their financial statements (Lobo & Zhao, 2013). Public disclosure of audit information at the governmental level may increase the demands placed on auditors, as they may need to conduct deeper analyses and verifications of the disclosed information. This can complicate the auditing process, leading to higher resource investments, which in turn raises the overall audit costs and fees. Audit information disclosure fosters interaction between the government and the public (Janssen, 2011), promoting greater public participation in national governance (Jin, 2021). This increased public scrutiny enhances the oversight of governmental activities. The pressure from such oversight translates into higher expectations from government audit agencies towards both businesses and accounting firms. From the perspective of the reputation mechanism, the reputation mechanism influences the decision-making behavior of key actors through public opinion. Its operational principle is that in an information society, once the media disclose the irresponsible actions of governments or enterprises, these entities are labeled as having poor administrative quality and serious principal-agent problems. This results in a loss of public trust, which diminishes both governmental administrative effectiveness and corporate reputations. The reputation mechanism functions as a signaling and transmission system, where a decline in reputation triggers a chain reaction involving market and legal mechanisms. It can be inferred that when reputation is damaged, both governments and enterprises face significant challenges. Therefore, maintaining a high reputation can better regulate the behavior of key actors, prompting them to act diligently and responsibly, thereby reducing the risk of errors. Non-compliant companies will attract greater public attention through local government audit disclosure platforms, which can lead to significant reputational damage. Moreover, operational risks for non-compliant firms may increase, adding to the uncertainty of their future profitability, and subsequently raising the likelihood of audit failures. In response, auditors face potential reputational risks, motivating them to invest more time and effort in strictly adhering to audit procedures to enhance the quality of their work. This inevitably increases the auditors' explicit costs in providing audit services, thereby elevating the audit fees for the companies involved. Furthermore, public disclosure of audit information serves as a signal, indicating the degree of importance local

governments place on audit supervision and corporate auditing practices. This signal prompts both auditors and firms to strictly follow standard audit procedures and heightens the focus on audit work, potentially leading to increased resource investments, which subsequently drives up audit pricing. Based on the above discussion, the following hypothesis is proposed in this paper.

H1: The disclosure of local government audit information has a negative impact on corporate audit pricing.

IV RESEARCH DESIGN

This paper selects data from publicly listed companies between 2000 and 2023 as the initial research sample. To ensure the completeness and reliability of the data, the following filters were applied to the initial dataset: (1) observations from companies marked as *ST and ST were excluded; (2) observations from companies with a debt-to-asset ratio of less than 0 or greater than 1 were removed; and (3) observations with missing values for key variables were eliminated. After these steps, a total of 42,622 observations remained. To mitigate the influence of extreme values on the analysis, all continuous variables were minorized at the 1% level on both tails. All primary financial data in this study were sourced from the China Stock Market & Accounting Research (CSMAR) database.

The paper employs a Difference-in-Differences (DID) model to examine the impact of local government audit information disclosure on audit fees for constrained firms.

$$AuditFee_{t+1} = \beta_0 + \beta_1 wb_{it} + \beta_2 wx_{it} + \beta_j Controls_{it} + \sum Year + \sum Firm + \varepsilon_{it}$$

Among them, the dependent variable, AuditFee, represents audit fees, measured as the natural logarithm of the audit fees for the firm in period t+1. WB is a binary variable equal to 1 if the local government established an official audit account on Weibo during the year, and zero otherwise. WX is a binary variable equal to 1 if the local government established an official audit account on WeChat during the year, and zero otherwise. The coefficients and β_1 are β_2 the primary coefficients of interest in this study. If the coefficients are greater than zero, it indicates that the disclosure of local government audit information increases corporate audit pricing, thereby confirming the hypothesis.

Table 1. Variable definitions

Items	Variable symbols	Variable definitions
Control variables	Size	Firm size, natural logarithm of total assets
	Lev	Leverage, total liabilities/total assets
	ROA	Return on assets, net profit/total
	Liquid	Current ratio, current assets/current liabilities
	BM	Market value, market value/total assets
	Board	Board size, natural logarithm of the number of board members +1
	ListAge	Listing age, natural logarithm of the difference between the sample year and the firm's listing year
	Big4	Audit firm, one if audited by one of the Big Four, otherwise zero
	SOE	Ownership structure, one if state-owned enterprise, otherwise zero

Following the research of Pan (2023) *et al.*, this study incorporates several control variables into the model, including firm size (Size), debt-to-asset ratio (Lev), Return On Assets (ROA), current ratio (Liquid), market value (BM), board size (Board), years listed (ListAge), auditor firm type (Big4), and ownership structure (SOE). The definitions of the variables are shown in Table 1.

V ANALYSIS OF EMPIRICAL RESULTS

A. Descriptive Statistics

Table 2 presents the descriptive statistics for the primary variables. The mean of AuditFee is 13.592 with a standard deviation of 0.66, indicating that the variable approximates a normal distribution after data processing. The maximum and minimum values are 15.703 and 12.255, respectively, reflecting substantial variability in audit fees among the sample firms. The mean debt ratio is 0.438, with maximum and minimum values of 0.998 and 0.007, respectively, demonstrating significant variation in financial leverage across firms. The mean return on total assets is 0.038, signifying that the average net profit constitutes 3.8% of total assets. The results for the remaining control variables align closely with existing research.

Table 2. Descriptive statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
AuditFee	42622	13.592	0.660	12.255	15.703
WB	42622	0.262	0.440	0.000	1.000
WX	42622	0.277	0.448	0.000	1.000
treat1	42654	0.379	0.485	0.000	1.000
treat2	42654	0.644	0.479	0.000	1.000
Size	42622	22.096	1.306	14.942	28.636
Lev	42622	0.438	0.204	0.007	0.998
ROA	42622	0.038	0.076	-1.859	1.285
Liquid	42622	2.401	3.532	0.020	204.742
Board	42622	2.136	0.209	0.000	2.944
BM	42622	0.640	0.252	0.001	1.601
SOE	42622	0.410	0.492	0.000	1.000
ListAge	42622	2.135	0.789	0.000	3.497
Big4	42622	0.055	0.228	0.000	1.000

B. Benchmark Regression Results

Table 3 reports the baseline regression results on the impact of local government audit information disclosure on audit pricing. Column (1) presents the regression results with only the key explanatory variables, while column (2) adds all control variables based on column (1). The results show that in column (1), the coefficient of WB is 0.370 and is significant at the 1% level, while the coefficient of WX is 0.450, also significant at the 1% level. In column (2), the coefficients of WB and WX decrease slightly but remain significantly positive, collectively indicating that the disclosure of local government audit information can increase corporate audit pricing, thus supporting hypothesis H1.

Regarding the control variables, return on assets (ROA), debt-to-asset ratio (Lev), and current ratio (Liquid) are significantly negatively correlated with audit fees (AuditFee), suggesting that the better the firm's financial performance, the lower the audit fees. Firm size (Size), board size (Board), and auditor firm type (Big4) are positively correlated with audit fees (AuditFee), indicating that larger firms and more extensive auditor workload led to higher audit fees.

Table 3. Benchmark regression results

	(1)	(2)		(1)	(2)
Var	AuditFee	AuditFee	Var	AuditFee	AuditFee
WB	0.370*** (46.93)	0.0308*** (5.65)	BM		-0.0452*** (-5.85)
WX	0.450*** (73.98)	0.0707*** (15.81)	SOE		-0.0104 (-1.43)
Size		0.352*** (134.35)	ListAge		0.168*** (42.61)
Lev		-0.0792*** (-6.31)	Big4		0.254*** (23.91)
ROA		-0.422*** (-19.47)	_cons	13.37*** (4757.64)	5.438*** (101.6)
Liquid		-0.00277*** (-5.60)	N	42622	42622
Board		0.0295** (2.90)	Year	Yes	Yes
			Firm	Yes	Yes
			Adj.R2	0.2352	0.6695

C. Heterogeneity Test

Table 4. Heterogeneity test

	(1)	(2)	(3)	(4)
Var	SOE AuditFee	Non-SOE AuditFee	Large audit firm AuditFee	Small audit firm AuditFee
WB	0.0415*** (0.008)	0.0436*** (0.008)	0.0264 (0.025)	0.0356*** (0.006)
WX	0.0531*** (0.007)	0.0772*** (0.006)	-0.0173 (0.024)	0.0723*** (0.004)
Big4	0.212*** (0.015)	0.291*** (0.016)		
SOE			-0.0191 (0.049)	-0.00204 (0.007)
_cons	5.232*** (0.088)	5.610*** (0.070)	5.651*** (0.427)	5.548*** (0.053)
N	17455	25167	2348	40274
Year	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes
R ²	0.629	0.685	0.382	0.675

When the nature of corporate ownership and firm size differ, the audit fees a company can bear also vary, and this also involves differences in the size of the chosen audit firm. Larger and more capable accounting firms are more sensitive to government audit information, with auditors having higher levels of professional expertise and competence, leading to an increase in audit fees that companies need to pay. The results in Table 4, Columns (1) and (2), show that the coefficients of WB and WX for both state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs) are positive and significantly correlated at the 1% level. This indicates that the disclosure of local government audit information uniformly increases audit pricing for both SOEs and non-SOEs. As shown in Table 4, Columns (3) and (4), when comparing the size of the accounting firms chosen by companies, the coefficients of WB and WX are no longer statistically significant when audited by one of the Big Four international accounting firms. However, when audited by smaller accounting firms, the coefficients of WB and WX are significantly positive at the 1% level. This suggests that more competent Big Four international accounting firms possess strong information channels and do not need to rely on local government audit information. It is possible that the audit fees of the Big Four international accounting firms are inherently high, rendering them less susceptible to the influence of

external factors. In contrast, smaller and medium-sized accounting firms, with fewer information channels, are significantly affected by local government audit information disclosure in terms of audit pricing.

D. Parallel Trend Test

A key prerequisite for the effectiveness of the Difference-in-Differences (DID) method is the parallel trends assumption, meaning that there should be no significant difference in audit fees between the treatment group and the control group prior to the disclosure of local government audit information. In this study, dummy variables were set for WB and WX separately. d_5 , d_4 , d_3 , and d_2 represent the five years, four years, three years, and two years, respectively, before the establishment of the local government's audit Weibo account, while $current1$, $d1$, $d2$, $d3$, $d4$, and $d5$ correspond to the year of establishment and the first through fifth years after the account's launch. Similarly, x_5 , x_4 , x_3 , and x_2 represent the five years, four years, three years, and two years before the establishment of the local government's audit WeChat account, while $current2$, $x1$, $x2$, $x3$, $x4$, and $x5$ correspond to the year of establishment and the first through fifth years after the account's launch. As shown in Fig. 1, the results of the parallel trends test indicate that the regression coefficients were not significant prior to the establishment of the local government's audit WeChat account, while the coefficients became positive after the account's launch. This suggests that the disclosure of local government audit information increases corporate audit fees, and the effect is persistent. These findings validate the parallel trends assumption.

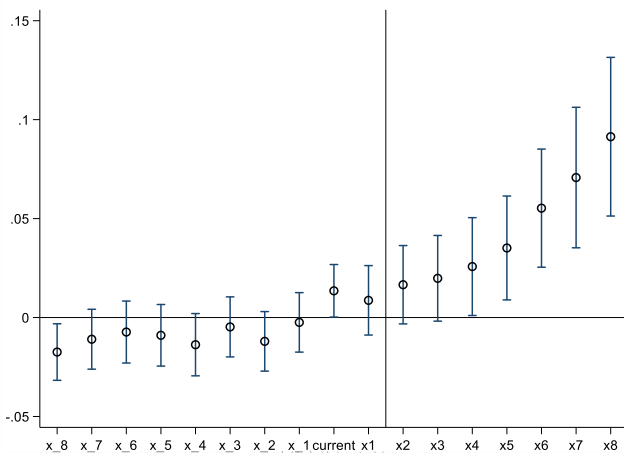


Fig. 1. Parallel trend plot.

E. Robustness Tests

1) Placebo test

To ensure the robustness of the research results and to rule out the influence of other potential unobservable factors, this study employs a placebo test. We randomly select samples using a random sampling method and divide them into treatment and control groups. Based on these groupings, we conduct regression analysis on Model (1) and repeat this process a total of five hundred times. The results of the placebo test show that the kernel density estimates of the coefficients from the random processes are concentrated around zero, indicating that the impact of local government audit information disclosure on corporate audit pricing is not

driven by other unobserved factors. This finding further strengthens the reliability of our conclusions.

2) PSM-DID test

The conclusions of this paper may be subject to endogeneity issues such as sample selection bias and omitted variables. To address these concerns, this study further adopts the Propensity Score Matching (PSM) method, selecting all control variables as covariates and using a Logit model to re-estimate the impact of local government audit information disclosure on audit pricing. Based on the nearest-neighbor matching results, the standardized mean differences of all matched variables after matching are less than 5%, meeting the standard of less than 10%. This indicates that the PSM process satisfies the balance test requirements and that the matching effect is satisfactory. The final regression results show that the disclosure of local government audit information remains significantly positively correlated with audit pricing, thus reaffirming the validity of the study's conclusions.

VI CONCLUSION

This paper, based on an analysis of information disclosure practices, constructs a difference-in-differences model to empirically examine the impact of local government audit information disclosure on corporate audit pricing mechanisms. The findings indicate that local government audit information disclosure contributes to an increase in corporate audit pricing. Increased transparency in audit information due to government disclosure elevates auditors' reputational risks, prompting them to improve audit quality and increase audit efforts, which in turn raises audit fees for companies. Based on further research on the selection of accounting firms by enterprises, it is found that, compared to smaller accounting firms, the Big Four international accounting firms are not significantly affected by the disclosure of local government audit information and thus do not increase audit fees for enterprises as a result.

By studying the effect of local government audit information disclosure on corporate audit pricing in the context of public data openness policies, the empirical findings and conclusions of this paper offer valuable insights for practical development. Theoretically, this study, based on the establishment and timing of government audit microblogs and WeChat public accounts, demonstrates the degree of attention local governments pay to audit activities and how the publication of content following these accounts' establishment impacts corporate audit costs. This enriches the existing literature on audit information disclosure and broadens the research on audit pricing determinants. In practice, local government audit information disclosure serves as an effective means for governments to promote audit activities and explain audit policies to the public. It facilitates access to audit supervision information for the public, auditors, and companies, highlighting the importance of audit as a supervisory tool. This also reflects the attention local and provincial governments place on audits, demonstrating the significance of audits and the governance capacity of local governments. Consequently, auditors' pricing strategies are not solely about resource allocation efficiency but also involve considerations of institutional

coordination. This study holds significant implications for enhancing the government's effectiveness and supporting the market in playing a decisive role. Specifically, audit pricing not only pertains to the rational distribution of audit resources but also reflects the various coordination mechanisms within the institutional framework. The findings of this paper help governments better fulfill their functions and facilitate the effective operation of market mechanisms.

There is still room for improvement in this study. On one hand, empirical support for the mediating role and mechanism of local government audit information disclosure on audit pricing is lacking, which calls for further research to explore the relationship between the two. On the other hand, local governments' decision-making power and influence vary across different provinces and cities, leading to varying degrees of responsiveness to audit policies. As a result, the impact of local government actions and implementation practices on local enterprises requires further analysis. In future research, more methodologies will be adopted to refine this study, enhancing its persuasiveness and validity.

CONFLICT OF INTEREST

The author has claimed that no conflict of interest exists.

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