ISSN 2350-8795 (Print)
ISSN 2076-1238 (Online)

The Impact of Corporate Governance on Audit Pricing: Evidence from the Family and Non-family Owned Firms in Bangladesh

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DOI: https://doi.org/10.3126/jnbs.v17i1.75256

Received on 2 August 2024 *Accepted on 1 December 2024*

ABSTRACT

A significant sum of a company's expenses is spent on getting the financial statements audited. Widely varying pricing has been seen in this market of Bangladesh. Corporate governance has been attributed to the ownership structure. These two circumstances have necessitated this study which attempts to find out the effects of corporate governance on determination of audit fees from the perspective of family and non-family business. Evidences have been drawn from a sample of 109 publicly listed companies in Bangladesh We explain the moderation effect of corporate governance on family and non-family firm using GMM model. It was found that in complex business structure, addition of board expertise significantly reduces the audit fees paid by the firms. Also, firms that require complex accounting procedures had a significant negative impact on audit fees when board expertise and audit committee independence were ensured. Corporate governance measures like an increase in female director ratio had a negative impact on audit fees in family-owned firms whereas the fee decreased in such non-family firms. Family owned firms increased the audit fee irrespective of employment of new auditor or continuation of current auditor, whereas the fee had a negative impact in non-family firms irrespective of the auditor's tenure. Our findings have broad implications for audit markets in emerging nations, where the long-term viability of family businesses is critical to overall economic growth.

Keywords: Audit fee, Bangladesh, corporate governance, family-owned firm, non-family firm

1. INTRODUCTION

Auditing has become a mandatory internal control measure over the time because of increasing the conflict of interest between owners and manager for agency problem. Agency theory

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implies that in the absence of regulations, the tendency that firms will demand independent audits on timely basis is a function of the extent of separation between ownership and control. In perspective of developing countries and emerging economies, the audit market of Bangladesh is characterized by low levels of audit fees, (Karim, 2010). In many emerging countries, family owned firms are dominated than non-family owned firms and Bangladesh has not been any different from this concentrated ownership structure (Farooque et al., 2007). Although there is a steam of research in auditing sector to identify determinants of audit fee and audit characteristics in different part of the world. Very dearth of the studies actually incorporates the impact of corporate governance on audit fees and audit quality in perspective of family and non-family business. The domination of family firm has an impact on the demand for audit services and eventually, on audit fees.

To ensure strong internal control and fair financial reporting procedures, corporate governance, audit pricing, and audit quality are very important components for any organization. For this purpose, this research study tries to explore which attributes of corporate governance are contributing to the family and nonfamily owned firms of Bangladesh. In this respect, Corporate Governance Code-2018, developed by Bangladesh Securities and Exchange Commission (hereafter BSEC), works as a framework for this study for improving the capital market and protect the investor's right. Next, audit fee is the fee that is given to the external auditors in exchange of providing reasonable assurance regarding the reliability of the statements of the client. The amount of minimum audit fee, named as *"Fee Schedule 2016",* has been published by the Institute of Chartered Accountants of Bangladesh (ICAB). The ICAB expects that the members in practice follow the minimum audit fees as stipulated in attached *"Fees Schedule 2016"* while accepting any appointment for rendering audit and any other professional services (ICAB, 2016).

Corporate governance is required to handle possible conflicts of interests between shareholders in the company structure. These conflicts of interests frequently emerge for two reasons. Firstly, different stakeholders have varied objectives and interests. Secondly, the shareholders have incomplete knowledge of each other's activities, skills, and choices (Mahmood, 2006). Several worldwide scandals, particularly big ones for example Enron, Tyco, and others, have weakened financial reporting's reliability (Paltrow, 2002). As a consequence, the issue of corporate governance has become a central focus for scholars all around the world. For any successful firm a good practice of corporate governance is very essential. Corporate governance originally gained popularity throughout the United States in the early 1970's. In two decades, scholars, authorities, administrators, and also investors all around the world were arguing corporate governance (Cheffins, 2013).

Various studies have been undertaken to investigate the link between fees and corporate governance. Griffina (2008) found that audit charge has a link with all corporate governance measures. Chow (1982) also found a substantial and also positive association between audit charges and corporate governance. On the other hand, some researchers like Griffin (2010) found both a negative and a positive influence of corporate governance on audit charges. The audit committee seems to have a favorable influence on the firm's profitability in (Arshad, 2011) study. The standards of corporate governance have a considerable influence on external auditors and audit charges (Hamza, 2018). The audit fee is defined as an expense related to the audit services claimed by the client by (Simunic, 1984). According to (Liu, 2017), the audit charge is the monetary compensation paid to auditors who conduct audit services. The audit charge is not always fixed. It

can be less or more depending on some criteria for example - the difficulty of the work, the skill level of the auditors, the pricing model of the customer's organization, and other rules and restrictions. Haque (2019) and Becker (1998) discovered two criteria that would affect the quality of audits. First, auditors will be highly motivated to inspect because they will earn a large audit charge; As a result, the quality of audit will increase. Secondly, a hefty audit charge would create an interdependence between the corporation and the auditors. As a consequence, auditors may take advantage of the situation to improve their connection with the corporation, which will have a detrimental effect on the quality of the audit (Becker, 1998). However, several studies have found no clear relationship between audit quality and audit charges Qianya (2018). For example, Defond et al. (2002) proposed that when audit charges are different, there is no effect on independence, implying that the audit charge has no influence on the quality of audit. Fang (2008) developed this idea by demonstrating how the market demand affects the link between audit quality and audit charge. Auditors do not deliver high quality audit services when the supply surpasses the need of them. Auditors will charge cheap audit charge to retain client. Furthermore, they agree with the notion that audit charges have no influence on the quality of audit, despite the fact that this viewpoint might be interpreted as a positive relationship between audit quality and audit fee (Qianya, 2018).

From previous studies in the U.S. (Simunic, 1984; Simon, 1985; Davis et al., 1993), in Australia (Barkess & Simnett, 1994), in Norway (Firth, 1997) and in the UK (Ezzamel et al., 1996) have found a phenomenon positive association between audit fees and payments to auditors for non-audit fee. Many explanations for this positive relationship have been proposed, including knowledge spillovers between audit and non-audit services, but a consistent view has not emerged. The association in the manufacturing sector is viewed by inclusion of a continuous variable, the fees payable to auditors for non-audit fee, in the audit fee Model.

Our research contributes to audit fees and auditor selection in family businesses in emerging countries. In contrast to earlier research on family businesses (Ho & Kang, 2013; Niskanen et al., 2010; Niemi, 2005), we give quantitative data on family businesses. We provide evidence of the influence of family ownership and control on audit fees in a family-owned business in a developing economy as majority of publicly listed businesses are owned by family businesses. By demonstrating the influence of ownership structure and stakeholder participation. We build on previous research (Siddiqui et al., 2013; Khan et al., 2013; Khan, Hossain & Siddiqui, 2011; Islam & Deegan, 2008) based their research on audit quality of disclosure in the perspective of developing economies. Furthermore, this work employs a GMM estimate technique, which can deal with dynamic endogeneity issues between dependent and independent variables.

The remainder of the paper is structured as follows: Section 2 provides the extend literature review and develops hypothesis followed by theoretical framework in section 3; section 4 demonstrates and discusses the Data Collection and Variable Definition: Section 5 presents Econometric Methodology, Findings and Interpretation and the article is finally concluded some policy implementation and limitations in section 6.

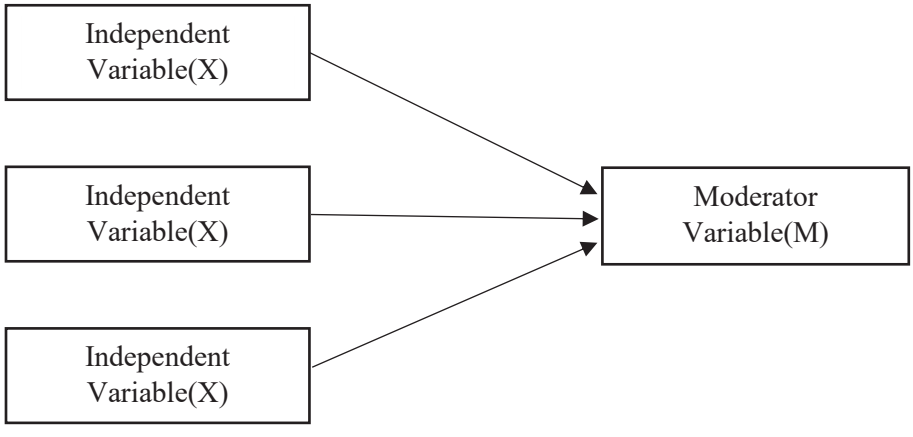
1.1 Moderation Effect

This paper utilizes a conceptual model (Figure 1) that includes a dependent variable (Y), an independent variable (X), and a moderator to start with an example of moderation analysis (M). An arrow pointing to the correlation between X and Y connects the moderating variable to the dependent and independent variables. The statistical visualization, however, incorporates an interaction term represented by X*M, which differs from how it is portrayed graphically in the model (Z).

The dependent variable is indicated by the interaction term (Z) in the statistical model for moderation. In general, there are several ways to understand a moderator. When a nominal or ordinal scale is used, it can be called a continuous variable (interval scale) (e.g., high level and low level of skepticism; high level and low level of organizational support) or a categorical variable (e.g., male and female; public and private colleges). Discrete data is commonly handled as a categorical variable in statistical analysis. It should be noted that the claim that moderation analysis only uses variables with categorical data is false.

Figure 1

Conceptual Framework



2. LITERATURE REVIEW AND HYPOTHESES

There is a very few research conducted on family business in Bangladesh and there is ample scope to carryout research in this area . Family business has a phenomenal participation in privately and publicly held companies (Burkart et al., 2003). From previous studies (Ali et al., 2007; Chen et al., 2008), we describe family firms as those in which founding family members are block holders, run by the business to hold position in top management and sit on the board. According to Donnelley (1967), a company can be categorized as a family firm when it has been connected to a family for at least two or multiple generations. Family farms have different types of ownership structure, as "founding families represent a unique class of shareholder that hold Poorly diversified portfolios and long-term investors (multiple generation), and often control senior management positions" (Anderson & Reeb, 2003).

According to agency theory, family businesses either minimizes or worsen agency problems. Proponents of this viewpoint opines that family businesses are one of the most efficient

types of organizational governance, and that these businesses are even more efficient than large corporations. Some financial economists utilize the zero agency cost basis as their starting point (Ang et al., 2000). In family businesses, conflict between managers and owners (i.e., Agency Problem I) is expected to be less common than in non-family businesses (e.g., Agency Problem II) (e.g. Anderson & Reeb, 2003a; Ben-Amar & André, 2006)

However, some alternative views contend that family businesses actually pay higher agency costs than non-family businesses. For example, families' unwillingness to replace ineffective family member managers is essential to raise agency costs. Third parties may face limits as a result of the family's engagement in appointing managers and directors. Gaining control of the company, implying increased cronyism and management concentration of power have led to better firm performance (Anderson & Reeb, 2004). In support of this claim, (Gomez-Mejia et al., 2001) report that family ownership and control in Spanish enterprises are connected with higher levels of management entrenchment.

Fees (wages) charged by the auditor for an audit process depends on the time employed, service required, and number of staff involved in the audit process (El-Gammal, 2012). Audit fees are defined by the International Standards on Auditing as the amount that pays the financial auditor's operations and qualifications of financial statements (Chersan et al., 2012). When receiving audit services from external auditors (public accountants), companies (auditees) are required to pay an audit fee. The amount of the audit fee is determined by the public accountants and auditee's agreement (Immanuel & Nur, 2014). Audit fee is a product that auditees demand based on the unit price and quantity of audit services, according to a study done by Simunic in 1980 (as referenced in Cameran, 2005). The need for an Audit Fee Model to calculate the audit fees volatility demands the analysis of audit fees volatility. The presence of IFRS has no effect on fees (Griffin & Lont, 2007). The Audit Fee Model has received a lot of attention. Employed in a variety of research fields, including examining the audit fee premium in light of the Sarbanes-Oxley Act of 2002.

Auditor works in different season Chan et al. (1993) distinguished in between busy season and non- busy season. The audit firms would effort to smooth out the peaks and troughs in their duties by taking a premium fee in the busy season. In Bangladesh, most of the company busy period is July to June because Bangladesh government’s budget year and tax department’s financial year also complete at the end of the June. Francis and Stokes (1986), Craswell et al. (1995), Ezzamel et al. (1996), and Che Ahmad and Houghton (1996) all found the 'busy season' variable to be significant. This refers to the months after the conclusion of most organizations' financial periods, when audit firms' demand is at its high.

It is claimed that financial specialists inside the audit committee exert a positive effect on the audit quality based on the concept of agency theory about the monitoring function of the principal (Jizi, 2018). Financial specialists want higher audit quality, which raises audit prices (Sharma, 2003). Abbott (2000) stated that corporations having more external auditors and competent audit committees hire better auditors and opined that the increased ratio of independent auditors on the audit committee increases control of reporting financial information, which reduces the likelihood of fraudulent financial reporting. External auditors seem to be more concerned about the financial reputational damages and for that they get more incentives as a motivation for better supervision (Fama, 1983).

2.1 Business Complexity and Audit Fee

"A subsidiary company is a company managed by another company (called parent company) because part or all of its capital is owned by the parent company," according to Accounting for Investments in Associate Companies (PSAK No. 15). The number and the ownership structure of subsidiaries of a company has been suggested as an indicator of complexity of business. (El-Gammal, 2012). Generalized Complexity Index developed by Jacobs (2013) proposes to measure business complexity by multiplicity, diversity and interconnectedness. Companies with a large number of subsidiary companies pose a high risk due to the diversity of their businesses operations. According to agency theory, the risk should be minimized by enlisting the help of an independent body. An audit will be carried out by an independent body. In this situation, due of the Business complexity, company tends to appoint more auditors, and has extensive auditing experience The audit fee is triggered by this condition because the audit fee levied to the auditee to be excessive (Hasan, 2017). A substantial proportion of prior research found a positive association between organizational complexity and audit fees (Simunic, 1980; Brinn et al., 1994; Cameran, 2005; Joshi & Bastaki, 2000; Clatworthy & Peel, 2006; Thinggaard & Kiertzner, 2008; Vermeer et al., 2009; Ellis & Booker, 2011; Verbruggen et al., 2011).The primary explanations provided in the literature to explain such a link are that consolidated financial statements consisting of more subsidiaries take up more time, effort and expertise of the auditor (Sandra & Patrick, 1996).The research conducted by Hasan (2017), Immanuel and Nur (2014), and Hassan and Naser (2013) give evidence that audit fee is influenced by the complexity of the company. This is because, the more complex the company's operations make the scope of the audit wider and the auditor takes a long time to audit. Thus, the company must pay a large audit fee. The number of local and worldwide branches and subsidiaries of the auditee can be used to determine the auditee's complexity (subsidiaries in foreign countries). It is stated that the more complex the client business is, the larger the number and diversification of subsidiaries and operations, necessitating more audit work, and hence audit companies demand higher audit costs. Sandra and Patrick (1996) found that while auditing and analyzing a company's financial statements, auditors of highly complex companies frequently demand high audit fees. According to them, overseas subsidiaries must comply with a range of statutory and professional disclosure standards, necessitating additional audit testing, which takes more time and labor to perform. As a result, firms will have to pay extra for auditing services. The positive link were revealed between audit complexity and audit fees in prior research (Butterworth & Houghton, 1995; Carson et al., 2004;Chan et al., 1993; Firth, 1997; Low et al., 1990; Simunic, 1980). Given the above discussions, the following hypotheses are posited:

H_1: Business complexity has significant positive impact on audit fee.

H_{1a}: The board expertise moderates the impact of business complexity on audit fee.

H_{1b}: The moderation effect significantly differs between family and non-family firms.

2.2 Accounting Complexity and Audit Fee

Organizational and operational complexity indicate the adoption of higher level of corporate governance in an organization (Assunção et al., 2017). Organizational complexity and accounting complexity go hand in hand. Audit complexity resulting from complex accounting measurements would lead to an increased audit fee because additional audit work is required, or to

reflect an element of insurance premium to compensate the auditor for the additional audit task. It has been seen that accounting complexity leads to restatement of revenue which might indicate intentional or unintentional misreporting (Peterson, 2012). Both of the situations demand auditor's knowledge, skill, experience and time, which might result in an increase of audit fee.

According to Francis and Gunn (2015), the industries which require complex accounting measures due to its nature, have noisier measurement of earnings. Such noises might have been the result of more measurement error compared to the industries with less complex accounting measurements. Auditors expertise has played a significant role in improving the quality of audited earnings in these industries. A study conducted by Ernstberger et al. (2015) depicts that managerial knowledge and expertise have significant impact on the determination of audit fee. So, it will not be unreasonable to think that there should be a positive relationship between the level of complexity of accounting measurements and Audit fees to be paid to get such complex statements audited.

H_2: Accounting complexity has significant positive impact on audit fee.

H_{2a}: The board expertise moderates the impact of accounting complexity on audit fee.

H_{2b}: The audit committee independence moderates the impact of accounting complexity on audit fee.

H_{2c}: The moderation effects significantly differ between family and non-family firms.

2.3 Auditor Change and Audit Fee

Whether the auditor should be changed over the years has been a matter of disagreement between firms and researchers. Burton & Roberts (1967) stated "A good audit requires a thorough knowledge of the business under review and this knowledge can be best obtained by contact with a client for a considerable period of time" (p. 31). He also believes, working with the same CPA firm over many years might deprive the firm of a fresh look and outside approach which is expected to have a negative impact on the perception of the public. This perception is also led by the reduction of auditors' independence in such arrangements. This argument gets us to believe that change in auditors after a reasonable period of time is a sign of good governance. On the contrary, attributing the intention to hide abnormality found by the previous auditor can be a matter of concern for the stockholders. It would be unreasonable to think that the firms would increase auditors fee to change the auditors for a new outside look if they have unusual things to hide. Though there have been studies showing that new auditors experience a significant decrease in audit fees compared to the ongoing auditors (Simon & Francis, 1988). Concerns have also been expressed about the decrease in auditor's independence with audit fee reduction. But there haven't been many recent studies on whether change in auditors as a measure of corporate governance has increased or decreased the fees in Bangladesh. Change in key management is found to have significant positive impact on auditor switch decisions (Abidin et al., 2016). And the frequency of change in key management is different between Family-Owned and Non-Family firms. So, examining these factors separately for different ownership structure led us to build following hypothesis.

H_3: Auditor change has significant positive impact on audit fee.

H_{3a}: The impact of auditor change on audit fee will be significantly different between family and non-family firms.

2.4 Female Director Ratio and Audit Fee

Catalyst (2004) argues that diversification is a positive indicator for betterment of financial results in a firm. Mostly, the betterment is caused by the diversity in skills, knowledge and experience. Researchers have also been paying attention to the result brought by diversifying gender in the firm and in the board. Since, agency theory asks for close monitoring of management actions, adding a new perspective brought out by the females can be a facilitator in increasing effectiveness of such governance (Sandra & Patrick, 1996). The presence of female director in the board has been proven to be positively associated with the firm performance (Terjesen et al., 2016). A question can be asked on how the earnings of the firm increased, that is, whether there was any compromise with the quality of earnings in such improvement of performance. We can negate such claims based on the study conducted in Spain where quality of the earnings was tested of the firms with female directors. Evidence indicated that firms with female directors in the audit committee led to a reduction in qualified judgement due to errors or misrepresentation or omission of financial information by the statutory auditors (Pucheta-Martínez et al., 2016). A positive relationship has also been drawn by Mnif Sellami and Cherif (2020) between the presence of female directors in Audit Committee and Audit fees based on Swedish companies' evidence. Whether this holds true in the context of a third-world country like Bangladesh should be checked which led to the development of our next hypothesis:

H_4: Female director ratio has significant impact on audit fee.

H_{4a}: The impact of Female director ratio on audit fee will be notably different between family and non-family firms**.**

2.5 Auditor Tenure and Audit Fee

Hay et al. (2006) find audit tenure as a determinant of audit fee. In their meta-analysis, they determine two proxies (for example, a dummy for counting auditor change and the extent of audit tenure), which are commonly associated with the audit fee across the studies. De Angelo (1981) and Simon and Francis (1988) identify lowballing practice as underlying reason of auditor change. Next, Li and Lou (2017) find that audit firms become more comfortable with the client who have prior relationship (recurring audit, and so it faces lower financial risk and charges lower audit fee.

The audit firm's experience might be regarded as a crucial factor in deciding the amount of audit fees. According to studies, the audit company's years of professional expertise increases the audit fees charged by the audit firm. Ferguson, Francis, and Stokes (Ferguson et al., 2003) and therefore the present study proposes the following hypotheses:

H_5: Auditor Tenure has significant impact on audit fee.

H_{5a}: The impact of Auditor Tenure on audit fee will be markedly different between family and non-family firms.

2.6 Accounting Loss and Audit Fee

The profitability of the client's business is viewed as a key measure of managerial effectiveness and resource allocation efficiency. The income or loss amount reported in the income statement can be used to determine the auditee profitability (Firth, 1985; Simon et al., 1986; Chung & Lindsay, 1988; Low et al., 1990; Dugar, A. et al, 1995; and Waresul & Moizer, 1996). Return on assets (ROA), return on equity (ROE), return on capital employed (ROCE), and return on investment (ROI) are just a few of the profitability measures that may be used to assess an auditee's

profitability (ROI). Companies that claim large profits will face more rigorous auditing of their revenues and costs, resulting in increased audit fees (Joshi & Al Bastaki, 2000). The profitability ratio appears to have a considerable impact on the amount of audit fees, according to the majority of previous studies (Sandra & Patrick, 1996). Managers are constantly eager to highlight their success, which may be indicated by high profitability. Profitability is a measure that provides a summary of a company's management capabilities (Januarti, 2018). High profitability indicates that organizations are efficiently managing their resources and assets (Hasan, 2017). Agency theory assumes that management is expected to intentionally generate attractive financial statements through raising the total assets and also net income to show their stakeholders (Januarti, 2018). Jensen (1976) mentioned that one strategy to reduce agency expenditures is to execute oversight, which involves external auditors examining financial statements as well as the organization's robust internal control system. A control system of company- owned profits might result in increased audit responsibilities and hazards for auditors. Hence, auditor require higher audit charge (Januarti, 2018). According to several researchers (Andriyani, 2017), profitability has a strong favorable influence on audit charge and therefore the study proposes the following hypotheses:

H_6: Accounting Loss has significant positive impact on audit fee.

H_{6a}: The impact of accounting loss on audit fee will be notably different between family and non-family firms.

2.7 Theoretical Framework

Agency Theory

The distinct class of family shareholders may have two competing effects on the firm's choice of auditor. On the one hand, previous studies (Watts & Zimmerman, 1983; Healy & Palepu, 2001) indicate that the need for audit quality is fueled by information asymmetry and conflicts of interest between managers and investors. Family firms have less severe Type I (principal-agent) agency issues than non-family firms, which may lead to a decreased need for competent auditors. Type I agency problems happen when the managers (agents), who are responsible for taking decisions on behalf of the shareholders (principals) take decisions that serve their own interest than that of the shareholders. However, Type II agency problems depicts a situation where majority shareholders influence decisions that serve their interest at the cost of that of minority shareholders. Because of the more serious Type II agency (principal-principal) difficulties, family businesses may be enticed to work with reputable auditors in exchange for better contract terms (such as a cheaper cost of capital) (Fan & Wong 2005). The impacts of family ownership on auditor choice are generally predicted differently by various theories relating to Type I and II agency concerns. The features of family businesses may also influence the amount of audit costs.

Effective oversight by family owners lowers the chance of substantial financial reporting misstatements, which decreases audit effort. Furthermore, family owners closely and directly observe business operations can lessen the information gap between owners and management, lowering demand for a stricter auditing procedure and, thus, lower audit fees. Although, the more Family businesses may pay greater audit fees as a result of serious Type II agency difficulties, which additional audit effort and greater audit risk. Therefore, empirical research into how family firm characteristics affect audit fees is necessary and the present study makes an endeavor on such burning issues.

3. METHODS

3.1 Data Collection and Variable Definition

Table 1

Variable Measurement Techniques

Variables	Acronym	Measurement
	Dependent Variables	
Audit Fee	AF	The natural logarithm of audit fee.
	Independent Variables	
Business Complexity	Bs_Com	The number of subsidiary firms
Accounting Complexity	Ac_Com	Natural logarithm of the aggregate amount of depreciation, inventory and receivables.
Board Expertise	BE	If at least two members of board have financial literacy (Business degrees or professional degrees), then valued 1, otherwise 0.
Audit Committee Independence Dummy	ACI_DY	If the ratio of independent directors in audit committee is more than 1/3, then then valued 1, otherwise 0.
Auditor Change	Ad_Ch	If company changes audit firm for statutory financial audit, then valued 1, otherwise 0.
Female Director Ratio	FDR	The ratio of female directors in board
Audit tenure	Aud_Ten	The number of audit period consecutively
Accounting Loss Dummy	$LOSS\_DY$	If the firm made loss, then it is assigned 1, otherwise 0.
	Firm Specific Control Variables	
Size	$SIZE$	The natural logarithm of total assets
Export Orientation	$EXOR$	If the firm is export oriented, then it is assigned 1, otherwise 0.
External Audit Quality	$Big4$	If audited by big-4 firm, then valued 1, otherwise 0.
Busy Seasons	$BUSY$	If financial year ends in June then valued 1, otherwise 0.
Age	AGE	The natural logarithm of total number of years from incorporation

3.2 Sample Selection and Variable Measurement

The data for this study were collected from the annual reports of 109 Dhaka Stock Exchange-listed industrial enterprises (DSE). However, due to a lack of yearly reports and poor reporting, this study has dropped a few solid years. As a consequence, 109 companies were chosen throughout a seven-year period from 2013 to 2019, resulting in 681 firm years. Furthermore, because the present corporate governance rule was considerably updated in 2012 and is reflected in the annual reports in 2013, this analysis does not cover enterprises prior to 2013. The breakdown of the obtained sample is shown in Table 2.

Table 2

Sample Selection Details

Industry Distribution	Population (Total Firms)	Sample (Selected Firms)	Non-family Firms	Family Firms	Percentage (%)
Cement	07	06	03	03	85.71
Ceramics	05	04	03	01	80.00
Food and Allied	17	12	05	07	70.59
Jute	03	02	01	01	66.67
Tannery	06	03	02	01	50.00
Power and Fuel	19	12	10	02	63.16
Pharmaceuticals	30	22	10	12	73.33
Textiles	52	28	16	12	53.85
Engineering	36	19	11	08	52.78
Paper and Printing	03	01	00	01	33.33
Total	**178**	**109**	**61**	**48**	**61.00**

Note. Author's own development.

3.3 Identification of Family and Non-Family Firms

Based on a number of criteria, family businesses are distinguished from non-family businesses. Some studies define family-controlled businesses based on the proportion of shares held by family members or the presence of family members on corporate boards (Kahveci & Wolfs, 2019; Razzaque et al., 2016; Tan & Amran, 2016). La porta et al. (1999) used a 20 percent cut-off point to identify family-dominated businesses, while Cascino et al. (2010) and Setia-atmaja et al. followed suit (2011). This study takes into account the criteria proposed by Meah (2021) to distinguish family enterprises from non-family firms, in accordance with the argument made by Cascino et al. (2010) not to rely on a single measure of identifying family firms. Meah identifies family businesses in 2021: (a) Using non-financial information from annual reports, when the link between the chairman and CEO/MD is expressly indicated, to determine if a company is family-controlled; (b) employing a female director in the position of chairman or CEO/MD—if a firm is led by a woman, it is classified as a family firm, but MNCs are exempt from this requirement; (c) using the surname of the board of directors—if the corporate board of a company includes the chairman and CEO/MD with the same surname in excess of 50 percent of the directors, such company is referred to as a family-led firm; and (d) Using the primary data—in the event that there is a question regarding the identification of a company type, information from a trustworthy person connected to that firm is utilized to determine whether the firm is run with family-dominance.

3.4 Model Specification

To find out the impact of corporate governance attributes on audit pricing, the following model has been estimated in both non-family firm and family firm.

$$Audit\ Pricing_{it} = \alpha_0 + B'X_{it} + \Phi'Z_{it} + \varepsilon_{it} \quad (1)$$

Here, i indicates the $i-th$ firm and t (2013,….., 2019) indicates time period for each firm. $Audit\ Pricing$ comprises audit fee. X and Z represent column vectors of corporate governance and firm specific control variables respectively affecting audit quality. Next, B and Φ represent the coefficient column vectors of corporate governance and firm specific control variables affecting audit pricing. The model describes the complete structure of column vectors and the coefficient column vectors associated with corporate governance.

$$AuditPricing_{it} = \alpha_0 + \beta_1 Bs\_Com_{it} + \beta_2 Ac\_Com_{it} + \beta_3 Ad\_Ch_{it} + \beta_4 FDR_{it} + \beta_5 Aud\_Ten_{it} + \beta_6 Loss\_DY_{it} + \Phi' Z_{it} + \varepsilon_{it} \text{ - (2)}$$

Here, the regression coefficients ($\beta_1, \beta_2, \beta_3, \beta_4, \beta_5,$ and β_6) represent the impact of corporate governance on the audit quality of the both non-family and family firms.

To validate our findings, a dummy variable (FD) is incorporated into Equation. This variable is set to 1 for family firms and 0 for non-family firms. Subsequently, an interaction analysis is conducted on the entire dataset using the specified model.

$$AuditPricing_{it} = \alpha_0 + \lambda_1 Bs\_Com_{it} + \lambda_2 Ac\_Com_{it} + \lambda_3 Ad\_Ch_{it} + \lambda_4 FDR_{it} + \lambda_5 Aud\_Ten_{it} + \lambda_6 Loss\_DY_{it} + \varpi FD_{it} + \phi_1 Bs\_Com * FD_{it} + \phi_2 Ac\_Com * FD_{it} + \phi_3 Ad\_Ch * FD_{it} + \phi_4 FDR * FD_{it} + \phi_5 Aud\_Ten * FD_{it} + \phi_6 Loss\_DY * FD_{it} + \Phi' Z_{it} + \varepsilon_{it} \quad (3)$$

Here, the regression coefficients ($\lambda_1, \lambda_2, \lambda_3, \lambda_4, \lambda_5$ and λ_6) represent the impact of corporate governance on the audit pricing. ϖ indicates the marginal impact of the dummy variable on firm performance. Finally, the regression coefficients ($\phi_1, \phi_2, \phi_3, \phi_4, \phi_5$ and ϕ_6) represent the impact of interaction effect of corporate governance on the audit quality. This study will takes all interaction terms $(Bs\_Com * FD, As\_Com * FD, Ad\_Ch * FD, FDR * FD, Aud\_Ten * FD, Loss\_DY * FD)$ in squared form to address the multicollinearity issue in interaction analysis.

4. RESULTS AND DISCUSSIONS

From the regression analysis (see Table 2), it is evident that Business Complexity (Bs_Com) has moderately significant positive effect on Audit fee whereas Board Expertise (BE) has a significant negative effect. When we interacted Business Complexity and Board Expertise to get the moderating effect, we found a significant negative relationship. This means, even though complex business arrangements require more of auditors' expertise and time which should demand more audit fee, expert Board of Members can significantly reduce the amount. Because Business Complexity (Bs_Com) increases the Audit fee so if we increases our Expertise to monitor the governance code ultimately this Board Expertise (BE) decreases the audit fee in the firm. This is very Unique findings in research.

Secondly, on the contrary to our initial hypothesis, Accounting Complexity (Ac_Com) has an insignificant positive impact on Audit fee in case of Non-Family firms and the effect is negative in case of Family-Owned firms. But when we interact two variables Accounting Complexity (Ac_Com) and Board Expertise (BE), the Audit fee decreases significantly for both types of firms. Also, understandably, Audit Committee Independence (ACI_DY) has a negative impact on Audit

fee. When we interact Audit Committee independence with Accounting Complexity, it changes the positive relationship between Accounting Complexity and Audit Fee into a significant negative relationship for both Family-Owned and Non-Family firms. In short, though Accounting Complexity is supposed to increase the Audit fee, ensuring Board Expertise and Audit Committee Independence can reduce the Audit fee of a firm with complex accounting measurements. Bringing in Board Expertise (*BE*) has moderated the effect of both Business Complexity (Bs_Com) and Accounting Complexity (Ac_Com) on Audit Fee. This result can be explained by the strengthening of internal control by expert Board of Directors.

Thirdly, change in auditors for statutory audit (Ad_Ch), according to our hypothesis, should have had a positive impact on Audit Fee. But apparently, this does not hold true for Non-family firms as it has resulted in significant negative relationship for all the models. Fourthly, the analysis shows Female Director Ratio (FDR) has opposite effects for Family-Owned and Non-Family firms. It's interesting to claim that increase in Female Director Ratio has a significant negative effect on Audit Fee for Family-Owned firms while Audit fee seem to have increased in Non-family firms with female director's presence. Whether the unusual negative relationship between Female Director Ratio and Audit Fee in Family-Owned firms is attributable to prudence or additional caution is a matter of further investigation.

Similarly, our fifth variable, Audit Tenure (Aud_Ten) has different effects on Audit fees for Family-Owned and Non-family firms. With the increase in audit tenure, apparently, the Audit Fee is also increasing for Family-Owned firms. This might happen because of the advantage of ease of dealings with the same auditor for multiple years. At the same time, whether this ease comes from the mutual understanding about something questionable is also a matter of further concern.

The presence of Accounting loss has a significant positive effect on Audit fees of Non-family firms whereas Audit Fees have decreased in Family-Owned firms in the loss-making years. This is a significant finding since the statement of loss in a financial year might indicate some unethical business practice and that should also be inquired further.

The fact that auditor change and auditor tenure both had positive impact on Family firms means family-owned firm increased auditor's fee irrespective of who audits their financial effects. This result could have been the impact of decreasing Female director in Family-Owned firms as a positive relationship was found between female director ratio and audit fee.

Table 3

Regression Results (GMM Approach)

Variables	Model 1	Model 2	Model 4	Model 3	Model 5	Model 6
Bs_Com	0.0141*					
	(0.055)					
BE		-0.2380***				
		(0.000)				
Bs_Com*BE			-0.1514***			
			(0.004)			
Ac_Com	0.0413***					
	(0.000)					
Ac_Com*BE				-0.0129***		
				(0.001)		

ACI _ DY					-0.0499***	
					(0.000)	
Ac _ Com * *ACI _ DY*						-0.0071***
						(0.000)
Ad _ Ch	0.1410***	0.1540***	0.1459***	0.1415***	0.1456***	0.1501***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FDR	0.2461***	0.2486***	0.2554**	0.3257***	0.2055***	0.1412**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.015)
Aud _ Ten	0.0281***	0.0326***	0.0252***	0.0305***	0.0293***	0.0305***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Loss _ DY	-0.1213***	-0.1348***	-0.1221***	-0.1194	-0.0887***	-0.1035***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Size	0.0874***	0.1036***	0.1329***	0.1824***	0.1150***	0.1069***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Busy	0.0637***	0.0500***	0.0266**	0.0457***	0.0629***	0.829***
	(0.000)	(0.000)	(0.036)	(0.004)	(0.000)	(0.000)
ln *Age*	0.1544	0.1907***	0.1803***	0.1087***	0.1496***	0.1428***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
*Big*4	0.0455***	0.0909***	0.1016***	0.0610***	0.0607***	0.0750***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
EXOR	-0.0380**	-0.0096	-0.0764***	-0.0381**	0.0205	0.0212
	(0.022)	(0.526)	(0.000)	(0.047)	(0.213)	(0.212)
CONSTANT	3.1730***	3.3633***	2.923***	3.1962***	3.1538***	3.241***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AR(2)	-0.8939	-0.8956	-0.8960	-0.8959	-0.8894	-0.8849
	(0.371)	(0.370)	(0.370)	(0.370)	(0.374)	(0.376)
J-Statistics	89.00	91.376	84.673	87.408	90.148	88.434
	(0.836)	(0.4397)	(0.639)	(0.981)	(0.969)	(0.977)

Note. ***P<0.01 denotes significant at 1% level, **P<0.05 denotes significant at 5% level, *P<0.10 denotes significant at 10% level. Probability value (p-value has been presented in parentheses).

Table 4

Regression Results (Family Firm)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Bs _ Com	0.0141**					
	(0.055)					
BE		-0.239**				
		(0.000)				
Bs _ Com * *BE*			-0.1334***			
			(0.056)			
Ac _ Com	-0.1630***					
	(0.000)					
Ac _ Com * *BE*				-0.0779***		
				(0.000)		
ACI _ DY					-0.2216	
					(0.102)	
Ac _ Com * *ACI _ DY*						-0.0190***
						(0.000)
Ad _ Ch	0.2617***	0.2717***	0.2533***	0.2913	0.2776***	0.2797
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FDR	-0.6648***	-0.2853**	-0.1283*	-0.7054***	-0.3335*	-0.2684**

	(0.000)	(0.041)	(0.072)	(0.000)	(0.063)	(0.031)
Aud _Ten	0.0889***	0.0753***	0.0697***	0.0983***	0.0913***	0.0913***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Loss _DY	-0.4171***	-0.3734***	-0.4215***	-0.3004***	-0.3118***	-0.4647***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Size	0.3888***	0.1755***	0.2498***	0.3065***	0.1821***	0.2254***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Busy	0.2559***	0.2742***	0.2014**	0.1389*	0.8594***	0.2869*
	(0.000)	(0.000)	(0.014)	(0.059)	(0.000)	(0.068)
ln *Age*	0.1143***	0.1053***	0.1472***	0.1389**	0.0967***	0.1774***
	(0.000)	(0.000)	(0.000)	(0.059)	(0.016)	(0.000)
*Big*4	0.1151***	0.2544***	0.2820***	0.1053***	0.1599***	0.2663**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.073)	(0.026)
EXOR	-0.1689**	-0.2291***	-0.2146***	-0.3682***	-0.0604	-0.0986*
	(0.000)	(0.004)	(0.008)	(0.000)	(0.511)	(0.075)
CONSTANT	5.1109***	5.019***	4.5709***	4.9617***	4.3303***	4.5482***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AR(2)	-0.8250	-0.768	-0.7925	-0.8380	-0.7335	-0.7882
	(0.409)	(0.442)	(0.428)	(0.402)	(0.463)	(0.431)
J-Statistics	44.531	40.217	41.804	38.231	35.528	41.422
	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.00)

Note. ***P<0.01 denotes significant at 1% level, **P<0.05 denotes significant at 5% level, *P<0.10 denotes significant at 10% level. Probability value (p-value has been presented in parentheses).

Table 5

Regression Results (Non-Family Firm)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Bs _Com	0.2225**				
	(0.011)				
BE		-0.1796			
		(0.359)			
Bs _Com BE*			-0.1183		
			(0.171)		
Ac _Com	0.0123				
	(0.772)				
Ac _Com BE*				-0.0174	
				(0.345)	
ACI _DY					0.0142
					(0.493)
Ac _Com ACI _DY*					
Ad _Ch	-0.0646**	-0.0258**	-0.0297***	-0.0301**	-0.0383***
	(0.017)	(0.016)	(0.003)	(0.037)	(0.001)
FDR	0.4565*	0.2058*	0.319**	0.396***	0.3762*
	(0.053)	(0.059)	(0.021)	(0.003)	(0.092)
Aud _Ten	-0.0541***	-0.0270***	-0.0231***	-0.0287***	-0.0299***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Loss _DY	0.0816***	0.0998***	0.0783***	0.1138***	0.0779**
	(0.008)	(0.000)	(0.001)	(0.000)	(0.011)
Size	0.2342**	0.1022***	0.1146***	0.1464***	0.1167***
	(0.047)	(0.000)	(0.000)	(0.000)	(0.000)
Busy	0.0249	0.0636*	0.0391	0.0438	0.0742**
	(0.606)	(0.069)	(0.210)	(0.392)	(0.039)
ln *Age*	0.2689***	0.1494***	0.1250***	0.0902***	0.1946***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

*Big*4	0.0923***	0.0783***	0.0268**	0.0299**	0.0764***
	(0.000)	(0.000)	(0.019)	(0.040)	(0.000)
EXOR	0.1115*	0.1649**	0.1190***	0.1213*	0.1377**
	(0.057)	(0.049)	(0.001)	(0.078)	(0.022)
CONSTANT	2.0612***	1.5776***	1.3828***	0.9917***	2.1672***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AR(2)	-0.954	-0.917	-0.9030	-0.8876	-0.9292
	(0.340)	(0.359)	(0.367)	(0.375)	(0.353)
J-Statistics	42.958	48.981	43.662	47.026	45.393
	(0.231)	(0.952)	(0.987)	(0.998)	(1.000)

Note. ***P<0.01 denotes significant at 1% level, **P<0.05 denotes significant at 5% level, *P<0.10 denotes significant at 10% level. Probability value (p-value has been presented in parentheses).

5. CONCLUSION AND IMPLICATIONS

The audit pricing has been an interesting topic for audit researchers, and numerous audit studies were conducted to investigate factors believed to have an influence on the amount of audit pricing and quality. This study tries to extend the existing literature on audit quality, corporate governance, and audit pricing in family and non-family firms. In our study of 109 companies, out of which 61 are Non-Family and 48 are Family-Owned, we found that in complex business structure, addition of board expertise significantly reduces the audit fees paid by the firms. Also, firms that require complex accounting procedures had a significant negative impact on audit fees when board expertise and audit committee independence were ensured. Corporate governance measures like increase in female director ratio had a negative impact on audit fee in family-owned firms whereas the fee decreased in such non-family firms. Family owned firms increased the audit fee irrespective of employment of new auditor or continuation of current auditor, whereas the fee had a negative impact in non-family firms irrespective of the auditors' tenure. This investigation could significantly impact policy decisions on corporate governance reform. Investors can uncover evidence of poor corporate governance in family firms. Family owned business are less regulated than the non-family owned business so there is question of audit pricing in that case. The findings of this study will provide the first empirical evidence about corporate governance factors influencing the amount of external audit fees and audit quality in in family and non-family firms of Bangladesh. Such evidence may be useful for rule-making bodies in Bangladesh in the establishment of audit-fees and quality related regulations. This study's findings may also be useful for companies in Bangladesh in knowing factors affecting the amount of audit fees so that they can undertake some managerial/organizational arrangements to reduce their external audit fees costs.

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