National auditor turnover and corporate risk disclosure

Kaiwen Zhu

Nottingham University Business School China, University of Nottingham Ningbo China

bixkz9@nottingham.edu.cn

Xiaogang Bi

Nottingham University Business School China, University of Nottingham Ningbo China

x.bi@nottingham.edu.cn

Shuai Yuan

Nottingham University Business School China, University of Nottingham Ningbo China

shuai.yuan@nottingham.edu.cn

Abstract

This study investigates the impact of political uncertainty on corporate risk disclosure, with a specific focus on the turnover of the Auditor General of the National Audit Office (NAO) in China. By analyzing a sample of Chinese listed firms and controlling for various determinants that may influence firm risk disclosure practices, we reveal that, relative to non-state-owned enterprises (SOEs), SOEs tend to disclose fewer risks in their annual reports during periods of NAO Auditor General turnover. This finding suggests that the level of risk disclosure by SOEs is sensitive to political dynamics, particularly those pertaining to changes in key government audit oversight roles. Further, we have found this impact will be amplified when SOEs with a weaker regulatory environment, poorer internal governance, more financing constraints and lower supply chain pressure. We also demonstrate that the impact of NAO leadership turnover on risk disclosure is more pronounced when the incoming Auditor General possesses audit-related work experience, as well as when the departing Auditor General has a more extended tenure. Additionally, the supplementary analysis indicates that the reduction in risk disclosure observed in SOEs' annual reports appears to be superficial, as the turnover of the NAO Auditor General does not significantly affect the financial performance of the firms in question. Overall, our research contributes new insights into how political uncertainty and related institutional factors shape corporate disclosure practices.

Keywords: political uncertainty, national auditor, risk disclosure, corporate governance

1. Introduction

Political uncertainty is defined as a phenomenon in the business environment in which firms operate due to changes in policies, laws, regulatory frameworks, or power structures that make their economic prospects and long-term growth objectives difficult to predict (Hope et al., 2016; Jiang et al., 2022). It can be triggered by leadership changes, partisan disagreements, macroeconomic policies or political instability, changes in government policies and institutional legal environment, and deep impact on business decisions and market behavior of enterprises (Zhong et al., 2019; Chen et al., 2020).

Previous studies on political uncertainty have effectively documented its impact on financial activities, enterprise value and management decisions (An et al., 2016; Chen et al., 2018). Traditionally, the primary sources of political uncertainty are typically linked to election events or the turnover of local government officials. In Western democratic systems, such as that of the United States, political uncertainty mainly stems from periodic electoral cycles — including presidential elections and gubernatorial elections — as well as the partisan political divisions (Waisman et al., 2015; Jens, 2017; Duong et al., 2020). In contrast, within the context of China's political economy, the predominant source of political uncertainty stems from the replacement of local administrative leaders, such as municipal party secretaries and mayors, rather than from electoral processes (Zhong et al., 2019; Chen et al., 2020).

However, existing literature has largely overlooked the political uncertainty arising from turnover among the top leadership of key national supervisory agencies.

The highest government audit institution plays a critical role in safeguarding public finances and SOEs, enhancing transparency, deterring corruption, and reinforcing public trust (Cordery & Hay, 2019). Unlike other administrative bodies, audit institutions are designed to provide impartial oversight and ensure the lawful, efficient use of public resources (Loehlein, 2017). Moreover, previous literature on corporate disclosure has primarily emphasized the economic consequences of disclosure decisions, such as their effects on firm performance, investment behavior, or managerial strategies (Waisman et al., 2015; Chen et al., 2018; Chen et al., 2020). In contrast, the determinants of corporate disclosure, particularly in the presence of political uncertainty, remain underexplored. Given this context, this study seeks to address this critical gap by examining the influence of national-level political uncertainty, specifically the leadership transitions of the Auditor General of the NAO in China, on corporate risk disclosure practices.

The leadership change at the NAO in China constitutes a form of national-level political uncertainty that can have profound implications for corporate risk disclosure behaviors. Political uncertainty theory posits that firms tend to adapt their strategies in uncertain political environments to manage risks and maintain operational stability (An et al., 2016; Xu et al., 2016). Leadership transitions in key oversight institutions such as the NAO may generate great ambiguity regarding future regulatory policies, enforcement priorities, and governance standards, thus creating an environment of heightened uncertainty for enterprises (Chen et al., 2018). SOEs, given their sensitivity to government policies and leadership dynamics, may interpret such

transitions as indicators of potential shifts in audit scrutiny or fiscal discipline, leading them to reassess their risk management and disclosure strategies (Liu et al., 2017; Nagar et al., 2019). Importantly, firms may respond to political uncertainty either by increasing risk disclosure—to signal transparency and reduce information asymmetry—or, conversely, by curtailing disclosure to avoid attracting additional regulatory attention. Heightened regulatory uncertainty may incentivize firms to limit publicly disclosed risks, fearing that increased transparency could expose vulnerabilities or trigger unfavorable regulatory interventions under the new leadership. Therefore, the impact of NAO leadership transitions on corporate risk disclosure is complex and multifaceted.

Based on a sample of Chinese firms from 2008-2022, this study finds a significant decline in risk disclosures of SOEs following the turnover of Auditor General of NAO. This effect is especially pronounced among SOEs operating in weaker regulatory environments, exhibiting poorer internal governance, facing greater financing constraints, or experiencing lower supply chain pressure. Furthermore, the analysis reveals that the impact of NAO leadership turnover on risk disclosure intensifies when the incoming Auditor General possesses audit-related work experience, as well as when the departing Auditor General has a longer tenure in office. Importantly, supplementary analyses show that these leadership transitions do not exhibit a significant association with firm financial performance, suggesting that the reduction in risk disclosure reflects a strategic adjustment to political uncertainty rather than underlying economic distress.

This study makes several important contributions to the literature on political uncertainty and corporate disclosure. First, it extends the understanding of political uncertainty by exploring a previously understudied event: leadership transitions at key national oversight institutions such as the NAO. While prior research has primarily concentrated on conventional sources of political uncertainty, such as electoral cycles or changes in local government leadership (Zhong et al., 2019; Chen et al., 2020), this study demonstrates that leadership turnover at a national audit institution can introduce profound uncertainty regarding regulatory policies, enforcement priorities, and governance standards, thereby affecting firms' decision-making.

Second, this study advances the literature on corporate disclosure by addressing a key gap in understanding the determinants of risk disclosure in the context of political uncertainty. Previous scholarship has mainly explored the economic outcomes of disclosure decisions, such as their impact on firm performance, managerial strategies, or investment behavior (Waisman et al., 2015; Chen et al., 2018; Chen et al., 2020). Comparatively less attention, however, has been paid to how firms strategically adjust their disclosure practices in response to shifts in the political and regulatory environment. This research fills this void by empirically demonstrating that firms tend to reduce their risk disclosure following NAO leadership transitions. The reduction in disclosure is shown to be largely standardized in nature, highlighting that it is a calculated, rather than performance-driven, response to institutional uncertainty.

This study yields several practical implications. Policymakers should recognize that leadership transitions at key oversight institutions such as the NAO can heighten

regulatory uncertainty, leading SOEs to strategically reduce risk disclosures and thereby diminish transparency. Ensuring consistent regulatory practices during such transitions can help maintain the quality of disclosures. For regulators, it is important to monitor changes in corporate disclosure behaviors during periods of political uncertainty and to enforce clear, consistent standards that discourage opacity. Finally, in terms of investors, the findings highlight an increased risk of information asymmetry, emphasizing the need for more thorough due diligence when evaluating corporate risk disclosures amid political transitions

2. **Background**

In China, the primary executive body responsible for government audits is the NAO. The primary functions of the NAO include conducting fiscal and financial audits of central and local governments, SOEs, and other entities within the scope of audit supervision, with the aim of ensuring the security of national fiscal funds and enhancing the efficiency of public resource utilization (Li, 1998; Liu & Lin, 2012). Compared to the national audit institutions of many other countries, the NAO in China not only performs independent audit functions but is also directly subordinate to the State Council in terms of organizational structure, maintaining closer ties with the administrative system in the formulation of audit plans, handling of audit results, and policy recommendations (Yang et al., 2008).

The head of the NAO is referred to as the Auditor General. The appointment and removal of the Auditor General are controlled by the highest leadership of the Communist Party of China, reflecting a high degree of politicalization and being

dominated by party-related factors such as loyalty, seniority, factional balance, and political trends (Xiao et al., 2016). The Auditor General of the NAO is fully responsible for all matters within the office, holding substantial decision-making and management authority (Chong, 2009). They play a central role in determining audit business directions, major project arrangements, result disclosure, and personnel appointments, and also exert significant influence on national-level audit strategies and institutional reforms.

3. Hypothesis Development

3.1 Risk disclosure

Risk information is an important non-financial component of a listed company's annual report. Risk disclosure refers to a company's reporting to external information users on the uncertain risks it faces in areas such as operations, financial condition, legal matters, strategy, and market environment (Hope et al., 2016; Jiang et al., 2022). It possesses the characteristics of public information and plays a crucial role in helping stakeholders understand a company's current operational status and predict its future prospects (Kravet & Muslu, 2013), thereby enhancing information transparency, reducing information asymmetry, and improving the efficiency of capital market decision-making.

Based on prior research, the factors influencing textual disclosure in annual reports can be analyzed through macro-level and micro-level perspectives. From a macro perspective, legal and regulatory frameworks, alongside market conditions, play a critical role in shaping disclosure practices (Clarkson et al., 1994; Hope et al.,

2016). Mandatory disclosure regulations increase the cost of non-disclosure, compelling firms to provide more detailed public information. For example, Hope et al. (2016) argue that the SEC's Item 1A requirement in the annual 10-K filing has a direct impact on a firm's risk-reporting strategy. Similarly, intense market competition incentivizes firms to proactively disclose information to attract investment opportunities and secure lower-cost financing (Clarkson et al., 1994). Thus, regulatory and competitive pressures act as external forces driving enhanced corporate disclosures.

From a micro perspective, performance-related factors and management motivations may influence risk disclosure practices (Khandelwal et al., 2020; Hao & Dong, 2022; Wang et al., 2018). For instance, more profitable firms or those with robust cash flows are generally more inclined to provide less risks (Jiang et al., 2022). Firms with stronger financial health may disclose fewer risks due to a reduced need to address perceived vulnerabilities (Hao & Dong, 2022).

Managerial motivations play a significant role in shaping risk disclosure, as managers strategically balance the advantages and potential drawbacks of transparency. Risk disclosure is inherently qualitative and reliant on management's subjective judgment and strategic considerations. As Wang et al. (2018) assert, the disclosure of risk-related information reflects a deliberate managerial decision that carefully weighs the potential benefits against the associated costs of transparency. Positive motivations for risk disclosure arise when firms aim to mitigate litigation risk, boost investor and market confidence, or support strategic initiatives such as an IPO

(Skinner, 1994). Conversely, managers may be disincentivized to disclose risks due to concerns about their job security, the implications for compensation contracts, or a desire to downplay risk in the eyes of stakeholders (Kothari et al., 2009). Furthermore, the proprietary costs associated with disclosing sensitive information—such as trade secrets—can further discourage firms from revealing company-specific risks (Hope et al., 2016). Ultimately, corporate risk disclosure is the result of a strategic equilibrium, where firms continuously balance the competing demands of openness and discretion in their communications with stakeholders.

3.2 Political uncertainty

Political uncertainty refers to the unpredictability associated with government behavior, policy changes, regulatory frameworks, election outcomes, and other structural shifts in governance (Pastor & Veronesi, 2013; Waisman et al., 2015; Baker et al., 2016; Jens, 2017; Chen et al., 2018). It can be triggered by various factors, including leadership transitions, partisan disagreements, macroeconomic policies, political instability, changes in government policies, and shifts in the institutional legal environment (Zhong et al., 2019; Chen et al., 2020). Existing literature extensively highlights the significant economic and managerial consequences of political uncertainty, with a focus on its impact on firms' financial performance and decision-making processes (Gemmill, 1992; Li & Born, 2006; Białkowski et al., 2008; Waisman et al., 2015; Çolak et al., 2017; Chen et al., 2018; Gholipour, 2019; Yung & Root, 2019).

From a financial perspective, political uncertainty influences key economic

indicators, including initial public offering (IPO) activity, stock market volatility, corporate debt costs, equity financing, and earnings management. Pastor & Veronesi (2012, 2013) provide theoretical foundations for these effects, noting that political uncertainty commands a risk premium, depresses stock prices, and contributes to market volatility. For instance, Baker et al. (2016) demonstrate that uncertain political environments exacerbate investor indecision, contributing to fluctuations in stock returns. Waisman et al. (2015) find that during U.S. presidential elections, corporate bond spreads increase significantly due to heightened uncertainty, leading to higher capital costs and reduced access to external financing. Similarly, Chen et al. (2020) show that firms delay IPO activity during periods of elevated political uncertainty, reflecting avoidance behavior in high-risk environments.

Political uncertainty also significantly affects managerial decision-making, particularly in the areas of corporate investment, cash holdings, innovation, and multinational strategy. Managers are often compelled to delay irreversible financial commitments during uncertain periods, as evidenced by Jens (2017), who shows a decline in corporate investment during political transitions. Julio & Yook (2012) observe that firms in 48 countries reduce investment expenditures by an average of 4.8% during national election years compared to non-election years. In the Chinese context, An et al. (2016) find that political uncertainty caused by local leadership turnovers leads to a significant decline in corporate investment activity. Managers also adjust cash management strategies in response to political instability; Duong et al. (2020) highlight that U.S. firms maintain higher corporate cash holdings during

gubernatorial elections to mitigate risks associated with policy instability. Xu et al. (2016) show that Chinese firms engage in strategic cash transfers during the early years of new government leadership to adapt to the anticipated regulatory environment.

3.3 Political uncertainty and risk disclosure

Leadership changes at the NAO, such as the rotation of the Auditor General, disrupt existing political relationships and introduce significant uncertainty regarding future policies and regulatory priorities (Kravet & Muslu, 2013). This uncertainty is particularly impactful for SOEs, which are heavily reliant on government relationships for access to financing, subsidies, and regulatory approvals. In contrast to private firms, SOEs face stricter auditing and regulatory oversight, making them particularly vulnerable to changes in accounting standards, compliance expectations, and disclosure requirements. As a result, leadership transitions at the NAO can amplify the uncertainty faced by SOEs, compelling them to quickly adapt to the new political and regulatory landscape (Kravet & Muslu, 2013; Jiang et al., 2022).

Political uncertainty triggered by NAO leadership turnover often create a volatile external environment, leading investors to demand for reliable and detailed corporate financial reporting (Jiang et al., 2022; Dai & Ngo, 2021). Risk information, a critical component of annual reports, plays an essential role in addressing investor concerns by providing transparency about known risks and potential future cash flow volatility. By enhancing public disclosures, firms can mitigate the adverse effects of political uncertainty, reduce information asymmetry, and satisfy growing investor demand for

risk-related information during such periods (Campbell et al., 2014; Hope et al., 2016). Consequently, firms—particularly SOEs—may have a strategic incentive to increase textual risk disclosure as a means of fostering investor trust and maintaining market confidence. Accordingly, we propose our first hypothesis:

H1a: The political uncertainty caused by the NAO leadership turnover increases corporate risk disclosure.

Political uncertainty arising from the rotation of the Auditor General can prompt managers to adopt a more cautious and strategic approach in an effort to shield from potential negative outcomes. Such uncertainty tends to elevate investors' risk perceptions, as reflected in increased stock return volatility and deteriorating expectations regarding corporate creditworthiness among financial institutions (Chen et al., 2018). Because risk disclosures typically highlight the downside risks associated with a company's operations and financial position, they often serve as sources of bad news for stakeholders. During periods of heightened political uncertainty, increased disclosure of such risk-related news could further amplify investors' perceptions of risk and uncertainty (Mian & Santos, 2018). Consequently, managers may be incentivized to deliberately limit the level of risk disclosure during periods of political uncertainty in response to political turbulence. By constraining the flow of negative information, firms aim to stabilize investor confidence and prevent additional market aversion or panic. This selective disclosure approach reflects a calculated effort to manage stakeholder perceptions and maintain corporate stability amid external uncertainty. Based on this rationale, we propose the following

hypothesis:

H1b: Political uncertainty caused by NAO leadership turnover may decrease corporate risk disclosure.

4. Data and methods

4.1 Sample

The study collected data from 2008 to 2022, including all firms listed on the Shanghai or Shenzhen Stock Exchanges in China. We manually compiled the information on the turnover of the Auditor General of NAO in China from various public resources, such as newspapers, websites, press releases, and other announcements. The data on corporate risk disclosure levels were sourced from the Chinese Research Data Services Platform (CNRDS). Following extensive processing and cleaning of the annual report texts, the platform calculates the frequency of risk-related keywords by measuring their total occurrences within the reports. The corporate financial data were obtained from the China Stock Market & Accounting Research (CSMAR) database. All monetary values are reported in Chinese Yuan (RMB).

Table 1 outlined the sample selection and distribution employed in this study. Panel A details the sample selection process, starting with 5,443 unique issuers listed on the Shanghai and Shenzhen Stock Exchanges from 2008–2022. After excluding financial firms and observations with missing data, the final dataset included 4,093 firms and 35,275 observations for analysis.

[INSERT TABLE 1]

4.2 Models

For empirical analysis, this study used regression analysis with the following model:

$$RISKSCORE_{i,t+1}=\beta_0+\beta_1 CHANGE_{i,t}+\beta_2 SOE_{i,t}+\beta_3 CHANGE_{i,t}*SOE_{i,t}+\Sigma\delta_j CONTROLS_{i,t}+\Sigma\beta_k Fixed\ Effects_{i,t}+\varepsilon_{i,t}$$

--- Equation (1)

Following previous studies (Kravet & Muslu, 2013; Jiang et al., 2022; Wang et al., 2018), this study quantifies the risk disclosure of listed firms by calculating the proportion of risk-related keywords in their annual reports. Specifically, it is measured as the total number of risk-related keywords divided by the total number of words in the annual report, multiplied by 100. To assess the impact of the turnover of the Auditor General of NAO, three variables were created. The first variable, labeled *CHANGE*, is an indicator that equals 1 for the year when the NAO changed the Auditor General, and 0 otherwise.

The second variable, labeled *SOE*, which is an indicator that equals 1 if the enterprise is state-owned, and 0 otherwise. In this study, SOEs are treated as the treatment group in the context of NAO leadership change, as these entities are directly subject to greater regulatory scrutiny and oversight by the NAO in China. SOEs are uniquely positioned in the regulatory framework given their close ties to government policies and public accountability expectations (Liu et al., 2017). Consequently, changes in NAO leadership, particularly in terms of expertise and regulatory priorities, are likely to have a more immediate and pronounced impact on these enterprises

compared to non-state-owned entities. The key variable of interest, *CHANGE*SOE*, captures the impact of a change in the NAO Auditor General on the risk disclosure practices of SOEs. Additionally, all independent variables in the analysis are lagged by one year to account for potential delays in the effect of NAO auditor turnover on corporate reporting practices.

The model includes control variables that account for firm-specific determinants of risk disclosure level, as identified in prior literature (Fama & French 1993; Hope et al., 2016; Khandelwal et al., 2020; Jiang et al., 2022). These variables encompass *SIZE, ROA, BM, CASH, GROWTH, LEVERAGE, BOARD_NUMBER, BOARD_IND, LARGESHARE, BETA, CR, CFO, BIG4*, and *LOSS*. To alleviate potential endogeneity issues resulting from omitted variable bias, we have incorporated firm-, industry-, and year-fixed effects into our model. Please refer to Appendix A for detailed definitions of all variables utilized in our analysis. We winsorize all continuous variables at the 1st and 99th percentiles to remove outliers.

Panel B and Panel C in Table 1 present a breakdown of the sample distribution by year and industry, respectively. It can be observed that a significant majority of the firms belong to the manufacturing sector. Additionally, there is a steady increase in the number of listed Chinese firms over the years, reflecting the ongoing expansion and development of the country's capital markets. Table 2 provides the descriptive statistics of all variables in the baseline model. The mean value of *RISKSCORE* is reported as 0.319, consistent with prior literature that has also investigated risk disclosure in listed firms (Wang et al., 2018; Elshandidy et al., 2018). In line with

prior studies (Zeng et al., 2018), more than 40 percent of firms in the sample are SOEs, reflecting the significant presence of state ownership among listed companies in China.

[INSERT TABLE 2]

5. Empirical results

5.1 NAO leadership turnover and risk disclosure

Table 3 displays the results of the baseline tests assessing the impact of the NAO leadership turnover on the firms' risk disclosure. We used two methods to assess the effect of the political uncertainty caused by this turnover. The first approach lags all independent and control variables by one year to address potential delayed effects (Column 1), while the second utilizes contemporaneous values (Column 2). Both specifications include firm fixed effects to control for time-invariant unobservable heterogeneity. As shown in Column (1), the coefficient of *CHANGE*SOE* is negative and highly significant at the 1 percent level ($\beta1$ =-0.007; t = -6.45). Consistently, the result of *CHANGE*SOE* in column (2) is in line with that of Column (1). These findings indicate that, following the NAO leadership change, SOEs significantly reduced their risk disclosure in annual reports. The direction and significance of the control variables are generally consistent with prior literature (Khandelwal et al., 2020; Jiang et al., 2022). In general, these results support Hypothesis 1b, suggesting that NAO leadership turnover may deter SOEs from fully disclosing risks, potentially reflecting strategic behavior in response to shifts in institutional oversight.

[INSERT TABLE 3]

5.2 Robustness tests

We conducted a series of robustness tests in Table 4. First, we investigate whether the observed negative effect of NAO leadership turnover on firm risk disclosure is specific to the actual turnover year or merely a coincidental pattern. To conduct this test, we created two indicator variables: *PSEUDO1*, which equals 1 for one year after the NAO changed the Auditor General, and *PSEUDO2*, which equals 1 for two years after the turnover. These variables were used to re-estimate the baseline model. Panel A shows that the coefficient for *PSEUDO1*SOE* is insignificant, while *PSEUDO2*SOE* exhibits a significant positive effect. This indicates that the negative effect from baseline findings is specific to the actual NAO turnover year and does not occur randomly in subsequent years.

Second, we adopted two alternative approaches to measure NAO leadership turnover. Specifically, rather than limiting the measurement of NAO leadership turnover to only the year of turnover, we expanded it to account for potential lasting effects. Two extended measures were created: *CHANGE2*, which is coded as 1 for both the turnover year and the year immediately following it, and *CHANGE3*, which is coded as 1 for the turnover year and the subsequent two years. This approach allows for a more comprehensive analysis of whether the impact of leadership turnover persists beyond the immediate year of change.

As shown in Panel B, the coefficients for *CHANGE2*SOE* and *CHANGE3*SOE* are negative and statistically significant at the 1% level. These results align closely with the findings of the original baseline model, suggesting that the observed negative

effect of NAO leadership turnover on SOE risk disclosure is robust and persists for up to two years after the turnover. This consistency supports the interpretation that NAO leadership transitions exert a sustained influence on the transparency of risk disclosure in SOEs.

Thirdly, we adopted two alternative measurements of risk disclosure. First, following the approach of Jiang et al. (2022), we calculated *RISKSCORE2*, which represents the proportion of risk-related words in the annual report, excluding content from tables. Second, drawing on the methodologies of Campbell et al. (2014) and Martikainen et al. (2015), we developed *RISKSCORE3*, defined as the natural logarithm of the total word count of the annual report. As shown in Panel C, the coefficient of *CHANGE*SOE* is observed to be negative and statistically significant at the 1 percent level in both models.

Next, prior research indicates that the National People's Congress (NPC) in China can significantly influence corporate behavior due to its critical role in shaping political agendas, economic policies, and leadership appointments (An et al., 2016). During NPC years, SOEs may strategically adjust their risk disclosure practices to align with anticipated political expectations or to manage perceptions among policymakers. This is particularly relevant because SOEs are closely tied to the government and may face heightened scrutiny or incentives to portray stability and compliance during politically sensitive periods such as NPC sessions. As a result, risk disclosures in NPC years may be less reflective of actual corporate conditions and more influenced by political considerations.

To address concerns that these political dynamics could confound our analysis, we excluded NPC years from the sample to focus on periods where SOEs' risk disclosures are less likely to be politically motivated. Panel D of Table 5 shows that the interaction term *CHANGE*SOE* remains negative and statistically significant at the 1% level. This suggests that the observed relationship between audit leadership changes and SOE risk disclosure behavior is not primarily driven by political cycles or pressures associated with the NPC.

Fifth, prior studies suggest that changes in municipal leadership, particularly the rotation of municipal Party secretaries, can introduce significant uncertainty into the local political environment and thereby influence firms' behavior and decision-making (An et al., 2016; Jens, 2017; Chen et al., 2018). Such leadership changes often reflect shifts in political priorities or governance strategies, which can have a range of indirect impacts on enterprises operating in the affected regions (Liu et al., 2021). To account for this potential confounding factor, we included municipal Party secretary rotations across the country as a control variable in the analysis. Specifically, we created a new control variable, *SECRETARY_CHANGE*, which is a binary indicator equal to 1 if the city where the firm is based experienced a change of Party secretary during a given year, and 0 otherwise. As reported in Panel E, the coefficients for the interaction term *CHANGE*SOE* remain negative and statistically significate, aligning with the baseline results. This finding indicates that municipal Party secretary rotations do not significantly alter the observed negative relationship between political uncertainty—triggered by Auditor General rotation—and risk disclosure in SOEs.

Next, we introduced an industry-level uncertainty index as a control variable to assess whether the environmental uncertainty affects baseline results. This index captures the overall uncertainty in the external environment, which can influence firm behavior in various ways (Baker et al., 2016). To account for this, we create a new control variable, *UNCERTAIN*, which is the environmental uncertainty after industry adjustment. As reported in Panel F, the coefficient of *CHANGE*SOE* remains negative and highly significant. This finding aligns with the baseline results, indicating that controlling industry-level uncertainty does not alter the observed negative relationship between Auditor General rotation and risk disclosure by SOEs.

Finally, we conducted a parallel trend assumption test to examine whether the growth trend of risk disclosure of SOEs is similar to that in non-SOEs preceding the political uncertainty caused by the rotation of NAO leadership. The results reported in Panel G indicated that there was no significant disparity in risk disclosure between the SOEs and non-SOEs prior to the rotations. This finding supports the assumption that, in the absence of the rotations, the growth patterns of risk disclosure among SOEs would have been similar to those in the comparison non-SOEs.

[INSERT TABLE 4]

6. Instrumental variable tests

To alleviate potential endogeneity issues, we employ an instrumental variable approach. One potential challenge of our analysis is the possibility of unobserved factors between the NAO leadership change and corporate risk disclosure that may simultaneously affect both variables. To mitigate this issue, we carefully selected

instrumental variables that are strongly correlated with the turnover of the NAO Auditor General but are plausibly exogenous to corporate risk disclosure decisions. We identified three dimensions related to the attributes of NAO Auditor Generals: (1) the length of tenure in NAO office, (2) the age at the time of appointment, and (3) the level of education (e.g., PhD, master's, undergraduate). These characteristics are directly related to the likelihood of political turnover, given that factors such as tenure, age, and education are often critical considerations in personnel decisions within political systems (An et al., 2016). However, these attributes are unlikely to have a direct causal relationship with the level or content of corporate risk disclosure by firms.

Specifically, we firstly used these three factors as instrumental variables to estimate the probability of a leadership transition (i.e., *CHANGE*). The coefficients for all three instruments, reported in Panel A of Table 5, are positive and significant, confirming that these characteristics are significantly correlated with leadership turnover. Then in the second stage, we use the predicted value of the *CHANGE* in the first stage to estimate its effect on the amount of risk disclosure of listed SOEs. As shown in Panel B of Table 5, the coefficient of *SOE*INSTRUMENT* is negative and statistically significant at the 1 percent level. This result provides evidence of the causal relationship between leadership turnover in the audit authority and corporate risk disclosure practices among SOEs.

[INSERT TABLE 5]

7. Mechanism tests

So far, we have found that the increased political uncertainty caused by the leadership transition of the NAO may compel SOEs to reduce the amount of risk disclosure in their annual reports. To further clarify the mechanism of political uncertainty on the risk disclosure, we conducted a series of mechanism tests.

7.1 External regulatory pressure

The intensity of external supervision is a primary factor shaping corporate information disclosure practices. Companies operating in an environment subject to strong external regulatory scrutiny are often compelled to maintain higher levels of transparency, even during periods of political uncertainty (Healy & Palepu, 2001; Bushman & Landsman, 2010). Robust external supervision constrains the discretionary power of management regarding disclosure decisions (Jensen & Meckling, 2019). In contrast, a weak external regulatory environment, affords firms greater latitude to engage in self-interested behaviors, enabling managers to more easily conceal or withhold bad news or sensitive risk information (Fan & Wong, 2002; Piotroski & Wong, 2012). During times of political uncertainty, insufficient external regulation further intensifies management's motivation to withhold bad adverse information, allowing firms to minimize disclosure risks and prevent potential scrutiny or negative attention directed on their leadership. Therefore, in an environment of political uncertainty, firms tend to exercise greater caution when disclosing risk information to prevent negative impacts on the enterprise and to mitigate investors' perceptions of risk. When external regulatory pressure is

diminished, these entities have greater opportunity to engage in self-interested behavior by reducing or concealing risk information to offset investors' risk perceptions.

To examine the moderating effect of external regulatory pressure on the main effect, we conducted two subgroup tests, using "Big 4" auditor status and fraud disclosure to distinguish levels of external pressure faced by companies. The presence of a Big 4 auditor—commonly used to proxy for external audit quality (Jiraporn et al., 2018)—indicates that the company's external auditor is one of the Big 4 accounting firms. Fraud disclosure, on the other hand, is frequently employed to gauge regulatory pressure from external media, measuring whether a company was reported by the media for fraudulent activity in the previous year. Companies audited by a Big 4 firm or disclosed by the media for fraud are considered to face higher external regulatory pressure. The results presented in Panel A and Panel B of Table 6 reveal that the coefficient on cross-term *CHANGE*SOE* is statistically significant and negative only in the low external regulatory groups. This indicates that in the context of political uncertainty triggered by the rotation of the director of the NAO, SOEs under weak external regulatory pressure exhibit a greater propensity to reduce transparency and engage in self-interested behavior. Consequently, this leads to a further decline in risk disclosure within their annual reports.

[INSERT TABLE 6]

7.2 Internal governance

Next, we consider the internal governance of firms. Companies with a sound

internal governance structure typically possess more comprehensive internal regulatory systems, enabling them to cope more effectively with uncertainties and maintain consistent disclosure standards (Gul et al., 2010). Strong internal governance can mitigate the impact of political uncertainty by reducing the tendency to conceal adverse information by aligning management practices with the long-term interests of the company and its stakeholders (Fama & Jensen, 1983; Shleifer & Vishny, 1997). On the contrary, firms with poor internal governance may be more vulnerable to political uncertainties; due to their lack of necessary supervision mechanisms, they are less able to resist the temptation to reduce risk information disclosure in order to lower investors' risk perception in the face of political uncertainty

We conducted two sub-group tests to examine the moderating effect of internal governance on the main relationship, using independent director percentage to the total number of board members and the shareholding ratio of overseas investors to measure the internal governance quality. Higher values for these two indicators denote stronger internal governance (Fama & Jensen, 1983; Aggarwal et al., 2011). For each indicator, firms with values above the annual average were classified as having stronger internal governance, and those with values below the average were considered to have weaker internal governance. The results presented in Panel A and Panel B of Table 7 reveal that the coefficient on cross-term *CHANGE*SOE* is statistically significant and negative only in groups with low internal governance. This finding suggests that, in the context of political uncertainty arising from NAO leadership transition, SOEs with weak internal governance are more likely to

opportunistically conceal or reduce the disclosure of risk information.

[INSERT TABLE 7]

7.3 Financial constraint pressure

Companies with greater financing difficulties tend to be more sensitive to risks related to political uncertainties and are more likely to be negatively affected by investors' perception of their risk profile (Cull et al., 2015; Allen et al., 2019). In this scenario, these companies are particular wary of further aggravating their financing difficulties and, therefore, disclose information that may further restrict their financing channels with particular caution (Diamond & Verrecchia, 1991; Sengupta, 1998). To avoid further endangering their already precarious financing situation and to demonstrate their stability to potential investors or creditors, these companies have a stronger incentive to deliberately conceal risk information and limit risk disclosure in their annual reports.

We constructed two sub-group tests to test the moderating effect of financing distress pressure on the main effect, using the Z-score and cash holding volume as proxies (Begley et al.,1996; Almeida et al., 2004). For each indicator, firms with values below the annual average were classified as facing high financing distress pressure, while those with values above the average were classified as facing low financing distress pressure. The results presented in Panel A and Panel B of Table 8 reveal that the coefficient on the cross-term *CHANGE*SOE* is statistically significant and negative only within the groups experiencing high financing distress pressure. This indicates that SOEs facing severe financing constraints are more proactive in

reducing risk disclosure during periods of political uncertainty (Botosan, 1997; Francis et al., 2005).

[INSERT TABLE 8]

7.4 Supply chain pressure

Finally, we investigated the impact of supply chain pressure on firms' risk disclosure practices. Firms with highly concentrated supply chains are heavily dependent on a few key suppliers or customers. This concentration grants these stakeholders substantial bargaining power, increasing their ability to demand higher quality and more transparent information from focal firms (Hendricks et al., 2009).

To rigorously assess the moderating effect of supply chain pressure, we conducted four subgroup analyses using distinct indicators: customer concentration, supplier concentration, dependence on the largest customer and dependence on the largest supplier. These were measured by the customer concentration Herfindahl Index, supplier concentration Herfindahl Index, the proportion of the purchases from the largest supplier, and the proportion of sales to the largest customer, respectively. For each indicator, firms were classified as experiencing high supply chain pressure if their values exceeded the industry's annual average, and vice versa. The results of Panel A, Panel B and Panel C in Table 9 show that the coefficient on cross-term *CHANGE*SOE* are negatively significant only in the low supply chain pressure groups. In contrast, Panel D does not show a clear distinction between the groups. Collectively, these results suggest that firms under greater supplier chain pressure are more compelled to disclose risk information, especially during periods of political

uncertainty. This highlights the critical influence of supply chain stakeholders in promoting transparency and enhancing the quality of corporate disclosures under uncertain political conditions.

[INSERT TABLE 9]

8. Cross-sectional tests

In this section, we conduct a series of cross-sectional analyses. Specifically, we estimate our baseline regression while taking into account factors such as whether the incoming Auditor General of NAO has prior audit-related work experience and the length of tenure of the previous Auditor General of NAO.

8.1 Internal vs External promotion

The promotion of the Auditor General from within the audit system, particularly one with relevant experience and expertise, is likely to have profound implications for the behavior of SOEs, especially with regard to their risk disclosure practices. The rationale is rooted in the expectation that a highly experienced Auditor General—due to their deeper understanding of regulatory mechanisms, internal systems, and professional oversight standards—would be better positioned to enact stricter and more consistent regulatory scrutiny across audited entities (Bonner & Lewis, 1990). This heightened regulatory pressure is anticipated to increase the perception of political uncertainty among SOEs, particularly as stricter audits may expose operational vulnerabilities, inefficiencies, or mismanagement that could feed into broader political narratives or lead to unforeseen consequences within the state-owned sector (Bird et al., 2023). These dynamics may compel listed SOEs to adopt a more

cautious approach, where the motivation to maintain the status quo and avoid risks outweighs the incentive to provide robust and detailed risk disclosures.

To explore the effect of internal or external promotion on the relation between NAO leadership change and corporate risk disclosures, we manually collected the resumes of all NAO auditor general through the NAO website. Based on this, we constructed a new variable, *INTERNAL*, which is an indicator variable that equals 1 for the year when the NAO underwent the leadership change and the incoming Auditor General possessed audit-related working experience, and 0 otherwise. The results, presented in Table 10, reveal that the coefficient on *INTERNAL* is statistically significant and negative. This indicates that when the Auditor General is promoted internally and the appointment involves an individual with prior audit-related experience—there is a noticeable reduction in the level of risk disclosure provided by listed SOEs. In general, the heightened familiarity and expertise of an internally promoted Auditor General may lead to more rigorous audit practices that amplify political uncertainty for SOEs, further deterring comprehensive risk disclosure and contributing to a protective, opaque stance by these entities.

[INSERT TABLE 10]

8.2 Leadership Tenure of the Former NAO Auditor General

Longer tenure of the Auditor General can lead to more comprehensive and informed planning and auditing, as individuals in this role become increasingly familiar with the organizations they oversee and develop a nuanced understanding of their internal governance, operational structures, and financial transparency. Over

time, this familiarity may contribute to more stable audit practices and a predictable regulatory environment for SOEs. However, longer tenure may also create higher switching costs when a leadership transition occurs. These switching costs refer to the disruption associated with replacing a long-serving Auditor General who has accumulated extensive institutional knowledge and established trust with audited entities. The sudden shift from a stable, well-understood auditing paradigm to one governed by a new and possibly unproven Auditor General may exacerbate SOEs' cautiousness. As Jiang et al. (2022) suggest, such transitions can destabilize existing systems and create greater regulatory uncertainty due to the sudden departure of an individual who embodies continuity in oversight.

To examine the impact of the departing Auditor General's tenure length on the corporate risk disclosure practices, we introduced a variable named *BEFORE*, defined as the natural logarithm of the length of the tenure of the departing Auditor General of the NAO. As shown in Table 11, the coefficient on *SOE* BEFORE* is statistically significant and negative, which suggests that the longer the tenure of the departing Auditor General of NAO, the greater the decline in risk disclosure by listed companies. This finding suggests that a long-tenured Auditor General fosters stability and predictable oversight. However, their departure disrupts this stability, increasing uncertainty for SOEs, which may respond cautiously by reducing risk disclosures to adapt to the unknown expectations of the incoming leader.

[INSERT TABLE 11]

9. Additional tests

To date, the study reveals that the political uncertainty prompted by the rotation of the Auditor General has led to a significant decline in corporate risk disclosure. However, it remains unclear whether this reduction in disclosure is indicative of improved future operational performance, representing a calculated and beneficial response to external uncertainties, or whether it merely reflects a temporary strategic reaction to leadership turnover. In other words, the decline may simply involve the use of boilerplate disclosures—generic and non-specific statements—offering little substantive value and potentially undermining transparency and accountability in the long term.

This section explores the impact of corporate risk disclosure on firm performance during periods of NAO leadership change. Specifically, this study evaluates firm financial performance using three key measures: return on assets (*ROA*), the standard deviation of return on assets (*SD_ROA*), a measure of volatility in and the standard deviation of total income (*SD_SALES*). As presented in Table 12, the coefficients for *CHANGE*SOE*RISKSCORE* are not statistically significant across all analyses. This finding suggests that the adjustments in risk disclosure are primarily strategic, aimed at addressing short-term political and regulatory uncertainty, rather than being tied to long-term operational effectiveness or financial success.

[INSERT TABLE 12]

10. Conclusion

This study examines the impact of NAO leadership turnover on corporate risk disclosure practices. Our findings reveal that the rotation of the Auditor General of the NAO leads to a decline in corporate risk disclosures by SOEs. This impact is further amplified when companies face weaker regulatory environments, poorer internal governance, stricter financing constraints, and lower supply chain pressures. Additionally, this effect is particularly significant when the incoming Auditor General has prior audit-related work experience and when the outgoing Auditor General has had a longer tenure in office. Moreover, our analysis indicates that the decline in risk disclosures is not significantly associated with firm performance, suggesting that the observed reduction in risk disclosure is largely a standardized or boilerplate response, reflecting a strategic adjustment by firms to navigate the political and regulatory uncertainty associated with changes in NAO leadership.

Our findings have implications for corporate governance, regulatory oversight, and policymaking in the context of leadership transitions. First, it highlights how political uncertainty, triggered by changes in NAO leadership, prompts SOEs to reduce risk disclosures as reactive, strategic adjustments rather than substantive governance improvements, raising concerns about transparency and accountability. This impact is amplified when SOEs face different types of regulatory pressure. Additionally, the significant influence of leadership attributes—such as audit-related experience or long tenure—on corporate behavior highlights the need for effective transition management to minimize disruptions in governance practices. Policymakers should explore measures to balance rigorous regulatory scrutiny with incentives for

firms to maintain consistent, meaningful disclosures during leadership transitions. Strengthening disclosure frameworks and promoting resilient governance practices can help mitigate uncertainty, enhance transparency, and improve long-term stakeholder confidence and organizational stability.

This study is also subject to limitation. First, the study relies on annual report data, which may not reflect the complete scope of firm risk disclosures. Second, the analysis focuses on leadership transitions within the NAO in China, which may not be generalizable to other institutional, cultural, or regulatory settings. Overall, this study serves as a starting point for further exploration into the consequences of regulatory leadership transitions within auditor oversight systems.

References

Aggarwal, R., Erel, I., Ferreira, M., & Matos, P. (2011). Does governance travel around the world? Evidence from institutional investors. *Journal of financial economics*, *100*(1), 154-181.

Allen, F., Cai, J., Gu, X., Qian, J., Zhao, L., & Zhu, W. (2019). Ownership Networks and Firm Growth: What Do Forty Million Companies Tell Us About the Chinese Economy?. *Available at SSRN 3465126*.

Almeida, H., Campello, M., & Weisbach, M. S. (2004). The cash flow sensitivity of cash. *The journal of finance*, *59*(4), 1777-1804.

An, H., Chen, Y., Luo, D., & Zhang, T. (2016). Political uncertainty and corporate investment: Evidence from China. *Journal of Corporate Finance*, *36*, 174-189.

Baker, S. R., Bloom, N., & Davis, S. J. (2016). Measuring economic policy uncertainty. *The Quarterly Journal of Economics*, *131*(4), 1593-1636.

Begley, J., Ming, J., & Watts, S. (1996). Bankruptcy classification errors in the 1980s: An empirical analysis of Altman's and Ohlson's models. *Review of accounting Studies*, *1*(4), 267-284.

Białkowski, J., Gottschalk, K., & Wisniewski, T. P. (2008). Stock market volatility around

national elections. *Journal of Banking & Finance*, *32*(9), 1941-1953.

Bird, A., Karolyi, S. A., & Ruchti, T. G. (2023). How do firms respond to political uncertainty? Evidence from US gubernatorial elections. *Journal of Accounting Research*, *61*(4), 1025-1061.

Bonner, S. E., & Lewis, B. L. (1990). Determinants of auditor expertise. *Journal of Accounting Research*, *28*, 1-20.

Botosan, C. A. (1997). Disclosure level and the cost of equity capital. *Accounting review*, 323-349.

Bushman, R., & Landsman, W. R. (2010). The pros and cons of regulating corporate reporting: A critical review of the arguments. *Accounting and Business Research*, *40*(3), 259-273.

Campbell, J. L., Chen, H., Dhaliwal, D. S., Lu, H. M., & Steele, L. B. (2014). The information content of mandatory risk factor disclosures in corporate filings. *Review of Accounting Studies*, *19*, 396-455.

Chen, S., Mao, H., & Feng, Z. (2020). Political uncertainty and firm entry: Evidence from Chinese manufacturing industries. *Journal of Business Research*, *120*, 16-30.

Chen, Y., Chen, D., Wang, W., & Zheng, D. (2018). Political uncertainty and firms' information environment: Evidence from China. *Journal of Accounting and Public Policy*, *37*(1), 39-64.

Chong, H. G. (2009). Audit independence and objectivity: evidence from the Chinese national audit office. *Available at SSRN 1347823*.

Clarkson, P. M., Kao, J. L., & Richardson, G. D. (1994). The voluntary inclusion of forecasts in the MD&A section of annual reports. *Contemporary Accounting Research*, *11*(1), 423-450.

Çolak, G., Durnev, A., & Qian, Y. (2017). Political uncertainty and IPO activity: Evidence from US gubernatorial elections. *Journal of Financial and Quantitative Analysis*, *52*(6), 2523-2564.

Cordery, C. J., & Hay, D. (2019). Supreme audit institutions and public value: Demonstrating relevance. *Financial Accountability & Management*, *35*(2), 128-142.

Cull, R., Li, W., Sun, B., & Xu, L. C. (2015). Government connections and financial constraints: Evidence from a large representative sample of Chinese firms. *Journal of corporate finance*, *32*, 271-294.

Dai, L., & Ngo, P. (2021). Political uncertainty and accounting conservatism. *European Accounting Review*, *30*(2), 277-307.

Diamond, D. W., & Verrecchia, R. E. (1991). Disclosure, liquidity, and the cost of capital. *The journal of Finance*, *46*(4), 1325-1359.

Duong, H. N., Nguyen, J. H., Nguyen, M., & Rhee, S. G. (2020). Navigating through economic policy uncertainty: The role of corporate cash holdings. *Journal of Corporate*

Finance, *62*, 101607.

Elshandidy, T., Neri, L., & Guo, Y. (2018). Determinants and impacts of risk disclosure quality: evidence from China. *Journal of Applied Accounting Research*, *19*(4), 518-536.

Fama, E. F., & French, K. R. (1993). Common risk factors in the returns on stocks and bonds. *Journal of Financial Economics*, *33*(1), 3-56.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The journal of law and Economics*, *26*(2), 301-325.

Fan, J. P., & Wong, T. J. (2002). Corporate ownership structure and the informativeness of accounting earnings in East Asia. *Journal of accounting and economics*, *33*(3), 401-425.

Francis, J. R., Khurana, I. K., & Pereira, R. (2005). Disclosure incentives and effects on cost of capital around the world. *The accounting review*, *80*(4), 1125-1162.

Gemmill, G. (1992). Political risk and market efficiency: tests based in British stock and options markets in the 1987 election. *Journal of Banking & Finance*, *16*(1), 211-231.

Gholipour, H. F. (2019). The effects of economic policy and political uncertainties on economic activities. *Research in International Business and Finance*, *48*, 210-218.

Gul, F. A., Kim, J. B., & Qiu, A. A. (2010). Ownership concentration, foreign shareholding, audit quality, and stock price synchronicity: Evidence from China. *Journal of financial economics*, *95*(3), 425-442.

Hao, Y., & Dong, B. (2022). Determinants and consequences of risk disclosure: Evidence from Chinese stock markets during the COVID-19 pandemic. *Emerging Markets Finance and Trade*, *58*(1), 35-55.

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of accounting and economics*, *31*(1-3), 405-440.

Hendricks, K. B., Singhal, V. R., & Zhang, R. (2009). The effect of operational slack, diversification, and vertical relatedness on the stock market reaction to supply chain disruptions. *Journal of operations management*, *27*(3), 233-246.

Hope, O. K., Hu, D., & Lu, H. (2016). The benefits of specific risk-factor disclosures. *Review of Accounting Studies*, *21*, 1005-1045.

Jens, C. E. (2017). Political uncertainty and investment: Causal evidence from US gubernatorial elections. *Journal of Financial Economics*, *124*(3), 563-579.

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate governance* (pp. 77-132). Gower.

Jiang, L., Pittman, J. A., & Saffar, W. (2022). Policy uncertainty and textual disclosure. *Accounting Horizons*, *36*(4), 113-131.

Jiraporn, P., Chintrakarn, P., Tong, S., & Treepongkaruna, S. (2018). Does board independence substitute for external audit quality? Evidence from an exogenous regulatory shock. *Australian Journal of Management*, *43*(1), 27-41.

Julio, B., & Yook, Y. (2012). Political uncertainty and corporate investment cycles. *The Journal of Finance*, *67*(1), 45-83.

Khandelwal, C., Kumar, S., Madhavan, V., & Pandey, N. (2020). Do board characteristics impact corporate risk disclosures? The Indian experience. *Journal of Business Research*, *121*, 103-111.

Kothari, S. P., Shu, S., & Wysocki, P. D. (2009). Do managers withhold bad news?. *Journal of Accounting research*, *47*(1), 241-276.

Kravet, T., & Muslu, V. (2013). Textual risk disclosures and investors' risk perceptions. *Review of Accounting Studies*, *18*, 1088-1122.

Li, J. (1998). China's Governmental Auditing System. *International Journal of Government Auditing*, *25*(2), 10.

Li, J., & Born, J. A. (2006). Presidential election uncertainty and common stock returns in the United States. *Journal of Financial Research*, *29*(4), 609-622.

Liu, J., & Lin, B. (2012). Government auditing and corruption control: Evidence from China's provincial panel data. *China Journal of Accounting Research*, *5*(2), 163-186.

Liu, L. X., Shu, H., & Wei, K. J. (2017). The impacts of political uncertainty on asset prices: Evidence from the Bo scandal in China. *Journal of Financial Economics*, *125*(2), 286-310.

Liu, W., De Sisto, M., & Li, W. H. (2021). How does the turnover of local officials make firms more charitable? A comprehensive analysis of corporate philanthropy in China. *Emerging Markets Review*, *46*, 100748.

Loehlein, L. (2017). Measuring the independence of audit oversight entities: a comparative empirical analysis. *Accounting Research Journal*, *30*(2), 165-184.

Martikainen, M., Kinnunen, J., Miihkinen, A., & Troberg, P. (2015). Board's financial incentives, competence, and firm risk disclosure: Evidence from Finnish index listed companies. *Journal of Applied Accounting Research*, *16*(3), 333-358.

Mian, A., & Santos, J. A. (2018). Liquidity risk and maturity management over the credit cycle. *Journal of Financial Economics*, *127*(2), 264-284.

Nagar, V., Schoenfeld, J., & Wellman, L. (2019). The effect of economic policy uncertainty on investor information asymmetry and management disclosures. *Journal of Accounting and Economics*, *67*(1), 36-57.

Pastor, L., & Veronesi, P. (2012). Uncertainty about government policy and stock prices. *The Journal of Finance*, *67*(4), 1219-1264.

Pastor, L., & Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, *110*(3), 520-545.

Piotroski, J. D., & Wong, T. J. (2012). Institutions and information environment of Chinese listed firms. In *Capitalizing China* (pp. 201-242). University of Chicago Press.

Sengupta, P. (1998). Corporate disclosure quality and the cost of debt. *Accounting review*, 459-474.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, *52*(2), 737-783.

Skinner, D. J. (1994). Why firms voluntarily disclose bad news. *Journal of Accounting research*, *32*(1), 38-60.

Waisman, M., Ye, P., & Zhu, Y. (2015). The effect of political uncertainty on the cost of corporate debt. *Journal of Financial Stability*, *16*, 106-117.

Wang, X., Gao, C., & He, J. (2018). Annual Report Risk Information Disclosure and Audit Costs: Based on Text Cosine Similarity Perspective. *Financial Research*, *5*(001), 98-104.

Xiao, J. Z., Yang, S., Zhang, X., & Firth, M. (2016). Institutional arrangements and government audit independence in China. *Abacus*, *52*(3), 532-567.

Xu, N., Chen, Q., Xu, Y., & Chan, K. C. (2016). Political uncertainty and cash holdings: Evidence from China. *Journal of Corporate Finance*, *40*, 276-295.

Yang, S., Xiao, J. Z., & Pendlebury, M. (2008). Government auditing in China: Problems and reform. *Advances in Accounting*, *24*(1), 119-127.

Yung, K., & Root, A. (2019). Policy uncertainty and earnings management: International evidence. *Journal of Business Research*, *100*, 255-267.

Zeng, Q., Zhou, B., Zhang, Z., & Chen, S. Y. (2018). Annual Report Tone and Internal Control Fraud: "What They Say vs. What They Do?" *Management World*, 34(09), 143-160.

Zhong, W., Lin, Y., Gao, D., & Yang, H. (2019). Does politician turnover affect foreign subsidiary performance? Evidence in China. *Journal of International Business Studies*, *50*(7), 1184-1212.

Appendix A. Variable definitions

Variable	Definition	Source
Dependent Variables		
RISKSCORE	Annual report risk words (including tables) divided by the total number of annual report words, multiplied by 100.	CSMAR
RISKSCORE2	Annual report risk words (excluding tables) divided by the total number of annual report words, multiplied by 100.	CSMAR
RISKSCORE3	The logarithm of the number of words in the annual report (including tables).	CSMAR
ROA	Net profit divided by total assets, multiplied by 100.	CSMAR
SD_ROA	The standard deviation of the return of assets.	CSMAR
SD_SALES	The standard deviation of total income.	CSMAR
Variable of interest		
CHANGE	An indicator that equals 1 for the year when the NAO changed the Auditor General, and 0 otherwise.	NAO websites
SOE	An indicator that equals 1 if enterprise is state-owned enterprise, and 0 otherwise.	CSMAR
PSEUDO1	An indicator variable that equals 1 for one year after the NAO changed the Auditor General.	NAO websites
PSEUDO2	An indicator variable that equals 1 for two years after the NAO changed the Auditor General.	NAO websites
CHANGE2	An indicator variable that equals 1 at and one year after the NAO changed the Auditor General, and 0 otherwise.	NAO websites
CHANGE3	An indicator variable that equals 1 at and two years after the NAO changed the Auditor General, and 0 otherwise.	NAO websites
INSTRUMENT	An instrumental variable measured as the combination of the length of tenure, age, and the level of education of the departing Auditor General of the NAO.	NAO websites
INTERNAL	An indicator variable equals 1 for the year when the NAO changed the Auditor General and the incoming Auditor General has audit-related working experience, or 0 otherwise.	NAO websites
BEFORE	The natural logarithm of the length of the tenure of the departing Auditor General of NAO.	NAO websites
Control Variables		
SIZE	The natural logarithm of total assets.	CSMAR
ROA	The net profit divided by total assets.	CSMAR
BM	Book to market ratio, defined as total assets divided by the market value of the firm.	CSMAR
LEVERAGE	Calculated as total liabilities divided by total assets.	CSMAR
GROWTH	Increase (or decrease) of total sales from year t-1 to year t scaled by lagged total sales.	CSMAR
CASH	Balance of cash at the end of the period divided by total assets.	CSMAR
CR	Ratio of current assets to current liabilities.	CSMAR
CFO	Cash flow from operations scaled by total assets.	CSMAR
BETA	A beta estimated from the capital asset pricing model using data from the last 250 trading days to reflect the market risk.	CSMAR
BOARDNUM	The number of directors on the board.	CSMAR
BOARDIND	The percentage of directors who are independent directors on the board.	CSMAR
LARGESHARE	The percentage of equity is held by the largest shareholder.	CSMAR
BIG4	A dummy variable, taking 1 if firms are audited by one of the Big 4 auditing firms, and 0 otherwise.	CSMAR
LOSS	A dummy variable that equals 1 if the company reports a net loss in the current year, and 0 otherwise.	CSMAR

Table 1. Sample construction and distribution

Panel A. Sample selection process

	Number of unique issuers in the sample	**Number of observations in the sample**
Fiscal year 2008-2022 of firms listed on Shanghai or Shenzhen Stock Exchanges	5,443	52,344
After excluding: Financial firms	5350	51254
After excluding: Observations with missing CSMAR data used in the empirical analysis	4093	35275
Final sample	4,093	35,275

Panel B. Sample distribution by year

Fiscal Year	**N**	**Weight (%)**
2008	1,267	3.59
2009	1,421	4.03
2010	1,482	4.20
2011	1,568	4.45
2012	1,882	5.34
2013	1,998	5.66
2014	2,252	6.38
2015	2,228	6.32
2016	2,295	6.51
2017	2,490	7.06
2018	2,713	7.69
2019	3,173	9.00
2020	3,308	9.38
2021	3,385	9.60
2022	3,813	10.81
Total	35,275	100.00

Panel C. Sample distribution by industry

Industry	**N**	**Weight (%)**
A: Agriculture, Forestry and Fishing	533	1.51
B: Mining	887	2.51
C: Manufacturing	22,398	63.50
D: Utility	1,235	3.50
E: Construction	927	2.63
F: Wholesale and Retail Trade	1,965	5.57
G: Transportation, Warehousing and Postal Services	1,153	3.27
H: Accommodation and Catering	136	0.39
I: Communications, Software and Information Technology	2,147	6.09
K: Real Estate	1,673	4.74
L: Rental and Leasing, and Business Services	468	1.33
M: Scientific Research and Technical Services	297	0.84
N: Water Conservancy, Environment and Public Infrastructure Management	439	1.24
O: Repair service	28	0.08
P: Education	42	0.12
Q: Hygiene	86	0.24
R: Culture, Sports and Entertainment	454	1.29
S: General	407	1.15
Total	35,275	100.00

Note: this table presents the sample selection and distribution.

Table 2. Descriptive statistics

Variable	N	Mean	SD	P25	Median	P75
RISKSCORE	35,275	0.319	0.125	0.237	0.321	0.394
CHANGE	35,275	0.200	0.400	0.000	0.000	0.000
SOE	35,275	0.419	0.493	0.000	0.000	1.000
SIZE	35,275	22.122	1.308	21.203	21.956	22.867
ROA	35,275	3.178	7.332	1.185	3.437	6.448
BM	35,275	0.318	0.161	0.201	0.297	0.415
CASH	35,275	0.154	0.120	0.069	0.121	0.204
GROWTH	35,275	0.195	0.512	-0.027	0.113	0.284
LEVERAGE	35,275	0.449	0.213	0.283	0.443	0.605
BOARDNUM	35,275	8.628	1.755	7.000	9.000	9.000
BOARDIND	35,275	0.374	0.053	0.333	0.333	0.429
LARGESHARE	35,275	34.489	14.764	22.940	32.170	44.620
BETA	35,275	1.097	0.327	0.897	1.121	1.304
CR	35,275	2.230	2.203	1.066	1.549	2.464
CFO	35,275	0.045	0.073	0.006	0.045	0.087
BIG4	35,275	0.058	0.233	0.000	0.000	0.000
LOSS	35,275	0.121	0.326	0.000	0.000	0.000

Note: This table presents descriptive statistics of all variables in the baseline model.

Table 3. The Association between the Auditor General turnover and risk disclosure

	$RISKSCORE_{t+1}$	$RISKSCORE_t$
	(1)	**(2)**
*CHANGE*SOE*	-0.007***	-0.008***
	(-6.45)	(-7.87)
SOE	0.002	0.002
	(0.84)	(0.71)
SIZE	-0.010***	-0.013***
	(-9.25)	(-11.94)
ROA	-0.000***	-0.000
	(-2.60)	(-1.45)
BM	0.006	-0.006
	(1.39)	(-1.44)
CASH	-0.009*	-0.009*
	(-1.78)	(-1.87)
GROWTH	-0.001**	-0.004***
	(-2.51)	(-6.43)
LEVERAGE	0.003	0.002
	(0.51)	(0.38)
BOARDNUM	-0.000	-0.001*
	(-0.98)	(-1.93)
BOARDIND	0.018	0.009
	(1.49)	(0.78)
LARGESHARE	-0.000	-0.000
	(-1.06)	(-0.56)
BETA	0.004***	-0.002
	(3.09)	(-1.21)
CR	-0.000	0.000
	(-0.00)	(-0.62)
CFO	-0.001	0.000
	(-0.10)	(0.01)
BIG4	-0.003	-0.005
	(-0.74)	(-1.38)
LOSS	0.000	-0.002*
	(0.25)	(-1.82)
CONSTANT	0.541***	0.623***
	(21.90)	(25.13)
Year FE	Yes	Yes
Firm FE	Yes	Yes
N	34,839	39,274
adj. R-sq	0.864	0.866

Note: this table presents the results from estimating the baseline equation with *RISKSCORE* being the dependent variable. The sample period is from the year 2008 to 2022. *RISKSCORE* is the annual report risk words (including tables) divided by the total number of annual report words, multiplied by 100. *CHANGE* is a variable that takes the value of 1 in years when the Auditor General of NAO changes, and 0 otherwise. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 4. Robustness tests

Panel A. Placebo tests

	RISKSCORE$_{t+1}$ **(1)**	***RISKSCORE***$_{t+1}$ **(2)**
*PSEUDO1*SOE*	-0.000	-
	(-0.15)	-
*PSEUDO2*SOE*	-	0.003**
	-	(2.50)
SOE	0.001	-0.000
	(0.28)	(-0.01)
Year FE	Yes	Yes
Firm FE	Yes	Yes
N	34,839	34,839
Controls	Yes	Yes
adj. R-sq	0.864	0.878

Panel B. Alternative measurements years of transition

	RISKSCORE$_{t+1}$ ***(1)***	***RISKSCORE***$_{t+1}$ ***(2)***
*CHANGE2*SOE*	-0.005***	-
	(-4.14)	-
*CHANGE3*SOE*	-	-0.003**
	-	(-2.34)
SOE	0.003	0.003
	(1.11)	(1.15)
Year FE	Yes	Yes
Firm FE	Yes	Yes
N	34,839	34,839
Controls	Yes	Yes
adj. R-sq	0.864	0.864

Panel C. Alternative measurements of risk disclosure

	RISKSCORE2$_{t+1}$ **(1)**	***RISKSCORE3***$_{t+1}$ **(3)**
*CHANGE*SOE*	-0.004***	-0.013***
	(-3.96)	(-3.52)
SOE	0.001	-0.016
	(0.34)	(-1.47)
Year FE	Yes	Yes
Firm FE	Yes	Yes
N	34,839	35,340
Controls	Yes	Yes
adj. R-sq	0.794	0.860

Panel D. Excluding National Congress years

	RISKSCORE$_{t+1}$ **(1)**
*CHANGE*SOE*	-0.007***
	(-4.97)
SOE	0.002
	(0.68)
Year FE	Yes
Firm FE	Yes
N	26,878
Controls	Yes
adj. R-sq	0.822

Panel E. Control for the rotation of the municipal party secretary

	RISKSCORE$_{t+1}$
*CHANGE*SOE*	-0.007***
	(-6.47)
SOE	0.002
	(0.84)
SECRETARY_CHANGE	0.001*
	(1.78)
Year FE	Yes
Firm FE	Yes
N	34,835
Controls	Yes
adj. R-sq	0.864

Panel F. Control for the industry uncertainty

	RISKSCORE$_{t+1}$
*CHANGE*SOE*	-0.006***
	(-5.05)
SOE	0.001
	(0.44)
UNCERTAIN	-0.002***
	(-4.93)
Year FE	Yes
Firm FE	Yes
N	26,033
Controls	Yes
adj. R-sq	0.866

Panel G. Parallel trend test

	Treat	***Control***	***Difference***	***T value***	***P***
Year 2014-2016	0.023	0.023	0.000	0.243	0.808
Year 2017-2019	0.013	0.019	0.004	1.544	0.123

Note: this table presents the results of robustness tests. Panel A re-estimates the baseline model using the Pseudo year as the event year. Panel B redefines the variable *CHANGE*. Panel C employs alternative measures of risk disclosure. Panel D re-estimates the baseline model by excluding National Congress years. Panel E accounts for the impact of municipal Party secretary changes. Panel F introduces a control for industry-level uncertainty. Panel G introduces a parallel trend assumption test. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 5. Instrumental variable

Panel A. Stage one

	CHANGE
AGE	0.062***
	(121.43)
EDU	0.108***
	(41.56)
TENURE	0.021***
	(34.35)
CONSTANT	-3.897***
	(-116.63)
N	52291
Pseudo R-sq	0.421

Panel B. Stage two

	RISKSCORE$_{t+1}$
*INSTRUMENT*SOE*	-0.007***
	(-6.45)
SOE	0.002
	(0.84)
SIZE	-0.010***
	(-9.25)
ROA	-0.000***
	(-2.6)
BM	0.006
	(1.39)
CASH	-0.009*
	(-1.78)
GROWTH	-0.001**
	(-2.51)
LEVERAGE	0.003
	(0.51)
BOARDNUM	-0.000
	(-0.98)
BOARDIND	0.018
	(1.49)
LARGESHARE	-0.000
	(-1.06)
BETA	0.004***
	(3.09)
CR	-0.000
	(0.00)
CFO	-0.001
	(-0.10)
BIG4	-0.003
	(-0.74)
LOSS	0.000
	(0.25)
CONSTANT	0.541***
	(21.9)
Year FE	Yes
Firm FE	Yes
N	34,839
adj. R-sq	0.864

Note: this table presents the results of instrument tests. The sample period is from year 2008 to 2022. *INSTRUMENT* is the instrumental variable, determined based on the Auditor General of the NAO's tenure length, their age at the time of appointment, and their level of education. *RISKSCORE* is annual report risk words (including tables) divided by the total number of annual report words, multiplied by 100. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. The model includes fixed effect regression. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 6. External regulatory pressure

Panel A: Big4 vs non-Big 4

	Big4	**Non-Big4**
	(1)	**(2)**
*CHANGE*SOE*	-0.001	-0.006***
	(-0.16)	(-5.62)
SOE	0.010	0.001
	(0.56)	(0.36)
N	1980	32807
Controls	Yes	Yes
adj. R-sq	0.804	0.868

Panel B: Media disclosure of Fraud

	Disclosure	**Non-disclosure**
	(1)	**(2)**
*CHANGE*SOE*	0.031*	-0.008***
	(1.69)	(-6.93)
SOE	0.003	0.002
	(0.14)	(0.79)
N	480	33979
Controls	Yes	Yes
adj. R-sq	0.818	0.865

Note: This table examines the strength of the impact of political uncertainty resulting from the rotation of the Auditor General of the NAO on the risk disclosure of listed SOEs among the groups of listed SOEs facing different levels of external regulatory pressure. The sample period is from year 2008 to 2022. *CHANGE* is a variable that takes the value of 1 in years when the Auditor General of NAO changes, and 0 otherwise. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. The model includes fixed effect regression. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 7. Internal governance

Panel A: Ownership by overseas investors

	High ownership	**Low ownership**
	(1)	**(2)**
*CHANGE*SOE*	-0.007	-0.017***
	(-0.70)	(-3.06)
SOE	0.026	0.015
	(0.93)	(0.97)
N	440	1853
Controls	Yes	Yes
adj. R-sq	0.890	0.883

Panel B: Independent director ratio

	High ratio	**Low ratio**
	(1)	**(2)**
*CHANGE*SOE*	0.005	-0.005***
	(0.03)	(-2.88)
SOE	0.015	-0.000
	(0.80)	(-0.02)
N	1240	11999
Controls	Yes	Yes
adj. R-sq	0.833	0.892

Note: This table examines the strength of the impact of political uncertainty resulting from the rotation of the Auditor General of the NAO on the risk disclosure of listed SOEs among the groups of listed SOEs with different levels of internal governance. The sample period is from year 2008 to 2022. *CHANGE* is a variable that takes the value of 1 in years when the Auditor General of NAO changes, and 0 otherwise. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. The model includes fixed effect regression. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 8. Financial constraint pressure

Panel A: Z-score

	High	**Low**
	(1)	**(2)**
*CHANGE*SOE*	-0.004*	-0.006***
	(-1.93)	(-4.83)
SOE	0.002	0.000
	(0.46)	(0.10)
N	9,126	24,724
Controls	Yes	Yes
adj. R-sq	0.887	0.862

Panel B: Cash holding

	High	**Low**
	(1)	**(2)**
*CHANGE*SOE*	-0.002	-0.006***
	(-0.26)	(-5.03)
SOE	0.019*	0.002
	(1.70)	(0.81)
N	2,355	32,353
Controls	Yes	Yes
adj. R-sq	0.830	0.868

Note: This table examines the strength of the impact of political uncertainty resulting from the rotation of the Auditor General of the NAO on the risk disclosure of listed SOEs among the groups of listed SOEs facing different levels of financial constraint pressure. The sample period is from year 2008 to 2022. *CHANGE* is a variable that takes the value of 1 in years when the Auditor General of NAO changes, and 0 otherwise. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. The model includes fixed effect regression. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 9. Supply chain pressure

Panel A: Customer Concentration Herfindahl Index

	High	**Low**
	(1)	**(2)**
*CHANGE*SOE*	-0.004	-0.007***
	(-1.18)	(-4.21)
SOE	0.001	-0.001
	(0.08)	(-0.34)
N	4,970	15,813
Controls	Yes	Yes
adj. R-sq	0.879	0.889

Panel B: Supplier concentration Herfindahl Index

	High	**Low**
	(1)	**(2)**
*CHANGE*SOE*	-0.005	-0.006***
	(-1.64)	(-3.20)
SOE	-0.002	0.004
	(-0.40)	(1.06)
N	4,379	12,367
Controls	Yes	Yes
adj. R-sq	0.893	0.899

Panel C: The proportion of sales from the largest customer

	High	**Low**
	(1)	**(2)**
*CHANGE*SOE*	-0.002	-0.008***
	(-0.67)	(-4.11)
SOE	-0.003	0.001
	(-0.40)	(0.30)
N	6,506	14,152
Controls	Yes	Yes
adj. R-sq	0.881	0.890

Panel D: The proportion of the purchase to the largest supplier

	High	**Low**
	(1)	**(2)**
*CHANGE*SOE*	-0.006**	-0.004**
	(-2.23)	(-2.44)
SOE	-0.001	0.005
	(-0.25)	(1.44)
N	5,514	11,145
Controls	Yes	Yes
adj. R-sq	0.896	0.899

Note: This table examines the strength of the impact of political uncertainty resulting from the rotation of the Auditor General of the NAO on the risk disclosure of listed SOEs among the groups of listed SOEs facing different levels of supply chain pressure. The sample period is from year 2008 to 2022. *CHANGE* is a variable that takes the value of 1 in years when the Auditor General of NAO changes, and 0 otherwise. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. The model includes fixed effect regression. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 10. Internal promotion vs External promotion

	RISKSCORE$_{t+1}$
*INTERNAL*SOE*	-0.008***
	(-5.71)
SOE	0.002
	(0.73)
SIZE	-0.010***
	(-9.18)
ROA	-0.000**
	(-2.57)
BM	0.006
	(1.29)
CASH	-0.009*
	(-1.81)
GROWTH	-0.001**
	(-2.42)
LEVERAGE	0.002
	(0.39)
BOARDNUM	-0.000
	(-0.99)
BOARDIND	0.019
	(1.51)
LARGESHARE	-0.000
	(-1.06)
BETA	0.004***
	(3.18)
CR	-0.000
	(-0.03)
CFO	-0.001
	(-0.11)
BIG4	-0.003
	(-0.74)
LOSS	0.000
	(0.27)
CONSTANT	0.539
	(21.84)
Year FE	Yes
Firm FE	Yes
N	34,839
adj. R-sq	0.864

Note: this table presents the effect of the incoming NAO auditor experience on the relation between NAO leadership change and corporate risk disclosure. The sample period is from year 2008 to 2022. *INTERNAL* is an indicator variable that equals 1 if the Auditor General of the NAO had prior experience working within the audit system before assuming office, and 0 otherwise. *RISKSCORE* is annual report risk words (including tables) divided by the total number of annual report words, multiplied by 100. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 11. Leadership Tenure of the Former NAO Auditor General

	$RISKSCORE_{t+1}$
*BEFORE*SOE*	-0.003***
	(-4.65)
SOE	0.002
	(0.65)
SIZE	-0.010***
	(-9.21)
ROA	-0.000***
	(-2.63)
BM	0.006
	(1.36)
CASH	-0.009*
	(-1.84)
GROWTH	-0.001**
	(-2.52)
LEVERAGE	0.003
	(0.51)
BOARDNUM	-0.000
	(-0.97)
BOARDIND	0.018
	(1.48)
LARGESHARE	-0.000
	(-1.10)
BETA	0.004***
	(3.08)
CR	-0.000
	(-0.01)
CFO	-0.000
	(-0.03)
BIG4	-0.003
	(-0.75)
LOSS	0.000
	(0.27)
CONSTANT	0.540***
	(21.86)
Year FE	Yes
Firm FE	Yes
N	34,839
adj. R-sq	0.864

Note: This table examines the impact of the former NAO Auditor General's leadership tenure on the relationship between NAO leadership changes and corporate risk disclosure. The sample period is from year 2008 to 2022. *BEFORE* is the natural logarithm of the tenure of the previous Auditor General of NAO. *RISKSCORE* is annual report risk words (including tables) divided by the total number of annual report words, multiplied by 100. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. The model includes fixed effect regression. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.

Table 12. Additional tests

	ROA_{t+1} (1)	SD_ROA_{t+1} (2)	SD_SALES_{t+1} (3)
*CHANGE*SOE*RISKSCORE*	0.992	-0.355	0.075
	(0.46)	(-1.05)	(0.27)
*CHANGE*RISKSCORE*	-0.527	-0.046	-0.266
	(-0.28)	(-0.18)	(-1.22)
*SOE*RISKSCORE*	1.322**	-0.036	0.246**
	(1.98)	(-0.32)	(2.42)
*CHANGE*SOE*	-0.388	0.177	0.038
	(-0.53)	(1.48)	(0.39)
RISKSCORE	-5.120***	0.304*	-0.178
	(-4.76)	(1.95)	(-1.29)
SOE	-1.365***	-0.080	-0.214***
	(-3.32)	(-1.42)	(-4.31)
SIZE	-0.893***	-0.025	0.030**
	(-6.27)	(-1.52)	(2.30)
ROA	0.142***	0.002*	0.006***
	(8.38)	(1.67)	(4.64)
BM	-6.718***	0.008	-0.176**
	(-12.71)	(0.10)	(-2.47)
CASH	7.764***	-0.321***	0.353***
	(13.42)	(-3.63)	(4.44)
GROWTH	1.106***	0.009	0.071***
	(10.74)	(0.75)	(5.93)
LEVERAGE	-3.882***	0.034	0.018
	(-5.11)	(0.39)	(0.22)
BOARDNUM	-0.036	0.004	0.018**
	(-0.70)	(0.44)	(2.55)
BOARDIND	0.386	-0.387*	0.452**
	(0.28)	(-1.66)	(2.42)
LARGESHARE	0.053***	-0.002*	-0.001
	(6.52)	(-1.80)	(-1.30)
BETA	0.626***	-0.037	0.106***
	(3.42)	(-1.31)	(4.30)
CR	-0.018	-0.007	0.015***
	(-0.45)	(-1.23)	(2.84)
CFO	7.755***	0.070	-0.303***
	(9.73)	(0.68)	(-3.12)
BIG4	0.832**	-0.058	-0.014
	(2.34)	(-0.96)	(-0.25)
LOSS	0.125	0.092***	-0.043*
	(0.55)	(3.10)	(-1.65)
CONSTANT	23.860***	1.401***	19.340***
	(7.94)	(3.75)	(66.69)
Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
N	34839	34839	34839
adj. R-sq	0.344	0.386	0.748

Note: this table presents the results of the effect of director change and risk disclosure on firm risk and firm performance. *ROA* is net profit divided by total assets, multiplied by 100. *SD_ROA* is the standard deviation of ROA. *SD_SALES* is the standard deviation of total income in the next year. *RISKSCORE* is annual report risk words (including tables) divided by the total number of annual report words, multiplied by 100. *CHANGE* is a variable that takes the value of 1 in years when the Auditor General of NAO changes, and 0 otherwise. *SOE* is an indicator that equals 1 if the enterprise is a state-owned enterprise, and 0 otherwise. The model includes fixed effect regression. All variables are defined in Appendix A. All continuous variables are winsorized at the 1% and 99% percentiles. t-statistics reported in parentheses are based on standard errors clustered by firm. *, **, and *** stand for significance at 10%, 5%, and 1% levels, respectively.