ABSTRACT

This study examines the empirical relationship between the managerial ownership and the audit fees in Hong Kong based on the premise that the level of the former has an impact on the pursuit of opportunistic behaviour by the managers, thus affecting the level of the agency problems and audit risk and finally the audit fees. In this paper, two agency problems existed between the managers and shareholders due to the separation of ownership from control, namely 1.) divergence-of-interests effect and 2.) entrenchment effect of the managerial ownership. In addition, managerial reputation effect will be discussed. Then from these three effects, three different hypotheses are developed to test how the managerial ownership is related to the audit fees in low, intermediate and high managerial ownership regions respectively.

Using the publicly available data from a sample of 478 listed non-financial and non-utilities companies in Hong Kong (totally 2,107 observations) for the period of six years from 1999 to 2004 with the application of the multivariate regression, the empirical results reveal that the managerial shareholdings in low and high managerial ownership regions are significantly and negatively related to the audit fees while within the intermediate region of managing shareholdings is positively and significantly related to the audit fees. Such findings can contribute to the existing finance and accounting literature by constituting an important determinant of the audit fees and providing new insights to regulators, academics and practitioners.