

Ownership Structures, Board Independence and Auditor's Remuneration: Evidence from India

Hanish Rajpal

Institute of Management Technology, 603, Khullar Apartments., Byramji Town, Nagpur- 440013. Maharashtra, India

Email: hrajpal@imtnag.ac.in

Abstract

Prior research on auditor's remuneration has shown mixed evidence on the association between ownership structures and auditor's remuneration. Previous studies have also documented relationship between board independence and audit fee. However, there is dearth of studies on these aspects in context of India which is dominated by family owned business groups and has seen significant changes in corporate governance norms in last decade. The present study examines the association of promoter's ownership, institutional ownership and board independence together with auditor's remuneration. The study takes a sample of 96 firm years. The results of the study suggest that there is a positive and significant association of promoter's ownership and institutional ownership with auditor's remuneration. However, there is no conclusive evidence on the relationship between board independence and auditor's remuneration. The results are consistent to various robustness tests.

Keywords: Ownership structure, Promoter's shareholding, Institutional shareholding, Board independence, Audit fee, Auditor's remuneration

1. Introduction

Transparency in financial reporting and earnings quality has been a matter of considerable debate and research in last two decades. The research in this domain particularly has gained momentum post the Enron debacle. Case of Satyam Computer Services in India has also raised similar issues. The fundamental issue in these cases was corporate governance to tackle agency problem. Typically, agency problem arises when there is a conflict between the principal and the agent. In modern corporations, this refers to conflict between shareholders and managers, where managers are considered as the agent of shareholders. Agency conflict leads to managerial opportunism where the managers may have incentives to take actions that are in their personal well-being rather than that of the firm or its shareholders. Misreporting the financials is an example of such an action.

In order to control for agency problem, shareholders incur agency cost. One of the components of agency cost is the monitoring cost such as audit fees paid to external auditors for providing an external and independent view on the financial statements of the firm. However, this monitoring cost may be reduced by improving on firm's internal governance structures for example appointing independent directors (Fama & Jensen, 1983) and monitoring by large shareholders (Schleifer & Vishny, 1986). Adam et al (1997) argue that pricing of audit fees depends on monitoring costs of auditors. Auditors may exert more time and effort if they foresee higher agency problem with relatively weaker internal governance.

Mitra et al (2007) argue that the pricing of audit fees in relation with internal monitoring may be explained from two perspectives viz. the demand side perspective and the supply side perspective.

The demand side perspective suggests that "governance mechanisms require high-quality audit to mitigate agency costs" (Mitra et al, 2007, pp.258). For example, the board of directors may be motivated to demand high quality audit in order to protect their reputation (Stewart & Munro, 2007; Boo & Sharma, 2008). Similarly, large shareholders (promoters and/or institutional shareholders) may require tighter monitoring and therefore will solicit extensive audit (O'Sullivan, 2000). This leads to higher efforts on the part of auditors and thereby leads to higher audit fees. In summary, the demand-side perspective posit that stronger the internal governance mechanisms and more concentration of ownership requires higher quality audits and therefore leads to higher audit fees.

The supply side perspective suggests that since the "governance factors mitigate agency problems in financial reporting and reduce the risk of accounting misstatements or irregularities" (Mitra et al, 2007 pp.258), the overall audit risk reduces leading to a reduction in audit fees. In other words, the auditor assesses the extent of agency problem and its impact on financial reporting, depending upon the internal corporate governance factors such as independence of board and likelihood of active monitoring by the large shareholders. For a firm characterized by the more independent board and high monitoring by promoters and institutional shareholders, the auditor may perceive lower audit risk and therefore will price the audit fees low.

These two conflicting perspectives present the research problem for this study that is to understand as to which perspective explains the pricing of audit fee in India. The firms in India are dominated by family owned business groups where promoters play a key role in the management of the firm. Going by typical principal-agent conflict, such firms should not face higher levels of agency problem. However, in such cases firms instead

face principal-principal agency conflict, sometimes called as type II agency problem or horizontal agency problem. The conflict here arises between majority shareholders and minority shareholders, wherein the majority shareholders may expropriate wealth from minority shareholders. The role of promoters in such case becomes critical to understand the level of conflict and therefore the auditor's remuneration. Similarly, it is expected that institutional shareholders will provide tight monitoring of activities of the firm. They may do so actively participating in the decision making process or by inducing the management to procure extensive auditing services or both. That is to say, auditing may complement or substitute monitoring by institutional shareholders. Further, last decade and half have seen significant development in corporate governance norms in India. One of areas that received large importance was board independence. Placing independent directors in the board of directors is expected to provide strict monitoring and reduce agency conflict. In such a case it is interesting to find how board independence affect the audit process, which another mechanism for monitoring.

The objective of this paper is to study the relationship between board independence, ownership structure and audit fees in Indian context. The present study extends the previous literature on relationship between audit fees, corporate governance, and ownership structures. This study is important for various reasons. Firstly, most of the previous research in this domain has been conducted in the context of developed economies such United States (US) and United Kingdom (UK) (e.g. O'Sullivan, 2000; Carcello et al, 2002; Abbott et al, 2003, Mitra et al, 2007). The research in Indian context with regard to audit fees is limited. One significant difference between developed economies and emerging economies like India is that developed economies are characterized by diffused ownership structures whereas firms in India have exhibit concentrated ownership. It is therefore important to understand how ownership concentration affects the audit processes. Further, prior literature (e.g. Jian and Wong, 2003 and Leuz et al., 2003) have found that practices of earnings management or misreporting of financial statements are more pervasive in emerging economies than in developed economies owing to weak legal enforcement system. It is therefore essential to understand how corporate governance factors such as independence of board impact the audit quality in India.

Secondly, corporate governance norms in India have undergone substantial changes in the last decade. Securities Exchange Board of India (SEBI) constituted multiple national level committees in late 1990s and early 2000. Major of them were Kumar Mangalam Birla Committee, Naresh Chandra Committee and Narayan Murthy Committee. Based on the recommendations of Kumar Managalam Committee, SEBI encated clause 49 of the listing agreement. This clause is considered as the major milestone in the history of corporate governance in India. Later, upon the recommendations of Narayan Murthy Committee, cause 49 was amended with effect from 2006. One of the areas that were given utmost importance was the independence of board. The clause requires that board of directors of a listed company should have at least fifty percent non-executive directors. Further, it provides that for every listed company where the chairperson of the board is a non-executive director, at least one-third of the board should be independent. In case an executive director occupies the position of the chairperson of board, the board should comprise at least fifty percent independent directors. Given the significant changes in the corporate governance norms in India, there is a need to understand as to how these changes affect the audit quality.

Lastly, the present study considers characteristics of both the board of directors and the ownership structure together to analyze the impact on audit fees. Using large number of control variables, this study sheds light on the effect of board independence and ownership concentration.

This study uses a sample of 96 firm years representing 32 firms over a period of three years. These firms are part of the broad-based CNX Nifty Index on National Stock Exchange of India. The present study examines the relationship of promoter's shareholding, institutional shareholding and board independence with auditor's remuneration. Promoter's shareholding is measured as a proportion of shares held by the promoter group to the total shares issued by the firm. Similarly, institutional shareholding is measured by proportion of shares held by institutional shareholders to total shares issued by the firm. Board independence is measured by the proportion of independent directors in the board of the firm. Auditor's remuneration is measure in two ways viz. audit fee paid to the auditor and total fee paid to the auditor which includes audit fee, fee for company law matters, the fees for taxation matters and consultancy fees. Robustness test are performed, first to control for size effect and second for alternate measure of ownership.

The results of the study suggest that there is a positive and significant association between promoter's shareholding and auditor's remuneration, and between institutional shareholding and auditor's remuneration. However, the study finds no conclusive evidence on the association between board independence and auditor's remuneration. The results are consistent with demand perspective of the auditor's remuneration and suggest that large shareholders (promoters as well as institutions) solicit for high quality and extensive audit leading to higher auditor's remuneration.

The rest of the paper is organized as follows. Section 2 reviews the related literature and describes the hypothesis. Section 3 provides the sample data description, variables and research methodology. Section 4 discussed the results and section 5 concludes the paper.

2. Literature review and hypothesis development

Prior studies on audit research (Gul and Tsui, 2001; Carcello et al, 2002; Abbott et al, 2003; Larcker and Richardson, 2004; Krishnan and Visvanathan, 2009) have investigated the relationship between corporate governance factors, and audit quality and audit fees. The basic premise in these studies is the agency problem which suggests managerial opportunism, including misreporting the financial results, due to separation of ownership from management (Jensen & Meckling, 1976). Few studies have analyzed the effect of institutional ownership on the level of audit fees. Mitra et al (2007) examines the relationship between ownership characteristics and audit fees, and finds a significant positive relationship between diffused institutional shareholding and audit fees. They also document a significant negative relationship between institutional block-holder ownership and audit fees. They argue that institutional shareholders pressurize firms for high quality financial reporting and therefore high quality audit that leads to an increase in audit fees. However, presence of the institutional block-holders reduces the audit risk because of increased monitoring by such block-holders, and therefore, audit fees reduces with increase in institutional block-holders. Lim et al (2013) argue that institutional investors monitor financial reporting quality due to reputation and potential litigation concerns. They find that as the non-audit fees increase, the audit quality decreases but only for firms which have low institutional ownership and not for firms having high institutional ownership. Similarly, Velury et al. (2003) and Kane and Velury (2004) find that institutional investors tend to induce management of the auditee firm to appoint high-quality auditor in order to increase the quality of the financial statements.

Based on the above literature our first hypothesis (presented in null form) is as below.

H1: There is no significant association between institutional shareholding and audit fees

It has been argued that managerial ownership may reduce the agency conflict (Jensen & Meckling, 1976). In that sense, higher managerial ownership will reduce the audit risk and the audit fees. Peel and Clatworthy (2001) have documented higher director shareholdings have significant negative association with audit fees. In a similar vein, Gul et al. (2003) also find that managerial ownership moderates the positive relationship between abnormal accruals and audit fees. Niemi (2005) finds that for firms where managers have majority shareholding tend to consume less of auditor's time and therefore are associated with lower audit fees. Lin and Liu (2013) finds a non-linear relationship between managerial shareholding and audit fees. They find a negative association between managerial ownership and audit fees in low and high regions of managerial shareholding but a negative relationship in the intermediate region.

The above findings hold good in case of countries where the ownership structures are dispersed. Firms in India, however, are dominated by family business groups and concentrated ownerships. In such situations, typical principal-agent conflict is less important as majority shareholders are generally the managers of the firm. Firms, instead, face type II agency problem i.e. principal-principal conflict, where the majority shareholders may benefit at the cost of minority shareholders. Prior research has shown that ownership structures can have significant impact on quality and transparency of financial reports due to insider influence (e.g. Haw et al., 2004; Ball and Shivakumar, 2005).

Fan and Wong (2005) examine whether auditors perform corporate governance role in emerging markets where the ownership structure are highly concentrated. They argue that concentrated ownerships may lead to entrenchment where the controlling shareholders may expropriate wealth at the cost of minority shareholders. However, minority shareholders recognize this problem and generally discount the share price. In such situations, the controlling shareholders would try to reduce the agency conflict provided the cost to reduce the conflict is lower than the benefit derived. One way to reduce the conflict is to hire high quality (big 5) auditors. Using a sample from eight east-asian countries, they find that firms with high agency conflict due to concentrated ownership are more likely to hire big 5 auditors. Rusmin et al (2009) investigate association between corporate governance and ownership concentration influence audit fee pricing. Using a sample of 296 firms listed in Australia, Hong Kong and Malaysia, they find that higher ownership concentration are associated with lower audit fees. They argue that their results support supply-side perspective which suggests that higher ownership concentration improves internal control and compliance leading to auditor's perception of low audit risk which in turn leads to low audit fees. Auditing being an agency cost borne by the shareholders to reduce information asymmetry (Jensen and Meckling, 1976), ownership structures are likely to influence audit effort and risk.

Based on the above literature our second hypothesis (presented in null form) is as below.

H2: There is no significant association between promoter's shareholding and audit fees

Prior literature on relationship between corporate governance and external auditing argues that board independence and audit quality are complementary in the sense that a more independent board seeks for rigorous external audit. Carcello et al (2002) argue that directors seek for their liability and reputation protection, and therefore demand extensive audit. Similarly, O'Sullivan (2000) argues that non-executive directors are expected to prefer rigorous external audit to complement their own monitoring.

Based on the above literature our second hypothesis (presented in null form) is as below.

H3: There is no significant association between board independence and audit fees

3. Methodology

3.1. Data Sample

The sample for this study consists of all firms forming part of CNX Nifty Index for three financial years viz. financial year ending on Mar 31, 2012, Mar 31, 2013 and Mar 31, 2014. This index is a portfolio of 50 well-diversified stocks accounting for 23 sectors of the Indian economy. This index is widely used for benchmarking, index derivatives, and index funds. Since government firms may not encounter the typical agency problem, the firms belonging to Government sector have been eliminated from the sample. Further, consistent with the prior literature, firms belonging to financial sector are also eliminated as they are subject to different regulatory requirement. The final sample consists of 32 private non-financial companies forming part of CNX Nifty Index. The data for these companies for three financial years has been obtained from Prowess database maintained by Center for Monitoring Indian Economy (CMIE). Prowess is one of the most widely used databases in academic research in India. The final sample consists of 32 firms for three financial years making the sample of 96 firm-years.

3.2. Variables

The objective of this paper is to study the relationship between board independence, ownership structure and audit fees. The dependent variable in this study is the audit fees (AUDFEE). To avoid issues heteroskedasticity, we use natural log of audit fees paid by the firm to the auditors. In an additional analysis, we also use the total fees (TOTFEE) paid to the auditors which include the audit fees, the fees for company law matters, the fees for taxation matters and consultancy fees.

There are three independent variables used in this study. The first variable is the proportion of independent directors in the board of the company (PID). This variable has been used to test the first hypothesis of the study, which examines the relationship between board independence and audit fees. For testing the relationship between ownership structure and audit fees, two variables have been used viz. the percentage holding of promoter's (PROMO) and the percentage holding of institutional investors (INS). These two variables are used to test the second and the third hypotheses of the study.

Consistent with prior literature (e.g. see Gul and Tsui, 1998; Chan et al, 1993; Cobbin, 2002; Naser and Nuseibeh, 2007), the present study uses large number of control variables. These control variables are included to control for corporate size, audit complexity, audit risk and auditor quality. For corporate size, three variables are considered. These include

- natural log of total assets (SIZE)
- the level of free cash flows measured by free cash flow scaled by total assets (FCF) and
- the age of firm measured by natural log of number of years since the firm has been listed on National Stock Exchange (AGE).

In order to control for audit complexity number of control variables are included. These include

- receivables to total asset ratio (REC),
- current ratio (CR),
- inventory to total assets ratio (INV),
- price to book ratio (PBR),
- number of subsidiaries (SUB) and
- association with a business group (GRP) measured using a dummy variable that takes value 1 if the firm belongs to a business group else 0.

For the purposes of controlling audit risk, three control variables are considered. These variables include

- negative cash flow which is a dummy variable that takes the value of 1 if the firm has experienced negative operating cash flows in any of the previous three years (NEGCF)
- leverage measured by total term liabilities scaled by total assets (LEV), and
- return on assets (ROA)

Audit quality is controlled by including a dummy variable (BIG4) that takes the value of 1 if the firm is audited by a big 4 auditor else 0.

In all 13 control variables are included to ensure that there is no spurious association established between dependent and the independent variables.

Table 1 provides the list of all variables and their definitions.

3.3 Methodology

Consistent with previous research on audit fees (e.g. Carcello et al, 2002; Boo & Sharma, 2008) cross sectional regression has been used in the present study to examine the association of board independence and ownership

structure with audit fees. Below is the regression model estimated in this study:

$$\text{AUDFEE} = \alpha_0 + \beta_1\text{PROMO} + \beta_2\text{INS} + \beta_3\text{PID} + \beta_4\text{SIZE} + \beta_5\text{FCF} + \beta_6\text{AGE} + \beta_7\text{REC} + \beta_8\text{CR} + \beta_9\text{INV} + \beta_{10}\text{PBR} + \beta_{11}\text{SUB} + \beta_{12}\text{GRP} + \beta_{13}\text{NEGCF} + \beta_{14}\text{LEV} + \beta_{15}\text{ROA} + \beta_{16}\text{BIG4} \quad (1)$$

In an additional analysis, the study also examines the relationship of board independence and ownership structure with total fee paid to the audit firm. For this purpose, the dependent variable in eq. (1) is replaced with TOTFEE.

4. Results

4.1. Descriptive statistics

Table 2 presents the descriptive statistics of the sample. Total sample observations for this study are 96. The average promoter's shareholding is 45.93% in the sample whereas the average institutional shareholding is 34.92%. The high proportion of promoter's shareholding provides establishes the presence of family owned firms with high ownership concentration. This also is ratified by the fact that more than 90% of the firms belong to business groups. High institutional shareholding is also present in the sample. On average the firms in the sample have approximately 50% of independent directors in the board. On average the companies have 3.2 subsidiaries. 6.25% of the firms or six firms out of 96 firms have experienced negative operating cash flows in previous three years. More than 80% of the companies are audited by big 4 auditors. On average 9.8% of the total assets of the sample firms are financed by term liabilities. The firms in sample have experienced an average return on assets of 12.61% with maximum of 37.53% and minimum of negative 0.75%. On average inventory comprises 8.9% of total assets and receivables comprises 13.53% of total assets.

4.2. Regression Analysis

Table 3 presents the results of regression equation (1). Model 1 of the table 3 uses AUDFEE as the dependent variable, whereas Model 2 uses TOTFEE as the dependent variable. Both the models include number of control variables as described above.

The result of Model 1 shows significant positive relationship between audit fee and promoter's shareholding (coefficient: 1.671; p value < 1%). Similarly, model 2 shows significant positive relationship between total fee paid to auditors and promoter's shareholding (Coefficient: 1.4697; p value < 1%). Results also show significant positive relationship between institutional shareholding and audit fees (Coefficient: 2.6619; p value < 5%) and between institutional shareholding and total fees paid to the auditors (Coefficient: 2.9855; p value < 1%). These results are consistent with the demand-based perspective that suggest that large shareholders have more incentive to actively control the management activities and increase transparency in financial statements due to their reputation being at stake in case the financial misstatements are discovered later on. Therefore, they solicit for high quality audit and additional audit services. Due high quality and additional services demanded, the audit remuneration increases.

The relationship between audit fees and percentage of independent directors is positive but significant only at 10% significance level (p value = 8.7%). Moreover, the relationship between percentage of independent directors and total fees paid to auditors is insignificant (p value > 5%). These results suggest that higher board independence does not affect the level of auditor's remuneration. A significant positive relationship would have suggested that a more independent board solicits for high quality audit leading to increase in auditor's remuneration, consistent with the demand-based perspective. On the other hand, a significant negative relationship would have suggested that with higher independence in the board, auditor's perceive lower audit risk leading to lower remuneration, consistent with supply side perspective. However, the results fail to document any (positive or negative) significant relationship between board independence and auditor's remuneration.

With respect to the control variables, the results suggest positive and significant association of auditor's remuneration with size of the firm, level of inventory it holds, affiliation to a business group and presence of a big 4 auditor.

Based on the above results, hypothesis 1 and hypothesis 2 are rejected. That is to say auditor's remuneration is positively associated with both institutional shareholding and promoter's shareholding. However, the results fail to reject the hypothesis 3 that posit that there is no relationship between board independence and auditor's remuneration.

4.3. Robustness Check

4.3.1. Control for size effect

In order to control for size effect, the auditor's remuneration is deflated with value of total assets. In other words, a ratio of audit fee to total assets and alternatively a ratio of total fee paid to auditors to total asset are computed. This ratio is then regressed against the independent and control variables. The results of the regression are presented in table 4.

The results have largely remained same. Although the coefficient values are much smaller, however, the relationships observed have remained constant and significant. The association of promoter's shareholding with deflated audit fees (and alternatively with deflated total fees) is positive and significant at 5% significance level. Similarly, the association of institutional shareholding with deflated audit fees (and alternatively with deflated total fees) is also positive and significant at 5% level, which is same as that in the original results. The relationship between board independence and auditor's remuneration (in case of both audit fee and total fee) remains insignificant.

4.3.2. Additional test for ownership structure

To test for robustness of results pertaining to promoter's and institutional shareholding, an additional test is performed wherein instead of taking shareholding (both promoter and institutional) as continuous variable, they are transformed into categorical variables. In order to do the transformation, a reference to the distribution of shareholding is made. The promoter's shareholding is widely distributed with minimum of 0% and maximum of 78.6%. The mean lies at 45.9% and the median lies at 50.15%. The institutional shareholding is relatively less widely spread with minimum value of 10.1% and maximum of 58%. The average institutional shareholding is 34.9% which close to its median value at 34.4%. Considering the distribution of promoter's and institutional shareholding, the promoter's shareholding is classified into three categories i.e. below 1st quartile, between 1st quartile and 3rd quartile, and more than 3rd quartile. Whereas, since institutional shareholding is less widely dispersed, it is classified into two categories using its median value. Based on these categorization two dummy variables are introduced for promoter's shareholding i.e. PROMO_1 that takes the value of 1 if the shareholding is between 1st quartile and 3rd quartile else 0, and PROMO_2 that takes the value of 1 if the promoter's shareholding is more than 3rd quartile else 0. For institutional shareholding, one dummy variable (INS_1) is introduced that takes the value of 1 if the institutional shareholding is more than its median value else it takes the value 0. Regression analysis is then performed using the categorical variables for ownership instead of continuous variables. Table 5 reports the results.

The results of the regression analysis using categorized ownership data are similar to our original results. The association of promoter's shareholding with both audit fee and total fee remain positive and highly significant. Similarly, the association of institutional shareholding with auditor's remuneration is again positive and significant. Board independence shows significant association with audit fee but not with total fee. Therefore, in this case also we do not have conclusive evidence on the relationship between board independence and auditor's remuneration.

5. Conclusion

The objective of this study was to examine the relationship of ownership structure and board independence with auditor's remuneration. Two conflicting perspective viz. demand based perspective and supply-based perspective, exist currently in literature. Demand-based perspective posits that in case of concentrated ownership, the large shareholders e.g. promoters or institutions demand rigorous and high quality audit leading to an increase in audit fee. Similarly, a highly independent board may also call for additional audit services. Thus with increase in promoter's or institutional shareholding, or with increase in proportion of independent directors in the board, the audit fee is expected to increase. Supply-based perspective, on the other hand, posits that with increase in promoter's or institutional shareholding the auditor may perceive presence of effective monitoring and therefore assess a low audit risk. This will lead to low pricing of audit fee by the auditor. Considering these perspectives, this study investigates the relationship of auditor's remuneration with promoter's and institutional shareholding, and board independence in Indian context.

Using a sample of 96 firm years, the results of this study suggest that there is a positive and significant association between promoter's shareholding and auditor's remuneration, and between institutional shareholding and auditor's remuneration. These results support the demand-based perspective on audit fees. These results suggest that promoters with high shareholding in the firm or institutional shareholders induce firms to obtain high quality audit services leading to higher auditor's remuneration. However, this study does not find any conclusive evidence on relationship of board independence and auditor's remuneration. In other words, based on the sample there is no effect of proportion of independent directors in the board on the auditor's remuneration. These results suggest that neither independent directors solicit high quality audit (demand-based perspective) nor auditor perceives presence of independent director as an assurance of low audit risk (supply-side perspective). In this context it may be worth mentioning that prior literature on earnings management and corporate governance also document conflicting evidence on the effect of proportion of independent directors on earnings management. For example, Xie et al (2003), Klein (2002), Beasley (1996) and Davidson et al (2005) find that there is negative relationship between proportion of independent directors and earnings management. However, Peasnell et al (2005), Bradbury et al (2006), Sarkar et al (2008) and Rajpal (2012) found no significant association between earnings management and board independence. The results of the present study provides only limited evidence (in Model 5 and partially in Model 1) on the positive relationship between board independence and auditor's

remuneration. The result of present study therefore corroborate to the conflicting findings on earnings management and board independence. The results of the study hold in various robustness checks.

The study extends, in general, the literature on audit fee, ownership structure and board independence (e.g. Carcello, 2002; Gul et al, 1998; Abott et al, 2003, Mitra et al, 2007, Rusmin et al, 2009). Specifically, this study is useful as it provides initial empirical evidence on association between auditor's remuneration, ownership structure and board independence in the context of Indian companies, which are characterized with family owned and managed firms.

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Table 1: List of Variables and their definitions

Variable	Definition
<i>Dependent Variables</i>	
AUDFEE	Natural log of the audit fee paid by a firm to the auditor.
TOTFEE	Natural log of the total fee paid by a firm to the auditor. This includes the audit fee, fees for company law matters, fees for taxation matters and consultancy fees
<i>Independent Variables</i>	
PROMO	Proportion of shares held by the promoters of the firm
INS	Proportion of shares held by the institutional shareholders
PID	Proportion of independent directors in the firm
<i>Control Variables</i>	
SIZE	Natural log of total assets of the firm
FCF	Free cash flow scaled by total assets of the firm
AGE	Natural log of the years since the firm is listed on National Stock Exchange (NSE) of India.
REC	Ratio of receivables to total assets of the firm
CR	Current ratio measured by dividing current assets with current liabilities
INV	Ratio of inventory to total assets of the firm
PBR	Price to book ratio
SUB	Number of subsidiaries of a firm
GRP	Dummy variable that takes the value of 1 if the firm is associated with a business group, otherwise 0
NEGCF	Dummy variable that takes the value of 1 if the firm has experience negative operating cash flows in any of the previous three years, otherwise 0.
LEV	Leverage measured as a ratio of total term liabilities to total assets
ROA	Return on assets measured by dividing profit after tax with total assets

Table 2: Descriptive Statistics

Variable	N	Mean	Minimum	Maximum	Std. Deviation
AUDFEE	96	16.607	14.914	18.315	.819
TOTFEE	96	17.004	15.790	18.951	.803
INS	96	.349	.101	.580	.114
PROMO	96	.459	.000	.786	.197
PID	96	.499	.150	.769	.107
NEGCF	96	.063	.000	1.000	.243
SIZE	96	26.240	24.297	28.933	.958
REC	96	.135	.000	.463	.116
INV	96	.089	.000	.279	.077
CR	96	1.202	.160	4.580	.866
PBR	96	5.504	.520	39.970	6.320
LEV	96	.098	.000	.378	.114
ROA	96	12.607	-.750	37.530	9.004
FCF	96	.019	-.244	.310	.069
SUB	96	3.282	.000	6.708	1.399
GRP	96	.906	.000	1.000	.293
AGE	96	2.662	1.348	2.966	.423
BIG4	96	.802	.000	1.000	.401

Table 3: Regression Analysis

	Model 1 Dependent Var. = AUDFEE	Model 2 Dependent Var. = TOTFEE
Intercept	-6.4106** (-2.2245)	-8.5624*** (-3.5365)
INS	2.6619** (2.251)	2.9855*** (3.0049)
PROMO	1.671*** (2.6517)	1.4697*** (2.7759)
PID	1.03* (1.7311)	0.2149 (0.4299)
NEGCF	-0.2832 (-1.1358)	-0.2489 (-1.188)
SIZE	0.7194*** (7.352)	0.815*** (9.9137)
REC	0.0751 (0.0992)	0.6702 (1.0532)
INV	2.5137** (2.2758)	3.2606*** (3.5135)
CR	-0.0869 (-0.9464)	-0.0937 (-1.2148)
PBR	0.0231 (1.6054)	0.0227* (1.882)
LEV	-1.0704 (-1.398)	-1.1321* (-1.7598)
ROA	-0.0014 (-0.1297)	-0.0018 (-0.1892)
FCF	1.6403* (1.7181)	1.2198 (1.5207)
SUB	0.0845 (1.4263)	0.0628 (1.2615)
GRP	0.5255** (2.0707)	0.8485*** (3.9794)
AGE	0.1535 (0.816)	0.1703 (1.0777)
BIG4	0.7731*** (4.1093)	0.8209*** (5.1935)
No. of Observations	96	96
F-Stat	9.987	15.393
Sig. of F	0.000	0.000
R-sq	0.669	0.757
Adj R-Sq	0.602	0.708
Highest VIF	6.518	6.518

t-stat in parentheses. '***', '**', and '*' indicate that the coefficient is significant at 1%, 5% and 10% respectively.

Table 4: Regression analysis using deflated auditor's remuneration

	Model 3			Model 4		
	Dependent Var. = AUDFEE/Total Assets			Dependent Var. = TOTFEE/Total Assets		
Intercept	18.368 (0.705)	x	10^{-5}	-5.305 (-0.166)	x	10^{-5}
INS	25.204 (2.357)	x	10^{-5**}	51.135 (3.908)	x	10^{-5***}
PROMO	13.678 (2.4)	x	10^{-5**}	23.689 (3.398)	x	10^{-5***}
PID	3.646 (0.678)	x	10^{-5}	-1.996 (-0.303)	x	10^{-5}
NEGCF	-2.139 (-0.949)	x	10^{-5}	-1.91 (-0.692)	x	10^{-5}
SIZE	-1.536 (-1.736)	x	10^{-5*}	-1.22 (-1.127)	x	10^{-5}
REC	2.437 (0.356)	x	10^{-5}	8.236 (0.983)	x	10^{-5}
INV	17.72 (1.774)	x	10^{-5*}	41.314 (3.381)	x	10^{-5***}
CR	-0.545 (-0.657)	x	10^{-5}	-0.333 (-0.327)	x	10^{-5}
PBR	0.406 (3.124)	x	10^{-5***}	0.728 (4.582)	x	10^{-5***}
LEV	-9.945 (-1.436)	x	10^{-5}	-13.321 (-1.572)	x	10^{-5}
ROA	-0.12 (-1.195)	x	10^{-5}	-0.152 (-1.235)	x	10^{-5}
FCF	14.899 (1.726)	x	10^{-5*}	19.143 (1.812)	x	10^{-5*}
SUB	0.095 (0.177)	x	10^{-5}	0.063 (0.097)	x	10^{-5}
GRP	5.086 (2.216)	x	10^{-5**}	9.79 (3.486)	x	10^{-5***}
AGE	1.705 (1.003)	x	10^{-5}	0.841 (0.404)	x	10^{-5}
BIG4	4.203 (2.47)	x	10^{-5**}	7.013 (3.369)	x	10^{-5***}
No. of Observations	96			96		
F-Stat	7.836			12.882		
Sig. of F	0.000			0.000		
R-sq	0.613			0.723		
Adj R-Sq	0.535			0.667		
Highest VIF	6.518			6.518		

t-stat in parentheses. '***', '**', and '*' indicate that the coefficient is significant at 1%, 5% and 10% respectively.

Table 5: Regression analysis using categorized ownership

	Model 5	Model 6
	Dependent Var. = AUDFEE	Dependent Var. = TOTFEE
Intercept	-5.311** (-2.428)	-5.867*** (-3.007)
PROMO_1	0.909*** (5.319)	0.71*** (4.654)
PROMO_2	0.917*** (4.463)	0.598*** (3.262)
INS_1	0.507*** (3.056)	0.304** (2.053)
PID	1.338** (2.569)	0.332 (0.714)
NEGCF	-0.273 (-1.24)	-0.257 (-1.305)
REC	-0.964 (-1.421)	-0.226 (-0.374)
INV	1.366 (1.355)	1.967** (2.188)
CR	-0.025 (-0.318)	-0.028 (-0.396)
PBR	0.019 (1.488)	0.015 (1.355)
LEV	-0.889 (-1.308)	-0.747 (-1.234)
ROA	0.013 (1.24)	0.012 (1.278)
FCF	1.08 (1.262)	0.819 (1.072)
SUB	0.191*** (2.993)	0.183*** (3.219)
GRP	0.489** (2.178)	0.703*** (3.513)
AGE	0.2 (1.267)	0.306** (2.176)
BIG4	0.633*** (3.793)	0.705*** (4.739)
SIZE	0.688*** (8.198)	0.73*** (9.749)
No. of Observations	96	96
F-Stat	13.637	17.44
Sig. of F	0.000	0.000
R-sq	0.748	0.792
Adj R-Sq	0.693	0.746
Highest VIF	3.91	3.91

t-stat in parentheses. '***', '**', and '*' indicate that the coefficient is significant at 1%, 5% and 10% respectively.

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