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Study on the Influence of Annual Report Inquiry Letter on Auditor Behavior

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Abstract

As a non-penal regulatory tool, the annual report inquiry letter exerts effects that influence the decision-making processes of both auditors and corporate management. Using a sample of A-share listed companies on the Shanghai and Shenzhen stock exchanges from 2016 to 2024, this study empirically examines the impact of annual report inquiry letters on auditor behavior through three dimensions: audit fees, audit opinions, and auditor changes. The results indicate that companies receiving inquiry letters face significantly higher audit fees, are more likely to receive non-standard audit opinions, and exhibit a significantly increased probability of auditor change. These findings collectively demonstrate that regulatory inquiries influence the operational mechanisms of the audit market by enhancing information disclosure quality and strengthening auditors' risk perception. This study provides valuable insights for optimizing auditor decision-making, improving regulatory effectiveness, and enhancing the quality of information disclosure in listed companies.

Keywords

Annual Report Inquiry; Auditor Behavior; Audit Fee; Audit Opinion; Auditor Change.

1. Introduction

The annual report inquiry letter serves as a critical instrument for stock exchanges in implementing ongoing supervision over the information disclosure of listed companies. Its focal points significantly overlap with the core areas of audit work. These inquiry letters typically address key issues such as revenue recognition, related-party transactions, internal controls, and foreign investments, requiring companies and their audit firms to provide explanations, corrections, or supplemental disclosures[1]. This regulatory mechanism not only enhances the quality and transparency of information disclosure but also indirectly influences the professional practice quality of accounting firms.

As external monitoring agents, auditors need to thoroughly understand a client's regulatory environment through risk assessment procedures[2]. If a client receives an annual report inquiry letter, auditors should incorporate its content into their risk evaluation framework, identify potential risks of material misstatement in the financial statements, and consequently adjust audit fees, the type of audit opinion, and even consider whether to continue the engagement[3].

Existing literature on regulatory effects has predominantly focused on administrative penalties, with relatively less attention given to the inquiry letter as a regulatory tool. Given the refinement of the annual report inquiry system by Chinese stock exchanges since 2016, this study selects A-share listed companies on the Shanghai and Shenzhen stock exchanges from 2016 to 2024 as the research sample. Data were sourced from the China Stock Market & Accounting Research (CSMAR) database and the Chinese Research Data Services (CNRDS) platform, and were processed using Excel and Stata 17.0. Through the construction of

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regression models, this paper empirically examines the impact of annual report inquiry letters on audit fees, audit opinions, and auditor changes.

2. Theoretical Analysis and Research Hypotheses

The receipt of an annual report inquiry letter conveys a significant negative signal to the market, indicating potential heightened risks of material misstatement in the company's financial reports. To mitigate potential reputational damage, auditors typically respond by increasing audit fees, issuing more stringent audit opinions, or, when necessary, initiating resignation from the engagement[4]. Based on this rationale, our analysis proceeds from three dimensions: audit fees, audit opinions, and auditor change.

2.1. The Audit Fee Perspective

Audit fees are determined by both resource input and risk compensation. As an explicit risk alert, the inquiry letter prompts auditors to expand the audit scope, increase sample sizes and testing procedures, leading to higher audit costs. Furthermore, auditors may charge a risk premium to compensate for potential reputational damage arising from the client's regulatory scrutiny[5]. Consequently, the increase in audit fees reflects not only additional effort but also the pricing of latent risks.

2.2. The Audit Opinion Perspective

Inquiry letters reinforce auditor prudence in formulating audit opinions. Auditors reassess the client's risk of material misstatement, paying particular attention to uncertainties in the financial reports and the company's attitude in responding to the inquiry. To reduce their own exposure, auditors exhibit a greater tendency to issue non-standard audit opinions to clients that have received such letters[6]. This process reflects not only the external constraint of regulation but also the auditor's intrinsic motivation for professional reputation self-preservation[7].

2.3. The Auditor Change Perspective

The negative effects triggered by inquiry letters may lead to auditor change. To restore market confidence, listed companies might proactively switch to larger audit firms with stronger reputations[8]. From the auditor's perspective, to contain risk exposure and avoid contingent liabilities, audit firms may also voluntarily terminate engagements with high-risk clients. Thus, auditor change emerges as an outcome of mutual risk reassessment and strategic adjustment by both parties under the influence of inquiry letters[9].

Based on the foregoing analysis, this study proposes the following hypotheses:

H1: Ceteris paribus, receiving an annual report inquiry letter from the stock exchange in the prior period increases the company's audit fees in the current period.

H2: Ceteris paribus, receiving an annual report inquiry letter from the stock exchange in the prior period increases the probability of the auditor issuing a non-standard unqualified opinion in the current period.

H3: Ceteris paribus, receiving an annual report inquiry letter from the stock exchange in the prior period increases the probability of auditor change in the current period.

3. Research Design

3.1. Sample Selection and Data Sources

The data employed in this study are primarily sourced from the annual reports and related financial data of A-share listed companies on the Shanghai and Shenzhen stock exchanges from 2016 to 2024. Data on audit opinions and financial information were obtained from the China

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Stock Market & Accounting Research (CSMAR) database, while the data concerning annual report inquiry letters were sourced from the Chinese Research Data Services (CNRDS) platform.

The selection of the 2016–2024 period as the research window is primarily based on institutional evolution and data availability considerations. The annual report inquiry system of Chinese stock exchanges began to be formally established around 2016, with the Shanghai Stock Exchange notably commencing the regular issuance of periodic report inquiry letters to listed companies from 2017, marking the system's entry into a standardized operational phase. Since the core explanatory variable in this study is whether a listed company received an annual report inquiry letter in year *t-1*, the actual data period for inquiry letters spans from 2015 to 2023, which is matched with the financial data from 2016 to 2024. This time frame comprehensively captures the entire process from the system's establishment to its subsequent refinement, while also ensuring the continuity and completeness of the sample data, thereby providing a sufficient observation window for the empirical analysis.

During the sample screening process, this study first excluded financial and insurance sector listed companies. The business models of these firms differ significantly from other industries, characterized by distinct asset-liability structures, profit models, and methodologies for calculating financial indicators. Their inclusion could introduce systematic bias into the regression results, compromising the validity of the research findings. Secondly, listed companies with missing financial data were excluded to ensure the accuracy of variable calculations in the empirical tests. Furthermore, to mitigate the influence of outliers on the regression results, all continuous variables were winsorized at the 1st and 99th percentiles. This process reduces the impact of extreme values on the overall estimates and enhances the robustness of the empirical conclusions.

After applying the aforementioned screening procedures, the final research sample encompasses multiple years and industries, providing a relatively comprehensive reflection of the overall characteristics of Chinese listed companies during the study period. This establishes a solid data foundation for the subsequent empirical analysis.

3.2. Variable Definitions

(1) Dependent Variables

Audit Fees (Fee): Measured as the natural logarithm of the annual audit fees, representing the cost incurred by the firm for its financial statement audit.

Audit Opinion (Opinion): A binary variable that equals 1 if the audit report issued for the fiscal year is a non-standard unqualified opinion or any type of modified opinion, and 0 otherwise.

Auditor Change (Change): A binary variable that equals 1 if the listed company changed its audit firm in the current year, and 0 otherwise.

(2) Explanatory Variable

Receipt of Annual Report Inquiry Letter (Inquiry): A binary variable that equals 1 if the company received an annual report inquiry letter from the stock exchange in year *t-1*, and 0 otherwise.

(3) Control Variables

Following prior literature, this study incorporates relevant control variables into the respective regression models based on the dependent variable to mitigate potential omitted variable bias. Specifically:

In the regression model where Audit Fees (Fee) is the dependent variable, the control variables include: Firm Size (Size), Financial Leverage (Lev), Audit Complexity (Ine), Nature of Ownership (Soe), Audit Firm Size (Big), and Stock Exchange (Exchange).

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In the model where Audit Opinion (Opinion) is the dependent variable, the control variables are: Financial Leverage (Lev), Nature of Ownership (Soe), Audit Firm Size (Big), Return on Assets (Roa), Loss Incidence (Loss), and Stock Exchange (Exchange).

In the model where Auditor Change (Change) is the dependent variable, the control variables include: Firm Size (Size), Financial Leverage (Lev), Return on Assets (Roa), Growth Ability (Growth), Loss Incidence (Loss), Nature of Ownership (Soe), Ownership of the Largest Shareholder (Top1), CEO/Chair Duality (Dual), Management Shareholding (Mans), Chairman Change (Prech), Audit Firm Size (Big), and Stock Exchange (Exchange).

Additionally, industry (Industry) and year (Year) fixed effects are included in all models to control for unobserved industry-specific characteristics and time-varying macroeconomic factors.

3.3. Model Specification

To examine the impact of annual report inquiry letters on the audit fees of listed companies, this study first constructs the following model with Audit Fees (Fee) as the dependent variable:

$$\text{Fee}_{i,t} = \alpha_0 + \alpha_1 \text{Inquiry}_{i,t-1} + \alpha_2 \text{Size}_{i,t} + \alpha_3 \text{Lev}_{i,t} + \alpha_4 \text{Ine}_{i,t} + \alpha_5 \text{Soe}_{i,t} + \alpha_6 \text{Big}_{i,t} + \alpha_7 \text{Exchange}_{i,t} + \mu_i + \lambda_t + \varepsilon_{i,t} \quad \text{(Model 1)}$$

The core explanatory variable is $\text{Inquiry}_{i,t-1}$, indicating whether the company received an annual report inquiry letter in the previous year.$\mu_i$denotes firm fixed effects, which control for unobservable time-invariant firm-specific characteristics, such as corporate governance style and industry attributes.$\lambda_t$denotes year fixed effects, which control for common shocks over time, such as changes in the macroeconomic environment and regulatory policies.$\varepsilon_{i,t}$is the idiosyncratic error term.

If regulatory authorities intensify scrutiny through inquiry letters, auditors may expand the scope and depth of audit procedures during execution, thereby increasing audit effort and risk premium, which leads to higher audit fees. The control variables include Firm Size, Financial Leverage, Audit Complexity, Nature of Ownership, Audit Firm Size, and Stock Exchange, to isolate the influence of firm characteristics on audit fees.

Second, to investigate whether annual report inquiry letters influence auditor conservatism, this study constructs the following model with Audit Opinion (Opinion) as the dependent variable:

$$\text{Opinion}_{i,t} = \beta_0 + \beta_1 \text{Inquiry}_{i,t-1} + \beta_2 \text{Lev}_{i,t} + \beta_3 \text{Soe}_{i,t} + \beta_4 \text{Big}_{i,t} + \beta_5 \text{Roa}_{i,t} + \beta_6 \text{Loss}_{i,t} + \beta_7 \text{Exchange}_{i,t} + \mu_i + \lambda_t + \varepsilon_{i,t} \quad \text{(Model 2)}$$

Here, $\text{Opinion}_{i,t}$represents the audit opinion. The definitions of other variables are consistent with Model (1). If a firm was subject to an exchange inquiry in the prior period, auditors may issue their opinions more prudently, thereby increasing the likelihood of issuing a non-standard opinion. The control variables-Financial Leverage, Nature of Ownership, Audit Firm Size, Return on Assets, Loss Incidence, and Stock Exchange-are selected as they are significant factors influencing the type of audit opinion.

Finally, this study further examines whether annual report inquiry letters affect the client-auditor relationship. The following model is constructed with Auditor Change (Change) as the dependent variable:

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$$\text{Change}_{i,t} = \gamma_0 + \gamma_1 \text{Inquiry}_{i,t-1} + \gamma_2 \text{Lev}_{i,t} + \gamma_3 \text{Soe}_{i,t} + \gamma_4 \text{Big}_{i,t} + \gamma_5 \text{Roa}_{i,t} + \gamma_6 \text{Loss}_{i,t} + \gamma_7 \text{Exchange}_{i,t} + \gamma_8 \text{Growth}_{i,t} + \gamma_9 \text{Size}_{i,t} + \gamma_{10} \text{Prech}_{i,t} + \gamma_{11} \text{Top1}_{i,t} + \gamma_{12} \text{Dual}_{i,t} + \gamma_{13} \text{Mans}_{i,t} + \mu_i + \lambda_t + \varepsilon_{i,t} \quad \text{(Model 3)}$$

Here, $\text{Change}_{i,t}$ represents auditor change. The definitions of other variables are consistent with Model (1). Regulatory inquiries may exacerbate information asymmetry between the client and the auditor or heighten the auditor's concerns about client risk, thereby influencing the decision to continue the engagement. The control variables encompass firm size, financial leverage, profitability, growth ability, ownership structure, and executive characteristics, all of which are identified in the extant literature as important determinants of auditor change.

4. Empirical Results and Analysis

4.1. Descriptive Statistics

Prior to conducting regression analysis, this study first presents the descriptive statistics of the main variables to provide an initial overview of the overall characteristics of the sample firms and the distribution of each variable, thereby laying the groundwork for subsequent empirical tests. Table 1 reports the mean, standard deviation, median, minimum, and maximum values for all variables.

Table 1. Descriptive Statistics

VarName	Obs	Mean	SD	Min	Median	Max
Fee	32304	13.994	0.650	11.918	13.911	19.403
Opinion	32304	0.051	0.220	0.000	0.000	1.000
Change	32304	0.126	0.332	0.000	0.000	1.000
Inquiry	32304	0.086	0.280	0.000	0.000	1.000
InquiryCount	32304	0.061	0.202	0.000	0.000	1.609
Size	32304	22.319	1.300	19.654	22.125	27.468
Lev	32304	0.426	0.210	0.049	0.414	1.031
SOE	32304	0.282	0.450	0.000	0.000	1.000
Big4	32304	0.058	0.234	0.000	0.000	1.000
Inv	32304	0.127	0.114	0.000	0.102	0.655
Exchange	32304	1.599	0.490	1.000	2.000	3.000
ROA	32304	0.023	0.086	-0.714	0.032	0.225
Loss	32304	0.149	0.356	0.000	0.000	1.000
Growth	32304	0.135	0.439	-0.736	0.078	5.570
Top1	32304	0.320	0.144	0.072	0.298	0.740
Dual	32304	0.325	0.468	0.000	0.000	1.000
Mans	32304	0.142	0.190	0.000	0.023	0.700
Big4	32304	0.058	0.234	0.000	0.000	1.000
Prech	32304	0.134	0.340	0.000	0.000	1.000

Table 1 presents the descriptive statistics of the main variables. The mean value of Audit Fees (Fee) is 13.994 with a standard deviation of 0.650, and the minimum and maximum values are 11.918 and 19.403, respectively, indicating substantial variation in audit fees across the sample firms. The mean value of Audit Opinion (Opinion) is 0.051, suggesting that only 5.1% of the

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sample firms received a non-standard audit opinion. The mean value of Auditor Change (Change) is 0.126, implying that approximately 12.6% of the companies changed their audit firms during the sample period.

For the core explanatory variables, the mean value of Inquiry is 0.086, indicating that 8.6% of the sample firms received an annual report inquiry letter in the previous year. The mean value of Inquiry Count (InquiryCount) is 0.061, with a maximum value of 1.609, reflecting that some firms received multiple inquiry letters within the same year.

Regarding the control variables, the statistics show that Firm Size (Size) has a mean of 22.319, ranging from 19.654 to 27.468, indicating the inclusion of firms of different sizes in the sample. The mean Financial Leverage (Lev) is 0.426, reflecting an average debt-to-asset ratio of 42.6%. State-Owned Enterprises (SOE) account for 28.2% of the sample, and the proportion of audits conducted by Big 4 auditors (Big4) is 5.8%. The mean ratio of Inventory and Receivables (Inv) is 0.127 (12.7%). The mean Return on Assets (ROA) is 0.023, yet some firms experienced severe losses; firms reporting losses (Loss) constitute 14.9% of the sample. The mean Revenue Growth (Growth) is 0.135, but the extreme values differ significantly. Furthermore, the mean ownership of the Largest Shareholder (Top1) is 0.320 (32.0%), the incidence of CEO/Chair Duality (Dual) is 0.325 (32.5%), the mean Management Shareholding (Mans) is 0.142 (14.2%), and the proportion of Chairman Change (Prech) is 0.134 (13.4%).

In summary, the main variables exhibit considerable variation within the sample, providing a solid data foundation for the subsequent empirical analysis.

4.2. Correlation Analysis

Having established a basic understanding of the data distribution through the descriptive analysis of variables, this section proceeds to perform a correlation analysis on the relevant data using Stata 17.0. The results are presented in Tables 2, 3, and 4.

Table 2. Correlation Matrix for Audit Fees Model

Var	Fee	Inquiry	Size	Lev	SOE	Big4	Inv	Exchange
Fee	1							
Inquiry	0.030***	1						
Size	0.725***	-0.113***	1					
Lev	0.375***	0.137***	0.414***	1				
SOE	0.179***	-0.050***	0.338***	0.214***	1			
Big4	0.423***	-0.054***	0.310***	0.063***	0.095***	1		
Inv	0.038***	-0.018***	0.113***	0.221***	0.036***	-0.009	1	
Exchange	-0.166***	0.234***	-0.163***	-0.050***	-0.169***	-0.107***	-0.028***	1

Table 2 presents the correlation results for the audit fee model. It can be observed that the correlation coefficient between Audit Fees (Fee) and Firm Size (Size) is 0.725, which is significant at the 1% level, indicating a strong positive relationship between the two variables. Furthermore, Fee shows a significantly positive correlation with Financial Leverage (Lev), State-Owned Enterprise (SOE), and Big 4 Auditor (Big4), while exhibiting a significantly negative correlation with Stock Exchange (Exchange). This suggests notable differences in audit fees across different types of enterprises.

Table 3 presents the correlation results for the audit opinion model. The results show that the correlation coefficient between Audit Opinion (Opinion) and Inquiry is 0.248, significant at the 1% level, indicating a significant positive relationship between the two variables. Opinion exhibits a significantly positive correlation with both Financial Leverage (Lev) and Loss Incidence (Loss), while showing a significantly negative correlation with Return on Assets (ROA)

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with a coefficient of -0.388. Concurrently, its correlations with State-Owned Enterprise (SOE) and Big 4 Auditor (Big4) are relatively weak and negative in direction.

Table 3. Correlation Matrix for Audit Opinion Model

	Opinion	Inquiry	Lev	SOE	Big4	ROA	Loss	Exchange
Opinion	1							
Inquiry	0.248***	1						
Lev	0.226***	0.137***	1					
SOE	-0.068***	-0.050***	0.214***	1				
Big4	-0.039***	-0.054***	0.063***	0.095***	1			
ROA	-0.388***	-0.227***	-0.352***	-0.001	0.049***	1		
Loss	0.263***	0.246***	0.225***	0.002	-0.036***	-0.366***	1	
Exchange	0.037***	0.234***	-0.050***	-0.169***	-0.107***	-0.064***	0.043***	1

Table 4. Correlation Matrix for Auditor Change Model

Var	Change	Inquiry	Size	Lev	ROA	Growth	Loss	SOE	Top1	Dual
Change	1									
Inquiry	0.052***	1								
Size	0.011**	-0.113***	1							
Lev	0.057***	0.137***	0.414***	1						
ROA	-0.082***	-0.227***	0.099***	-0.352***	1					
Growth	0.003	-0.023***	0.033***	0.011**	0.230***	1				
Loss	0.083***	0.246***	-0.119***	0.225***	-0.366***	-0.007	1			
SOE	0.085***	-0.050***	0.338***	0.214***	-0.001	-0.034***	0.002	1		
Top1	-0.006	-0.159***	0.180***	-0.010*	0.178***	0.014***	-0.150***	0.221***	1	
Dual	-0.028***	0.006	-0.172***	-0.114***	-0.002	0.006	0.003	-0.305***	-0.050***	1
Mans	-0.067***	-0.110***	-0.312***	-0.276***	0.129***	0.029***	-0.115***	-0.433***	-0.023***	0.226***
Big4	0.008	-0.054***	0.310***	0.063***	0.049***	0.005	-0.036***	0.095***	0.118***	-0.041***
Exchange	0.021***	0.234***	-0.163***	-0.050***	-0.064***	0.005	0.043***	-0.169***	-0.176***	0.053***
Prech	0.072***	0.076***	0.065***	0.108***	-0.103***	-0.015***	0.095***	0.226***	0.012**	-0.090***

Table 4. (Continued): Correlation Matrix for Auditor Change Model

Var	Mans	Big4	Exchange	Prech
Mans	1			
Big4	-0.105***	1		
Exchange	0.102***	-0.107***	1	
Prech	-0.227***	0.022***	-0.031***	1

Notes: *, **, *** denote statistical significance levels at 10%, 5%, and 1%, respectively.

Table 4 presents the correlation results for the auditor change model. It can be observed that Auditor Change (Change) shows a significantly positive correlation with Inquiry, as well as with Financial Leverage (Lev) and Loss Incidence (Loss). Conversely, it exhibits a significantly negative correlation with Return on Assets (ROA), with a coefficient of -0.082. Furthermore, Change is significantly positively correlated with certain governance variables, such as Chairman Change (Prech), while being significantly negatively correlated with CEO/Chair Duality (Dual) and Management Shareholding (Mans).

Collectively, the results from the three sets of correlation analyses indicate the presence of certain relationships among the main variables, with most correlation coefficients being statistically significant. Given that the absolute values of the correlation coefficients are all below 0.6, it can be preliminarily concluded that no severe multicollinearity problems exist, thus warranting progression to subsequent regression analysis.

4.3. Baseline Regression

The preceding descriptive statistics and correlation analysis provide a preliminary exploration of the sample characteristics and variable relationships. However, correlation analysis can only

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indicate the direction of linear association between variables and cannot reveal deeper causal relationships. To further examine the impact of annual report inquiry letters on audit fees, audit opinions, and auditor change, this study employs two-way fixed effects regression models, controlling for variables related to firm characteristics, governance structure, and auditor attributes. An empirical analysis was conducted on the sample, and the regression results are presented in Table 5.

Table 5. Baseline Regression Results

	(1)	(2)	(3)
	Fee	Opinion	Change
Inquiry	0.238***	0.111***	0.030***
	(0.013)	(0.009)	(0.008)
Lev	0.348***	0.111***	0.008
	(0.027)	(0.013)	(0.012)
SOE	-0.100***	-0.046***	0.060***
	(0.014)	(0.004)	(0.005)
Big4	0.602***	-0.013***	0.013*
	(0.031)	(0.005)	(0.008)
Exchange	-0.093***	-0.013***	0.017***
	(0.011)	(0.003)	(0.004)
Size	0.332***		-0.003
	(0.006)		(0.002)
Inv	-0.227***		
	(0.056)		
ROA		-0.735***	-0.168***
		(0.031)	(0.031)
Loss		0.068***	0.039***
		(0.005)	(0.007)
Growth			0.028***
			(0.006)
Top1			0.001
			(0.013)
Dual			-0.002
			(0.004)
Mans			-0.030***
			(0.011)
Prech			0.040***
			(0.007)
_cons	6.585***	0.036***	0.137***
	(0.128)	(0.007)	(0.041)
Ind	Yes	Yes	Yes
Year	Yes	Yes	Yes
N	32303	32303	32303
R^2	0.631	0.214	0.061
F	744.172	148.916	43.850

Notes:Figures in parentheses are standard errors clustered at the firm level,and *, **, *** denote statistical significance levels at 10%, 5%, and 1%, respectively.

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Table 5 presents the baseline regression results examining the impact of annual report inquiry letters on audit fees, audit opinions, and auditor change.

Column (1) shows that the coefficient of Inquiry in the audit fee model is 0.238, significant at the 1% level. This indicates that firms receiving inquiry letters incur significantly higher audit fees, consistent with the expectation that regulatory inquiries heighten auditors' risk perception and increase audit effort. Among the control variables, Firm Size (Size, 0.332), Financial Leverage (Lev, 0.348), and Big 4 Auditor (Big4, 0.602) all show a significantly positive association with audit fees, while the ratio of Inventory and Receivables (Inv, -0.227) exhibits a negative relationship with audit fees.

Column (2) reports that the coefficient of Inquiry in the audit opinion model is 0.111, significant at the 1% level, suggesting that inquired firms are more likely to receive a non-standard audit opinion. For the control variables, Financial Leverage (Lev, 0.111) and Loss Incidence (Loss, 0.068) significantly increase the probability of receiving a non-standard opinion. In contrast, Return on Assets (ROA, -0.735), State-Owned Enterprises (SOE, -0.046), and Big 4 Auditor (Big4, -0.013) significantly decrease this probability.

Column (3) demonstrates that the coefficient of Inquiry in the auditor change model is 0.030, significant at the 1% level, implying that firms subject to inquiries have a higher likelihood of changing their auditor. Regarding control variables, Financial Leverage (Lev), Loss Incidence (Loss), Growth Ability (Growth), and Chairman Change (Prech) significantly promote auditor change, whereas Return on Assets (ROA) and Management Shareholding (Mans) significantly inhibit it.

In summary, the baseline regression results consistently demonstrate that annual report inquiry letters significantly increase audit fees, raise the probability of issuing non-standard opinions, and enhance the likelihood of auditor change. These findings reflect the systematic impact of regulatory inquiries on audit decisions.

5. Conclusion

This study empirically examines the impact of annual report inquiry letters on auditor behavior using a sample of A-share listed companies on the Shanghai and Shenzhen stock exchanges from 2016 to 2024. The results demonstrate that inquired companies not only face significantly higher audit fees but are also more likely to receive non-standard audit opinions, while simultaneously exhibiting a significantly increased probability of auditor change. Overall, these findings support the mechanism whereby regulatory inquiries influence the operational dynamics of the audit market by enhancing information disclosure quality and intensifying auditors' risk perception.

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