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The Spillover Effect of Auditor Sanctions on Corporate Disclosure: Empirical Evidence from Online Interactive Platform in China

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ABSTRACT

This paper treats auditor sanctions as an exogenous shock and employs a difference-in-differences (DID) model to examine the spillover effects of such sanctions on the information disclosure behavior of client firms. The findings show that, following auditor sanctions, client firms significantly increase the volume of information disclosed on the online interactive platform, indicating that listed companies are responsive to the reputational damage associated with auditor penalties. This result remains robust under a variety of sensitivity checks. Heterogeneity analyses reveal that, from the client firm perspective, the increase in disclosure is more pronounced among non-state-owned enterprises, larger firms, younger listed companies, and those subject to stronger external oversight. From the auditor perspective, clients of harsher sanctioned audit firms exhibit greater increases in disclosure following the sanction. The findings contribute to the literature on the consequences of auditor sanctions and the determinants of corporate disclosure. It also offers practical implications for regulatory authorities seeking to enhance audit enforcement and for firms responding of their auditors' disciplinary actions.

Keywords: Auditor Sanctions; Information Disclosures; Spillover Effects; Exchange Online Interactive Platforms.

INTRODUCTION

Auditors are primarily motivated to deliver high-quality audits by two forces: the desire to preserve their reputation and the need to avoid legal sanctions(Khurana & Raman, 2004). However, the effectiveness of both mechanisms depends critically on regulatory enforcement.

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Without credible enforcement, legal sanctions become ineffective, and reputational concerns may fail to function as intended(Causholli & Knechel, 2012). In China, the China Securities Regulatory Commission (CSRC), as the principal governmental authority overseeing the audit market, plays a central role in enforcing audit quality(Lisic et al., 2015). Therefore, the consequences and deterrent effects of auditor sanctions imposed by the CSRC warrant greater scholarly attention.

Existing research on the consequences of auditor sanctions has primarily focused on their impact on the sanctioned party itself—namely, the audit firm or individual auditor (De Fuentes & Porcuna, 2022; Li et al., 2022; Skinner & Srinivasan, 2012; Sun et al., 2016). However, auditor sanctions also send a negative signal to stakeholders regarding the quality of the auditor's services, prompting a growing body of literature to examine the spillover effects on parties beyond the sanctioned auditor. For instance, creditors tend to increase the cost of debt financing for affected client firms(An et al., 2024; Jiang & Jiang, 2017); regulators may adopt a more cautious stance, raising the rejection rate of IPO applications from these firms(Yuan et al., 2019); and investors may respond by "voting with their feet," driving down stock prices(Chaney & Philipich, 2002; Dee et al., 2011), or by "voting with their voices," increasing both the frequency and negativity of their comments on online investor communication platforms(Gu et al., 2025). These studies highlight the adverse spillover effects of auditor sanctions on client firms. However, how client firms respond to such reputational shocks remains underexplored. Apart from switching audit firms—a widely documented response(Abbott et al., 2013; Firth, 1990; Friedrich & Quick, 2023)—recent evidence suggests that some firms also seek to mitigate the negative consequences by improving the quality of their earnings forecasts(Mao et al., 2022). Yet, with the advancement of internet technologies, corporate communication has evolved from traditional, one-way channels such as annual reports and earnings forecasts to more interactive and real-time formats, including online forums and social media(Miller & Skinner, 2015). Despite this shift, whether and how client firms utilize these informal and timely disclosure channels to actively respond to auditor sanctions still keep silent.

Hence, this study treats auditor sanctions as an exogenous shock and employs a staggered difference-in-differences (DID) approach to examine how auditor sanctions affect client firms' information disclosure behavior in the era of online interactive platforms. Using a sample of A-share listed firms on the Shanghai and Shenzhen stock exchanges from November 2020 to February 2022, the analysis finds that, following auditor sanctions, client firms significantly increase their engagement on the online interactive platforms—specifically, by providing more responses to investor questions. This suggests that listed firms actively respond to the reputational damage caused by auditor sanctions by enhancing the volume of their disclosures in online interactive platforms. A series of robustness checks consistently support the main findings. These results are broadly consistent with(Mao et al., 2022), though this study focuses on a different disclosure channel: informal, interactive, and real-time investor communication platforms.

Heterogeneity analysis further reveals that the improvement in client firms' information disclosure following auditor sanctions is more pronounced among non-state-owned enterprises, larger firms, and those with shorter listing histories. From the perspective of external monitoring, firms with higher institutional ownership and greater media coverage

exhibit more significant enhancements in disclosure volume. Moreover, the spillover effects are stronger when the sanctioned auditors receive more severe penalties, indicating that the magnitude of the disciplinary action plays a critical role in shaping clients' disclosure responses.

This study makes three key contributions to the literature. First, it provides empirical evidence that client firms actively respond to the reputational damage associated with auditor sanctions, thereby offering new insights into the effectiveness of government regulation in the audit industry. Whether client firms react to such sanctions is a crucial indicator of whether regulatory enforcement can operate through the reputational mechanism. By examining firms' behavioral responses, this study affirms the efficacy of audit oversight by governmental authorities.

Second, this study enriches the literature on the determinants of corporate information disclosure. Prior research has primarily focused on firm-specific characteristics such as size, profitability, leverage, internal governance, and external financing needs(Chau & Gray, 2002; Healy & Palepu, 2001). In contrast, this study investigates how disciplinary actions against a firm's external auditor influence the volume of its voluntary disclosure, offering a novel institutional perspective on disclosure behavior.

Finally, this study expands the literature on the consequences of auditor sanctions by shifting the focus from sanctioned auditors to client firms. While existing research has largely examined the economic consequences for audit firms(De Fuentes & Porcuna, 2022) or the punitive impact on audit quality(Li et al., 2022), studies on the spillover effects for client firms have remained limited and often center on investor reactions(Dee et al., 2011; Gu et al., 2025) or creditor behavior(An et al., 2024; Jiang & Jiang, 2017). By exploring how client firms actively respond to auditor sanctions, this study extends the boundaries of existing research and offers a corporate response perspective on the broader impact of regulatory enforcement.

The remainder of this paper proceeds as follows. Section II introduces the institutional context relevant to this study. Section III provides a review of related literature and outlines the research hypotheses. Section IV details the empirical methodology, including model specification, data sources, sample selection, and summary statistics. Sections V and VI report the core empirical findings, followed by a series of robustness checks and heterogeneity analyses. Finally, Section VII concludes the paper with a summary of key insights and implications.

BACKGROUND of INSTITUTION

Audit Regulation in China

The quality of auditing is shaped by both reputational considerations and legal accountability. While both mechanisms are well established in developed markets, their influence differs in emerging economies. In China, limited auditor litigation risk—due to vague civil liability provisions and the absence of effective class action procedures—reduces the effectiveness of legal deterrence(Fang et al., 2023; Lisic et al., 2015). Consequently, the reputational mechanism becomes more critical for ensuring audit integrity.

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Reputational mechanism offers dual governance functions: it can promote desired behavior through reputational rewards and deter misconduct through punitive measures. The former encourages auditors to build credible reputations by maintaining high audit quality, while the latter involves ex-post penalties that serve to discipline and correct deviant behavior(Kazdin, 2012). However, the evolution of China's audit profession reflects the institutional complexities of a transition economy. Early-stage development was marked by heavy state intervention, weak market demand for audit quality, and intense competition among audit firms, which often prioritized growth over professional standards(DeFond et al., 1999). Under such conditions, reputational rewards alone proved insufficient.

Consequently, regulatory oversight with punitive measures has played a significant role. Regulatory authorities in China can impose severe penalties in cases of audit failure, helping to reinforce accountability through public disciplinary actions. Prior studies suggest that these sanctions may substitute for legal enforcement and help preserve audit quality in weak institutional environments(Chan & Wu, 2011; Lisic et al., 2015).

Among regulatory bodies, the China Securities Regulatory Commission (CSRC) holds primary authority over audit supervision†. The CSRC enforces discipline through a range of sanctions—such as fines, suspensions, license revocations, and public disclosures—all of which can significantly damage an auditor's reputation. This study focuses on CSRC-imposed administrative sanctions as a key regulatory lever to influence auditor behavior and client firm responses.

Exchange Online Interactive Platforms

In recent years, social media has emerged as a vital medium through which firms engage in informal and timely communication with investors(Xu et al., 2022). In China, two official investor-interaction platforms— "Interactive Easy" and "SSE e-Interactive"—were introduced in 2011 and 2013, respectively, to facilitate real-time Q&A between listed companies and investors. Unlike general internet-based channels, these platforms are directly administered by stock exchanges, lending them institutional credibility and regulatory oversight. As such, they have become prominent venues for public firms to release informal information in a structured and reliable manner. Importantly, content posted on these platforms is subject to exchange-level monitoring, which ensures information accuracy and restricts the dissemination of false or misleading statements(Meng et al., 2022). These features have positioned the platforms as integral components of China's disclosure ecosystem, bridging informal disclosures with dynamic investor engagement.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Literature Review

Most prior studies on the effects of auditor sanctions have focused on the direct economic and disciplinary consequences for the penalized audit firms. These include reduced audit fees(Acito et al., 2018; Firth, 1990), loss of market share(Lennox & Pittman, 2010; Skinner & Srinivasan, 2012), and changes in audit quality(Sun et al., 2016; Sundgren & Svanström, 2017).

† According to the sanction announcement on auditors disclosed on the official website of the CSRC, it was found that during the period 2001.1 -2023.12, the CSRC issued a total of 92 sanction announcement, imposing administrative sanction on 79 audit firms and 221 CPAs.

More recently, a growing body of literature has begun to explore the spillover effects of such sanctions—recognizing that penalties imposed on auditors may have far-reaching impacts beyond the sanctioned party itself. These externalities may affect other professionals and institutions connected to the penalized auditor. For example, research has documented adverse spillovers on the broader audit industry(Cao et al., 2019), on unaffiliated auditors within the same firm(He et al., 2016), on successor auditors(Huang & Zhang, 2018).

While most of these studies remain focused on the supply side of audit services, there is emerging evidence that client firms—the demand side—may also be affected. Research has shown that auditor reputational damage can lead to increased debt financing costs(Jiang & Jiang, 2017) and higher bond issuance premiums for client firms(An et al., 2024). From the perspective of regulators, audit sanctions have been linked to heightened scrutiny and an increased likelihood of IPO rejection for clients of the penalized firm(Yuan et al., 2019). Individual investors also react strongly to such events. Many "vote with their feet" by selling off shares, contributing to stock price declines(Chaney & Philipich, 2002; Dee et al., 2011; Li et al., 2023). Others engage in "voice-based" responses, including heightened online expression of dissatisfaction or concern(Gu et al., 2025).

In terms of corporate response, most existing research has focused on auditor dismissal as a reputational repair mechanism(Abbott et al., 2013; Chaney & Philipich, 2002; Firth, 1990; Friedrich & Quick, 2023). Only a few studies suggest that client firms may also attempt to mitigate reputational damage by improving disclosure quality—such as enhancing the informativeness of earnings forecasts(Mao et al., 2022). However, in the context of rapid digital transformation and the rise of social media platforms, there remains limited empirical evidence on how firms leverage informal, interactive, and real-time disclosure channels to respond to auditor sanctions.

Hypotheses Development

According to asymmetric information theory, firms benefit from effective disclosure in competitive markets by reducing adverse selection and enhancing investor confidence. Investors rely not only on firm-released data but also on third-party sources—such as auditors, regulators, and analysts—for informed decision-making(Frenkel et al., 2020). Auditors, in particular, play a central role in this information ecosystem. However, when auditors are penalized, their credibility erodes, diminishing the value of audit reports and increasing overall information asymmetry.

Thus, client firms of the penalized auditor have an incentive to disclose more information in order to build their reputation and mitigate the impact of information asymmetry. Mao et al. (2022) found that the quality of earnings announcements by listed firms significantly improves after the CSRC announces penalties on auditors, suggesting that firms respond to the negative impact of auditor sanctions by enhancing the quality of their earnings announcements. Companies that themselves receive penalty announcements are more likely to make voluntary disclosures(Ceng, 2022).

Information disclosure methods have evolved from the initial one-way disclosures, such as annual reports and earnings forecasts, to traditional methods, such as conference calls and company research, and more recently to interactive, internet-based disclosures, such as online

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forums, search engines, and social media(Miller & Skinner, 2015). As noted in the previous section, the Exchange interactive platform is trusted by investors, enabling companies to respond directly to their concerns. Client firms disclose information on the platform primarily by responding to investor questions, employing a "zero-distance" communication method to voluntarily and interactively release information related to the company's operating conditions(Wang et al., 2023). Moreover, some studies indicate that corporate disclosure on exchange online interactive platforms can reduce information asymmetry between companies and the market(Bartov et al., 2018).

Therefore, it is reasonable to expect that auditor sanctions will lead to an increase in the volume of informal disclosures by client firms on the Exchange interactive platform. This paper proposes the following hypotheses.

- H1: Auditor sanctions will lead to an increase in the volume of client firms' disclosures on the Exchange's online interactive platform.

RESEARCH DESIGN

Sample Selection

To capture firms' potentially time-sensitive disclosure reactions to auditor sanctions, this study uses monthly panel data. In 2021, the CSRC issued the most audit firm sanctions among the years 2018–2022. 9 sanctions were identified from public enforcement disclosures, and to avoid duplication, only the first sanction per audit firm was retained, yielding a final sample of 6 distinct audit firms. Sanction degree is quantified as the proportion of combined financial penalties—comprising forfeited income and fines—relative to the audit fee. A higher proportion reflects a more stringent penalty. Panel A of Table 1 shows the monthly distribution. The analysis covers A-share firms listed on the SSE and SZSE from November 2020 to February 2022, allowing at least two months of observation before and after each sanction. To improve data quality, the sample excludes: financial and insurance firms, ST/PT firms, companies sanctioned for financial fraud, IPOs in 2021–2022, and observations missing key variables. See Panel B of Table 1 for sample construction details.

Table 1: The sample

Panel A: Auditor Sanction			
NO.	Sanction date	Sanctioned audit firm	Sanction degree
1	2021.2.18	GP Certified Public Accountants	4
2	2021.4.12	RuiHua Certified Public Accountants	2.432
3	2021.7.22	Zhongxingcai Guanghua Certified Public Accountants	4
4	2021.9.14	ZhongZhun Certified Public Accountants	3
5	2021.11.2	ZhongTianYun Certified Public Accountants	2.234
6	2021.12.6	YaTai Certified Public Accountants	3.368
Panel B: Sample Selection			
Observations of the A-share client firms listed in SSE and SZSE (2020.11-2022.2)			74753
Less:			
Observations in the Financial Sector			(2050)
Observations treated by ST, ST*, PT			(3792)
Observations of financial fraud client firms which led to the auditor sanction			(32)
Observations with a listing date of 2021 or 2022			(6680)

Observations with Missing Data	(2198)
Observations that do not satisfy common support	(6266)
Final sample	53735

To mitigate sample selection bias and enhance the credibility of coefficient on the core variable, this study treats clients of sanctioned auditors as the treatment group and those of non-sanctioned auditors as the control group. Propensity score matching (PSM) is conducted monthly using radius matching with replacement, applying a caliper of 0.001. Matching is based on eight firm characteristics: firm size, industry, leverage, profitability, growth, listing age, audit opinion type, and institutional ownership. After matching, the covariate differences between groups are all within 11% and statistically insignificant at the 10% level, indicating satisfactory balance. The final sample consists of 53,735 firm-month observations forming a 16-period unbalanced panel.

Data on auditor sanctions were manually collected from administrative penalty announcements published on the official website of the China Securities Regulatory Commission (http://www.csrc.gov.cn). Information on the volume of clients' disclosures via the Exchange online interactive platform, as well as media coverage of client firms, was compiled from daily records available in the CNRDS database. Financial and accounting data were sourced from the CSMAR database. All econometric analyses were conducted using STATA 18.0.

Regression Model

Drawing on the studies of Armstrong et al. (2012) and Lamoreaux (2016), a DID model is employed to estimate the impact of auditor sanctions on information disclosure. In order to test hypothesis H1, the following model is constructed in this paper (firm and t subscripts omitted).

$$\text{Answer} = \alpha_0 + \alpha_1 \text{DID} + \sum \alpha_k \text{Controls} + \text{Industry} + \text{t} + \varepsilon \quad (1)$$

The information disclosure is often used by scholars as a proxy for the number of items listed companies answered to the investors on the online interactive platforms($Answer$) within a certain period of time(Xu et al., 2022). The larger the value, the more volume the client's information disclosure; conversely, a smaller value reflects lower disclosure activity. The variable of interest, DID, captures the effect of auditor sanctions on the volume of client firms' information disclosure. It is a binary indicator equal to 1 if the auditor of client firm i was sanctioned in month t or any subsequent period, and 0 otherwise. For auditors sanctioned multiple times during the observation period, only the first sanction event is used to define the treatment period. A significantly positive α_1 provides empirical support for Hypothesis H1.

Following Yuan et al. (2019), this study incorporates a set of control variables that may influence a firm's informal disclosure behavior. These include ownership type (State), firm scale (Size), leverage (Lev), years since listing (Listage), return on assets (Roa), CEO duality (Dual), audit opinion type (Audittyp), stock name changes (Rename), institutional investor site visits (Survey), and the extent of media exposure (Media). All regressions further account for industry and year fixed effects to mitigate unobserved heterogeneity. Detailed definitions of the variables are presented in Table 2.

Table 2: Definition of Variables

Dependent variable	
Answer	The number of items for client firm i in month t answered to investors on the exchange interactive platforms.
Independent variables	
DID	The dummy variable, DID=1 for client firm-months after its audit firm was sanctioned, otherwise DID=0.
Control variables	
State	Dummy variable, State=1 for state-owned clients, otherwise State =0.
Size	Natural logarithm of total company assets.
Lev	**total liability**/**total assets**
Listage	Listage=ln (1+Length of listing)
Roa	Return on assets of the company= **total profit**/**total assets**
Dual	The dummy variable, Dual=1 for the chairman and the general manager are the same person, otherwise Dual =0.
Audittyp	The dummy variable, Audittyp =1 if the audit opinion was not clean, otherwise Audittyp =0.
Rename	The dummy variable, rename=1 for the stock that changed its name during the period t, Rename=0 otherwise.
Survey	The dummy variable, Survey=1 if there was the institutional survey, Survey=0 otherwise.
Media	Natural logarithm of the sum of online and newspaper media coverage for client firm i in given t.

BASELINE RESULTS

Descriptive Statistics

Table 3 presents the descriptive statistics for this study. Regarding the volume of information disclosures by client firms on the Exchange online interactive platform, the maximum items of disclosures in a given client-month reaches 306, while the minimum is zero. On average, client firms post approximately 11.48 disclosures per month, indicating that the platform serves as an effective channel for informal corporate communication and provides a suitable setting for our analysis. Within the full sample, state-owned enterprises account for 31.3%, and about 1% of client firms received non-standard audit opinions in a given year. Other control variables fall within reasonable ranges. However, several firm characteristics and external governance indicators—including firm size (*Size*), listing age (*Listage*), and media coverage (*Media*)—exhibit substantial variation between their minimum and maximum values. This motivates the need for heterogeneity analyses following the baseline regressions.

Table 3: Descriptive statistics

Variable	N	Mean	SD	Min	Max
Answer	48826	11.476	15.606	0	306
DID	53735	0.013	0.111	0	1
State	53725	0.313	0.464	0	1
Size	53735	22.398	1.277	20.109	26.482
Lev	53735	0.415	0.195	0.056	0.879
Listage	53735	2.205	0.864	0	3.367
Roa	53735	0.027	0.041	-0.138	0.172
Dual	52773	0.323	0.468	0	1

Audittyp	53735	0.010	0.098	0	1
Rename	53735	0.002	0.046	0	1
Survey	53735	0.149	0.356	0	1
Media	53735	17.564	34.577	0	266

Basic Result

In Table 4‡, the coefficient of the key variable DID in Model 1 is positive (0.547) but statistically insignificant. However, after adding control variables, the coefficient increases to 1.446 and becomes significant at the 5% level. Both regressions include industry and time fixed effects and employ robust standard errors. The model explains approximately 12.4% of the variance in the dependent variable. These results indicate that auditor sanctions significantly increase the volume of client firms' disclosures on the online interactive platform, thereby supporting Hypothesis 1.

Table 4: Baseline regression results

	(1)	(2)
VARIABLES	Ansnumber	Ansnumber
DID	0.547	1.446**
	(0.77)	(1.99)
State		-1.945***
		(-10.08)
Size		3.043***
		(33.84)
Lev		-5.429***
		(-12.15)
Listage		1.518***
		(15.90)
Roa		-14.334***
		(-6.05)
Dual		0.434***
		(2.70)
Audittyp		-1.374**
		(-2.25)
Rename		0.839
		(0.60)
Survey		4.366***
		(19.07)
Media		0.037***
		(10.07)
Constant	11.469***	-58.399***
	(165.15)	(-31.59)
t FE	yes	yes
Industry FE	yes	yes
Observations	48,826	47,946

‡ In the regression of column (2) in Table 5, among all the variables, the maximum correlation between every two variables is 0.523, and the variance inflation factors (VIFs) for these variables are below 2. Therefore, there is no significant multicollinearity problem. The results are shown in Appendix 1.

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R-squared	0.046	0.124

Robustness Checks

Parallel Trend Test:

The parallel trends assumption is fundamental for the validity of the difference-in-differences (DID) approach. In this study, the observation window spans six periods prior to and seven periods following the sanction event, with the period immediately preceding the event designated as the baseline. To verify that the treatment group (clients of sanctioned auditors) and the control group (clients of non-sanctioned auditors) exhibit similar trajectories before the sanction, an event study methodology is employed to test for pre-treatment trend equivalence. Following this approach, the common trends hypothesis is assessed using the specified regression model.

$$\textbf{Answer} = \alpha_0 + \sum_{m\geq -6, m\neq -1}^{7} \alpha_m D^m + \sum \alpha_k \textbf{Controls} + \textbf{Industry} + \textbf{Month} + \varepsilon$$

Here, $\mathbf{D^m}$ represents a series of event-time indicator variables capturing the timing of auditor sanctions. For each client firm i, let y_i denote the month when the auditor sanction occurred. Define the relative event time as $m=t-y_i$, when $m\leq -6$, the indicator $D^{-6}=1$, and 0 otherwise; similarly, for each month m=-5, -4...,6, $\mathbf{D^m}=1$ if the condition holds, and 0 otherwise; for $m\geq 7$, $D^7=1$, otherwise 0. The month immediately preceding the sanction event (m=-1) is omitted and serves as the reference period in the model.

Figure 1 presents the estimated coefficients along with their 95% confidence intervals to test the parallel trends assumption. The results show that prior to the sanction, none of the coefficients are statistically significant, and the estimates remain close to zero with minimal fluctuation. This provides strong evidence supporting the validity of the parallel trends' assumption.

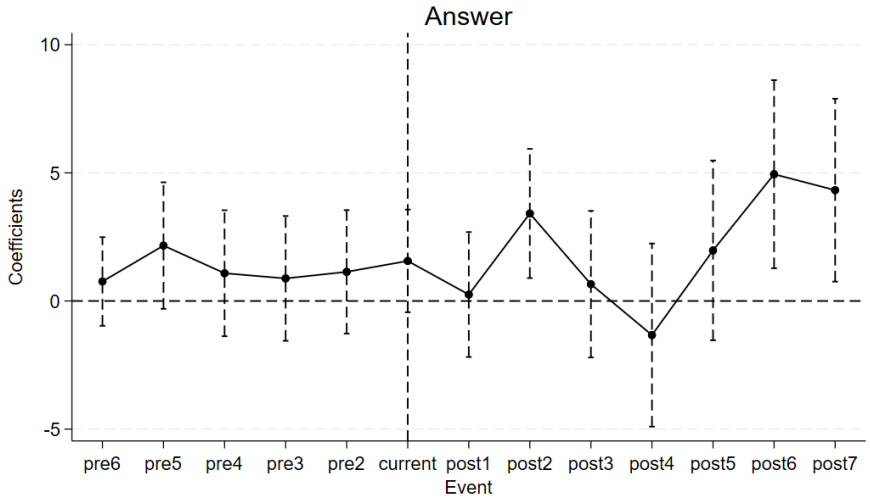

Fig 1: Parallel Trend Test

Placebo Test:

To further confirm that the increase in client firms' information disclosure is indeed driven by auditor sanctions, this study conducts a time-varying placebo test. Specifically, the sample is first divided according to auditor sanction cases, and then, for each group, a random month is selected as a pseudo-event month to redefine the key variable DID. Model 1 is then re-estimated, and this procedure is repeated 1,000 times. As reported in Table 5, the average coefficient of DID is 1.612 with a p-value of 0.113. This placebo evidence supports the causal interpretation that auditor sanctions lead to a significant increase in client firms' disclosure activity, thereby reinforcing confidence in the main baseline regression findings.

Table 5: Placebo test

	Answer
Coefficient	1.612
P-value	0.113

Alternative Proxy for Information Disclosure:

In addition to the number of firm responses within a given period (Answer), prior studies (e.g., Xu et al., 2022) often use the total number of words in firm replies to investor questions (Answer-length) as an alternative proxy for disclosure volume. Specifically, Answer-length refers to the aggregate word count of all responses disclosed by firm i in month t. This variable captures the depth of disclosure in addition to frequency. Re-estimating Model 1 using Answer-length in place of Answer yields results reported in Table 6. The findings remain consistent with the baseline analysis, further supporting the robustness of the conclusion.

Table 6: Replacing the Dependent Variable

	(1)	(2)
Variables	Answer-length	Answer-length
DID	15.675	128.676*
	(0.22)	(1.75)
Constant	997.744***	-6,128.429***
	(150.65)	(-31.32)
All Control Variables	No	Yes
t FE	Yes	Yes
Industry FE	Yes	Yes
Observations	48,826	47,946
R-squared	0.047	0.127

ADDITIONAL ANALYSES

Basic Characteristics of Clients

China's institutional setting creates a clear divide between state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs). SOEs often benefit from implicit government support, enhancing their financial credibility and weakening the market's sensitivity to negative signals such as auditor sanctions. In contrast, non-SOEs lack this safety net and face greater regulatory exposure, making them more responsive to reputational shocks resulting from such sanctions. Therefore, non-SOEs are expected to be more proactive in using online interactive platforms to enhance information disclosure as a compensatory strategy. To test this expectation, the sample is split into SOEs and non-SOEs, and regression analyses are

conducted separately for each group to examine Hypothesis 1 (see Models 1). The results are reported in Panel A of Table 7.

Besides, studies have confirmed that the larger the company size, the greater the willingness of firms to make voluntary disclosures (Chen & Han, 2010). Therefore, when auditor sanctions occur, the larger the client firm's size, the more likely they are to increase the volume of information disclosure on online interactive platforms. Based on the median size of firms in the same industry, the sample is divided into a higher size group (Size_High) and a lower size group (Size_Low), and Models 1 is regressed on these two groups respectively. The results are reported in Panel B of Table 7.

Finally, younger firms typically face more severe information asymmetry and therefore tend to engage in more proactive disclosure efforts to establish market credibility(Healy & Palepu, 2001). Building on this, this paper posit that auditor sanctions may exert a stronger influence on informal disclosure behavior for client firms with shorter listing histories. To test this hypothesis, the sample is split based on the median listing age into two subgroups: firms with shorter listing duration (*Listage_short*) and those with longer listing duration (*Listage_long*). Model 1 is then estimated separately for each subgroup, and the results are presented in Panel C of Table 7.

Table 7: Basic Characteristics of Clients

Panel A	(1)	(2)
	Answer	Answer
	non-SOEs	SOEs
DID	1.863**	0.885
	(2.18)	(0.64)
Constant	-68.017***	-44.283***
	(-27.90)	(-14.85)
All Control Variables	Yes	Yes
t FE	Yes	Yes
Industry FE	Yes	Yes
Observations	33,263	14,683
R-squared	0.141	0.131
Panel B	(3)	(4)
	Answer	Answer
	Size_High	Size_Low
DID	2.014*	1.026
	(1.92)	(1.01)
Constant	-69.257***	-45.495***
	(-16.35)	(-14.78)
All Control Variables	Yes	Yes
t FE	Yes	Yes
Industry FE	Yes	Yes
Observations	24,892	23,054
R-squared	0.124	0.067
Panel C	(5)	(6)
	Answer	Answer
	Listage_short	Listage_long

DID	2.463*	1.147
	(1.89)	(1.43)
Constant	-47.884***	-39.437***
	(-20.15)	(-12.87)
All Control Variables	Yes	Yes
t FE	Yes	Yes
Industry FE	Yes	Yes
Observations	26,045	21,901
R-squared	0.119	0.157

The coefficients of DID is significant in the non-SOEs group, Size_High group and Listage_short group in the expected direction, while in the SOEs group, Size_Low group, or Listage_long group, none of the coefficients for DID are significant. The above results suggest that non-state-owned enterprises client firms, client firms with higher size or shorter list age pay more attention to the negative signals arising from auditor sanctions and increase the number of information disclosure on online interactive platforms.

External Monitoring of Clients

First, prior research on the relationship between institutional ownership and voluntary disclosure suggests that a higher proportion of institutional investors is associated with stronger incentives of voluntary disclosure(El-Gazzar, 1998). Therefore, following an auditor sanction, firms with greater institutional ownership are more likely to increase their disclosure activity on online interactive platforms. In this study, the sample is divided based on the median value of institutional investor shareholding (*Inhold*) into two subgroups: high institutional ownership (*Inhold_High*) and low institutional ownership (*Inhold_Low*). Model 1 is then estimated separately for each group. The regression results are reported in Panel A of Table 8.

In addition, the higher the number of media reports, the more effective the external monitoring of firms. Some studies have found that media coverage is positively related to firms' voluntary information disclosure (Ni et al., 2015). Therefore, following an auditor sanction of the client firm, the greater the media coverage, the more motivated the firm is to improve the quality of its disclosure on online interactive platforms. In this paper, the sample is divided into a high media coverage group (Media_High) and a low media coverage group (Media_Low) based on the median media coverage, and Models 1 regressed in the two groups. The results are presented in Panel B in Table 8.

Table 8 External Monitoring of Clients

Panel A	(1)	(2)
	Answer	Answer
	Inhold_High	Inhold_Low
DID	1.688*	0.994
	(1.72)	(1.01)
Constant	-58.204***	-96.302***
	(-24.91)	(-31.29)
All Control Variables	Yes	Yes
t FE	Yes	Yes
Industry FE	Yes	Yes

Observations	23,941	24,005
R-squared	0.125	0.159
Panel B	(3)	(4)
	Answer	Answer
	Media_High	Media_Low
DID	2.560*	0.934
	(1.91)	(1.21)
Constant	-65.667***	-54.018***
	(-25.34)	(-20.56)
All Control Variables	Yes	Yes
t FE	Yes	Yes
Industry FE	Yes	Yes
Observations	23,161	24,783
R-squared	0.124	0.094

The coefficients of DID is significant in the Inhold_High group and Media_High group in the expected direction, while in the Inhold_Low or Media_Low group, none of the coefficients for DID are significant. The above results suggest that client firms with higher institutional investor shareholding or higher media coverage pay more attention to the negative signals arising from auditor sanctions and increase the number of information disclosure on online interactive platforms.

Degree of Auditor Sanctions

A higher intensity of sanctions imposed by the CSRC typically reflects more serious audit failures and greater responsibility on the part of the penalized audit firm, resulting in broader reputational consequences. Compared to mild penalties, harsher sanctions convey stronger negative signals to the market. In response, client firms may be more motivated to increase the volume of their information disclosure to mitigate potential investor concerns and reduce information asymmetry.

As shown in Panel A of Table 1, the degree of sanctions is measured and used to classify treated firms into two groups—high and low—based on the median sanction level. These are then matched with the control sample to construct two subgroups. Model 1 is estimated separately for each, with the regression outcomes reported in Table 9.

Table 9: Degree of Auditor Sanctions

	(1)	(2)
VARIABLES	Answer	Answer
	Sanction Degree_High	Sanction Degree_Low
DID	2.541**	0.470
	(2.15)	(0.55)
Constant	-57.874***	-58.093***
	(-30.89)	(-30.91)
All Control Variables	Yes	Yes
t FE	Yes	Yes
Industry FE	Yes	Yes
Observations	47,363	46,724
R-squared	0.124	0.123

The results reveal a significant and positive DID coefficient for the Sanction Degree_High, while the Sanction Degree_Low group shows no significant effect. These findings support the view that the harsher the sanction, the greater the firm's effort to enhance voluntary disclosure via interactive platforms.

CONCLUSION

This study investigates the spillover effects of auditor sanctions on their client firms. Specifically, it examines whether such sanctions influence clients' disclosure behavior, thereby reflecting the extent to which client firms respond to regulatory audit enforcement. Using a sample of A-share listed firms in China from November 2020 to February 2022, and employing a PSM-DID approach, the findings reveal that auditor sanctions significantly increase the volume of information disclosure by client firms on stock exchange interactive platforms, as expected. The main results remain robust after a series of checks, including a parallel trend test, placebo test, and substitution of the dependent variable. The heterogeneity analysis further shows that from the client perspective, the increase in disclosure is more pronounced among non-state-owned firms, larger firms, younger firms, and those subject to greater external monitoring. From the auditor perspective, clients of more heavily sanctioned audit firms exhibit a stronger increase in disclosure following the sanction. These findings suggest that client firms are sensitive to the reputational damage associated with auditor sanctions and respond by enhancing their information disclosure.

This study yields three major practical implications. First, regulators should continue to strengthen audit oversight and impose more stringent penalties for misconduct. Such enforcement enhances the functioning of the audit industry's reputation mechanism and encourages client firms to demand higher-quality audits—especially important in emerging markets such as China. Second, government agencies should promote more active media engagement to enhance external monitoring. Doing so would incentivize firms to improve their voluntary disclosures, thereby strengthening the information environment. Finally, the results offer practical guidance for clients facing potential reputational damage due to auditor sanctions. When auditor-related reputational spillovers are expected to harm client firms, the latter can proactively respond by increasing their information disclosure to rebuild credibility and mitigate adverse effects.

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