北京师范大学经济与工商管理学院

工作论文（working paper）系列

管理类 No.4

陈超、朱松：Risk Evaluation, Auditing Pricing and Ownership Concentration

2010 年 7 月

Risk Evaluation, Auditing Pricing and Ownership Concentration

Chao Chen
Fudan University

Song Zhu
Beijing Normal University

Abstract: Ownership concentration is prevalent in emerging markets and the tunneling incentive of corporate pyramid have an significant effect on auditing effort and risk evaluation of auditor firms, which in turn affects the auditing opinion and pricing and auditor firms can choose from unclean opinion or higher fee to manage the auditing risk. This paper shows that as the control right of ultimate shareholder increases, the probability of receiving unclean auditing opinion will be lower and auditing prices will also decline. Contrary to Fan and Wong (2005), our results suggest that concentrated control right in China, a weak legal system, may serve as a signal of confidence and a credible commitment for the management or controlling shareholders. We also find that a higher divergence of cash flow right and control right induces higher incentive for tunneling, therefore the higher probability of unclean auditing opinion and higher auditing price results in greater auditing risks.

Keywords: Auditing pricing; Ownership concentration; Tunneling incentive; Auditing opinion; Corporate pyramid

Risk Evaluation, Auditing Pricing and Ownership Concentration

1. Introduction

Auditing service is a fair evaluation provided by auditing firms to assess the quality of the accounting information of their clients. Auditing price reflects not only the auditing inputs but also the risk premium for the litigation risk related to auditing service. Fan and Wong (2005) and Hoitash et al. (2008) argue that characteristics of corporate governance that are designed to alleviate the agency problem within firms significantly influence the auditing pricing by reducing the audit inputs and related risks.[1]

In the East Asian market, concentrated ownership is a signal of more entrenchment activities (Gomes, 2000). Meanwhile it may also generate higher agency costs (La Porta et al., 1999; Claessens et al., 2002). Controlling shareholders may influence the accounting policies of the firms, affecting the quality of accounting information (Fan and Wong, 2002; Zhu, 2006). Therefore, the quality of financial information varies from one firm to another, causing different auditing inputs. On the other hand, the separation of ownership and management enables controlling shareholders or ultimate shareholders to diversify their risk through pyramid structures, and it may lead to the expropriation of the interests of minority shareholders (Claessens et al., 2002; Fan and Wong, 2002), which will influence the quality of earnings and informativeness of accounting numbers (Fan and Wong, 2002; Zhu, 2006). With the tunneling incentive of controlling shareholders or ultimate shareholders, auditors face more auditing risk. Since unclean opinion and higher auditing price can be considered as two risk management methods when auditor firms face troublesome situations. How do they choose from unclean opinion or higher fee to manage the auditing risk?

Using auditing fees of listed firms in China from 2001 to 2006, this paper examines the influence of alignment effect and tunneling incentive due to the

[1] Simunic (1980) is the pioneer of auditing pricing researches.

concentrated ownership and pyramid structure on the auditing firms' auditing risk and auditing pricing. We find that (1) unclean auditing opinion is positively related to the fees auditing firms charge their clients possibly due to more efforts and discontinuation risk; (2) the control right of the ultimate shareholder is significantly negatively related to the probability of receiving an unclean auditing opinion and related auditing fee, probably because less expropriation activities as the concentrated control right can serve as a credible commitment and result in the alignment effect. Increasing control right is often accompanied with more convergence of control right and cash flow right of ultimate shareholders, and results in less auditing risk; (3) As the divergence of the cash flow right and the control right for ultimate shareholder increases, unclean auditing opinion is more likely to be issued and auditing price is more likely to be higher, possibly because of the greater incentive for tunneling (Jenson and Meckling, 1976; La Porta et al., 1999; Claessens et al., 2002; Fan and Wong, 2002, 2005; Zhu, 2006). Thus, the tunneling incentive may affect the quality of earnings and the informativeness of accounting numbers (Fan and Wong, 2002; Zhu, 2006). Under this circumstance, the efforts of auditing service will increase and auditing risk will be larger. Therefore, the auditor will charge a higher auditing fee to compensate for extra efforts and risk.

Fan and Wong (2002) find that the control right of ultimate shareholders is negatively related with the information content of accounting earnings for firms in some Asian countries. As the control right of ultimate shareholders increases, auditing fee increases as well (Fan and Wong, 2005). However, this paper finds the contradictory results, and shows some empirical explanations for the inconsistency. This provides more evidence to the unique situation of Chinese firms due to the different influence of concentrated ownership in the emerging market. And our paper also investigates the effect of concentrated ownership and tunneling incentive on auditing risk management of auditor firms, including both auditing opinion and auditing pricing, which is not investigated by Fan and Wong (2005) and other researches. Since unclean opinion and higher auditing price can be considered as two risk management methods when auditor firms face troublesome situations. We show

how the concentrated ownership influences the risk evaluation of audit firms.

The rest of the paper is organized as follows: Section 2 reviews the related literature. Section 3 presents our hypothesis. Data and variables are shown in Section 4, and the empirical results are reported in Section 5. Finally, we deliver our conclusion in Section 6.

2. Literature Review

Auditing price usually consists of three parts. The first is the product cost, including expenses necessary for the auditing procedures and auditing report issuance. The cost is determined by the characteristics of clients, including the size of client, the nature and complexity of its business, overall financial position, and internal control efficiency. The second part is the expected loss, including the loss due to litigation and potential cost for reputation restoration, usually measured by whether the client is a listed firm and several other financial ratios. The third factor of auditing price is the normal profit for the auditor firms. Other factors also determine the auditing price, such as the competition of the auditing market, whether the auditor firm provides non-auditing services or not, the tenure of the auditor-client relation, and the type of auditing opinion.

By investigating the auditing price for listed firms in U.S. in 1977, Simunic (1980) finds that the size of the client is the most important factor in determining the auditing fee. In addition, the complexity of its operation (proxy for the number of subsidiaries), the industry, whether firm suffers loss or not, and the auditing opinion type can also significantly influence the auditing fee charged by auditor firms. Simunic's (1980) model has been further tested by DeAnglo (1981), Francis (1984) and Firth (1985). Later, Fan and Wong (2005) extend Simunic's (1980) model to investigate other determinants of auditing price, such as the client agency problem and cost. Hoitash et al. (2008) examine the influence of internal risk and control efficiency on auditing price.

DeFond et al. (2000) find that the frequency of modified opinions increases nine-fold subsequent to the adoption of the new standards in China. However, the

increase in modified reports is followed by a decline in auditing market share among large auditors with the greatest propensity to issue modified reports. Their findings suggest that government regulation alone is insufficient to create financial markets that foster auditor independence. Chen et al. (2001) review recent developments in the accounting profession and in independent auditing to obtain an understanding of the environment in which Chinese auditors operate, showing a significant association between receiving modified audit opinions (MAOs) and reporting profits marginally above the target levels specified in stock de-listing and rights offering regulations. Their findings are consistent with the notion that asymmetric profitability requirements exacerbate managers' propensity to engage in earnings management, which in turn is positively associated with receiving MAOs. Wang et al. (2009) investigate the auditor choice in China and find that compared with non-state-owned enterprises (NSOEs), Chinese state-owned enterprises (SOEs) controlled by province, city, and county governments (local SOEs) are more likely to hire small auditors within the same region (small local auditors). However, how the auditing price is affected is not further investigated.

Auditing service is actually a fair valuation issued by auditing firms for the fairness of accounting information provided by firms' management. Therefore, the quality of accounting information significantly influences the auditing input and related risk of auditing firms. The extant literature provides mixed evidence about the association between audit fees and financial reporting quality. Frankel et al. (2002) find a positive (negative) relationship between non-audit (audit) fees and the likelihood of reporting small earnings surprises as well as various abnormal accruals measures. Alternatively, a number of studies (e.g., Ashbaugh et al., 2003; Chung and Kallapur, 2003; Raghunandan et al., 2003; Reynolds et al., 2004) fail to find significant links between fees and reporting quality (Stanley and Dezoot, 2007).

The ownership structure significantly affects the accounting information provided by firms, which in turn influences the auditing input and auditing risk that has a direct effect on the auditing fee charged by auditing firms. Jung and Kwon (2002) suggest that existing literature provides two theories for the behavior of management-owner,

namely the divergence of interests and management entrenchment. Their attempt to investigate how these two theories are reflected in the information content of accounting earnings shows that as management ownership increases, accounting earnings become more informative. But Fan and Wong (2002) find that the control right of ultimate shareholders is negatively related to the information content of accounting earnings, indicating that the entrenchment effect is more likely to appear than the alignment incentive for ultimate shareholders in the East Asian market. Moreover, they find that as the control right and cash flow right is diverging, the entrenchment effect becomes even stronger. By using the dual-voting stock structure to proxy for the divergence of control right and cash flow right, Francis et al. (2005) find the divergence is negatively related to the information content. Zhu (2006) finds that for Chinese listed firms, the control right of ultimate shareholders is significantly positively related to the informativeness of accounting earnings. This study shows that higher control right can be a credible signal and the alignment incentive will be stronger and dominate the entrenchment effect. This finding is inconsistent with Fan and Wong (2002) for the rest of East Asian markets, showing the ownership structure of Chinese listed firms are different from those in other East Asian countries. To sum up, the characteristics of corporate governance influence the quality of accounting information, affecting the auditing risk and auditing input, which may result in different auditing costs and auditing pricing for different auditing firms.

3. Hypotheses

Unclean opinion and higher auditing price can be considered as two risk management methods when auditor firms face troublesome situations. When auditing risk is high, auditing firms can charge more auditing fee for the risk premium if it intends to retain the engagement contract does not issue an unclean opinion. However auditing firms can also choose to issue an unclean opinion rather than lifting the auditing price in order to reduce uncompensated auditing risk, especially when the auditing risk is much higher and exceed their tolerance, which means unclean auditing opinion may be negatively related with auditing price in addition to the “opinion

shopping" problem. But unclean opinion may lead to discontinuation of the auditing engagement and reduced revenue, auditing firms should balance for costs and benefits for an unclean opinion. Ownership structure may significantly affect the risk evaluation of auditor firms for their work, and they can choose from unclean opinion or higher fee to manage the auditing risk.

La Porta et al. (1999) suggest that concentrated ownership is induced by the corporate governance environment, especially weak legal system. With the increase of control right (voting right) among controlling shareholder, its dominant controlling status is entrenched, therefore tunneling incentive become stronger. Stocks collected by largest shareholders make it easier for them to expropriate the listed firms by transferring corporate resources. Thereafter, concentrated ownership may lead to lower quality of earnings and worse information content of accounting information (Morck, 1996). However, firms may voluntarily do some monitoring activities or adopt bonding mechanism to reduce the agency problems (Jensen and Meckling, 1976). More concentrated ownership will be a credible signal that controlling shareholder may not tunnel minority shareholders. The alignment incentive will be stronger as more shares are held by controlling shareholders and will dominate the entrenchment effect when the control right is reasonably high, thus improving the earnings quality (Gomes, 2000). In China, it is actually the duty of controlling shareholders to guarantee the fairness and reliability of the accounting information. Concentrated ownership may increase the quality of reported information and enhance the informativeness of earnings in China (Zhu, 2006). Thereafter, concentrated ownership will be a positive signal for minority shareholders and will lead to better earnings quality and informativeness of earnings. Thus the auditing opinion is less likely to be negative or qualified or with modified wording.

H1: Ceteris paribus, the more firm's ownership the ultimate shareholder controls the less likelihood to receive an unclean auditing opinion.

Ultimate shareholders have the power to control the resources of listed firms, and lower cash flow right will induce stronger incentive to expropriate other stakeholders (Jenson and Meckling, 1976; Jenson, 1986). When cash flow right and control right

(voting right) are divergent, ultimate shareholders will take advantage of the divergence to avoid the loss for wrong decisions, therefore minimizing their own loss. Furthermore, the greater divergence will induce the ultimate shareholder to tunnel, thus lowering the creditability of the firm's earnings (Francis et al., 2005). In China, divergence of two rights will significantly reduce the quality of reported information and the informativeness of earnings (Zhu, 2006). By increasing stock ownership held by controlling shareholders, their cash flow rights increase, thus bringing along the increase in the costs of tunneling minority shareholders. Therefore, the interests of large shareholders and minority shareholders will be more convergent, and the controlling shareholders may reduce their tunneling activities. Thus the auditing opinion is less likely to be negative or qualified or with modified wording.

H2: Ceteris paribus, the less the divergence of the control right and the cash flow right of the ultimate shareholder is, the less likelihood to receive an unclean auditing opinion.

The financial report, or the fairness and reliability of financial information will significantly influence the input of auditors and related litigation risk. The high quality of financial information will lower the audit input for auditor firms and the probability of being litigated. Thus, the auditing price will be lower which reflects the auditing input and auditing risk. Furthermore, more concentrated ownership will be a trustful signal to indicate that controlling shareholder may not tunnel minority shareholders, and the alignment incentive will be stronger as more shares are held by controlling shareholders. This in turn will lead to less audit input and lower potential litigation risk, thus affecting the fee auditor firms charged from listed firms. Therefore, we hypothesis that:

H3: Ceteris paribus, the stronger the ultimate shareholder's control of the firm is, the lower the firm's auditing fee charged by the auditor will be.

H4: Ceteris paribus, the greater the divergence of the control right and the cash flow right of the ultimate shareholder is, the higher the firm's auditing fee charged by the auditor will be.

4. Variables and Data

4.1. Variables

OP, dummy variable, is the auditing opinion, 0 indicates the standard unqualified opinion and 1 otherwise (unqualified opinion with modified wording or emphasis, qualified opinion, negative opinion and no opinion). Since the lagged audit opinion is positively associated with current-period audit opinion, we also consider for this. PrePO is the auditing opinion for the previous year, 0 indicates the standard unqualified opinion and 1 otherwise.

Auditing fee (Auditfee) is the annual auditing fee charged by auditor firms. For regression we use the nature log form of auditing fee (LnFee).

In China, many controlling shareholders not only control listed companies directly, but also control them indirectly through their subsidiaries invested in the same companies. We define the control right as the sum of the bottom level control rights, allowing for both indirect control and multiple controls as Zhu (2006). The measure of cash flow rights is the same as that used by La Porta et al. (1999), Claessens et al. (2002), Fan and Wong (2002) as the product of each control right through the control chain. When this variable is calculated, the indirect control and multiple controls are also taken into consideration. The measure of the divergence of control right and ownership is the same as that used by La Porta et al. (1999), Claessens et al. (2002), Fan and Wong (2002), which is CV=C/V. CV denotes the divergence of control rights and cash flow rights or ownership of ultimate shareholders, V is the control right, and C is cash flow rights. Chan, Lin and Mo (2006) and Wang et al. (2008) found that auditors in China are influenced by governments, thus we also control for the nature of the firms. State is a dummy variable, 1 indicates the firm is a SOE, 0 otherwise.

The complexity of auditing work is proxy using the size of listed firms and the number of subsidiaries consolidated in the financial statements (Simunic, 1980). Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries. Inv is the inventory divided by total assets at year end, and

AR is the account receivables divided by total assets at the end of the year. We use two variables proxy for the auditing risk (Pong and Whittington, 1994), the leverage and the loss dummy variable. Lev is the total debt ratio at the end of the year and PreLoss is a dummy variable. 1 indicates a firm that suffered loss in the prior year, 0 otherwise, which is used for controlling the incentive of earnings management to avoid suffering loss for two consecutive years.

Firms change their auditor due to various reasons, affecting the auditing fee charged for the auditing assurance service, thus we use Switch to proxy for this influence on auditing fee (DeAnglo, 1981). Switch is a dummy variable, 1 indicates a firm changing its auditor, 0 otherwise. Big Four auditing firms usually charge their clients a higher auditing fee due to their reputation (Simunic, 1980; DeAnglo, 1981),[2] thus we also control for this effect, using Big4, which is a dummy variable, 1 indicates the auditor firm is from the Big 4, 0 otherwise. The knowledge and understanding of the client will ease the auditor's input during the engagement. The longer the client-auditor relation continues, the better understanding and knowledge will be acquired by the auditor, thus making it easier for them to conduct the auditing. Long tenure may lower the auditing fee, but the "low balling" phenomenon proposed by DeAngel (1981) indicates that the auditing fee may be even higher as for long time tenure. Thus we control for the tenure effect. Tenure is the time length of the client-auditor relation.

The characteristics of listed firm such as its profitability and payment ability also affect the auditing price. More profitable firms can pay more for their auditors, thus we use ROE, the return on equity ratio, to control for the payment ability (Simunic, 1980). In China, firms in different regions have distinguished payment ability, and local average salary level can also influence the auditing price. Therefore we use a dummy variable to control for the location effect. Locate is a dummy variable, 1 indicates the firm is located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, or Zhejiang, 0 otherwise.

We also control for other characteristics of listed firms. Liquid, the circular stock

[2] Before 2002, it is big 5 in China. In order to avoid perplexity, we just call them big 4.

ratio to total stock, is used to control for the market pressure on firms and related litigation risk for auditing firms. Other is a dummy variable, 1 indicates the firm also issued other kinds of stock, like B, H, S, or ADR, 0 otherwise. Since firms with dual-class stock may face more pressures from the market and the auditor's litigation risk may be higher, we also control for industry by including Inds for the 12 industry categories used by the CSRC after dropping the financial industry: A. agriculture, forestry, herd, and fishery; B. mining; C. manufacturing; D. electricity, gas and water supply; E. construction; F. traffic, storage and post; G. electron city; H. wholesale and retail; J. estate; K. social service; L. culture, sports and entertainment; and Z. general. In regressions we use 11 dummy variables and Z as the base. Years are the year effect, 5 dummies for 6 years.

4.2. Data

We choose all listed firms in Chinese securities market from 2001 to 2006 because from 2001, the audit fee has been required to be disclosed by the CSRC and before that annual data of auditing price are inaccessible. Since Jan.1, 2007, all listed firms in China have been required to follow a new accounting reporting standard, which may cause the auditing fee to increase and significantly differ from those before 2007. Therefore, we use data before 2007.

After dropping (1) samples whose auditing fee is not disclosed or missing in the database, (2) samples whose ultimate shareholders information is missing, and (3) samples in the financial industry, we finally obtain 6,820 samples from 2001 to 2006, including 1021 firms in 2001, 1103 in 2002, 1169 in 2003, 1204 in 2004, 1178 in 2005 and 1145 in 2006. The auditing fee is collected from Wind database and if the data are missing we check the annual reports. The information of ultimate shareholder is excerpted manually from the annual reports of each sample firm. Other financial information is also obtained from Wind database.

5. Empirical Analysis

5.1. Descriptive Statistics

Table 1 reports the descriptive statistics for regression variables. The average auditing fee for each listed firm in China is 0.64 million RMB, with the minimum of only 20 thousand RMB while the maximum reaching 5.5 million RMB. Due to such a large variation, we use the log form of auditing fee in the regression analysis.

9.9% of sample firms have received unclean auditing opinion, which means that the accounting information for those firms is not good in quality.

Control right (Voting right, V) of ultimate shareholder is 43.7% on average. For some firms, the ultimate shareholder controls 88.6% of its shares; while for some other firms the stocks are widely held and the control right for ultimate shareholder is only 5%. In China, not all firms are highly concentrated for their stocks. The average cash flow right (C) is 37.7% and median is 36.8%.

The divergence between voting right and cash flow right is not severe, and CV on average is 0.846, which means that for only 15% of listed firms the voting right and cash flow right of the ultimate shareholder is different. While for a large part of samples, the cash flow right is the same as voting right indicated by the median number.

Sample firms also show great difference in terms of their size, leverage, profitability, the ratio of tradable shares and so on. Concerning the auditing characteristics, 10.6% of sample firms change their auditors which may alter the quality of information and the fee they are charged by auditing firms. Just 7% of sample firms hire “Big 4” companies as their auditors and their average tenure is only 5.5 years, with the longest being 19 years. We can see that regarding these aspects of the characteristics of auditing, great difference exists among those listed firms. The variations on fundamentals and characteristics of auditing may lead auditors to exert different work for different firms, and their input and related risk may also be different, which is evidently shown by the opinion they issue and the compensation they charge for the auditing service.

Insert Table 1 about here

Table 2 shows the correlation for regression variables. The unclean auditing opinion is negatively related with the control right. Pearson coefficient is -0.114 and Spearman coefficient is -0.109. The probability of unclean opinion is lower for higher concentrated ownership. For C and OP, the coefficients are -0.105 and -0.107. While the coefficients for unclean auditing opinion and divergence of two rights (CV) are -0.058 and -0.065, negatively related, which means that higher probability of tunneling will be more likely to result in an unclean auditing opinion. The correlation analysis seems to support our hypotheses 1 and 3. Unclean auditing opinion is negatively related to auditing price, which is inconsistent with our suggestion.

The correlation coefficients for auditing fee (LnFee) and control right (V) are respectively 0.063 and 0.050, positively related, which seems to be inconsistent with our prediction. This may be due to other fundamental differences such as bigger size, lower leverage, less unqualified auditing opinion, higher CV for larger V. For C and LnFee, the coefficients are 0.044 and 0.033. Correlation coefficients for CV are -0.013 and -0.014, consistent with what we hypothesized. However, this is just the unit variable correlation and the positive or negative relation can be attributed to other factors that also influence auditing fees.

Insert Table 2 about here

5.2. Regression Analysis

5.2.1. Concentrated Ownership, Tunneling Incentive and Auditing Opinion

The descriptive statistics show that fundamental aspects for listed firms in China have great differences, which may also cause difference in auditing input and related risk. Can concentrated ownership and tunneling incentive influence the judgment of auditors on firms' risk and earnings quality? Will they issue an unclean auditing opinion for these financial reports?

Table 3 shows how concentrated ownership influences the auditing opinion for

listed firms. Since the opinion is a dummy variable, we use the Probit model.[3] The first two columns are regressions for the individual influence of control right (V) and divergence of the two rights (CV) and the last column shows the combined effect.

Insert Table 3 about here

For individual and combined regressions, ultimate shareholders' control rights (V) and the probability of unclean auditing opinion are significantly negatively related, which means as the control right decreases, auditors are more likely to issue unclean auditing opinions, thus hypothesis 1 is confirmed. Concentrated ownership may be a positive signal for higher alignment incentive and lower potential risk, which in turn leads to better financial information quality and clean auditing opinion.

Coefficients for CV, the divergence of control right and cash flow right is negative, however not significant. The results show that the convergence of control right and cash flow right will lead to higher alignment effect but it is not obvious shown on auditing opinion. Hypothesis 3 is not supported.

State is negatively related with unclean auditing opinion and significantly in the first two regressions, it's because SOEs are less likely to be bankrupt than NSOEs and less risky. PreOP is significantly positively related with OP due to the persistence of firms operation, risky firms are more likely to be risky and receive unclean opinion. Firms that are large in size will be less likely to receive unclean auditing opinions, probably because large firms are more concerned with their reputation and information quality. Higher leverage firms are more likely to receive unclean auditing opinions due to higher risk. Moreover, firms which receive unclean auditing opinions usually have financial difficulties. If firms suffer loss in the previous year, they will have a greater incentive to manage earnings in order to avoid loss for two consecutive years. In addition, their going concern problem will be more severe than other firms, thus they may have higher probability to receive an unclean auditing opinion. A firms' profitability is not significantly related to the auditing opinion, since either positive or negative ROE is related to the incentive of earnings management. The auditing firms,

[3] Results for Logistic model are basically the same, not shown in main text.

whether “Big 4” or not, are insignificantly different in issuing unclean auditing opinions. The auditing tenure does not significantly affect the probability of issuing unclean auditing opinion, and listed firms who have changed their auditing firms do not tend to be more likely to receive unclean auditing opinion. In all, concentrated ownership and tunneling incentive will influence the financial information and earnings quality, affecting the judgment of auditors on firms’ risks. Thus, the auditing opinions are different.

5.2.2. Concentrated Ownership, Auditing Opinion and Auditing Pricing

Since the concentrated ownership and convergence of the two rights are beneficial for the financial information quality and the probability of unclean auditing opinion to be issued is lower, the auditing input and related risk may be decreased, thus fees charged for the engagement may decline owing to less inputs and lower risks. Table 4 shows how the concentrated ownership influences the auditing pricing through its effect on information quality (auditing opinion) and auditing risk related. We regress for the control right (V), the divergence of the two rights (CV) and auditing opinion (OP) on auditing price separately and interdependently.

Insert Table 4 about here

Firms that occasionally engage in “opinion shopping” which may result in opinion on the auditing report appear to significantly influence the fee charged. Clean auditing opinion may deserve higher fees to compensate for potential risks as opposed to qualified or negative opinion. However, qualified auditing opinion may indicate “window dressing” the accounting report, unfairness of presentation, or sometimes frauds. This requires auditor firms to exert more efforts and input, leading to higher auditing fees. We find that the unclean auditing opinion (OP) is positively related with the price charged, significant in separate and conglomerate regressions. This indicates that unclean auditing opinion may require more inputs from auditing firms. In order to compensate for their higher input, they may charge more from firms for their service. The higher price for the unclean auditing opinion may also reflect the risk of

discontinuation of the audit-client relationship due to an unclean auditing opinion.

The control right (voting right, V) of ultimate shareholder is negatively related to auditing price, for individual regression and combined regression, and all significant at least in 0.05 levels. Results show that concentrated control right definitely reduces the auditing fee charged by auditor firms. One reason may lies in less entrenchment with the convergence of control right and cash flow right of ultimate shareholders, causing expropriation activities to decline, and therefore reducing the auditing risk. Concentrated control right in a weak legal system really can serve as a signal of the confidence of management or large shareholder (Gomes, 2000). On the other hand, concentrated control right can also be a credible commitment and result in the alignment effect. When the control right of ultimate shareholder exceeds a certain level, entrenchment will be reduced and earnings quality will become higher (Gomes, 2000; Fan and Wong, 2002; Zhu, 2006), thus lowering the auditor input and related audit risk. Results for V are consistent with hypothesis 2.

As the divergence of cash flow right and control right (CV) for ultimate shareholder increases, the incentive to tunneling becomes much stronger (Jenson and Meckling, 1976; La Porta et al., 1999; Claessens et al., 2002; Fan and Wong, 2002, 2005; Zhu, 2006), thus increasing the auditing risk (Fan and Wong, 2005). Under this circumstance, input of auditing service will increase and related auditing risk will also rise. Therefore, auditing fee charged by auditor firms will be higher to compensate for extra input and risk, which is shown by the regression coefficients of CV. For individual regression or combined regression, the coefficient of CV is significantly negative in the 0.01 levels. The influence of tunneling incentive on auditing fee remains after controlling for other auditing fee determinants, supporting our hypothesis 4.

Results in table 4 also show that: (1) risk related to SOEs is lower as for NSOEs since the government will guarantee the formers and their liquidation risk and litigation risk are reduced, thus auditing fee will be lower for SOEs. However it is not significant in combined regression, showing that the influence of the nature of a firm can be offset by the concentrated ownership. (2) the size of listed firm (Size) has a

positive effect on auditing price since larger firms need more audit inputs; more consolidated subsidiaries (Sub) in financial reports also contribute to the higher audit price for the complexity of the client; more inventory (Inv) will lead to lower auditing price, and the account receivable to total asset (AR) is not significant with auditing fee, both of which are contradicted with Simunic (1980) or the results of other papers. We suggest that inventory may cost auditing firms more input, however, in China the procedure in inventory check is in the form, so it doesn't significantly affect the input. (3) Higher leverage (Lev) will lead to higher auditing price, probably due to the higher liquidation risk; loss firms (PreLoss) will be charged a higher auditing fee, possibly because of higher incentive to manipulate their earnings and their fairness of presentation may be doubted. These two variables show that the operating risk and earnings management risk will require more audit input and a higher auditing fee; (4) auditor change (Switch) lowers the auditing fee and that may be associated with lower auditing quality which is not discussed in our paper; Big 4 auditing firms (Big4) charge more for their service due to their high reputation and higher personnel cost; auditing tenure (Tenure) does not significantly influence the auditing fee, and the "low balling" effect may be offset by better understanding of the client; (5) A firms' profitability (ROE) is not significantly related to the auditing price, since either positive or negative ROE is related to the incentive of earnings management. local economic level (Locate) will significantly influence the auditing fee paid by listed firms since different regions have different labor costs; Less circular stock (Liquid) means more pressures and power of the minority shareholders, thus the risk is lower. If a firm also issues other kinds of stock (Other), such as B, H, S, or ADR, they should also provide corresponding financial reports according to the requirement of local securities system, and their risk becomes much higher and operation is more complex, thus higher auditing fee may be charged.

In all, the results in Table 4 are consistent with our hypotheses 2 and 4. Concentrated ownership may reduce the auditing fee; and incentive of tunneling will influence the judgment of auditors on firm risk and increase their auditing input, which may incur higher auditing fee.

5.2.3. Robust test-Fan & Wong (2005) Measure

The measurement of ownership structure in this paper is a little different from Fan and Wong (2005) who use V and C. The reason is that we find V and C are highly correlated shown in the correlation matrix which may lead to severe multicolinearity in regression. And Fan and Wong (2002) also use V and CV to investigate the influence of ownership structure in Asia except for China, while Zhu (2006) use the same measurement but find the contrary results for Chinese firms. To compare our results, we use the same measure as Fan and Wong (2005) and results are shown in table 5.

Insert Table 5 about here

We use all samples and subsamples defined as Fan and Wong (2005). When regress separately for V and C, results are consistent with what we find in table 4 that V is negatively related with auditing fee which is contrary with Fan and Wong (2005). However when V and C are in one regression, coefficients for V are positive though not significant. Results in table 5 shows that conclusion from table 4 is not due to the different measurement of concentrated ownership, but due to the different sample that Chinese listed firms and other Asian firms.

5.2.4. Robust test-Different Auditing Opinion

Table 4 shows that the unclean auditing opinion is positively related to the price charged to firms, possibly due to more inputs or the risk of discontinuation of the audit-client relationship. How about the influence of ownership structure on auditing price for clean and unclean auditing opinion individually? Is there any significant difference? Table 6 shows the results.

For firms with different types of auditing opinions, relations for control right of ultimate shareholders (V) and auditing price are negative which is significant for the unclean auditing opinion group and insignificant for the unclean group. Relations between divergence of two rights (CV) and auditing price are also negative, significant for the unclean group. In all, the results of Table 6 indicate that

concentrated ownership structure can lower the auditing fee charged to firms.

Insert Table 6 about here

5.2.5. Robust test-Different Ownership Structure

Chan, Lin and Mo (2006) and Wang et al. (2008) found that auditors in China are influenced by governments. SOEs and NSOEs have significant differences not only in the operating risk, but also in corporate governance characteristics and agency problems. Therefore, the influence on auditing input and risk may be different. In order to show the effects of concentrated ownership and tunneling incentive on auditing fee, we separate SOEs and NSOEs for further investigation. Table 7 shows the differences in the determinants of auditing fees for NSOEs and SOEs separately. We run regressions for all the samples and subsamples according to different types of auditing opinions.

Insert Table 7 about here

For SOEs, unclean auditing opinion may increase the auditing price in the traditional level, no matter how insignificant. Control right (V) is significantly negatively related to auditing fee, except for subsamples with unclean auditing opinion, supporting hypothesis 2. Divergence of control right and cash flow right (CV) is negatively related to auditing fee, significant for all three groups, which is consistent with previous results, supporting hypothesis 4.

While for NSOEs, unclean auditing opinion significantly requires a higher price to compensate for the auditing input and the risk of discontinuation at the 1% significance levels. The influence of control right (V) is only significant for unclean opinion group. CV is still significantly negatively related to auditing fee, showing that tunneling incentive actually influences the risk judgment that auditor firms carry out for the listed firms. This may encourage the auditor to make more efforts and input more resources, and therefore they have to increase the auditing fee to assure auditing quality.

5.2.6. Robust test-Other Issues

Table 8 shows the results of several other robust tests. The first column shows the regression result for different definitions of ultimate shareholders, namely those whose control right exceeds 20% as indicated by La Porta et al. (1999), Claessens et al. (2002), Fan and Wong (2002). Dropping those firms whose ultimate shareholder hold less than 20% ownership, the regression results indicate that: (1) unclean auditing opinion is positively and significant; (2) the control right of ultimate shareholder (V) is negatively and significantly related to the auditing fee, (3) the divergence of control right and cash flow right (CV) is significantly negatively related to the auditing fee, indicating that as the divergence increases, the auditing fee will be higher. The above results support our hypothesis.

For 84.6% of the sample firms, the control rights (V) and cash flow rights (C) of ultimate shareholders are not divergent, as is shown in Table 1. We further divide our samples into two parts, divergent group and no-divergent group. The second and third columns present the results of these two groups. For both groups, unclean auditing opinion requires higher price. For divergent group, the control right of ultimate shareholder (V) is negatively related to auditing fee significantly at the 0.01 level, and the divergence of control right and cash flow right (CV) is still negatively related with auditing fee at the 0.10 level, supporting our hypothesis. However, for no-divergent group, coefficient for V is not significantly negative.

The fourth and fifth columns are the results showing the influence of share-reform in Chinese securities market in 2005. Before and after the share-reform, the market pressure for management and auditor firms is quite different. After the share-reform, all shares of listed firm are tradable, which increases market power, forcing the auditor firms to face more responsibilities and higher risk. And before 2005 it is difficult for ultimate shareholders to sell their stock at fair value, the ownership change is seldom. Therefore, we divide the samples into two periods, the pre-reform period from 2001 to 2004, and the post-reform period from 2005 to 2006. The regression results are basically consistent with previous findings except for the V is not significant for 2005 and 2006.

In order to test the non-linear relation between the ownership structure and auditing price, we add the square form of V (control right) in regression, as is shown in column six. However, both the coefficients for V and V-sq are not significant, thus the non-linear relation is not supported.

In addition, in order to minimize the problem of model specification, we also show the regression results using the panel data model and OLS model, as are exhibited in the last two column, and results are still basically the same as above.

Insert Table 8 about here

5.2.7. Reason for Inconsistence with Fan &Wong (2005)

Since our findings are inconsistent with Fan and Wong (2005) even we use the same measures, the reason may be due to the different institutional environment of China and other Asian market. The concentrated ownership in China actually supports the signaling effect and be beneficial for corporate governance and means less risk for auditing firms. Zhu (2006) find that the concentrated ownership structure for Chinese listed firms is beneficial for the informativeness of accounting earnings that control right (V) and divergence of control right and cash flow right (CV) of ultimate shareholder are significantly positively related with informativeness of accounting earnings. Table 9 also shows how the concentrated ownership influences the accounting performance to support the benefits of concentrated ownership in China.

Insert Table 9 about here

We regress for V and CV respectively and also together. V and CV are positively related with accounting performance (ROA) and highly significant after controlling for other fundamental differences. Results show that concentrated ownership is indeed beneficial for operation, meaning less inherent risk which will lead to lower probability of unclean auditing opinion and lower auditing price.

6. Conclusions

Can concentrated ownership and tunneling incentive influence the financial information quality and the judgment of auditors on firms' risk? By using data of Chinese listed firms from 2001 to 2006, we find that concentrated control right can be beneficial for firms' performance and is more likely to receive a clean auditing opinion. This results in a reduction in the auditing fee charged by auditor firms due to less entrenchment and more alignment effect. As the divergence of cash flow right and control right for ultimate shareholder increases, the incentive of tunneling will become stronger, accounting performance is better, and firms may be more likely to receive an unclean auditing opinion. Auditing firms should make more efforts and inputs for auditing that make auditing fees higher to compensate for extra input and risk. Our findings are inconsistent with Fan and Wong (2002, 2005), probably due to measurement error and different institutional settings where the influence of concentrated ownership is different that it is indeed beneficial for operation and accounting information quality.

References

Ashbaugh, H., LaFond, R., and Mayhew, B., 2003. Do nonaudit services compromise auditor independence? Further evidence. *The Accounting Review* 78 (3), 611 – 639.

Claessens, S., Djankov, S., Fan, J.P.H., Lang, L.H.P., 2002. Disentangling the Incentive and Entrenchment Effects of Large Shareholdings, *Journal of Finance* 57, 2741-2771.

Chung, H., and Kallapur, S., 2003. Client importance, nonaudit services, and abnormal accruals. *The Accounting Review* 78 (4), 931 – 955.

Chen, J.P, Chen, Shimin, and Su Xijia, 2001. Profitability Regulation, Earnings Management, and Modified Audit Opinions: Evidence from China, *Auditing: A Journal of Practice & Theory* 20, 9-30.

DeAngelo, L., 1981. Auditor independence, "low balling" and disclosure regulation, *Journal of Accounting and Economics* 3 (2), 113 – 127.

DeFond, Mark, Wong, T.J., and Li, Shuhua, 2000. The impact of improved auditor independence on audit market concentration in China, *Journal of Accounting and Economics* 28, 269–305.

Firth, M., 1985, An analysis of Audit Fees and Their Determiants in Bew Zealan, Auditing: A *Journal of Practice and Theory* 4, 23-27.

Fan, J., and Wong, T.J., 2002, Corporate ownership structure and the informativeness of accounting earnings, *Journal of Accounting and Economics* 33, 401–425.

Fan, J., and Wong, T.J., 2005. Do External Auditors Perform a Corporate Governance Role in Emerging Markets? Evidence from East Asia, *Journal of Accounting Research* 43, 35-72.

Francis, J., Schipper, K., and Vincent, L., 2005. Earnings and Dividend Informativeness When Cash Flow Rights are Separated from Voting Rights, *Journal of Accounting and Economics* 39, 329-360.

Francis, J. 1984. The Effect of Audit Firm Size and Audit Prices, *Journal of Accounting and Economics* 6, 133–52.

Frankel, R., Johnson, M., and Nelson, K., 2002, The relation between auditors' fees for non-audit services and earnings management, *The Accounting Review* 77 (Supplement), 71 – 105.

Gomes, A. (2000), Going public without governance: managerial reputation affects, *Journal of Finance* 55, 615–646.

La Porta, R., Lopez-de-Silanes, F., and Shleifer, A., 1999, Corporate ownership around the world,

Journal of Finance 54, 471-518.

Morck, R., 1996, On the economics of concentrated ownership. *Canadian Business Law Journal* 26, 63–75.

Jung, K., Kwon,S. (2002), Ownership structure and earnings informativeness: Evidence from Korea, *The International Journal of Accounting* 37, 301-325.

Jenson, M., and Meckling,W., 1976. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3, 305–60.

Pong, C.M, and Whittington, G., 1994, The determinants of audit fee: some empirical models, *Journal of Business Finance and Accounting*, 1071-1095.

Raghunandan, K., Read, W., and Whisenant, S., 2003. Initial evidence on the association between nonaudit fees and restated financial statements, *Accounting Horizons* 17 (3), 223–234.

Hoitash, U., Hoitash, R., and Bedard, J., 2008. Internal Control Quality and Audit Pricing under the Sarbanes-Oxley Act, *Auditing: A Journal of Practice and Theory* 27, 105-126.

Simunic, D., 1980. The Pricing of Audit Services: Theory and Evidence, *Journal of Accounting Research* 18, 161–90.

Stanley, J, D., and Dezoot, F. T., 2007. Audit firm tenure and financial restatements: An analysis of industry specialization and fee effects, *Journal of Accounting and Public Policy* 26, 131–159.

Wang, Q, Wong, T.J, and Xia, Lijun, 2008. State ownership, the institutional environment, and auditor choice: Evidence from China, *Journal of Accounting and Economics 46*, 112–134.

Zhu, Song., 2006. Characteristics of ultimate shareholders and earnings informativeness . *China Accounting and Finance Research*, 6, 1-26.

Table 1 Descriptive Statistics

Auditfee is the annual auditing fee charged by auditor firms (in ten thousand RMB); LnFee is the nature log form of Auditfee; OP, dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; C, cash flow right of ultimate shareholders; CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries consolidated. Inv is the inventory divided by total assets at year end, and AR is the account receivables divided by total assets at year end. Lev is the total debt ratio at the year end, and PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; ROE is the return on equity ratio at year end. Locate, dummy variable, 1 indicate the firm is located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, Zhejiang, 0 otherwise. Liquid, the circular stock ratio to total stock at year end; Other, dummy variable, 1 indicates firms also issue other kind of stocks, like B, H, S, or ADR, 0 otherwise.

Variables	N	Mean	SD	Min	Median	Max
Auditfee	6820	64.640	159.350	2.060	42.000	550
LnFee	6820	13.053	0.644	9.933	12.948	17.823
OP	6820	0.099	0.298	0	0	1
V	6820	0.437	0.165	0.050	0.430	0.886
C	6820	0.377	0.190	0.050	0.363	0.886
CV	6820	0.846	0.252	0.020	1	1
State	6820	0.741	0.438	0	1	1
Size	6820	21.148	0.992	14.937	21.061	27.111
Sub	6820	2.298	1.458	0	2.236	16.523
Inv	6820	0.153	0.133	0	0.123	2.015
AR	6820	0.109	0.098	0	0.085	4.865
Lev	6820	0.519	0.428	0.010	0.490	9.740
PreLoss	6820	0.119	0.324	0	0	1
Switch	6820	0.106	0.308	0	0	1
Big4	6820	0.071	0.258	0	0	1
Tenure	6820	5.507	3.308	1	5	19
ROE	6820	0.089	3.169	-38.010	0.060	244.670
Locate	6820	0.443	0.497	0	0	1
Liquid	6820	0.413	0.126	0.090	0.390	1
Other	6820	0.094	0.292	0	0	1

Table 2 Correlation Matrix

Auditfee is the annual auditing fee charged by auditor firms (in ten thousand RMB); LnFee is the nature log form of Auditfee; OP, dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; C, cash flow right of ultimate shareholders; CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries consolidated. Inv is the inventory divided by total assets at year end, and AR is the account receivables divided by total assets at year end. Lev is the total debt ratio at the year end, and PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; ROE is the return on equity ratio at year end. Locate, dummy variable, 1 indicate the firm is located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, Zhejiang, 0 otherwise. Liquid, the circular stock ratio to total stock at year end; Other, dummy variable, 1 indicates firms also issue other kind of stocks, like B, H, S, or ADR, 0 otherwise. Above the diagonal are Spearman correlations, and under the diagonal are Pearson correlations.

	LnFee	OP	V	C	CV	Size	Sub	Inv	AR	Lev	PreLoss	Switch	Big4	Tenure	ROE	Locate	State	Liquid	Other
LnFee		-0.031	0.050	0.033	-0.014	0.584	0.409	0.000	-0.037	0.134	-0.082	-0.018	0.302	0.095	0.121	0.198	0.085	0.112	0.397
OP	-0.027		-0.109	-0.107	-0.065	-0.169	-0.003	-0.020	0.056	0.347	0.345	0.091	-0.042	-0.069	-0.243	0.008	-0.095	0.009	0.039
V	0.063	-0.114		0.837	0.153	0.174	-0.180	-0.012	0.025	-0.190	-0.123	-0.012	0.091	-0.075	0.137	0.015	0.316	-0.506	-0.021
C	0.044	-0.105	0.840		0.607	0.179	-0.176	-0.002	-0.007	-0.174	-0.115	-0.008	0.065	-0.056	0.104	-0.015	0.449	-0.354	-0.009
CV	-0.013	-0.058	0.175	0.642		0.088	-0.082	0.002	-0.042	-0.073	-0.054	-0.006	-0.005	-0.004	-0.002	-0.033	0.444	-0.056	0.022
Size	0.628	-0.142	0.204	0.205	0.091		0.347	-0.017	-0.161	0.147	-0.221	-0.018	0.238	0.108	0.173	0.108	0.201	0.092	0.204
Sub	0.399	0.007	-0.180	-0.177	-0.074	0.348		0.094	-0.002	0.201	-0.039	-0.008	0.124	0.149	-0.018	0.229	-0.064	0.218	0.190
Inv	-0.014	-0.006	-0.031	-0.019	0.003	0.003	0.086		0.185	0.179	0.013	-0.004	-0.033	0.024	-0.029	0.038	0.007	0.045	0.029
AR	-0.007	0.090	-0.026	-0.026	0.004	-0.108	-0.018	0.106		0.087	0.060	0.016	-0.076	-0.063	-0.099	0.006	-0.047	-0.028	-0.020
Lev	0.006	0.276	-0.139	-0.122	-0.047	-0.116	0.059	0.137	0.321		0.253	0.039	-0.080	0.057	-0.126	-0.002	-0.090	0.108	0.027
PreLoss	-0.076	0.345	-0.120	-0.113	-0.052	-0.232	-0.052	0.015	0.082	0.290		0.092	-0.060	-0.042	-0.241	-0.048	-0.074	0.045	0.022
Switch	-0.012	0.091	-0.013	-0.009	-0.003	-0.022	-0.010	0.002	0.027	0.039	0.092		0.000	-0.532	-0.043	-0.005	0.021	0.006	0.033
Big4	0.427	-0.042	0.091	0.064	0.001	0.305	0.143	-0.004	-0.031	-0.058	-0.060	0.000		0.015	0.106	0.120	0.067	0.007	0.407

Tenure	0.093	-0.055	-0.094	-0.073	0.001	0.106	0.167	0.032	-0.046	0.012	-0.033	-0.470	0.020		-0.011	0.078	-0.018	0.144	0.022
ROE	-0.003	0.022	-0.013	-0.021	-0.027	-0.001	-0.012	0.007	-0.011	0.024	0.015	0.004	0.041	-0.005		0.087	-0.028	-0.113	0.006
Locate	0.203	0.008	0.018	-0.013	-0.028	0.110	0.236	0.081	0.049	0.012	-0.048	-0.005	0.120	0.104	0.000		-0.011	-0.039	0.190
State	0.100	-0.095	0.308	0.439	0.421	0.208	-0.064	-0.006	-0.027	-0.088	-0.074	0.021	0.067	-0.018	-0.022	-0.011		-0.083	0.092
Liquid	0.119	0.002	-0.532	-0.360	-0.048	0.083	0.249	0.022	-0.064	0.045	0.032	0.008	-0.001	0.155	0.009	-0.020	-0.082		0.186
Other	0.510	0.039	-0.025	-0.013	0.005	0.242	0.203	0.053	0.061	0.049	0.022	0.033	0.407	0.044	-0.011	0.190	0.092	0.190	

Table 3 Concentrated Ownership, Tunneling Incentive and Auditing Opinion

Probit Model:

$$OP = \alpha + \beta_1 V + \beta_2 CV + \beta_3 State + \beta_4 PreOP + \beta_5 Size + \beta_6 Lev + \beta_7 PreLoss + \beta_8 ROE + \beta_9 Big4 + \beta_{10} Tenure + \beta_{11} Switch + \beta_i \sum Years + \beta_j \sum Inds + \varepsilon$$

OP, dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. PreOP is the previous year's auditing opinion. Size is the natural log form of the total asset at year end, Lev is the total debt ratio at the year end, and PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; ROE is the return on equity ratio at year end. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Inds for the 12 industry categories used by the CSRC after dropping the financial industry. Years are year effect, 5 dummies for 6 year. White–adjusted t statistics considering the heteroscedasticity are in the parentheses. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Variables	**Expsign**	**All**	**All**	**All**
V	—	-0.363**		-0.353*
		(-1.96)		(-1.91)
CV	—		-0.112	-0.099
			(-1.06)	(-0.94)
State	-	-0.106*	-0.112*	-0.083
		(-1.80)	(-1.79)	(-1.30)
PreOP	+	1.336***	1.336***	1.336***
		(19.20)	(19.22)	(19.19)
Size	—	-0.065**	-0.074**	-0.065**
		(-2.08)	(-2.44)	(-2.09)
Lev	+	1.037***	1.056***	1.035***
		(3.82)	(3.87)	(3.82)
PreLoss	+	0.478***	0.481***	0.478***
		(6.30)	(6.32)	(6.30)
ROE	?	0.001	0.001	0.001
		(0.11)	(0.09)	(0.08)
Big4	+	0.076	0.070	0.075
		(0.68)	(0.63)	(0.67)
Tenure	-	-0.013	-0.011	-0.013
		(-1.38)	(-1.22)	(-1.36)
Switch	?	0.090	0.099	0.091
		(1.03)	(1.12)	(1.03)
Years&Inds		Control	Control	Control
N		6820	6820	6820
Pseudo R^2		0.3408	0.3401	0.3410

Table 4 Concentrated Ownership, Tunneling Incentive and Auditing Pricing

Tobit Model:

$$LnFee = \alpha + \beta_1 OP + \beta_2 V + \beta_3 CV + \beta_4 Size + \beta_5 Sub + \beta_6 Inv + \beta_7 AR + \beta_8 Lev + \beta_9 \mathrm{Pr}eLoss + \beta_{10} Switch + \beta_{11} Big4 + \beta_{12} Tenure + \beta_{13} ROE + \beta_{14} Locate + \beta_{15} State + \beta_{16} Liquid + \beta_{17} Other + \beta_i \sum Years + \beta_j \sum Inds + \varepsilon$$

Dependent variable is LnFee. Auditfee is the annual auditing fee charged by auditor firms; LnFee is the nature log form of Auditfee; OP, a dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries. Inv is the inventory divided by total assets at year end, and AR is the account receivables divided by total assets at year end. Lev is the total debt ratio at the year end, and PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; ROE is the return on equity ratio at year end. Locate, dummy variable, 1 indicate the firm in located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, Zhejiang, 0 otherwise. Liquid, the circular stock ratio to total stock at year end; Other, dummy variable, 1 indicates firms also issue other kind of stocks, like B, H, S, or ADR, 0 otherwise. Inds for the 12 industry categories used by the CSRC after dropping the financial industry. Years are year effect, 5 dummies for 6 year. White–adjusted t statistics considering the heteroscedasticity are in the parentheses. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Variables		**Expsign**	**All**	**All**	**All**	**All**	**All**	**All**
Audit	OP	+	0.059***			0.057***	0.058***	0.056***
Opinion			(3.06)			(2.99)	(3.01)	(2.94)
	V	−		-0.102***		-0.099**		-0.090**
				(-2.60)		(-2.50)		(-2.30)
Ownership	CV	−			-0.107***		-0.106***	-0.104***
Structure					(-4.49)		(-4.45)	(-4.35)
	State	−	-0.037***	-0.031**	-0.014	-0.030**	-0.013	-0.006
			(-3.23)	(-2.56)	(-1.05)	(-2.47)	(-0.96)	(-0.45)
	Size	+	0.313***	0.315***	0.312***	0.317***	0.314***	0.317***
Complexity of			(39.31)	(38.21)	(39.09)	(38.48)	(39.37)	(38.51)
Audit Work	Sub	+	0.070***	0.069***	0.069***	0.069***	0.069***	0.068***
			(15.93)	(15.44)	(15.72)	(15.43)	(15.70)	(15.22)

	Inv	+	-0.191***	-0.195***	-0.195***	-0.190***	-0.189***	-0.188***
			(-3.98)	(-4.06)	(-4.09)	(-3.95)	(-3.97)	(-3.95)
	AR	+	0.031	0.027	0.033	0.029	0.036	0.034
			(0.63)	(0.53)	(0.66)	(0.59)	(0.73)	(0.69)
	Lev	+	0.050***	0.060***	0.061***	0.049***	0.050***	0.048***
Auditing			(3.77)	(4.79)	(4.80)	(3.67)	(3.68)	(3.58)
Risk	Preloss	+	0.065***	0.077***	0.077***	0.064***	0.064***	0.063***
			(3.93)	(4.74)	(4.75)	(3.88)	(3.89)	(3.85)
	Switch	?	-0.044**	-0.042**	-0.042**	-0.045**	-0.044**	-0.045**
			(-2.24)	(-2.16)	(-2.14)	(-2.29)	(-2.27)	(-2.31)
Auditor firm	Big4	+	0.346***	0.346***	0.344***	0.347***	0.345***	0.345***
Characteristics			(12.10)	(12.14)	(12.05)	(12.15)	(12.06)	(12.11)
	Tenure	?	0.002	0.002	0.002	0.002	0.002	0.002
			(1.02)	(0.95)	(1.06)	(0.98)	(1.09)	(1.05)
	ROE	+	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
Payment			(-0.80)	(-0.68)	(-0.83)	(-0.80)	(-0.96)	(-0.95)
Ability	Locate	+	0.071***	0.072***	0.071***	0.072***	0.070***	0.071***
			(6.72)	(6.85)	(6.73)	(6.81)	(6.69)	(6.77)
	Liquid	?	-0.063	-0.129**	-0.066	-0.125**	-0.064	-0.121**
Other			(-1.39)	(-2.50)	(-1.45)	(-2.41)	(-1.41)	(-2.33)
Aspects	Other	+	0.637***	0.619***	0.637***	0.618***	0.635***	0.618***
			(26.20)	(24.56)	(26.37)	(24.51)	(26.29)	(24.61)
Years&Inds			Control	Control	Control	Control	Control	Control
N			6820	6820	6820	6820	6820	6820
Pseudo R^2			0.4497	0.4495	0.4507	0.4502	0.4514	0.4518

Table 5 Robust Test-Fan&Wong (2005) Measures

Dependent variable is LnFee. Auditfee is the annual auditing fee charged by auditor firms; LnFee is the nature log form of Auditfee; OP, a dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; C, cash flow right of ultimate shareholders. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries. Lev is the total debt ratio at the year end, and Inv is the inventory divided by total assets at year end, and AR is the account receivables divided by total assets at year end. PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; ROE is the return on equity ratio at year end. Locate, dummy variable, 1 indicate the firm in located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, Zhejiang, 0 otherwise. Liquid, the circular stock ratio to total stock at year end; Other, dummy variable, 1 indicates firms also issue other kind of stocks, like B, H, S, or ADR, 0 otherwise. Inds for the 12 industry categories used by the CSRC after dropping the financial industry. Years are year effect, 5 dummies for 6 year. White–adjusted t statistics considering the heteroscedasticity are in the parentheses. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Variables		**Expsign**	**All**			V－C ≤20%	V－C ＞20%
Audit Opinion	OP	＋	0.057***	0.057***	0.058***	0.063***	-0.015
			(2.99)	(2.98)	(3.00)	(3.15)	(-0.22)
	V	－	-0.099**		0.080	0.148	0.346
			(-2.50)		(1.19)	(1.25)	(1.63)
Ownership Structure	C	－		-0.148***	-0.200***	-0.234**	-0.946***
				(-4.23)	(-3.36)	(-2.17)	(-4.11)
	State	－	-0.030**	-0.015	-0.013	-0.017	0.041
			(-2.47)	(-1.13)	(-0.98)	(-1.20)	(1.21)
	Size	＋	0.317***	0.319***	0.318***	0.318***	0.291***
			(38.48)	(39.04)	(38.56)	(36.53)	(12.31)
	Sub	＋	0.069***	0.067***	0.068***	0.064***	0.103***
Complexity of			(15.43)	(15.21)	(15.23)	(13.55)	(7.70)
Audit Work	Inv	+	-0.190***	-0.187***	-0.187***	-0.198***	-0.087
			(-3.95)	(-3.92)	(-3.92)	(-4.38)	(-0.52)
	AR	+	0.029	0.029	0.030	0.029	0.257
			(0.59)	(0.59)	(0.61)	(0.59)	(1.56)
	Lev	＋	0.049***	0.048***	0.049***	0.045***	0.159***
Auditing			(3.67)	(3.63)	(3.68)	(3.27)	(2.68)
Risk	Preloss	＋	0.064***	0.063***	0.064***	0.063***	0.061
			(3.88)	(3.85)	(3.87)	(3.66)	(1.23)
	Switch	?	-0.045**	-0.045**	-0.045**	-0.049**	-0.018
Auditor firm			(-2.29)	(-2.31)	(-2.29)	(-2.45)	(-0.26)
Characteristics	Big4	＋	0.347***	0.345***	0.344***	0.367***	0.174**
			(12.15)	(12.10)	(12.05)	(11.87)	(2.38)

	Tenure	?	0.002	0.002	0.002	0.000	0.017***
			(0.98)	(1.01)	(1.04)	(0.05)	(3.10)
	ROE	+	-0.001	-0.001	-0.001	-0.001	-0.005
Payment			(-0.80)	(-0.86)	(-0.88)	(-0.99)	(-0.68)
Ability	Locate	+	0.072***	0.071***	0.070***	0.061***	0.133***
			(6.81)	(6.75)	(6.68)	(5.49)	(4.20)
	Liquid	?	-0.125**	-0.145***	-0.124**	-0.103*	-0.273
Other			(-2.41)	(-2.96)	(-2.39)	(-1.94)	(-1.38)
Aspects	Other	+	0.618***	0.612***	0.619***	0.619***	0.654***
			(24.51)	(25.06)	(24.58)	(24.13)	(7.26)
Years&Inds			Control	Control	Control	Control	Control
N			6820	6820	6820	5970	850
Pseudo R^2			0.4502	0.4511	0.4512	0.4676	0.4054

Table 6 Robust Test- Different Auditing Opinion

Dependent variable is LnFee. Auditfee is the annual auditing fee charged by auditor firms; LnFee is the nature log form of Auditfee; OP, a dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries. Lev is the total debt ratio at the year end, and Inv is the inventory divided by total assets at year end, and AR is the account receivables divided by total assets at year end. PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; ROE is the return on equity ratio at year end. Locate, dummy variable, 1 indicate the firm in located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, Zhejiang, 0 otherwise. Liquid, the circular stock ratio to total stock at year end; Other, dummy variable, 1 indicates firms also issue other kind of stocks, like B, H, S, or ADR, 0 otherwise. Inds for the 12 industry categories used by the CSRC after dropping the financial industry. Years are year effect, 5 dummies for 6 year. White–adjusted t statistics considering the heteroscedasticity are in the parentheses. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Variables		**Op=1**			**Op=0**		
	V	-0.390***		-0.377***	-0.062		-0.055
		(-3.07)		(-2.96)	(-1.49)		(-1.33)
Ownership	CV		-0.113	-0.099		-0.103***	-0.102***
Structure			(-1.59)	(-1.40)		(-4.09)	(-4.04)
	State	-0.063	-0.069	-0.037	-0.020	-0.001	0.003
		(-1.47)	(-1.50)	(-0.79)	(-1.61)	(-0.08)	(0.20)
	Size	0.266***	0.249***	0.266***	0.324***	0.323***	0.325***
		(8.32)	(8.11)	(8.26)	(38.02)	(39.35)	(38.12)
	Sub	0.090***	0.092***	0.089***	0.069***	0.068***	0.068***
Complexity of		(5.81)	(5.94)	(5.75)	(14.70)	(14.87)	(14.51)
Audit Work	Inv	-0.258	-0.255	-0.264	-0.165***	-0.163***	-0.161***
		(-1.35)	(-1.35)	(-1.40)	(-3.69)	(-3.65)	(-3.61)
	AR	-0.042	-0.023	-0.040	0.123**	0.130**	0.130**
		(-0.65)	(-0.37)	(-0.62)	(2.19)	(2.32)	(2.33)
Auditing	Lev	0.027	0.026	0.028	0.041	0.040	0.036

Risk		(1.50)	(1.38)	(1.53)	(1.29)	(1.29)	(1.13)
	Loss	0.013	0.022	0.014	0.068***	0.068***	0.068***
		(0.38)	(0.61)	(0.39)	(3.66)	(3.65)	(3.65)
	Switch	-0.024	-0.015	-0.018	-0.053**	-0.054***	-0.055***
		(-0.46)	(-0.27)	(-0.35)	(-2.56)	(-2.62)	(-2.64)
Auditor firm	Big4	0.528***	0.529***	0.528***	0.331***	0.329***	0.329***
Characteristics		(4.20)	(3.99)	(4.16)	(11.30)	(11.25)	(11.25)
	Tenure	-0.011**	-0.009*	-0.010**	0.003	0.003	0.003
		(-2.10)	(-1.78)	(-1.99)	(1.42)	(1.47)	(1.46)
	ROE	-0.001	-0.001	-0.001	0.001	0.001	0.001
Payment		(-0.91)	(-0.99)	(-0.98)	(0.11)	(0.15)	(0.16)
Ability	Locate	0.088***	0.094***	0.091***	0.067***	0.065***	0.066***
		(2.59)	(2.72)	(2.66)	(6.04)	(5.91)	(5.95)
	Liquid	-0.384**	-0.204	-0.387**	-0.071	-0.031	-0.067
Other		(-2.28)	(-1.30)	(-2.31)	(-1.32)	(-0.67)	(-1.23)
Aspects	Other	0.479***	0.532***	0.480***	0.636***	0.647***	0.636***
		(6.32)	(6.98)	(6.35)	(23.70)	(25.14)	(23.80)
Years&Inds		Control	Control	Control	Control	Control	Control
N		674	674	674	6146	6146	6146
Pseudo R^2		0.4525	0.4472	0.4542	0.4561	0.4576	0.4577

Table 7 Robust Test-Different Ownership Structure

Dependent variable is LnFee. Auditfee is the annual auditing fee charged by auditor firms; LnFee is the nature log form of Auditfee; OP, a dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries. Inv is the inventory divided by total assets at year end, and AR is the account receivables divided by total assets at year end. Lev is the total debt ratio at the year end, and PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; ROE is the return on equity ratio at year end. Locate, dummy variable, 1 indicate the firm in located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, Zhejiang, 0 otherwise. Liquid, the circular stock ratio to total stock at year end; Other, dummy variable, 1 indicates firms also issue other kind of stocks, like B, H, S, or ADR, 0 otherwise. Inds for the 12 industry categories used by the CSRC after dropping the financial industry. Years are year effect, 5 dummies for 6 year. White–adjusted t statistics considering the heteroscedasticity are in the parentheses. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Variables		**STATE=1**			**STATE=0**		
		All	**Op=1**	**Op=0**	**All**	**Op=1**	**Op=0**
Audit	OP	0.022			0.114***		
Opinion		(0.95)			(3.38)		
	V	-0.108**	-0.083	-0.107**	-0.009	-0.714***	0.114
Ownership		(-2.35)	(-0.53)	(-2.22)	(-0.12)	(-2.61)	(1.39)
Structure	CV	-0.138***	-0.289**	-0.123***	-0.066**	0.061	-0.076**
		(-3.96)	(-2.53)	(-3.38)	(-2.17)	(0.65)	(-2.29)
	Size	0.329***	0.248***	0.337***	0.274***	0.259***	0.265***
		(34.16)	(5.54)	(34.90)	(19.91)	(7.51)	(17.69)
	Sub	0.068***	0.090***	0.067***	0.077***	0.114***	0.079***
Complexity of		(12.77)	(4.75)	(11.99)	(10.31)	(4.44)	(10.23)
Audit Work	Inv	-0.176***	-0.485***	-0.127**	-0.167*	-0.029	-0.246***
		(-3.31)	(-3.61)	(-2.25)	(-1.91)	(-0.14)	(-3.34)
	AR	0.039	-0.033	0.153**	0.145**	0.279*	0.105
		(0.76)	(-0.65)	(2.13)	(2.45)	(1.96)	(1.48)

	Lev	0.022	0.020	0.010	0.058***	0.047**	0.153**
Auditing		(1.31)	(0.75)	(0.27)	(3.15)	(2.14)	(2.44)
Risk	Loss	0.066***	0.014	0.065***	0.049*	0.007	0.060*
		(3.31)	(0.31)	(2.95)	(1.68)	(0.12)	(1.78)
	Switch	-0.058**	-0.049	-0.057**	-0.020	0.101	-0.059
		(-2.53)	(-0.77)	(-2.34)	(-0.57)	(1.25)	(-1.61)
Auditor firm	Big4	0.339***	0.433***	0.329***	0.302***	0.742***	0.249***
Characteristics		(10.88)	(2.63)	(10.36)	(4.28)	(4.22)	(3.37)
	Tenure	0.001	-0.010	0.003	0.004	0.005	0.005
		(0.57)	(-1.43)	(1.15)	(1.37)	(0.71)	(1.45)
	ROE	-0.002	-0.005	0.006	-0.001	-0.001	-0.007
Payment		(-0.35)	(-0.87)	(0.39)	(-0.61)	(-0.59)	(-0.64)
ability	Locate	0.084***	0.148***	0.074***	0.036*	-0.038	0.047**
		(6.59)	(3.31)	(5.49)	(1.92)	(-0.69)	(2.31)
	Liquid	-0.092	-0.053	-0.078	-0.079	-0.747***	0.033
Other		(-1.48)	(-0.23)	(-1.20)	(-0.90)	(-3.04)	(0.36)
Aspects	Other	0.633***	0.575***	0.643***	0.583***	0.420***	0.556***
		(22.27)	(6.18)	(21.50)	(10.61)	(3.45)	(9.47)
Years&Inds		Control	Control	Control	Control	Control	Control
N		5052	418	4634	1768	256	1512
Pseudo R^2		0.4521	0.4750	0.4565	0.4476	0.5534	0.4509

Table 8 Robust Test-Other Issues

Dependent variable is LnFee. Auditfee is the annual auditing fee charged by auditor firms; LnFee is the nature log form of Auditfee; OP, a dummy variable, is the auditing opinion, 0 indicate the standard unqualified opinion and 1 otherwise. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; V-sq is the square form of V. CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end and Sub is the square root of the number of subsidiaries. Inv is the inventory divided by total assets at year end, and AR is the account receivables divided by total assets at year end. Lev is the total debt ratio at the year end, and PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Switch, dummy variable, 1 indicates firm changes its auditor at sample year, 0 otherwise. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. Tenure is the time length of the client-auditor relation; ROE is the return on equity ratio at year end. Locate, dummy variable, 1 indicate the firm in located in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, Jiangsu, Zhejiang, 0 otherwise. Liquid, the circular stock ratio to total stock at year end; Other, dummy variable, 1 indicates firms also issue other kind of stocks, like B, H, S, or ADR, 0 otherwise. Inds for the 12 industry categories used by the CSRC after dropping the financial industry. Years are year effect, 5 dummies for 6 year. White–adjusted t statistics considering the heteroscedasticity are in the parentheses. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Variables		**0.20≤V**	**CV<1**	**CV=1**	**Pre-reform 2001-2004**	**After-reform 2005-2006**	**Nonlinear relation**	**Panel Data**	**OLS**
Audit	OP	0.039**	0.053*	0.052**	0.050**	0.069**	0.056***	0.056***	0.056***
Opinion		(1.97)	(1.75)	(2.12)	(2.16)	(2.02)	(2.95)	(2.98)	(2.93)
	V	-0.099**	-0.182***	-0.048	-0.091*	-0.101	0.050	-0.090**	-0.090**
		(-2.38)	(-2.59)	(-1.00)	(-1.85)	(-1.56)	(0.29)	(-2.28)	(-2.29)
	V-sq						-0.157		
Ownership							(-0.82)		
Structure	CV	-0.099***	-0.061*		-0.106***	-0.094**	-0.103***	-0.104***	-0.104***
		(-4.02)	(-1.83)		(-3.46)	(-2.54)	(-4.34)	(-4.67)	(-4.34)
	State	-0.015	0.000	0.015	-0.008	-0.004	-0.007	-0.006	-0.006
		(-1.07)	(0.03)	(0.72)	(-0.46)	(-0.18)	(-0.50)	(-0.44)	(-0.45)
	Size	0.320***	0.314***	0.316***	0.317***	0.317***	0.318***	0.317***	0.317***
Complexity of		(38.01)	(26.55)	(28.78)	(28.98)	(25.85)	(38.28)	(49.74)	(38.43)
Audit Work	Sub	0.070***	0.079***	0.060***	0.066***	0.068***	0.068***	0.068***	0.068***
		(15.11)	(10.90)	(10.31)	(11.45)	(9.57)	(15.23)	(16.44)	(15.19)

	Inv	-0.163***	-0.071	-0.258***	-0.160**	-0.223***	-0.189***	-0.188***	-0.188***
		(-3.31)	(-0.92)	(-4.55)	(-2.44)	(-3.65)	(-3.97)	(-4.42)	(-3.94)
	AR	0.201***	0.272***	-0.007	0.068	-0.002	0.035	0.034	0.034
		(4.41)	(3.70)	(-0.15)	(0.90)	(-0.03)	(0.70)	(0.95)	(0.69)
	Lev	0.062***	0.059**	0.045***	0.033*	0.059***	0.049***	0.048***	0.048***
Auditing		(4.35)	(2.37)	(2.76)	(1.83)	(3.17)	(3.61)	(3.54)	(3.57)
Risk	PreLoss	0.059***	0.059**	0.061***	0.044**	0.094***	0.064***	0.063***	0.063***
		(3.52)	(2.36)	(2.84)	(1.99)	(3.82)	(3.87)	(3.66)	(3.84)
	Switch	-0.043**	-0.043	-0.045*	-0.061**	0.002	-0.046**	-0.045**	-0.045**
		(-2.16)	(-1.2)	(-1.90)	(-2.49)	(0.06)	(-2.34)	(-2.38)	(-2.31)
Auditor firm	Big4	0.332***	0.289***	0.381***	0.297***	0.452***	0.344***	0.345***	0.345***
Characteristics		(11.40)	(6.47)	(10.42)	(8.95)	(8.58)	(12.07)	(15.56)	(12.08)
	Tenure	0.002	0.005	0.000	-0.001	0.007**	0.002	0.002	0.002
		(0.86)	(1.59)	(0.18)	(-0.28)	(2.42)	(1.03)	(1.06)	(1.05)
	ROE	-0.001	-0.001	0.002	0.001	-0.002*	-0.001	-0.001	-0.001
Payment		(-0.75)	(-0.70)	(0.35)	(0.14)	(-1.70)	(-0.95)	(-0.52)	(-0.95)
Ability	Locate	0.069***	0.092***	0.060***	0.062***	0.093***	0.071***	0.071***	0.071***
		(6.40)	(5.46)	(4.44)	(4.59)	(5.71)	(6.77)	(6.56)	(6.75)
	Liquid	-0.148***	-0.104	-0.119*	-0.081	-0.153*	-0.122**	-0.121**	-0.121**
Other		(-2.60)	(-1.23)	(-1.86)	(-1.21)	(-1.90)	(-2.35)	(-2.34)	(-2.33)
Aspects	Other	0.626***	0.634***	0.623***	0.608***	0.659***	0.617***	0.618***	0.618***
		(23.58)	(14.34)	(20.47)	(19.89)	(15.02)	(24.60)	(26.69)	(24.55)
Years&Inds		Control	Control	Control	Control	Control	Control	Control	Control
N		6432	2606	4214	4497	2323	6820	6820	6820
Pseudo R^2/ R^2		0.4560	0.4504	0.4633	0.4068	0.5505	0.4518	0.5871	0.587

Table 9 Concentrated Ownership, Tunneling Incentive and Performance

OLS Model:

$$ROA = \alpha + \beta_1 V + \beta_2 CV + \beta_3 State + \beta_4 Size + \beta_5 Lev + \beta_6 Big4 + \beta_7 \Pr eLoss + \beta_i \sum Years + \beta_j \sum Inds + \varepsilon$$

ROA is the return on total assets. V, voting right of ultimate shareholder, is sum of the bottom level control rights of ultimate shareholder allowing for indirect control and multiple controls; CV is the divergence of cash flow right from voting right, equals to cash flow right divided by voting right. State, dummy variable, 1 indicates the firm is a SOE, 0 otherwise. Size is the natural log form of the total asset at year end. Lev is the total debt ratio at the year end. Big4, dummy variable, 1 indicates the auditor firm is one of the big 4 international auditing firms, 0 otherwise. PreLoss is a dummy variable, 1 indicates firm suffers loss in the prior year, 0 otherwise; Inds for the 12 industry categories used by the CSRC after dropping the financial industry. Years are year effect, 5 dummies for 6 year. White–adjusted t statistics considering the heteroscedasticity are in the parentheses. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Variables	**Expsign**	**All**	**All**	**All**
V	+	0.041***		0.040***
		(6.18)		(6.03)
CV	+		0.014***	0.012***
			(2.96)	(2.66)
State	−	-0.006**	-0.006**	-0.009***
		(-2.31)	(-2.07)	(-3.24)
Size	+	0.011***	0.012***	0.011***
		(7.76)	(8.64)	(7.77)
Lev	+	-0.091***	-0.092***	-0.091***
		(-7.58)	(-7.72)	(-7.60)
Big4	+	0.002	0.003	0.003
		(0.65)	(0.87)	(0.74)
Preloss	−	-0.055***	-0.056***	-0.055***
		(-11.26)	(-11.37)	(-11.24)
Years&Inds		Control	Control	Control
N		6820	6820	6820
R^2		0.317	0.314	0.318