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Relaxation of Access Regulations for Securities Audit and Audit Quality: Evidence from the Implementation of China's New Securities Law

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Abstract

Ensuring high-quality audits is essential for preserving the professional reputation of auditors and safeguarding the stability and health of capital markets. Researchers have explored various factors influencing audit quality from diverse perspectives. In 2020, China introduced the New Securities Law, transitioning the securities service operations for audit firms from a pre-approval system to a post-event filing system aiming to foster a more open and competitive auditing environment. Its impact on audit quality has been a pressing concern for regulators and investors alike. Employing a quantitative analysis, this research utilizes panel data from A-share companies listed on the Shanghai and Shenzhen stock exchanges from 2016 to 2022 in China. The observations were analysed using the Ordinary Least Squares regression and the Difference-In-Difference model to investigate the effects of the New Securities Law on audit quality. The regression analysis demonstrates a positive relationship between the implementation of the New Securities Law and the enhancement of audit quality, even after adjusting for firm-fixed and time-fixed effects. The results reveal that the introduction of the New Securities Law has significantly improved audit quality in China's securities market. The findings underscore the effectiveness of regulatory reforms in enhancing audit quality, contributing valuable insights to the discourse on optimizing audit market regulation. Given the distinctive characteristics of China's securities market and its ongoing integration into the global financial system, further research is proposed to explore the long-term effects of the New Securities Law on audit quality and to examine the mechanisms through which policy changes influence auditing practices.

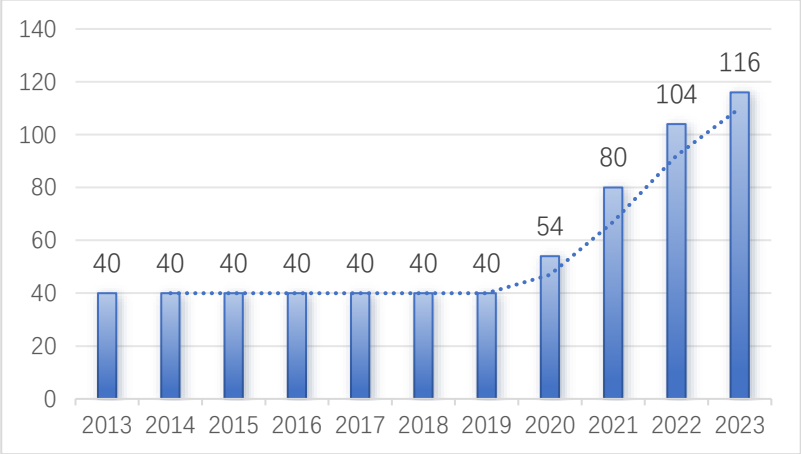
Keywords: Deregulation of Securities Audit, Market Competition, Audit Quality, Listed Companies, China's New Securities Law

Introduction

Ensuring high-quality audits is pivotal not only for preserving the professional reputation of auditors but also for safeguarding the stability and health of the capital markets(Chun et al., 2005). The question of how to improve audit quality remains a perennial topic of interest in

academic circles (Yu & Huang, 2023). The quality of auditing is meaningfully affected by external regulatory frameworks and the conditions of the audit market(Hsiao-Lun & Chan-Jane, 2016). To foster an open securities market and invigorate development and fair competition in the auditing sector, China has reformed the regulatory policies governing the practice of audit firms. Implemented on March 1, 2020, the New Securities Law shifted the regulatory paradigm for audit firms' securities service operations from a pre-approval system to a post-event filing system. The pre-approval regime mandated that audit firms secure explicit authorization from governmental or relevant bodies prior to engaging in securities market auditing activities. Conversely, the filing system simply obliges audit firms to file with regulatory agencies for oversight and governance purposes. Under the filing system, audit firms are permitted to conduct audits in the securities market upon submitting pertinent information for records within a designated period.

The enactment of the New Securities Law has reduced entry barriers for audit firms into securities market auditing, thereby encouraging a greater number of firms to engage in securities services. The count of audit firms involved in securities audit services, as disclosed by the China Securities Regulatory Commission, rose from 40 to 116 by April 2023, marking substantial shifts in the barriers to entry and competitive dynamics of the audit market. Figure 1 illustrates the trend of the number of audit firms qualified to provide securities services from 2013 to 2023 in China.



Source: The official website of the China Securities Regulatory Commission

Figure 1. Number of Audit Firms Qualified to Provide Securities Services in China from 2013 to 2023

The reform of the securities market auditing entry system has significantly triggered the reallocation of audit market resources and alterations in the competitive landscape, impacting audit practices and audit quality. The outcomes of financial legal reforms, shaped by enforcement quality and firm diversity(Ponticelli & Alencar, 2016), raise the unresolved question of whether the audit practice entry reforms under the New Securities Law beneficially or detrimentally affect overall audit quality. Selecting Shanghai and Shenzhen A-share listed companies from 2016 to 2022 as the sample, this study empirically investigates the effects of securities audit entry system reforms post the implementation of the New Securities Law on the audit quality.

Literature Review and Hypothesis Development

As pivotal intermediaries in the securities market, the actions of audit firms are subject to significant scrutiny. Scholars have extensively studied the factors affecting audit quality from aspects such as auditor characteristics, client characteristics, and the external regulatory environment (DeAngelo, 1981; DeFond & Zhang, 2014; Simunic, 1980). The weaker institutional environment in China results in lower audit quality for companies listed only on the Mainland (Dang et al., 2017). In a weak institutional context, particularly in regions with significant government intervention and underdeveloped credit markets, the capital market experiences a shortfall in both demand and supply for audit quality. This reduces investors' and other financial statement users' trust in corporate financial information, thereby diminishing audit quality (Chan et al., 2010; Kamarudin et al., 2022). However, China's capital market is undergoing continuous transformation. In the context of the Chinese government's policies to "relax market access, decentralize benefits to the market, and optimize services", the New Securities Law in China has relaxed restrictions on stock issuance and reduced stringent control over the qualifications of audit firms to engage in securities-related activities. To a certain degree, this has reduced the thresholds for entry into the securities market for audit firms, intended to stimulate market dynamism and encourage a variety of professional services. Under these new policies, the existing audit market structure has changed. A significant amount of audit firms have entered the securities audit market. It is of great interest to observe whether the audit quality in China's capital market has changed.

The study of how audit market structure influences auditor behavior has consistently been a focal point of interest within the auditing academic community, eliciting widespread scholarly debate, yet consensus remains elusive. It is noted that a rise in market concentration has a twofold impact on auditing practices. Some scholars have pointed out that an increase in market concentration diminishes the propensity of audit firms to attract clients through price competition, thereby strengthening their bargaining position and ultimately leading to an increase in audit fees (Asthana et al., 2009; Carson et al., 2012). Newton et al (2016) found that opinion shopping behavior is more prevalent in intensely competitive audit markets. The increase in market concentration is believed to curb auditors' opportunistic behaviors, thereby enhancing the quality of audit services (Antle et al., 2006; Newton et al., 2013). Similar findings have been observed in the Chinese market, where Huang et al (2016) confirmed that auditors increase audit fees and workload in contexts of higher market concentration in China, which contributes to improved audit quality (Numan & Willekens, 2012).

Contrary perspectives argue that a rise in concentration of audit market might diminish audit quality (Francis et al., 2003). For instance, Boone et al (2012) discovered that the oligopolistic dominance of the Big 4 audit firms fosters auditor complacency, leading to more lenient audit methodologies, reduced skepticism, and lowered service quality. However, if the rise in concentration of audit market results from the closure of audit firms in a strongly regulated environment, such an increase in audit market concentration does not adversely impact audit quality (Kallapur et al., 2010). We observe that the impact of audit market structure on audit quality has not reached a unanimous conclusion, which may be related to the diverse institutional environments of different audit markets. A strict regulatory environment increases the reputation and litigation costs for auditors, thereby curbing inappropriate auditor behavior and enhancing audit quality (Antle et al., 2006). In countries with weaker securities enforcement, reducing audit costs to mitigate auditors' business risks may

incentivize opportunistic behavior among auditors (Kabir et al., 2016). The implementation of China's New Securities Law affords the opportunity for investigation.

Following the relaxation of entry barriers in China's securities audit market, an increasing number of audit firms have entered the securities audit market, effectively invigorating the supply side of the market and promoting robust competition. Competition is recognized as a pivotal catalyst within any market economy (Coram, 2010). Firstly, competition functions as a selection mechanism within the market; firms that cannot adapt have a lower survival likelihood, whereas adaptable and learning firms become more robust, thus elevating the industry's overall efficiency. In economic competition, sustained competitive pressure can lead to innovation and efficiency within organizations (Lin & Yi, 2023). The dynamic adjustments in the audit market triggered by market liberalization will become an effective driver for the demand and supply of high-quality audits (de Groot, 2018).

Secondly, the initial formulation of the reputation theory suggests that businesses achieve greater profits by establishing a favorable reputation, with customer deception resulting in reputation damage incurring substantial losses for the company (Klein & Leffler, 1981). Consequently, businesses are unlikely to compromise their reputation for short-term benefits (Klein & Leffler, 1981). Under heightened audit market competition, the quality of audits frequently emerges as a crucial competitive element. In the China's capital market , there is now a heightened demand for high-quality audits, with an emphasis on "information disclosure" being more significant than in the past, implying an improved regulatory environment. New entrant audit firms, aiming to capture market share, are often more inclined to increase audit investments, actively reduce ethical deviation behaviors, and provide high-quality services to gain market recognition. Because in the long term, competition is conducive to ethical behavior, fostering growth and increasing revenue (Shleifer, 2004). After the relaxation of securities audit market entry, the heightened competition will lead to dynamic shifts in auditors' market shares. With the escalation of competitive pressure, auditors will actively improve service or product quality to secure a competitive advantage (Groot, 2018), thereby improving overall market quality.

Based on the above discussion, we put forward the following hypothesis:

H1. The implementation of China's New Securities Law, which relaxing the access regulations for securities audit, has enhanced audit quality.

Methodology

Sampling and Data Collection

With the introduction of the New Securities Law in 2020, this research chooses A-share listed companies on the Shanghai and Shenzhen stock exchanges between 2016 and 2022 as sample, to ensure a balanced comparison of audit quality before and after the law's implementation. Selecting A-share listed companies as the research sample is primarily due to its high information transparency, and being an integral part of China's capital market. It provides a wealth of cases and data for studying corporate behavior, market efficiency, and policy impact during the economic transition process. The data used in this study are sourced from the CSMAR (China Stock Market & Accounting Research Database).

This study excluded financial and insurance companies to eliminate the influence of anomalous data on the empirical findings. Additionally, samples marked with "ST" or "*ST" were removed; "ST" indicates "Special Treatment" for companies with financial difficulties or net losses in financial reports over two consecutive years, while "*ST" further identifies companies flagged for violations of securities regulations, implying higher investment risks

and special trading conditions. These instances could compromise model integrity due to outliers. Tail trimming was applied to continuous variables at the 1% and 99% levels to guard against the impact of extreme values on regression results, resulting in 23,347 valid observations for the regression analysis.

Research Design

This study conducts a quantitative analysis using panel data, with collected data analyzed statistically in Stata software. Descriptive statistics for the Dependent Variable, Independent Variable, and Control Variable are conducted first to grasp the fundamental distribution of the variables. The relationships among variables are observed using Pearson and Spearman correlation coefficients, and variance inflation factors are calculated to check for multicollinearity among variables. This research tests the relationship between the Independent Variable and the Dependent Variable through Ordinary Least Squares (OLS) regression and assesses the applicability between fixed-effects and random-effects models using the Hausman test. Lastly, the Difference-In-Difference (DID) model is employed as a robustness check. Using the DID model for robustness testing can strengthen the robustness of the research findings, particularly when the primary analysis may be influenced by factors outside the intervention. By demonstrating that the results remain consistent across different methodological frameworks, the credibility of the research findings is increased.

Dependent Variable

DeFond & Zhang (2014)assert that higher audit quality signifies enhanced financial reporting quality. Following Christensen et al. (2023),we employ the Jones model to measure audit quality by calculating the absolute value of a company's discretionary accruals(Dechow et al., 1995). Represented as AbsDA, a higher value signifies lower audit quality.

The formula for calculating discretionary accruals is as follows:

The first step involves performing industry-specific and annual regression analyses on Model (1) to obtain coefficients k_1, k_2, and k_3.

$$\frac{TA_{i,t}}{A_{i,t-1}} = k_1 \frac{1}{A_{i,t-1}} + k_2 \frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}} + k_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t} \quad (1)$$

The second step employs these coefficients to estimate each company's non-discretionary accruals.

$$\frac{NDA_{i,t}}{A_{i,t-1}} = k_1 \frac{1}{A_{i,t-1}} + k_2 \frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}} + k_3 \frac{PPE_{i,t}}{A_{i,t-1}} \quad (2)$$

The third step subtracts the non-discretionary accruals from total accruals to ascertain discretionary accruals.

$$DA_{i,t} = TA_{i,t} - NDA_{i,t} \quad (3)$$

The fourth step is to take the absolute value of $DA_{i,t}$, resulting in $AbsDA_{i,t}$.

Where $TA_{i,t}$ is the total accruals for company i in period t, equal to operating income minus net cash flow from operations. $A_{i,t-1}$ is the total assets of company i at the end of period t-1. $\Delta REV_{i,t}$ is the change in company i's main business revenue from period t-1 to t, subtracting the previous period's revenue from the current period's. $\Delta REC_{i,t}$ is the change in accounts receivable for company i from period t-1 to t, calculated as the current period's receivables minus the previous period's. $PPE_{i,t}$ is the original cost of property, plant, and equipment for company i at the end of period t. $NDA_{i,t}$ signifies the non-discretionary accruals for company i in period t. $DA_{i,t}$ represents the discretionary accruals for company i in period t. $\varepsilon_{i,t}$ refers to the residual.

Independent Variable

The independent variable in this study is the implementation status of the New Securities Law in China. As previously mentioned, the New Securities Law in China was promulgated in December 2019 and implemented starting in 2020. Consequently, we employ the dummy variable Post for measurement. If the sample year is 2019 or earlier, it is assigned a value of 0, indicating that the new policy had not yet been implemented. If the sample year is 2020 or later, it is assigned a value of 1, indicating that the new policy has been implemented.

Control Variable

Selecting appropriate control variables is crucial for ensuring the accuracy and reliability of research findings. The inclusion of control variables helps isolate and identify the true impact of the primary explanatory variables on the dependent variable, ensuring the validity of the research findings by controlling for interference from other potential influencing factors. This study includes variables to control for the impact of company size, debt-to-asset ratio, return on assets, and company growth on audit quality. Companies of different sizes encounter varied levels of risk and complexity, prompting auditors to adopt various strategies and allocate resources appropriately (Bepari et al., 2022). We use the logarithm of the total assets at the end of the year as a measure of Size (Gull et al., 2018). Previous studies have found that a company's debt repayment capacity affects manipulable accrued profits (Balsam et al., 2003). Following Nekhili & Gatfaoui(2013), we also include Leverage as a representation of the company's debt repayment capacity, calculated as the total end-of-year liabilities divided by total assets. The growth rate of company size also has a significant relationship with manipulable accrued profits (Menon & Williams, 2004). We calculate ROA by dividing the company's net profit by the average total assets at the beginning and end of the year, using it as one of the control variables to measure the return on assets.

Research Model

Baseline Regression Model

We assess the following equation to evaluate if the implementation of China's New Securities Law has enhanced the quality of audits:

$$AbsDA_{i,t} = \beta_0 + \beta_1 Post_{i,t} + \beta_2 Size_{i,t} + \beta_3 Leverage_{i,t} + \beta_4 ROA_{i,t} + \beta_5 Growth_{i,t} + \varepsilon_{i,t} \quad (4)$$

The meanings of each variable have been explained as independent variables, dependent variables, and control variables above, where β_0 is the constant term, β_1 to β_5 are the coefficients to be estimated, and $\varepsilon_{i,t}$ is the random error term. In the model, our primary focus is on β_1. Based on the analysis above, a higher value of $AbsDA_{i,t}$ indicates poorer audit quality. Thus, if the implementation of the New securities law is expected to improve audit quality, a significantly negative β_1 coefficient would support our hypothesis.

Difference in Difference Model

The Difference-in-Differences (DID) method was initially applied in natural science experiments. As the DID (Difference-in-Differences) methodology has advanced, its application in the economics field to evaluate policy impacts has become more widespread(Pan et al., 2019). In the realm of social sciences, the core concept of natural experiments lies in identifying the impact of specific interventions on specific outcomes by analyzing the outcome differences between randomly intervened groups and similar groups that did not receive the same intervention. The intention behind this research design is to

make use of random occurrences within actual environments to mimic the circumstances of randomized controlled trials, thus precisely assessing the efficacy of interventions(Bernardo & Fageda, 2017; Pan et al., 2020). The assessment of public policy impacts in economic studies frequently grapples with the issue of random distribution, given the rarity of public policies being randomly applied to specific demographic groups. Hence, techniques for evaluating effects strive to establish a research setting that resembles that of natural experiments. The Difference-in-Differences (DID) approach views the implementation of public policies as an exogenous "natural experiment," identifying the impact of policy shocks(B. Lin & Du, 2017). The DID (Difference-in-Differences) method emphasizes analyzing a treatment group impacted by the policy, contrasting its outcomes with those of a control group unaffected by the policy. This approach aims to isolate and measure the net effect of the policy on the subjects, specifically focusing on the treatment group to mitigate potential endogeneity biases(Card & Krueger, 1993). The implementation of China's New securities law provides us with a quasi-natural experiment, enabling the formulation of the following model to pinpoint the effect of the policy on audit quality:

$$AbsDA_{i,t} = \beta_0 + \beta_1 Post_{i,t} + \beta_2 Treat_{i,t} + \beta_3 Post_{i,t} * Treat_{i,t} + \beta_4 Size_{i,t} + \beta_5 Leverage_{i,t} + \beta_6 ROA_{i,t} + \beta_7 Growth_{i,t} + \varepsilon_{i,t} \quad (5)$$

The implementation of the New Securities Law and the deregulation of audit firms' securities qualifications have potentially impacted all auditing firms. However, compared to other audit firms, the Big 4 have relatively stable clientele and face less competitive pressure. Consequently, the enactment of the New Securities Law exhibits a more pronounced influence on non-Big 4 audit firms within the audit market, while its impact on the Big 4 firms is comparatively lesser. Therefore, treatment and control groups are formed based on whether they belong to the Big 4, distinguished by the dummy variable 'treat'. Firms audited by Big 4 are in the control group, with a value of 0; firms audited by non-Big 4 are in the treatment group, with a value of 1. An interaction term, post*treat, is constructed between 'post' and 'treat'. The coefficient of post*treat is of primary interest; if it is negative, it suggests that, after controlling for other factors, the adoption of the New Securities Law has elevated the audit quality of audit firms, supporting our hypothesis.

Result and Findings

Descriptive Analysis

Descriptive statistics are displayed in Table 1. The variable representing audit quality, AbsDA, ranges from 0 to 1.147, with an average of 0.0700, a median value of 0.0450, and a standard deviation of 0.0900. A lower AbsDA indicates better audit quality, suggesting that the average level of audit quality among Chinese listed companies is relatively high and the data distribution is relatively concentrated. Post is a binary variable fluctuating between 0 and 1, with an average value of 0.497, suggesting that nearly half of the samples documented the occurrence of an event, evenly divided before and after the New Securities Law's implementation. The standard deviation of this variable is 0.500, suggesting a nearly even distribution of event occurrence within the sample. The maximum and minimum values of Leverage are 0.0510 and 0.916, respectively, indicating significant differences in financial leverage among different listed companies. The Return on Assets (ROA) ranges from a minimum of -0.416 to a maximum of 0.261, indicating negative values and thus suggesting that some companies in the sample are facing losses. The average value of this variable is 0.0370, with a median of 0.0390 and a standard deviation of 0.0760, showing minor fluctuations in ROA within the sample but generally trending positive, indicating that most

companies remain profitable. The Size of the company ranges from a minimum of 18.61 to a maximum of 26.36, with an average of 22.27, a median of 22.11, and a standard deviation of 1.276. This indicates relatively small variability in company size within the sample and a tendency towards larger sizes. Company Growth, with a maximum value of 3.931 and a minimum of -0.669, indicates that some companies have experienced negative revenue growth.

Table1
Descriptive Statistics of the variables

Variable	Max	Min	Mean	P50	SD	N
AbsDA	1.147	0	0.0700	0.0450	0.0900	23347
Post	1	0	0.497	0	0.500	23347
Leverage	0.916	0.0510	0.413	0.405	0.197	23347
ROA	0.261	-0.416	0.0370	0.0390	0.0760	23347
Size	26.36	18.61	22.27	22.11	1.276	23347
Growth	3.931	-0.669	0.159	0.103	0.388	23347

Correlation Analysis

Table 2 displays the Pearson and Spearman correlation coefficients between audit quality(AbsDA) and other variables. The Pearson correlation coefficient reveals the degree of linear association between variables, whereas the Spearman correlation coefficient measures the monotonic relationship between ranks of variables (Hanushek & Jackson, 2013). Pearson correlation analysis indicates a significant negative relationship between audit quality and the implementation of the New Securities Law (Post) ($r=-0.048$, $p<0.01$), suggesting the increase in audit quality following the implementation of the New Securities Law. Similarly, the Spearman correlation coefficient demonstrates a significant negative correlation between audit quality and implementation ($r=-0.074$, $p<0.01$). Additionally, the Pearson correlation coefficient between audit quality (AbsDA) and financial leverage (Leverage) is positive ($r=0.043$, $p<0.01$), whereas it is negative with return on assets (ROA) ($r=-0.161$, $p<0.01$). This suggests that companies exhibiting higher audit quality typically maintain lower debt levels and achieve greater returns on assets. The Correlation Analysis indicates that the relaxation of regulatory requirements on audit firms' securities qualifications has improved audit quality, preliminarily validating the research hypothesis H1. Moreover, after incorporating control variables, the absolute values of correlation coefficients among variables are all less than 0.5, essentially mitigating the effect of multicollinearity on the regression.

Table2
Pearson and Spearman Correlation Analysis

Variable	AbsDA	Post	Leverage	ROA	Size	Growth
AbsDA	1.000	-0.074***	0.033***	-0.024***	-0.102***	0.045***
Post	-0.048***	1.000	-0.010	-0.001	0.005	-0.069***
Leverage	0.043***	-0.011*	1.000	-0.389***	0.470***	0.017**
ROA	-0.161***	0.005	-0.353***	1.000	-0.024***	0.369***
Size	-0.109***	0.010	0.456***	0.045***	1.000	0.063***
Growth	0.101***	-0.067***	0.020***	0.295***	0.064***	1.000

Lower-triangular cells report Pearson's correlation coefficients, upper-triangular cells are Spearman's rank correlation
*** p<0.01, ** p<0.05, * p<0.1

Variation Inflation Factor (VIF)

Table 3 conducts a multicollinearity diagnosis for the variables in Model (4), with the Variance Inflation Factors (VIF) of each explanatory variable not exceeding 1.56, which is below the commonly used threshold of 5, indicating no significant multicollinearity issues within the model. The average VIF value of 1.28 further corroborates the independence among the variables.

Table3
Variation Inflation Factor

Variable	VIF	1/ VIF
Post	1.01	0.9944
Leverage	1.56	0.6407
ROA	1.35	0.7382
Size	1.35	0.7426
Growth	1.12	0.8905
Mean VIF	1.28	

Hausman Test

This study's sample consists of panel data from A-share listed companies in China's Shanghai and Shenzhen stock exchanges, spanning from 2016 to 2022.To enhance the robustness of the research conclusions,a Hausman test was performed on the panel data in Model (4) to decide between adopting a fixed effects model or a random effects model. The fundamental principle of the Hausman test is to compare whether the parameters estimated by the two models are systematically different; if so, a preference is given to the fixed effects model (Talloen et al., 2019). The Hausman test results, indicating a P-value of Prob=0.0000, which is less than 0.05, require rejecting the random effects model in favor of the fixed effects model. This outcome is due to the null hypothesis of the fixed effects model, demonstrating that the fixed effects model provides a more accurate estimation than the random effects model.

Table4
Hausman Random Test for random and fixed effects

AbsDA	(b) Fixed	(B) Random	(b-B) Difference	Sqrt(diag(V_b-V_B)) S.E.
Post	-0.0059975	-0.0065168	0.0005193	0.0006946
Chi2(5)	111.83			
Prob>chi2	0.0000			

Ordinary Least Squares (OLS) Regression Analysis

The first column of Table 5 presents the Ordinary Least Squares (OLS) regression results of Model (4), assessing the changes in audit quality following the implementation of China's New Securities Law and the relaxation of securities market entry regulations. The empirical results reveal a statistically significant negative correlation between the enactment of China's New Securities Law and AbsDA, featuring a regression coefficient of -0.0061 at the 0.01 significance level. Given that a smaller AbsDA represents higher audit quality, it can be inferred that the relaxation of securities market entry for audit firms has significantly enhanced audit quality. Furthermore, a significant positive correlation between Leverage and AbsDA suggests that higher financial leverage is associated with lower audit quality, while a significant negative correlation between ROA and AbsDA indicates that companies with higher returns on assets have higher audit quality, aligning with the research by Christensen et al. (2023).

The second column of Table 5 shows the regression outcomes with the introduction of year fixed effects in Model (4), aimed at controlling the temporally specific impacts prevalent across all firms. After the introduction of year fixed effects, the significant negative correlation between Post and AbsDA remains unchanged.

Column 3 of Table 5 presents the regression results after incorporating both annual and individual fixed effects in Model (4), offering stricter control over unobserved heterogeneity. The negative correlation between Post and AbsDA remains significant, thereby reinforcing the interpretation that the implementation of the New Securities Law has positively influenced audit quality.

Table5
OLS Results

	(1) AbsDA	(2) AbsDA	(3) AbsDA
Post	-0.0061***	-0.0060***	-0.0581***
	(-5.3582)	(-4.6545)	(-24.0585)
Leverage	0.0124***	0.0305***	0.0328***
	(3.4304)	(3.9152)	(4.3017)
ROA	-0.2300***	-0.2903***	-0.3135***
	(-26.3670)	(-25.3184)	(-27.6922)
Size	-0.0087***	-0.0171***	-0.0044**
	(-16.7362)	(-8.5453)	(-2.1609)
Growth	0.0378***	0.0353***	0.0290***
	(24.3132)	(21.1810)	(17.3516)
_cons	0.2639***	0.4467***	0.2039***
	(24.3389)	(10.2971)	(4.5958)
Year Fixed Effects	NO	YES	YES
Individual Fixed Effects	NO	NO	YES

t statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Difference in Difference (DID) regression Analysis

Table 6 demonstrates the evaluation of policy impact on audit quality through Model (5) employing the Difference in Differences (DID) approach. The coefficient of interest is Post*Treat, representing the differential effect of the policy between the treatment and control groups which means samples affected and unaffected by the policy over time. This differential signifies a clean policy effect after excluding other influences. The coefficient is -0.0144 before the inclusion of control variables and -0.0128 after, significantly so at the 0.1% level in both cases, signifying notable improvement in audit quality among non-BIG4 audit firms after policy implementation. The regression results indicate that the securities market liberalization policy following the implementation of the New Securities Law has a statistically significant effect on improving audit quality in affected companies. This aligns with expectations and corroborates earlier OLS regression findings, rendering our research outcomes more robust.

Table6
DID Results

	(1)	(2)
	AbsDA	AbsDA
Post* Treat	-0.0144***	-0.0128***
	(-8.4605)	(-7.7115)
Treat	0.0222***	0.0057
	(6.3355)	(1.6153)
Post	0.0013	0.0021
	(0.8183)	(1.3445)
Leverage		0.0184***
		(3.9935)
ROA		-0.2516***
		(-26.5614)
Size		-0.0100***
		(-13.3878)
Growth		0.0347***
		(22.6382)
_cons	0.0589***	0.2908***
	(17.5865)	(17.3200)

t statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Conclusion

The implementation of China's New Securities Law in 2020 marks a significant reform in the China securities market, reducing the barriers for audit firms to engage in securities market activities and leading to a surge in new audit firms undertaking audit work for listed companies. This development a significant opportunity for audit firms, while also subjecting them to increased competition. The New Securities Law establishes stricter standards for transparency and accountability for both audit firms and listed companies. This further enhances the role of reputation mechanisms, encouraging auditors and their clients to conduct high-quality audits to maintain and improve their market reputation Macey (2010), thus improving the overall audit quality of listed companies. Employing data from 2016 to 2022 for A-share companies listed on the Shanghai and Shenzhen stock exchanges, this study leverages the enactment of China's New Securities Law in 2020 as a pivotal moment to investigate the effects of eased securities market entry of audit firms on audit quality through OLS and DID models. It examines the impact of relaxed securities market access on audit quality. The regression findings convincingly illustrate the connection between the implementation of China's New Securities Law and the enhancement of audit quality. This remains valid after adjusting for firm-fixed effects and time-fixed effects. Thereby confirming the effectiveness of the new regulatory framework in improving the financial reporting environment. This is consistent with the findings of (Huang et al., 2016; Groot, 2018).

This research confirms the impact of policy on deregulating access to the securities audit market. It offers both a pragmatic foundation and theoretical backing for advancing the

marketization of securities auditing and enhancing regulatory frameworks. It also contributes to the ongoing discussion on optimizing audit market regulation. For instance, how to ensure that the transition to a more open and competitive audit market does not impair audit quality. The strict capital controls unique to China's securities market are markedly distinct from those of other countries. With China's integration into the global financial system and ongoing openness reforms, the securities market is facing new changes (Hu et al., 2018; Petry, 2021). The New Securities Law implemented in China in 2020 symbolizes further opening of the capital market. It provides a highly significant analytical window for the study of audit quality. Given the central role of auditing in maintaining the healthy operation of capital markets, an in-depth exploration of audit quality under the new legal framework becomes particularly crucial. Considering the uniqueness of the Chinese securities market, future studies could thoroughly analyze how the policy relaxation of securities qualifications for audit firms affects the mechanism of audit quality.

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