Seventh Asia Pacific Interdisciplinary Research in Accounting Conference, Kobe 26-28 July, 2013

Paper#: K170

Family Ownership, Auditor Choice and Audit fees: Evidence from Hong Kong

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ABSTRACT

The audit risks of family firms are commonly perceived to be higher than non-family firms. However, the family firm may also appoint higher quality external auditor to reduce the information asymmetry, enhance credibility of the financial report, and increase firm value. Using unique unbalanced panel data of 2724 firm-year observations of firm listed in the main board of Hong Kong during the period 2001–2009, we find that family firms tend to more likely to choose Big N auditors, this is consistent with the signaling hypothesis. Surprisingly, contrasting the perceived higher audit risk, they incur lower audit fees. Our results also show the independent audit committee member with multiple directorships are not affected by their busyness. These results are robust to alternative definitions of family firms. Our results suggest that the choice of external auditors matters to audit risk for family firms.

Keywords: Agency Cost, Family Ownership; Family Control; Multiple Directorship; Auditor choice; Audit fee