

Study on the Path to Improving the Quality of Information Disclosure of Listed Companies in China: Based on the Dual Perspectives of Corporate Governance and Audit Supervision

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Abstract: The present paper aims to explore the relationship between corporate governance and audit supervision, and information disclosure quality of the listed companies and their heterogeneous synergy efficiency levels. The analysis focuses on A-share listed companies in China in the year 2019-2023, with a total of 12,326 firm-year being screened through standard data. By examining single effect of the corporate governance, audit supervision, on information disclosure level of quality and assessing different aspects of synergy effects in relation to the character of property rights and the extent of regional marketization the author uses CSMAR, Wind database and publicly accessible databases of Shanghai, Shenzhen, and Beijing Stock Exchanges to analyze the issue. There are both positive significant effects of the quality of information disclosure of the listed companies that rely on corporate governance levels and the quality of the quality audit supervision, and those positive synergistic effects are valid. This phenomenon is also particularly evident when it comes to enterprises owned by the state and companies operating in regions with a high level of marketization. Finally, the given paper will provide an empirical support to the way in which the information disclosure standards of listed companies may be improved regarding corporate governance and audit control, and has important practical considerations to be taken into consideration to enhance and optimize capital market regulatory framework in China.

Keywords: Listed companies; Information disclosure quality; Corporate governance; Audit supervision; Synergy.

1. Introduction

The form of disclosing information is at the heart of the rule of law and the development of the capital market based on the market. It substantially determines how much validity and entitlement can be granted to an investor as well as how efficiently and rationally resources can be allocated within the capital market. The findings of the special evaluation of the information disclosure of the companies listed on the Shanghai, Shenzhen and Beijing stock exchanges in 2024-2025 indicate that the 5,366 companies in class A and the 66.59 companies in class B received high ratings, which make up 85.24% of all A-share companies that took part in the assessment. Non viable companies in Class D had a rate of 2.59%. Nevertheless, despite the fact that the number of such companies has been reduced since the previous appraisal season, some companies still continue to fail to standardize their information disclosure and hide some significant aspects of the information. According to the report of the China Securities Regulatory Commission in 2024, the overall number of cases related to illegal behavior concerning securities and futures in the year was equal to 739, of which 249 cases involved violations of information disclosure (249 cases) that made up 34 percent of the total number of illegal cases and came in the first place in the list of violations. Financial fraud, failure to disclose information in time and material omission are only few of many acts that may lie at the core [1]. Besides the majority of information about the problem of quality of information disclosure being constrained to the isolated effects of corporate governance or auditor supervision influence, it has never been examined systematically taking into account the synergist effect of the

both influencing factors. Moreover, the effect of the nature of property rights and the degree of economic marketization in the areas cannot be effectively addressed and it is difficult to see the overall picture of improving the quality of information disclosure in others frameworks. With these statements, the paper selects the research sample that is companies with A-share listing within the years 2019-2023 and empirically assesses the individual influence of corporate governance and audit supervision on information disclosure quality and the interaction effect of two variables. In addition, the nature of the property rights and the marketization is compared to its impact on the synergistic effect and thus this can suggest practical solutions to the theoretical and operational principles of the assessment of pain points in the quality of information disclosure by the listed company as well as effective multi-level regulation of the capital market.

2. Research Design

2.1. Sample Selection and Data Sources

The sample to consider the problem discussed in the present paper is the set of A-shares listed in China over the interval of 2019-2023 and is sorted in respect to the overall rules of the screening procedure adopted in the empirical financial research - there are neither shares marked as ST or *ST or delisted [2], not any share of the financial sector, none of the variables has a missing value or outlier, and all the variables are trimmed at the 1% and 99 percentile, and in the end of the screening process, a last sample size of 12326 firm-years is achieved. The study facts are gathered by publicly verifiable authoritative information sources and the statistics related to financial and governance are gathered using such databases as CSMAR and Wind. To evaluate the level of

implementation of the information disclosure, the data used are predicated on results of the yearly assessments made by listed corporations on the volume of information disclosed by them as published on official websites of the Shanghai, Shenzhen, and Beijing securities exchanges. The auditor supervision data are offered in accordance with annual audits of the listed firms and official statements released by the Chinese Institute of Certified Public Accountants. Marketization index is calculated as per the article which is the summary of the report on China Provincial Marketization Index Report (2024) by Wang Xiaolu, Fan Gang and others.

2.2. Variable Definitions

Information Disclosure Quality (DIS) that is based on the annual records of information disclosure achievements of companies that operate through stock exchanges in Shanghai, Shenzhen and Beijing, information disclosure frequency serves as its measurement. There are four grades of A, A, B, C, and D, that stand for excellent, good, acceptable and unacceptable ratings respectively, and the maximum value is applied to denote positive information disclosure of the listed companies. Variables explanatory: The corporate regulation (CG) and audit control (AU): In relation to CG, the overall assessment index is built based on the principle component analysis (PCA) method whereby every principle component analysis is done depending on three underlying factors including the ownership balance, independent director share, and the number of supervisory board members. Next, the data outcome is normalized and weighted based on the principal components forming an overall index of corporate governance [3]; two dimensions believed to represent AU are the kind of audit opinion and the size of the accounting firm. The unqualified audit opinions are rated with one point, the non-standardized audit opinion with zero, and the top ten accounting offices in general ranking in the China Association of Certified Public Accountants are rated with one point and the other accounting offices are rated with zero. They are made equal in weight with the aim of making an overall indicator. Controls that should be applied are company size, asset-to-liability ratio, return on equity, length of listings, and nature of property rights of the company, as these are the traditional core control variables, since these are the variables currently considered in the body of academic literature on the study of quality of information disclosure.

2.3. Model Construction

The fixed-effect benchmark model that was used to analyse the independent impact of corporate governance and audit control on the quality of information disclosure by the listed companies is as follows:

$$DIS_{it} = \alpha_0 + \alpha_1 CG_{it} + \alpha_2 AU_{it} + \sum_k \alpha_k Control_{kit} + \mu_i + \lambda_t + \varepsilon_{it}$$

In order to explore how the two may influence the extent of information disclosed by them in detail, the interaction variable between corporate governance and audit supervision has been incorporated in the benchmark model, and an enhanced extended model has been developed:

$$DIS_{it} = \beta_0 + \beta_1 CG_{it} + \beta_2 AU_{it} + \beta_3 CG_{it} \times AU_{it} + \sum_k \alpha_k Control_{kit} + \mu_i + \lambda_t + \varepsilon_{it}$$

Here, denotes one of the sample firms, indicates the year of observation, is the fixed effect of the firm and are the random disturbance components.

3. Descriptive Statistical Analysis

In order to solve the issue of excess values influencing the empirical findings, the given paper winsorizes each of the continuous variables based on the initial and one hundred ninety-ninth percentile [4]. The action is a common practice in the research of finance and accounting and may be used in reducing the bias associated with the existence of outliers in statistics (average and standard deviation), and on general basis should meet the high standards of core journals during sample processing. In this example, the descriptive statistics have been performed, and the distribution of the variables is as follows: Information Disclosure Quality (DIS) has the average of 2.85, a median of 3.00, standard deviation is 0.82, maximum value range is 1-4, indicating that on average the information disclosure rate of A-share listed companies is in the middle high end but individual results vary greatly and some are in the low end of information disclosure.

The CG composite index average, median and standard deviation are 0.42, 0.40 and 0.19 respectively. The lowest possible score is merely 0.05, whereas the highest one is 0.91, which could be justified by the high variability of governance in Chinese listed companies. There are other mechanisms in corporate governance that are also very weak and it is clear that there remains a lot to be done in order to make the governance system more effective in its operation [5]. The audit supervision index (AU) average score is 0.89 and median score is 1.00 and standard deviation score is 0.31, implying that most of the companies in the sample have attained an Unqualified audit opinion and have selected the best ranked auditing service firms. The overall performance of auditor supervision has been held fairly even where about 20 percent of companies cannot effectively carry out the process of audit supervision.

The control variables have a mean of company size in the sample of 22.15 and its standard deviation of 1.26, which means that the sizes of A-share companies also are very different; The average asset liability ratio is 0.48 with a median value of 0.47, and this means that the sample has a high degree of leverage; The property rights level averaged is 0.45, which means that there is similar equilibrium between the state-owned enterprise and the non-state-owned enterprise in the sample The relatively uniformity of property rights design is also quite a good foundation allowing the author to examine heterogeneity further. Since the mean variance inflation factor (VIF) of all the variables is 2.36 and that of one individual variable does not exceed five, we can assert that according to multicollinearity test multicollinearity between the variables is not important and all necessary assumptions of multiple regression are met. There could have been sufficient econometric software like Stata that can be used to repeat and verify the correct findings.

4. Regression Result Analysis

Due to the fact that the author analyzes the outcomes of the Hausman test regarding the nature of panel data, he chooses two empirical models considered as the fixed-effects model when conducting the regression analysis. It has no equal in the context of addressing fixed effects of firms, reducing the heterogeneity among firms that is invariant across time and

has an adverse effect on the estimated value and considerably reduces the estimation error by several orders of magnitude [6]. The results of this research indicate that there is a very high level of statistical significance in the regression coefficient of corporate governance (CG) = 0.32 and audit supervision (AU) = 0.28 at the 1 percentage level of statistical significance. It can be inferred that to improve the quality of information disclosure in the listed companies it would require improving the quality of corporate governance and optimizing the level of audit supervision. In regard to the economy, where all other factors are kept constant, the information disclosure quality score is 0.32 on average, and with every additional unit of improvement in the quality of audit supervision, the information disclosure quality score average increases by 0.28 points, and all these factors play important roles as drivers of improved information disclosure quality.

The interaction term in the results of the model regression suggests that CG x AU interaction term coefficient is 0.15 and that this coefficient is statistically significant positively (at level 5 %). It means that the synergist influence of corporate governance and audit supervision is positive and effective so that it could enhance the quality of information disclosures. The two cannot be used alone but complement each other. The collective impact will be greater than the individualized mechanism effect. It has been based on the belief that functional corporate governance framework might bring about a conducive environment within the organization to audit control and improve performance and effectiveness of audits; High quality audit control can help to determine weaknesses and gaps in the corporate governance, business feedback through audit reports, management recommendations, etc., develop internal governance structures, propose possible solutions to the issue of merging guarantees, which is called: internal governance + external control system [7]. The result of control variable demonstrates significant positive relationships between the coefficient of firm size and equity returns and significant negative relationship between the coefficient of asset liability ratio. This observation is consistent with the current body of knowledge concerning the matter and its reasoning behind the idea of information disclosure in the capital markets.

5. Heterogeneity Tests

5.1. Heterogeneity Test Based on the Nature of Property Rights

According to the type of property rights, the research sample in this paper is separated into two categories including the state-owned enterprise and non-state owned enterprises and a group regression test is then conducted. It is found that CG coefficient of the group of state-owned enterprises is 0.38 and 1 percent statistical level coefficient is also positive (However this time coefficient is again 0.33). CG AU interaction coefficient value is 0.19 and it is significant very positively with 5 percent. Non-state-owned enterprise group coefficients are 0.25 and 0.22 which CG and AU coefficients respectively with a strong positivity of 5 percent. Nonetheless, the value of CG x AU interaction coefficient is 0.10 and cannot be tested to be significant [8].

Based on the findings above, it is clear that there is a greater degree of positive correlation and synergy between corporate governance and audit supervision towards improving the quality of information disclosure, particularly when such an

entity is a state-owned company. It is most crucial in the operation of state-owned assets that state-owned enterprises are rigorously supervised and controlled and that the system of state-owned asset governance in these companies is created and implemented more systematically and regularly by the monitoring department. Simultaneously, the emphasis is made on the audit supervision and its implementation is made more properly. this can be achieved effectively. A group of non-state-owned enterprises are found to have poor internal governance mechanisms whereby the audit supervision process is converted into a mere formality that does not function and cannot capture the synergy of both sides.

5.2. Heterogeneity Test Based on Regional Marketization Degree

As stated in the China Provincial Marketization Index (2024) report prepared by Wang Xiaolu et al., the paper sample divides the sample of listed companies into two sub-groups depending on the degree of marketization: high and low marketization index depending on the median of the marketization index using grouped regression test. Such results suggest that the CG coefficient of 0.35 and the AU coefficient of 0.30 are statistically significant and positive at less than 1% significance level in the high-marketized region group. The coefficients of CG and AU interaction are 0.17 and the CG coefficient is 0.23 and AU coefficient is 0.20 within the low marketization region which did not prove significant at the lower level of statistics (10). CG and AU have an interaction coefficient of 0.09 which did not pass the significance test ($p > 0.05$) [9].

The positive side and synergy between both the corporate governance and audits can be easily seen under the condition with a high level of marketization. The regions are more formal and the protection systems of investors are more appropriate and there is also an increase in the external pressure on the activities of listed companies in terms of information disclosure, which also increases. In the meantime, the local audit organizations are of a higher quality, and there is more dynamism in the relationship between internal governance and regulation of business by corporate audit, making it easy to use the synergy effect.

6. Robustness Tests

The paper affirms the conclusion of benchmark regression due to the fact that it also examines the soundness and validity of the same by comparing the same with three famous empirical methods that have a relation in the field of financial accounting including substituting the dependent variable, altering the duration of the study interval of the sample, and reducing the endogenous problem. The proposed model would have been able to eliminate any likely bias in the use of empirical analysis of different factors and the outcome of every regressed test is much associated with the benchmark regression and entirely supports the stability and accuracy of the conclusion drawn in this paper [10].

The various tests of this kind are; independent variable replacement test, among others. It served as a measure of the information disclosure quality and the level of its implementation into practice to be applicable as a gauge of the quality of information disclosure in the present paper, it was substituted by the values of information disclosures violations among the listed companies. Depending on the CSMAR database of the listed companies violations, the

dummy has the value of 1 when there is a violation and it is zero otherwise. Another way of using the logistic discrete choice model regression is also possible. They demonstrate a strong negative correlation between the corporate governance coefficient and audit supervision, as well as a significant negative correlation between the coefficients. That result indicates that high-quality corporate governance and high-quality audit supervision can work synergistically in reducing the probability of corporate information disclosure violation effectively and thus can be combined to reach the objective.

The subsequent is the interval adjustment test. The study findings would not be affected by the fluctuations in the data of a single year since the sample year 2023 observations were removed and the new 9,852 firm-year observations (2019-22) were re-regressed. Regression results suggest that all corporate governance coefficients, audit supervision and their cross-products are extremely statistically significant and the main result of the current paper does not change.

The third one is a test of endogeneity problems mitigating. Since information disclosure quality, corporate governance and audit supervision might cause a bidirectional causal link, which may lead to systematic bias in model estimation, this paper has used regressors as the explanatory variable but with one-period lag [11]. The results of the test indicate that the coefficients of one-period-lagged corporate governance and audit supervision, together with the interaction coefficients between them, are statistically significant and hence are effective to overcome the endogeneity bias caused by the bidirectional causality and enhances the credibility of the research results.

7. Conclusion

The paper focuses on the choice of A-share listed companies in China in the timeframe of 2019-2023. It is an empirical study of how corporate governance and audit oversight impact the disclosure quality of information and the heterogeneity of synergies on the basis of the nature and degree of region marketization and specific results concerning this issue based on CSMAR and Wind databases alongside currently available publicly available reports of Shanghai, Shenzhen and Beijing Stock Exchange. Its conclusion of this paper is that the extent at which a corporation has corporate governance and the strength of audit supervision will have a positive effect on the information disclosure quality of the listed company. Improved internal controls and better external audit controls can be much more high-quality as a result of the disclosures of corporate information. But they do not work alone, but have a highly synergistic action between them. There is created a mutual control and coordination of the two-way mutual control and coordination, which is significantly more effective in improving the quality of information disclosure. Besides, it is also highly contextual and it was only documented in government entities and listed corporations, not in any other area with the lower degrees of marketization due to the inconsistency in the framework of governance and external environment and also others.

After the analysis of the research results, it may be inferred that the listed companies are required to optimize the internal system of management and establish a system of communication between the audit agencies that are orderly; The accounting firms being the gatekeepers in the capital

market have to enhance their capabilities to address the problems and provide appropriate solutions to handle them; there is a necessity to implement various regulations, to strengthen the surveillance of non-state owned companies and listed companies in markets where marketization levels are low, to promote an internal-external partnership based model of quality assurance, which will enhance the disclosure of information.

The research also has restrictions and did not consider the fact that the other industries exist. It is very likely that the differences in the rules and soccer characteristics of different industries can cause different processes and regulation and control effects on the information value. The subsequent research can be done based on the industry categories and aimed at examining the practices of corporate governance and audit oversight in different industrial spheres, providing more precise references on the listed enterprises operating in different industries, to improve the quality of information disclosure.

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