

From Internal to External: How Urban Digital Economy Affects Corporate Audit Risk Premium

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Abstract. Utilizing a big dataset of China's A-share listed data companies from 2015 to 2022, this paper data empirically examines how the development of the our country urban digital economy affects corporate audit risk premium. The empirical findings indicate that the digital economy exerts a significantly positive effect on corporate audit fees. This demonstrates that our country a higher at a high level of development the urban digital economy amplifies the audit risks faced by enterprises within the city, thereby pushing up the audit risk premium. Furthermore, the degree of urban opening-up significantly strengthens the passive effect of the digital economy. In contrast, the state-owned nature of enterprises plays a negative moderating effect on the above relationship. This study reveals the internal mechanism through which the urban digital economy affects audit pricing by increasing audit risks, and provides empirical evidence for risk management under the background of digital transformation.

Keywords: Chinese Cities, Digital Economy, Audit Risk Premium, Audit Fees

1. Introduction

The digital development economy is reshaping the structure of economy and operation mode of Chinese cities. As a core carrier of factor digitization, networking, and intelligence, urban digital economy not only affects regional economic growth [1], but may also exert external influences on firms' micro-behaviors through information environment, business complexity, and governance transparency. Audit risk premium—additional audit fees paid to transfer audit risks—reflects corporate information risk and governance quality. Does urban digital economy raise firms' audit risk premium? And what characteristics moderate this mechanism?

While prior research focuses mainly on firms' internal digital transformation and its influence on audit fees, earnings quality, and information transparency [2], enterprises do not operate in isolation. External urban factors, such as digital infrastructure, internet penetration, and digital finance, can indirectly affect audit pricing by altering information asymmetry, regulatory complexity, and operational uncertainty. Regrettably, few studies have attended to the externality of city-level digital economy on audit risk premium.

To fill this gap, this data examines Chinese A-share listed companies during 2015 and 2022 using a comprehensive urban digital economy index and its sub-indicators (internet users, per capita telecom business volume, mobile phone subscribers, and digital inclusive finance index). Unlike

prior work on firm-level internal digital transformation, our innovation lies in the urban external environment perspective, investigating how city-level digital economy conditions affect audit risk premium and transmit to the firm level via the audit market.

The impact is not homogeneous. Urban external conditions (e.g., opening-up) and firm characteristics (e.g., ownership, size) may significantly moderate this relationship. In more open cities, firms face complex cross-border transactions, foreign exchange risks, and IFRS compliance [3, 4], amplifying information processing difficulty. Conversely, state-owned enterprises (SOEs) have stricter internal controls and regulatory constraints, better withstanding audit risk rises. Yet most literature only examines direct linear effects, with insufficient analysis of moderators such as urban opening-up and corporate ownership.

This paper further analyzes the moderating roles of urban opening-up and ownership nature. Findings: First, urban digital economy significantly increases corporate audit fees, raising audit risk premium. Second, this result is robust to one-period lagged regression. Third, urban opening-up positively moderates the relationship, while SOE status negatively moderates it. This study enriches the literature on microeconomic consequences of digital economy, expands research on audit risk premium determinants from an urban external environment perspective, and provides empirical evidence for auditors, firms, and regulators.

The remainder is systematic as follows. Section 2 surveys the literature and rise hypotheses. Section 3 illustrates data, research variables and empirical approaches. Section 4 illustrates main results. Section 5 illustrates draws conclusions and proposes relevant policy implications.

2. Literature review and theoretical analysis

The theoretical foundation of auditing pricing originates from Simunic's (1980) classic study, who proposed that Audit pricing depends on audit input resources and firm-specific client risks [5]. Audit fees consist of normal remuneration and a premium compensating for litigation and reputation risk—the audit risk premium [6]. Higher operational risk, information asymmetry, or governance deficiencies lead auditors to raise pricing [7, 8]. This logic underpins how urban digital economy affects audit fees.

Existing literature on corporate internal digital transformation and audit fees yields inconsistent findings. One view holds that digital transformation increases audit fees. Using Chinese A-share data from 2007–2020, Yin et al. (2025) find a positive correlation, with auditor effort as a full mediator [9]. Business complexity and emerging risks drive up audit fees, especially in non-SOEs, non-high-tech firms, and non-Big Four audits. Domestic studies also show higher digitalization leads to higher audit fees due to data interfaces, system integration risks, and cybersecurity. Additionally, an suggest U-shaped relationship exists be based in digital-real technical means integration Or audit fees, with overall positive effects in early stages [10].

The opposing view suggests digital transformation may reduce audit fees. For instance, AI application mitigates information asymmetry and improves accounting information quality. Some studies identify an inverted U-shaped nonlinear relationship: fees rise initially due to adaptation costs, then fall beyond a threshold as governance efficiency improves [11]. These divergences indicate that internal digitalization's effect is conditional, creating research room for an external environmental perspective.

Compared with abundant internal digitalization studies, research on urban external digital environments and audit behavior is nascent. Chinese evidence suggests that digital economy at the accounting firm level raises audit fees via auditor effort, and government public data openness affects audit pricing [12]. However, these studies focus on policy- or firm-level digitalization, not

the urban digital economy where firms are embedded. The key distinction: internal digitalization is a firm's voluntary choice, while urban digital economy is an external environment that firms passively face, shaping information ecology, business complexity, and regulatory visibility through information infrastructure, internet penetration, and digital finance. This mechanism remains unexamined [13]. Broader external environment studies consider legal, political, economic, and social factors [14], but digital economy as an emerging ICT-centered factor is understudied.

In summary, existing research has two gaps. First, most studies focus on internal digital transformation, ignoring the externality of urban digital economy, which may affect audit pricing through information environment, business complexity, and regulatory visibility. Second, prior research concentrates on direct effects, lacking systematic discussion on moderating effects such as urban opening-up and corporate ownership nature [15-17]. This data fills these gaps by empirically examining the bearing of urban digital economy corporate audit hazard premium and analyzing the moderating roles of urban opening-up and ownership nature.

2.1. Urban digital economy and audit risk premium

Centered on information and communication technology, the digital economy reshapes factor allocation and economic operations through digitization, networking, and intelligence. Existing literature focuses mainly on firms' internal digital transformation and the bearing on information audit pricing alongside firms' disclosure quality. However, the external digital economy environment of a firm's city may also influence auditors' risk assessment and pricing decisions through micro transmission channels. Specifically, urban digital economy development may raise corporate audit risk premium via the following three channels. First, the business complexity channel. The development of the urban digital economy accelerates firms' online business, platform-based operations, and data assetization. Consequently, corporate transaction modes expand from traditional offline scenarios to integrated online-offline scenarios. The extension and virtualization of transaction chains increase the difficulty in revenue recognition, cost accumulation, and asset measurement. To obtain sufficient appropriate audit evidence, auditors require additional temporal and operational resources, thereby driving up audit fees [18, 19]. Second, the information asymmetry channel. Although digital technologies improve information transmission efficiency, they also cause information overload and data noise. Data interfaces, standardization levels, and system integration capabilities between financial and business systems vary greatly, potentially leading to inconsistencies and even intentional manipulation [2]. To address material misstatement risks, auditors must perform more extensive substantive procedures, which correspondingly increases the audit risk premium. Third, the valuation uncertainty channel. The digital economy spawns new asset forms such as intangible assets, platform user resources, and data assets, whose valuation lacks mature market benchmarks and unified measurement standards. Valuation flexibility expands managerial discretion and increases auditors' professional judgment difficulty in areas like asset impairment and purchase price allocation. As audit failure risk rises, auditors charge a higher risk premium. The above analysis lays a theoretical foundation for the hypotheses presented below:

the baseline hypothesis: *Ceteris paribus*, elevated the development level of urban digital economy, the higher the corporate audit risk premium.

2.2. Moderating effect of urban opening-up degree

Urban opening-up degree reflects the depth of regional integration into the global economic system, covering dimensions such as foreign investment, international trade, and cross-border capital flows.

In cities with a high level of opening-up, enterprises face a more complex operating environment. On the one hand, cross-border transactions involve laws, regulations, accounting standards and tax rules of different jurisdictions. The rapid information transmission and cross-border data flow driven by the digital economy further amplify compliance risks [20, 21]. On the other hand, exchange rate fluctuations, changes in capital controls and uncertainties in global supply chains make firms' operational risks more prominent. When assessing client audit risks, auditors need to pay additional attention to cross-border related party transactions, transfer pricing, foreign exchange risk management and other matters. The booming digital economy serves to accelerate cross-border data flow and business globalization, and such effect is more pronounced in highly open cities. Enterprises are more likely to conduct cross-border businesses via digital platforms, with more diversified transaction counterparts, payment methods and settlement currencies. Accordingly, auditors encounter a simultaneous rise in audit complexity and litigation risk, which further strengthens the advantageous impact of the digital transformation of economy on audit risk premium. In contrast, enterprises in less open cities mainly focus on the domestic market with limited cross-border businesses. The complexity induced by the digital economy is largely confined to local markets, leading to a weaker amplification effect on audit risk. Therefore, this paper proposes the following hypothesis:

Hypothesis H2: The higher the urban opening-up degree, the stronger the promoting effect of urban digital economy development on corporate audit risk premium.

2.3. Moderating effect of corporate ownership nature

Against China's institutional background, (SOEs) and (non-SOEs) input significantly in governance structure, regulatory constraints and resource access. SOEs are subject to stricter external supervision (such as supervision from the the state-owned assets regulatory authority and disciplinary audit) and more sophisticated internal control systems, and generally exhibit higher quality of information disclosure [22]. In addition, SOEs possess stronger risk absorption capacity and a sound compliance culture when facing external institutional pressures, and can mitigate the uncertainty arising from changes in the external environment through internal governance mechanisms.

With the booming advancement of digital transformation in cities, SOEs rely on their mature internal audit systems and risk control procedures to more effectively identify, evaluate and address emerging risks induced by the digital economy (such as data security risks and algorithm compliance risks), thereby weakening how digital economic expansion drives audit risk premium [23]. By comparison, non-SOEs (especially private enterprises) are relatively deficient in internal control construction, risk management awareness and compliance resource investment. The vigorous evolution of the digital economy raises higher requirements for governance capacity of such enterprises, yet many non-SOEs struggle to establish a matched internal control system in the short run. Consequently, the business complexity and information asymmetry caused by the digital economy are more difficult to alleviate, leaving auditors exposed to greater risk exposure and leading to a more substantial increase in audit risk premium [16, 17]. Based on the above logical deduction, we advance the hypotheses below:

Conjecture H3: The stimulative impact of digital transformation on audit risk premium is less pronounced for SOEs when contrasted with non-state-owned counterparts.

3. Empirical strategy

3.1. Econometric model construction

The second part of this paper sorts out the internal mechanism underlying the importable of urban digital economy development on corporate audit risk premium and puts forward three research hypotheses. This section constructs econometric models to empirically test the theoretical hypotheses. First, to verify Hypothesis H1, namely the favorable impact of digital industry expansion across urban areas development on corporate audit risk premium, this paper establishes the We adopt the standard baseline econometric specification shown below:

$$\begin{aligned} Tcost_{i,c,t} = & \alpha_0 + \alpha_1 Dig_{c,t} + \alpha_2 Size_{i,c,t} + \alpha_3 FIXED_{i,c,t} + \alpha_4 Lev_{i,c,t} + \alpha_5 ROA_{i,c,t} \\ & + \alpha_6 INV_{i,c,t} + \alpha_7 TobinQ_{i,c,t} + \alpha_8 Indep_{i,c,t} + \alpha_9 Big4_{i,c,t} + \alpha_{10} Growth_{i,c,t} \\ & + \alpha_{11} gdp_{c,t} + \alpha_{12} pop_{c,t} + \alpha_{13} inds_{c,t} + \alpha_{14} open_{c,t} + \mu_i + \eta_t + \varepsilon_{i,t} \end{aligned} \quad (1)$$

where i imply the firm, c indicates the city, and t indicates the year. The core explained variable $Tcost_{i,c,t}$ represents corporate audit risk premium, computed after taking logs of annual audit fees, which captures the economic compensation required by accounting firms to respond to clients' inherent risk and control risk. The core explanatory variable $Dig_{c,t}$ refers to the comprehensive digital economy index, and its one-period lagged value is adopted in the regression to alleviate endogeneity bias caused by reverse causality. This index is constructed via Principal Component Analysis (PCA) by synthesizing five sub-indicators: web users for every 100 residents ($dig2$), the percentage of staff engaged in digital computer and software services ($dig3$), capita total telecommunication business scale ($dig4$), mobile subscribers per hundred capita ($dig5$), and digital inclusive finance index ($dig6$).

Furthermore, to reduce estimation errors bias arising from latent confounding variables, this paper further controls factors at micro-level corporate entities and macro-level urban units. This paper controls factors that may lead to omitted variable bias, including micro corporate and municipal characteristic factors. Company-level include vary encompass: company size ($Size$), imply as the natural logarithmic form of year-end total assets, to capture the influence of client scale on basic audit workload and complexity; Fixed asset ratio ($FIXDED$), measured as the ratio of net fixed assets to total assets, reflecting audit inherent risk;

Asset-liability ratio (Lev), calculated as total liabilities divided by total assets, representing corporate financial leverage and potential solvency risk; Return on assets (ROA), reflecting corporate profitability and operational risk; Inventory ratio (INV), measured as the proportion of net inventory to total assets;Tobin's Q ($TobinQ$), used to control the impact of differences in corporate investment opportunities and market valuation; Proportion of independent directors ($Indep$), measuring the supervisory effectiveness of internal corporate governance in restraining earnings management and reducing audit risk; Big4, a dummy variable for high-quality auditors' brand premium in risk pricing, taking the value of 1 if the firm is audited by the Big Four accounting firms and 0 otherwise; Operating revenue growth rate ($Growth$), measuring the volatility of corporate growth and uncertainty in performance risk. Considering macroeconomic and market

environment characteristics, the following city-level variables are controlled: Per capita GDP (gdp), taking the natural logarithm of regional per capita GDP to absorb the interference of overall regional economic development level; Population size (pop), using the natural logarithm of permanent resident population to represent regional market scale and potential; Tertiary industry ratio ($inds$), defined as the proportion of tertiary industry added value to regional GDP, to control the potential impact of regional industrial structure on the risk environment of micro-enterprises. μ_i , η_t denote city fixed effects and year fixed effects respectively, and ($\varepsilon_{i,t}$) is the random error term.

Furthermore, to test Hypothesis H2 that the promoting effect of digital economy development on corporate audit risk premium is stronger in cities with a higher degree of openness, and Hypothesis H3 that the promotional impact of digital economy on audit risk premium is weaker in state-owned enterprises compared with non-state-owned enterprises, this paper introduces interaction terms based on the benchmark Model (1) and constructs the following moderating effect model:

$$Tcost_{i,c,t} = \beta_0 + \beta_1 Dig_{c,t} + \beta_2 M_{i,c,t} + \beta_3 (Dig_{c,t} \times M_{i,c,t}) + \gamma X_{i,t} + \mu'_i + \eta'_t + \varepsilon'_{i,t} \quad (2)$$

Where, $Tcost_{i,c,t}$ of the firm i in year t is the natural logarithm of audit fees, which is used to measure the audit risk premium; the core explanatory variable $Dig_{c,t}$ denotes the comprehensive digital economy index of city c in year t . $M_{i,t}$ is the moderating variable, which includes two indicators: (1) Urban opening-up degree $Open_{c,t}$: measured by the proportion of actually utilized foreign capital in regional gross domestic product. The larger the value, the higher the level of urban opening-up. (2) Corporate ownership nature $dS_{i,t}$: a dummy variable. It takes the value of 1 for state-owned enterprises (including central state-owned enterprises and local state-owned enterprises), and 0 for non-state-owned enterprises. μ'_i and η'_t represent city fixed effect and year fixed effect respectively, and $\varepsilon'_{i,t}$ is the random error term. All the other variables are consistent with those in Formula (1).

3.2. Data description and descriptive statistics

This paper adopts panel data covering China's A-share listed firms and their corresponding city-level data from 2015 to 2022. Firm-level data are sourced from the CSMAR database, while city-level data are collected from the *China Urban Statistical Yearbook* and the Peking University Digital Inclusive Financial Index report. Through standard sample screening procedures—which involve excluding the financial industry, ST-listed firms, and observations with missing values, and applying a 1% winsorization treatment—our final baseline sample comprises 27,863 firm-year observations covering 4,267 listed companies. The descriptive statistics of the main variables are presented in Table 1.

Table 1. Descriptive statistics of main variables

variable	definition	Obs	mean	std	min	max
Tcost	Total Audit Fee	25,028	161.012	323.82	20	26699
Dig	Standardize the sub-indicators first, and then conduct principal component analysis.	26,067	1.387	1.237	-1.407	4.224
dig2	Internet Users per 100 People	26,067	36.477	13.754	5.376	68.576

Table 1. (continued)

<i>dig3</i>	Proportion of Employees in Computer Services and Software Industry	26,067	0.090	0.035	0.012	0.179
<i>dig4</i>	Per Capita Total Telecommunication Business Volume	26,067	0.165	0.064	0.023	0.343
<i>dig5</i>	Mobile Phone Users per 100 People	26,067	43.231	16.313	6.326	79.069
<i>dig6</i>	Digital Inclusive Finance Index	26,067	240.682	90.762	36.050	458.150
Size	ln(Total Assets)	27,863	22.279	1.335	17.641	28.636
FIXED	Net Fixed Assets / Total Assets	27,863	0.197	0.154	0.000	0.954
Lev	Total Liabilities / Total Assets	27,863	0.413	0.206	0.008	1.957
ROA	Return on Total Assets (ROA)	27,862	0.040	0.084	-1.859	1.285
INV	Net Inventory / Total Assets	27,559	0.133	0.123	0.000	0.931
TobinQ	Tobin's Q	27,863	2.143	2.262	0.625	122.189
Indep	Independent Directors / Total Directors	27,860	37.857	5.577	14.290	80.000
Big4	Big Four Accounting Firm	27,863	0.061	0.240	0.000	1.000
Growth	Operating Revenue Growth Rate	27,852	0.386	13.427	-1.309	1878.372
gdp	ln(Urban Per Capita GDP)	25,313	5.009	0.207	4.007	6.808
pop	ln(Urban Population Size)	25,321	6.832	0.309	5.305	7.533
inds	Tertiary Industry Added Value / Regional GDP	25,485	96.888	73.436	8.080	503.556
Open	Urban Foreign Investment Utilization / Regional GDP	25,286	52.548	40.208	0.000	249.130
dS	Enterprise Equity Nature	25,071	0.340	0.473	0.000	1.000

4. Empirical result analysis

4.1. Benchmark regression results: the impact of urban digital economy on audit risk premium

To test H1 (higher urban digital economy leads to higher audit risk premium), this paper estimates Model (1) using OLS. Table 2 Column (1) uses the comprehensive digital economy index (*dig*); Columns (2)–(6) use five sub-indicators: internet users for every 100 individuals (*dig2*), proportion of Net service and soft industry sector workers (*dig3*), per-person telecom operational volume (*dig4*), mobile telephone users per 100 people (*dig5*), and digital include fiscal index (*dig6*). All regressions include form- and city-development level reduce with robust standard errors.

As reported in Column (1), the coefficient of *dig* is 5.8013 ($t=2.3276$, $p<0.05$), implying that a one-unit increase in the urban digital economy raises audit fees by about 5.80%, which provides support for H1. Columns (2)–(6) further show that *dig2* (0.4996, $p<0.05$), *dig4* (79.3663, $p<0.01$), *dig5* (0.5690, $p<0.05$), and *dig6* (0.0793, $p<0.05$) are all significantly positive, confirming that

internet penetration, telecom infrastructure, mobile coverage, and digital finance increase the audit risk premium. The coefficient of dig3 (proportion of employees) is 18.9728 but not significant ($p>0.1$). This may reflect a time lag between talent reserve and enterprise digital application, or cross-regional talent mobility diluting the city-level effect. Overall, except for the human capital dimension, all other digital economy dimensions significantly raise audit risk premium, further supporting H1.

Table 2. Impact of urban digital economy on corporate audit fees in China

VARIABLES	X= Dig	X= dig2	X= dig3	X= dig4	X= dig5	X= dig6
X	5.8013** (2.3276)	0.4996** (0.1947)	18.9728 (47.2545)	79.3663*** (25.3994)	0.5690** (0.2690)	0.0793** (0.0337)
Constant	-925.2016 (116.3467)	-932.8545 (116.4860)	-930.1698 (118.7229)	-914.5011 (116.7604)	-964.8703 (117.5796)	-933.1125 (116.2507)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	24,228	24,228	24,228	24,228	24,228	24,228
R-squared	0.0257	0.0257	0.0256	0.0257	0.0257	0.0257

Note: All regression models incorporate municipal and year fixed effects. Robust standard errors appear in parentheses, while ***, ** and * signal significance at the 1%, 5% and 10% statistical levels correspondingly.

4.2. Urban and enterprise heterogeneity of digital economy impact: moderating effect analysis

To alleviate conceivable endogeneity concerns such as two-way causality or include variables, this paper adopts the one-period lagged term of the comprehensive digital economy index as the key independent variable in robustness checks. It further examines the moderating effects of urban population size, degree of opening-up, firm size, and ownership nature on the main effect to test Hypotheses H2 and H3. The results are in firm 3.

Column (1) of tabular results 3 presents the results including the lagged digital economy index and all include variables. The regression estimate of digL is 2.1749 and statistically mark at the 5% level, consistent with the benchmark results in Table 2. The R-squared improve substantially from 0.0257 to 0.3571, sign that using the lagged term rise the model's explanatory power. This finding suggests that after mitigating reverse causality, the significantly positive impact of urban digital economy on audit risk premium still holds, further verifying the robustness of Hypothesis H1.

Based on Model (1), this paper sequentially introduces joint effect a terms between the digital norm economy and now moderating diversity, with results in Specifications (2) to (5) of Tdisplay 3. In Regression columns (2), the interactive effect term between digital economy and urban population size is 1.4893 but lacks statistical significance ($p>0.1$), implying no significant moderating effect. A plausible reason is that population reflects market capacity rather than directly shaping the transmission path of digitalization-related risks. The estimation results in Column (3) reveal that the interaction term between the digital economy and urban openness is positive, suggesting that urban openness positively moderates the impact of the digital economy on the audit risk premium; that is, the higher the degree of urban openness, the stronger the raising effect on audit fees, thereby verifying Hypothesis H2. Furthermore, in Column (5), the cross term linking digital transformation and ownership nature is negative at the 1% significance threshold, demonstrating non-state-owned enterprises, the premium-enhancing effect digital economy is

significantly weaker in state-owned company. Thus, the equity nature negatively moderates the relationship, providing robust support for Hypothesis H3.

Table 3. Moderating effects of urban digital economy on corporate audit fees in China

VARIABLES	(1)	(2)	(3)	(4)	(5)
digL	2.1749** (1.0171)	-8.0141 (13.5225)	-0.8613 (1.4844)	-24.5631 (28.8970)	4.2217*** (1.3211)
digL × pop		1.4893 (2.0257)			
digL × Open			0.0554*** (0.0208)		
digL × Size				1.1859 (1.2743)	
digL × dS					-6.3024*** (2.3327)
Constant	-807.2645*** (72.4284)	-778.7287*** (85.2307)	-799.7692*** (72.1399)	-765.4038*** (77.2420)	-805.0116*** (72.2386)
Controls	Yes	Yes	Yes	Yes	Yes
Observations	24,228	24,228	24,228	24,228	24,228
R-squared	0.3571	0.3571	0.3574	0.3574	0.3575

Note: Robust standard errors are displayed inside brackets. The triple, double and single asterisks denote statistical significance at the 1%, 5% and 10% thresholds correspondingly. Every regression specification incorporates municipal and year fixed effects.

5. Conclusions and policy recommendations

Rapid development of the digital economy is reconstructing the framework of China's urban economy structure and corporate operating environment, yet its external impact on audit behavior has received insufficient attention. Using resource of China's A-share form firms from 2015 to 2022 and city-level digital economy indicators, this form shows the influence of urban urban digital industrial system on corporate audit risk premium and its moderating mechanisms. The main conclusions are threefold. First, urban digital economy significantly increases corporate audit risk premium, a finding robust to one-period lagged variable. Second, urban openness positively moderates this effect, while state-owned equity nature negatively moderates it. These results indicate that the digital economy raises audit risk through increased business complexity and information uncertainty, an effect amplified in more open cities but buffered in state-owned enterprises.

This paper offers the existing policy. One, recognize risk effect of digital economy and raise audit risk prevention. Governments and regulators should establish risk monitoring and early warning mechanisms for highly digitalized industries (e.g., internet platforms, fintech, big data), develop an audit risk alert list, and regularly inspect firms with abnormal audit fee fluctuations. Auditors should incorporate urban digital economy indices into risk assessment models and allocate IT-capable professionals to guard against systematic risks.

Second, implement differentiated digital governance for cities with different openness levels. In highly open cities (e.g., coastal cities, free trade zones), strengthen audit guidance on cross-border digital businesses, foreign exchange transactions, IFRS compliance, and cross-border data flows,

and support local firms to cooperate with international networks. For inland cities, focus on consolidating digital infrastructure, cultivating local digital talents, and promoting fundamental digital transformation to reduce audit adaptation costs.

Third, strengthen the exemplary role of SOEs and guide non-SOEs to improve governance. Regulators should summarize SOE practices into operational guidelines and promote them nationwide. SOEs should share risk governance experience with non-SOEs. Non-SOEs should benchmark SOE governance standards, increase internal control investment, and establish integrated risk management systems covering data assets, cybersecurity, and compliance to reduce audit risk premium and control audit costs.

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