

The Research of Preliminary Annual Results Quality, Nature of Property Right and Audit Fee

Yi Pan^{1, †}, Bowen Qi^{2, *, †} and Xiaoci Yan^{3, †}

¹ Business School, Capital University of Economics and Business, Beijing, China

² School of Accounting, Zhongnan University of Economics and Law, Wuhan, China

³ School of Finance, Nanjing University of Finance and Economics, Nanjing, China

* Corresponding author: 202021080128@stu.zuel.edu.cn

†These authors contributed equally

Abstract. Based on the gradual normalization of voluntary performance letter disclosure, this paper chooses the data of Chinese main board-listed companies from 2013 to 2020 and uses multiple regression analysis to explore the impact of preliminary annual results quality on audit fees and the regulating mechanism of property rights. The results show that the quality of preliminary annual results can assist auditors to assess audit risk levels, and then affect audit fees. In addition, in the periodic regression analysis, there is a significantly positive correlation between the preliminary annual results material misstatement and audit fee. By comparison, private enterprises have a more significant positive correlation between material misstatement and audit fees.

Keywords: Preliminary annual results quality, Nature of property rights, Audit fee.

1. Introduction

In recent years, investors' demand for openness and transparency of market information is growing, and the capital market information disclosure system is also constantly improving. The influencing factors of the quality of accounting information disclosure and its economic consequences have always been the focus of academic discussion. Its research is mainly based on the development of Information Asymmetry Theory and Principal-Agent Theory. The Information Asymmetry Theory refers to that the insiders of a company having significant advantages over investors in terms of internal information. Under different circumstances, it will mainly produce positive and negative effects. The positive influence means that more accounting information is disclosed to alleviate the asymmetry of market information, so as to improve market efficiency; The negative impact refers to that the internal personnel of the company, mainly the management, use the contradiction of information asymmetry to manipulate the information disclosure, so as to achieve their own economic purpose.

The Principal-Agent Theory was proposed based on the Information Asymmetry Theory, which refers to the separation of enterprise ownership and management rights. When the stakeholders of the company and the management of the company have different interest objectives, the management of the company will make economic actions that damage the interests of investors because of the natural information advantage.

In order to solve the above two problems, Healy and Palepu[1] pointed out that maximizing information disclosure by enterprises is an effective channel, which can make up for the lag in the time of regular reports, release relevant risks promptly, and alleviate the problem of information asymmetry in the market.

At present, there are three main ways of voluntary disclosure of financial information of listed companies in China's main board: profit forecast, preliminary annual results and performance forecast. These measures can improve the timeliness of information disclosure and effectively alleviate the defect of inadequate timeliness of audit reports. Their disclosure time and disclosure characteristics are shown in Table 1.

Table 1. Three major forms of Disclosure

	Disclosure Time	Disclosure characteristics
Profit Forecast	Before reporting period	voluntary
Preliminary Annual Results	After reporting period	voluntary
Performance Forecast	After reporting period	semi-compulsory and semi-voluntary

It can be seen from Table 1 that the profit forecast refers to the number of profits that an enterprise voluntarily discloses before the end of the business year. Compared with the preliminary annual results report and performance forecast disclosed after the year, it has strong uncertainty and limited ability to reduce information asymmetry; The performance forecast is the same as the preliminary annual results report. It releases the unaudited accounting information in advance after the end of the accounting year and before the issuance of the audit report. Different from the preliminary annual results report, on the one hand, according to the relevant provisions of the CSRC, if a listed company suffers from losses, turns losses into profits, or the performance changes by more than 50% month on month, it needs to disclose the performance forecast compulsorily, so it is semi mandatory and semi-voluntary; On the other hand, due to the nature of forecast disclosure, the forecast results of the performance forecast are more range values, such as the upper and lower limits of the expected net profit. Compared with the other two disclosure methods, the accuracy of the disclosed figures is questionable.

The preliminary annual results refer to the document that the listed company initially discloses the main accounting data and operating indicators after the end of a certain accounting reporting period and before the regular announcement. Compared with the performance forecast, the preliminary annual results can present a relatively more accurate value, which is conducive to improving the timeliness, reliability and fairness of information disclosure [2]. Due to the short time, domestic scholars also lack attention to this.

Then, as one of the important participants in the market, will the auditor's risk assessment decision on a material misstatement of preliminary annual results have an impact on the audit fee? And, how will the influence be different among enterprises with different natures of property rights? So far, few scholars have answered this question. In addition, the current domestic scholars' research on the influencing factors of audit fees mainly focuses on the impact of the internal and firm characteristics of listed companies on audit fees, but there are few literature studies on the impact of the quality of preliminary annual results on audit fees.

The implementation of preliminary annual results in China first appeared in the information disclosure of small and medium-sized enterprises on the Shenzhen Stock Exchange, while only encouraging disclosure is still required for A-share listed enterprises. However, as one of the important sources of information on the comprehensive capabilities of enterprises, performance flash has become the focus of attention of listed companies, investors, regulators, and other parties. Therefore, whether A-share enterprises' disclosure of preliminary annual results has a significant impact on audit fees is still a question to be empirically tested, and studying the quality of preliminary annual results is of great significance to enrich the success of the studies on audit fees.

2. Literature Review

2.1. Motivation and Economic Impact of Preliminary Annual Results

Timely and reliable information disclosure is conducive to maintaining the healthy operation of the securities market, and preliminary annual results as the most accurate and reliable data disclosure document disclosed after the end of the accounting year and before the official release of the audit report of the enterprise. From the perspective of investors, the enterprise publishes the preliminary annual results to let investors better understand the situation of the enterprise, reducing the information advantage of the internal management [1], greatly alleviating the problem of asymmetric information in capital markets, and promoting the transparency and fairness of information. From the

perspective of listed companies, the disclosure of a company's preliminary annual result is easier to achieve its signal transmission motivation. That strengthens investors' understanding of the company, effectively reduces the undervaluation of corporates, and also makes it convenient for regulators to understand the overall market situation [3]. Researchers found that in order to ensure the effective operation of the capital market, the key is to disclose relevant information promptly, and the tool of preliminary annual results plays a role in information disclosure and could promptly reflect the financial information of companies.

From an economic perspective, existing research shows that voluntary disclosure of performance information can lead to significant market reactions and positive economic feedback. Voluntary disclosure of performance information not only provides more information to external investors but also benefits customers. When the financial status of the company is good, it can effectively protect the rights and interests of customers, and if the financial status of the enterprise is troubled, the customer will suffer losses; Therefore, considering the interests of customers, the market needs companies to disclose information of preliminary annual results in a timely and fair way, so that customers can judge whether the company can perform the contract. Therefore, the disclosure of performance reports can enable customers to discover the potential financial risks and judge the development prospects of the company, and improve the efficiency of the use of funds in the market[4]. Therefore, articles display that performance reports have information content, and in Liu Muhua [5], 79 performance reports in the early year of the pilot were used as samples, and their information content and market response were studied, which proved that they have information content and bring noticeable market responses. Empirical results also show that signaling the company's positive ability to investors in time is beneficial to updating market earnings expectations, attracting more investment funds, and increasing the company's market value [6,7].

2.2. Factors Influencing Audit Fees

Currently, most of the research on the influencing factors of audit fees mainly focuses on the impact of listed companies' internal and firm characteristics on audit fees, such as the governance structure of listed companies, internal audit, internal control, and the reputation of accounting firms. The empirical test of Gao Lixia found that the more efficient the governance structure of listed companies, the higher requirements for audit quality[8]. The stronger governance motivation at the governance level will afford the higher audit fee. In addition, in corporate governance, a high-quality internal audit function influences external auditor fees, and a qualified internal audit reduces external audit fees [9]. Liao Yigang et al. said that high-quality internal control can effectively reduce audit risks and increase audit costs caused by deviations from preliminary annual results. It can also reduce the positive correlation between preliminary annual results deviation and obtaining modified audit opinions. And that makes the deviation of the preliminary annual results becoming a warning signal for listed companies. At the same time, Gopal also found a relationship between audit fees and management earnings forecasts, and errors and deviations (or optimistic analysis) in enterprises' annual forecasts were positively correlated with audit costs but did not respond to quarterly forecast data [10].

In addition, in the study of external influencing factors, Zhang Yihua and Hu Guodong found that negative media sentiment is an important factor affecting audit expenditure [11]. The company has higher negative media coverage, and the payment of audit fees is higher. At the same time, Liu Bin et al. found through an empirical study that the better the brand reputation of an accounting firm, the higher its bargaining ability due to the outstanding audit quality, and the higher audit fees [12]. In addition, auditor experiences also vary among different accounting firms, so in the study [13], a positive correlation was found between auditor experience and audit fees, and the auditor's characteristics can be used as a signal of whether to take prudent actions during the audit process. In addition, depending on the industrial nature of the enterprise, the relevant regulations and targets issued by the government will also have a significant impact on audit fees. Wang Jiaxin et al. found this relationship, after releasing the Paris Agreement, a strong carbon regulatory signal, most high-

carbon emission enterprises have a relatively large reduction in audit fees compared with some low-carbon emission enterprises [14]. Therefore, after the issuance of some external management measures, the audit fees of relevant enterprises will also be affected.

2.3. Literature Review

According to the existing relevant literature, it is found that most of the existing studies analyze why the disclosure of preliminary annual results quality and their role in the economy is based on the perspective of enterprises and investors and whether the reaction to the disclosure of preliminary annual results in the capital markets and the content of the information provided by preliminary annual results have a significant impact on capital markets. In addition, global scholars have provided samples and studies on internal and external factors affecting audit fees, which provide various references for analyzing the changing factors of audit fees. However, existing research ignores whether changes in audit fees are affected by the quality of preliminary annual results, and there is a lack of relevant research on the impact of the nature of property rights on audit fees. In China's capital market, the nature of an enterprise's property rights affects the confidence of the government, the public, investors and creditors in the enterprise. So the degree of treatment and support is also different. Because of this situation, this paper explores the correlation between the nature of property rights, the quality of preliminary annual results and audit fees, and provides relevant experience for subsequent research.

3. Empirical Research Hypothesis

3.1. Preliminary Annual Results Quality and Audit Fee

After audit activities begin, auditors will understand the auditee and its environment according to the audit report issued by the auditee in previous years and the accounting information independently disclosed by the enterprise, identify the risk of material misstatement of the auditee, and adopt corresponding audit procedures according to the assessed risk of material misstatement, so as to study and submit the amount of audit fee for the current period in various aspects. In a word, the risk of material misstatement and the risk of inspection jointly affect the overall audit risk. When the audit risk level is high, in order to reduce the overall audit risk, accounting firms will assign auditors with more experience in auditing the industry to guide the work, reduce the importance level, and take more audit procedures accordingly as compensation for consuming resources. The auditees will be charged higher audit fees [15].

As a pure voluntary behavior of the company, the preliminary annual results mean that the company discloses the unaudited corporate information before the audit report is issued after the end of the accounting year. To a certain extent, the information asymmetry between the information issuer and the information used is reduced, and the company's operating status is disclosed to the public. As unaudited accounting information, when auditors find that the error between the disclosed value in the preliminary annual results and the actual audit value is small, it will give auditors the impression that the enterprise has strong information disclosure ability and stable performance. To a certain extent, it can enhance auditors' credibility regarding the internal information of the enterprise and reduce the implementation of unnecessary audit procedures caused by the trust. Further, reduce the workload of auditors and reduce audit fees; In the opposite direction, when the error of the preliminary annual results exceeds the acceptable level, it also gives the auditors additional information that the company has material misstatement [16]. The reasons for the material error need to be further judged by the auditors, such as the imperfect enterprise management system, the defects of internal control, and the fraud of the management.

To sum up, when auditors comprehensively assess the preliminary annual results of voluntary disclosure of enterprises to be of poor quality, that is, when the error level of preliminary annual results exceeds the reasonable range, auditors will be prompted to dynamically improve the pre-set

level of audit risk, strengthen the control of audit risk points, and increase the number of audit fees. Based on the above analysis, hypothesis H1 is proposed.

H1: There is a positive correlation between material misstatement in preliminary annual results and audit fees.

3.2. Preliminary Annual Results Quality, Property Right Nature and Audit Fee

Because of our special economic development model, there is a big difference between state-owned enterprises and private enterprises based on the property right nature in operation, financing, and financing field. On the one hand, due to national credit endorsement (implicit guarantee), it is easier for state-owned enterprises to finance in the capital market and obtain credit financing. This is because most Chinese banks have a national background, and the strong government credibility makes the capital market more inclined to lend money to state-owned enterprises in exchange for a more stable rate of return [17]; On the other hand, compared with private enterprises, state-owned enterprises are more favored by investors because of their favorable government policies, largely expected increment of market development, low liquidity risk and strong profitability [18]. At the same time, the evaluation system of state-owned enterprises is not only performance-based. The evaluation criteria of the national regulatory authorities pay more attention to the completion of relevant policies for state-owned enterprises, and the management of state-owned enterprises pays less attention to accounting profits than private enterprises.

Generally speaking, state-owned enterprises have advantages in financing ability compared with private enterprises, and the subjectivity of false disclosure of preliminary annual results in pursuit of higher accounting profits is lower. As a new representative of the economy and society, private enterprises have great difficulty in the financing, and financing often needs to meet more stringent requirements and pay higher interest as risk compensation [19]. As a means of disclosure, preliminary annual results can inform the market of their business performance in advance and help improve the financing environment. To cater to investors, they are more likely to disclose preliminary annual results with large errors. When there are major errors in the preliminary annual results of private enterprises, auditors' assessment of audit risks of the audited entity will be greatly affected. Major errors reflect the possible internal control failure and deterioration of the business environment of the enterprise, which requires auditors to invest more resources. More audit fees are charged. Based on the above analysis, hypothesis H2 is proposed.

H2: Compared with state-owned enterprises, the positive correlation between material misstatement in preliminary annual results and audit fees is more significant in private enterprises.

4. Empirical Research Design

4.1. Data Sources and Sample Selection

This paper selects the data of listed companies on the main board of China from 2013 to 2020 (a total of 8 years) as the original samples. In order to enhance the reliability of regression results, the following treatments are carried out: (1) To eliminate financial companies; (2) Eliminate ST companies; (3) Eliminate the compound property company; (4) Eliminate companies with incomplete data; (5) Excluding companies that have just been listed (listed for less than 1 year). Finally, 3035 effective listed companies and 6135 effective samples were selected. Among them, the data related to preliminary annual results are from RESSET database, and the data of explained variables and other control variables are from the CSMAR database. In order to avoid the influence of extreme values, the continuous random variables were Winsorize with 1% and 99% quantiles.

4.2. Variable Selection

4.2.1. Explained Variable

Audit Fee(Lnaf). Concerning the research of Liao Yigang and Deng Xiangun [16], this paper measures the audit expenses of financial reports disclosed by effective listed companies with the natural logarithm.

4.2.2. Explaining Variable

Material misstatement in preliminary annual results (Dev). Concerning the measurement method proposed by Li Changqing et al. [20], the critical value of the material misstatement evaluation range is set at plus or minus 10% in the preliminary annual results, that is, if the error between the disclosed value and the actual value of the company's preliminary annual results is within 10%, it is regarded as an acceptable range, and Dev is 0. If the error is greater than 10%, it is considered a significant error, and the value of Dev is 1. The formula for calculating the percentage error is as follows:

$$Error_{i,t} = \left| \frac{Pre_profit_{i,t} - Actual_profit_{i,t}}{Actual_profit_{i,t}} \right| \quad (1)$$

Where, Pre_profit_{i,t} represents the unaudited net profit disclosed in the t year preliminary annual results of Company i; Actual_profit_{i,t} represents the real net profit disclosed in the t year audit report of Company i; Error_{i,t} represents the error percentage of the t year preliminary annual results of Company i.

4.2.3. Regulated Variable

Nature of property right (State). In this sample, only state-owned enterprises and privately listed enterprises on the main board are selected. When the property rights of listed enterprises are private, the value of the State is 0; otherwise, it is 1 (state-owned enterprises).

4.2.4. Controlled Variable

Table 2. Introduction to Variables

	Symbol	Variable Name	Variable Declaration
Explained Variable	Lnaf	Audit Fee	The natural log of audit fee
Explaining Variable	Dev	Material misstatement in preliminary annual results	The value is 1 if the material misstatement is greater than 10%, otherwise, it is 0
Regulated Variable	State	Nature of property right	The property is owned by state-owned enterprises and the value is 1, otherwise, it is 0
Controlled Variable	AO	Type of audit opinion	When issuing non-standard audit opinions, the value is 1; otherwise, it is 0
	Big4	Type of firm	If the accounting firm is a Big Four firm, the value is 1; otherwise, it is 0
	Size	Company size	The natural log of total assets at the end of the period
	Roa	Return on assets	Net profit/average of total assets
	Lev	Asset-liability ratio	Ending total liabilities/total assets
	Quick	Quick ratio	Quick assets/current liabilities
	Shrhfd10	Equity concentration	The sum of the squares of the shares held by the top ten shareholders of a company
	Outdir	Independent directors ratio	Number of independent directors/Total number of board members
	BM	Book-to-market	Ending book value per share/market price per share
	Loss	Situation of loss	The value is 1 if the current net profit is negative, otherwise, it is 0
	Age	Years of establishment	Years of listing
	Year	Time	Dummy variable of year
Ind	Industry	Dummy variable of industry	

Since there are few types of research on preliminary annual results at home and abroad, this study adopts articles related to performance forecasts and audit fees. AO, Big4, Size, Roa, Lev, Quick, Shrhfd10 and other control variables are introduced into the model. See Table 2 for specific variables.

4.3. Model Building

In order to explore the impact of preliminary annual results quality on audit fee, namely to verify H1, the following OLS regression model was established:

$$\text{Lnaf} = \beta_0 + \beta_1 \text{Dev} + \beta_2 \text{AO} + \beta_3 \text{Big4} + \beta_4 \text{Size} + \beta_5 \text{Roa} + \beta_6 \text{Lev} + \beta_7 \text{Quick} + \beta_8 \text{Shrhfd10} + \beta_9 \text{Outdir} + \beta_{10} \text{BM} + \beta_{11} \text{Loss} + \beta_{12} \text{Age} + \sum \text{Ind} + \sum \text{Year} + \varepsilon_i \quad (2)$$

In order to further study the influence degree of preliminary annual results quality of listed companies with different property rights on audit fee, that is, to study the influence of material misstatement and property right (Dev*State) on audit fee (Lnaf), so as to verify H2, this paper takes Model (2) as the basis and assumes that explanatory variables and control variables remain unchanged. Property right (State), the moderating variable, was introduced, and the following OLS regression model was established:

$$\text{Lnaf} = \beta_0 + \beta_1 \text{Dev} + \beta_2 \text{State} + \beta_3 \text{Dev} * \text{State} + \beta_4 \text{AO} + \beta_5 \text{Big4} + \beta_6 \text{Size} + \beta_7 \text{Roa} + \beta_8 \text{Lev} + \beta_9 \text{Quick} + \beta_{10} \text{Shrhfd10} + \beta_{11} \text{Outdir} + \beta_{12} \text{BM} + \beta_{13} \text{Loss} + \beta_{14} \text{Age} + \sum \text{Ind} + \sum \text{Year} + \varepsilon_i \quad (3)$$

The above models are all contemporaneous data, and this study does not involve the impact of preliminary annual results quality on audit expenses in different periods.

5. Empirical Results and Analysis

5.1. Descriptive Statistics of Variables

Table 3. Descriptive Statistics of Each Variable

	N	Mean	Sd	Min	Max
Lnaf	6136	13.73	0.595	12.04	16.99
Dev	6136	0.347	0.476	0	1
State	6136	0.310	0.463	0	1
AO	6136	0.070	0.189	0	1
Big4	6136	0.034	0.181	0	1
Size	6136	22.29	1.143	16.41	27.66
Roa	6136	0.037	0.200	-9.117	10.03
Lev	6136	0.456	2.284	0.010	178.3
Quick	6136	1.821	2.358	0.018	49.24
Shrhfd10	6136	0.357	0.168	0.018	0.921
Outdir	6136	0.374	0.055	0.167	0.800
BM	6136	0.607	0.243	0.009	1.344
Loss	6136	0.113	0.317	0	1
Age	6136	12.97	7.110	2	30

Table 3 shows the descriptive statistical values of each major variable. The sample size of the audit fee (Lnaf) is 6136, the mean is 13.73, and the standard deviation is 0.595, indicating that the audit fee of the effective sample companies adopted in this study is generally high. Secondly, the range of audit fees is 4.95 (the minimum is 12.04, the maximum is 16.99, and the standard deviation is 0.595). The minimum value is 12.04), indicating that audit fee of valid sample companies are dispersed and there are large differences among individuals. Companies that voluntarily disclosed performance reports

accounted for 40.2% of all sample companies, indicating that more and more listed companies were willing to voluntarily disclose performance reports, which effectively alleviated information asymmetry. The sample means the value of explanatory variable performance express error (Dev) is 0.347, indicating that there is a significant error (10%) in the performance express error of a considerable number of effectively listed companies, indicating the rationality and universality of this study. The mean value of the property right (State) sample is close to 0.3, indicating that there are a large number of private enterprises in the sample companies selected, and the standard deviation of State is about 0.5, indicating that the distribution of sample values is relatively dispersed.

5.2. Regression results and Analysis

In this paper, OLS regression is conducted on the impact of preliminary annual results quality and property right nature on audit fees, and the regression results are shown in Table 4.

Table 4. Regression Result

	(1)	(2)
Dev	0.078*** (6.73)	0.059*** (4.28)
State		-0.229*** (-14.55)
Dev*State		-0.033* (-1.92)
AO	0.239*** (7.80)	0.243*** (7.90)
Big4	0.489*** (15.72)	0.491*** (15.74)
Size	0.349*** (48.79)	0.351*** (48.77)
Roa	-0.519*** (-4.31)	-0.602*** (-5.00)
Lev	-0.122*** (-2.79)	-0.107*** (-2.44)
Quick	-0.028*** (-6.13)	-0.028*** (-6.20)
Shrhfd10	0.042 (1.18)	0.023 (0.66)
Outdir	-0.084 (-0.83)	-0.070 (-0.69)
BM	-0.237*** (-7.69)	-0.217*** (-7.02)
Loss	0.056** (2.38)	0.046* (1.95)
Constant	6.267*** (42.81)	6.231*** (42.20)
Ind	Control	Control
Year	Control	Control
N	6135	6135
Adj.R ²	0.505	0.502

Note: *, ** and *** respectively represent significant at the level of 10%, 5% and 1%, the same below

5.2.1. Preliminary Annual Results Quality and Audit Fee

Table 4 (1) shows that the regression coefficient of material misstatement (Dev) is 0.078, which is significantly positive at 1% level. When other conditions remain unchanged, when there is a material error in the preliminary annual results of the audited entity, the audit fee will increase by 7.8% on average. It indicates that under the premise of voluntary disclosure of the company's preliminary annual results, when the quality of the preliminary annual results is low, that is, when there is a material error of more than 10% in the preliminary annual results, the auditor will take it as a clue of the existence of material misstatement, infer that the company may have the risk of material misstatement, and even reassess the importance level of the company. As compensation for investing more audit resources (sending more experienced auditors, requiring more audit time, etc.) and adopting more audit procedures, accounting firms will obtain more audit fees accordingly. The regression results in column 1 of Table 4 support hypothesis H1. In addition, control variables such as book-to-market ratio, types of audit opinions, company size, return on total assets, and asset-liability ratio all have a significant impact on audit fees (Lnaf) at the level of 1%. In this regard, if the listed company hires the Big Four accounting firms to conduct an audit, the high-quality services brought by them will correspondingly bring higher audit fees; For large-scale listed companies, due to the complexity of business activities and diversity of business models, more audit resources are needed for audit, and more audit fee is paid by the company as compensation. In terms of the types of audit opinions, when accounting firms issue non-standard audit opinions, auditors will adopt more audit procedures to verify the accuracy and reliability of audit results according to the principle of prudence, so as to avoid damaging the reputation of the firm if the audit opinions are wrong. The above analysis is consistent with the regression results. The influence of other control variables, such as the proportion of independent directors and ownership concentration, on audit fees (Lnaf) is consistent with the existing research results.

5.2.2. Preliminary Annual Results Quality, Property Right Nature and Audit Fee

Based on the regression results in Table 4 (1), the study added property right nature (State) to try to study the compound influence of property right nature on the quality of preliminary annual results and audit fee, which was specifically manifested by the introduction of cross-multiplication term (Dev*State) again regression analysis. The results are shown in Table 4 (2). The regression coefficient of the cross-term (Dev*State) is -0.033, which is significant at the level of 10%. The regression results show that different property rights significantly affect the positive correlation between preliminary annual results errors and audit fees, which is specifically reflected in that property rights weaken the positive correlation in the H1 hypothesis. In other words, compared with state-owned enterprises, private enterprises will strengthen the positive correlation between material misstatement in preliminary annual results and audit fees. When the property rights of listed companies are private enterprises, audit fees charged by accounting firms increase with the possibility of material errors in preliminary annual results voluntarily disclosed by enterprises. The regression results support the H2 hypothesis.

Table 4 Regression results show that under the precondition of voluntary disclosure of preliminary annual results, the quality of preliminary annual results has a great impact on audit fees. When the performance statement voluntarily disclosed by an enterprise falls short of the expected quality, the auditor will regard it as a risk signal and modify the risk of material misstatement. In order to find out the amount, nature and cause of the misstatement, the auditor will increase the necessary audit procedures according to the principle of prudence. In addition, compared with private enterprises, state-owned enterprises are more dominant in the relationship between material misstatement and audit fees.

5.3. Robustness Test

Table 5. Robustness Test

	(1)	(2)		(3)	(4)
Dev_5%	0.061*** (5.54)		Dev_20%	0.061*** (4.42)	
Dev_5%*State		-0.087*** (-5.76)	Dev_20%*State		-0.021* (-0.95)
_cons	Control	Control	_cons	Control	Control

To better test the authenticity and validity of the above argument, a robustness test was conducted in this study (Table 5), that is, the critical level of material misstatement (Dev) in preliminary annual results was adjusted from the original 10% to 5% (Table 5 column 1, Table 5 column 2) and 20% (Table 5 column 3, Table 5 column 4). Repeated regression results showed that, When Dev critical value is 5% and 20%, the regression coefficients of independent variables are both 0.061, and the significance level is 1%. After the property right is introduced, the regression results are consistent with the original variable regression results and are significant, and the H1 and H2 hypotheses are still valid.

6. Empirical Research Conclusions

This paper selects the preliminary annual results and relevant data of the main board-listed companies (excluding the financial industry and ST companies) in China for eight consecutive years (2013-2020) as samples and analyzes and explores the correlation between the nature of property rights, the quality of preliminary annual results and audit fee through empirical research. After OLS regression, our study finds that: (1) If the quality of preliminary annual results is low, That is, when the error level of the preliminary annual results exceeds the critical value level (10%), it indicates that the enterprise may have higher audit risk, which will bring higher audit fee as risk compensation. (2) Further regression analysis found that, compared with state-owned enterprises, when there is a major misstatement in the private enterprises' preliminary annual results, the audit risk will become greater, and the positive impact on audit fees will be more significant. This study found that, in the audit process, in addition to the previously disclosed audit reports, the nature of enterprise property rights, profitability, enterprise size and other accounting information, the error of the preliminary annual results will affect the implementation of the audit work to a certain extent, and the disclosure of the preliminary annual results in low quality will also directly bring certain economic consequences.

According to the results of empirical research, we believe that as a voluntary means of information disclosure, preliminary annual results, on the one hand, do play a role in reducing information asymmetry, and on the other hand, as a medium to judge the audit risk of enterprises, it can effectively help auditors understand the auditee, help the firms implement appropriate audit procedures, and ensure the reasonableness of audit opinions. The state should actively advocate for listed companies to disclose their preliminary annual results independently and regulate their disclosure requirements, so as to help China's economic development to achieve stability and prosperity.

References

- [1] Healy P M, Palepu K G. Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of accounting and economics*, 2001. 31 (1).
- [2] Li Jing. Research on preliminary earnings estimates disclosure, accuracy and market reaction. FUDAN University, 2013.
- [3] Long Li, Gong Guang-ming. Dose the Voluntary Disclosure Behavior of Performance Express Have a Signaling Effect?-Empirical Evidence Based on the Moderating Effect of Investor Sentiment. *East China Economic Management* 2017, 31 (09).

- [4] Zheng Sufen. Customer concentration and preliminary annual results-based on the perspective of commercial credit ratio and sales expense ratio. *Communication of Finance and Accounting*, 2022 (06).
- [5] Liu Muhua. The Information Content of Preliminary Earnings Estimate: Empirical Evidences and Policy Suggestions. *Accounting Research*, 2005 (07).
- [6] Waymire, Gregory. Additional evidence on the information content of management earnings forecasts. *Journal of Accounting Research*, 1984, 22 (2).
- [7] Ajinkya B, Gift M. Corporate managers' earnings forecasts and symmetrical adjustments of market expectations. *Journal of Accounting Research*, 1984, 22 (2).
- [8] Gao Lixia. Research on the relationship between the governance structure of listed companies and audit fees. *The Chinese Certified Public Accountant*, 2021 (06).
- [9] Milan Xuan. The Role of Internal Auditing in Corporate Governance and Impact on External Audit Fees. *China Market*, 2022 (23).
- [10] Gopal V K, et al. How do auditors view managers' voluntary disclosure strategy? The effect of earnings guidance on audit fees. *Journal of Accounting Public*, 2012, 31 (5).
- [11] Hu Guo-dong, Zhang Yi-hua. Relevance between Negative Media Report, Internal Control and Audit Fee. *Journal of Eastern Liaoning University (Social Science Edition)* 2022, 24 (02).
- [12] Liu Bin, Ye Jianzhong, Liao Yingyi. An Empirical Study on the Influencing Factors of Audit Fees of Listed Companies in China—Empirical Evidence from 2001 Annual Report of Shenzhen and Shanghai. *Auditing Research*, 2003 (1).
- [13] Cahan, S. F., & Sun, J. (2015). The Effect of Audit Experience on Audit Fees and Audit Quality. *Journal of Accounting, Auditing & Finance*, 30 (1).
- [14] Wang Jiabin, Sun Mengna, Yu Xinyu. The Porter Hypothesis Under Carbon Risk and Audit Pricing—Evidence based on the Paris Agreement. *Auditing Research*, 2022 (05).
- [15] Xie Rong. On the causes, mode evolution and control measures of audit risk. *Auditing Research*, 2003 (04).
- [16] Liao Yigang, Deng Xiankun. The Bias of Earnings Forecast, Internal Control and Audit Fee. *Auditing Research*, 2017 (04).
- [17] Han Pengfei, Hu Yiming. Does government implicit guarantee reduce the cost of bond financing?—Empirical research on bonds of state-owned enterprises and local financing platforms. *Journal of Financial Research*, 2015 (03).
- [18] Liu Yunguo, Wu Xiaomeng, Jiang Tao. Ownership, Debt Financing and Accounting Conservatism: Empirical Evidence from Chinese Listed Companies. *Accounting Research*, 2010 (01).
- [19] Zhang Jie. Financial Difficulties and Financing Sequences of Private Economy. *Economic Research Journal*, 2000 (04).
- [20] Li Changqing, Chen Zeyi, Huang Yuqing. Internal Control and the Quality of Earnings Preannouncement. *Journal of Audit & Economics*, 2018, 33 (01).