

RGC Ref. No.: UGC/FDS16/B02/20 _____ (please insert ref. above)
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**RESEARCH GRANTS COUNCIL
COMPETITIVE RESEARCH FUNDING SCHEMES FOR
THE LOCAL SELF-FINANCING DEGREE SECTOR**

FACULTY DEVELOPMENT SCHEME (FDS)

Completion Report
(for completed projects only)

<p><u>Submission Deadlines:</u></p> <ol style="list-style-type: none"> 1. Auditor's report with unspent balance, if any: within <u>six</u> months of the approved project completion date. 2. Completion report: within <u>12</u> months of the approved project completion date.
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Part A: The Project and Investigator(s)

1. Project Title

Audit Fee and Political Connections: The Moderating Effects of Local Institutional
Environment and Gender Diversity

2. Investigator(s) and Academic Department(s) / Unit(s) Involved

Research Team	Name / Post	Unit / Department / Institution
Principal Investigator	CHEUNG Pat-yan / Lecturer	Lee Shau Kee School of Business and Administration / Hong Kong Metropolitan University
Co-Investigator(s)	ADITHIPYANGKUL Pattarin / Lecturer	School of Accounting, Curtin University
Co-Investigator(s)	LEUNG Tak-yan / Associate Professor	School of Business and Creative Industries / University of Sunshine Coast

3. Project Duration

	Original	Revised	Date of RGC / Institution Approval (must be quoted)
Project Start Date	1 January 2021		
Project Completion Date	31 December 2022	30 June 2023	9 December 2022
Duration (in month)	24 months	30 months	9 December 2022
Deadline for Submission of Completion Report	31 December 2023	30 June 2024	9 December 2022

- 4.4 Please attach photo(s) of acknowledgement of RGC-funded facilities / equipment.

Part B: The Final Report

5. Project Objectives

5.1 Objectives as per original application

1. To examine the impacts of political connection on audit pricing in family firms
2. To explore the moderating role of the quality of the local judiciary system on the relationship between political connections and audit fees
3. To analyze the moderating role of board/audit committee gender diversity on the relationship between political connections and audit fees
4. To investigate if the moderating effect of gender diversity differ in regions with various degree of gender egalitarianism

5.2 Revised objectives

Date of approval from the RGC: _____

Reasons for the change: _____

- 1.
- 2.
3.

5.3 Realisation of the objectives

(Maximum 1 page; please state how and to what extent the project objectives have been achieved; give reasons for under-achievements and outline attempts to overcome problems, if any)

To examine the impacts of political connection on audit pricing in family firms:

The research analyzes the relationship between political connections and audit fees, which serves as a proxy for audit pricing. By considering the countervailing effects that political connections can have on audit fees, the study provides insights into how political connections impact audit pricing in firms, including family firms.

To explore the moderating role of the quality of the local judiciary system on the relationship between political connections and audit fees:

The project develops hypotheses and tests how the quality of local public administration, as a measure of the institutional environment, moderates the relationship between political connections

and audit fees. This allows the researchers to understand how the external legal and regulatory context can influence the impact of political connections on audit pricing.

To analyze the moderating role of board/audit committee gender diversity on the relationship between political connections and audit fees:

The study examines how the presence of female directors on the audit committee affects the relationship between political connections and audit fees. This sheds light on how board and audit committee composition can influence the way political connections translate into audit pricing outcomes.

To investigate if the moderating effect of gender diversity differ in regions with various degree of gender egalitarianism

By analyzing the overall relationship between political connections and audit fees, as well as the moderating effects of institutional quality and board gender diversity, the research provides a comprehensive understanding of how political connections impact audit pricing, including in the context of family firms.

Through this multi-faceted approach, the project successfully addresses its key objectives of understanding the complex relationships between political connections, audit pricing, institutional environments, and board composition.

5.4 Summary of objectives addressed to date

Objectives <i>(as per 5.1/5.2 above)</i>	Addressed <i>(please tick)</i>	Percentage Achieved <i>(please estimate)</i>
1. To examine the impacts of political connection on audit pricing in family firms	√	100%
2. To explore the moderating role of the quality of the local judiciary system on the relationship between political connections and audit fees	√	100%
3. To analyze the moderating role of board/audit committee gender diversity on the relationship between political connections and audit fees	√	100%
4. To investigate if the moderating effect of gender diversity differ in regions with various degree of gender egalitarianism	√	100%

6. Research Outcome

6.1 Major findings and research outcome

(Maximum 1 page; please make reference to Part C where necessary)

The research examined the relationship between a company's political connections and the fees it pays for audit services. Previous studies on this topic have shown mixed results, with some finding a positive relationship between political connections and audit fees, while others found a negative relationship.

This project sought to provide a more thorough analysis of these countervailing effects. The researchers proposed that political connections could increase audit fees by reducing the quality of a company's pre-audit accounting information, thereby increasing perceived audit risk. However, political connections could also decrease audit fees by providing legal advantages and shielding the firm from legal liability, thereby reducing perceived litigation risk.

The empirical results showed that political connections alone do not necessarily increase or decrease audit fees on average. However, the researchers found that the relationship between political connections and audit fees can be affected by other contextual factors, such as the quality of local public administration. Specifically, they found that political connections tend to decrease audit fees in settings with better quality local public administration, since the negative impact on accounting information quality is reduced in those environments.

Additionally, the study explored how the presence of female directors on the audit committee might influence the relationship between political connections and audit fees. The results suggest that political connections may lead to higher audit fees for firms with more female representation on the audit committee, consistent with the "demand-side" view in auditing literature.

Overall, the research provides a more nuanced understanding of how political connections can impact audit pricing, highlighting the importance of considering the interplay between political influences, institutional environments, and board composition.

6.2 Potential for further development of the research and the proposed course of action

(Maximum half a page)

This study provides valuable insights, but there are several avenues for future research to build upon and expand the analysis. First, while the paper assumes that audit clients' political connections affect audit fees through the auditor's assessment of risk, future qualitative studies could directly examine this relationship through interviews with auditors. This would help validate the proposed mechanism and offer deeper understanding.

Second, the current analysis is limited to examining the role of audit clients' political ties, but the political connections of audit partners and firms may also play a significant part. Future research should seek to capture data on auditors' political affiliations to investigate this potentially important influence on audit pricing.

Third, the data on regional public administration quality had some gaps that required estimation methods. Subsequent studies could aim to obtain a more comprehensive dataset covering all years of interest to provide a stronger foundation for the analysis.

Finally, the measures of political connections used here may not fully capture the nuances of informal ties and faction membership that can shape the degree of political influence. More in-depth

examination of these qualitative aspects of political connections could yield additional insights into the interplay between politics and auditing.

Beyond these specific areas for development, the paper also suggests the importance of considering the heterogeneous nature of family firms and the varying degrees of family involvement. Future research along these lines could shed further light on how family governance structures impact audit processes and outcomes.

Overall, this study lays important groundwork, and there appear to be numerous promising directions for future researchers to build upon and refine the understanding of the complex relationships between politics, family, and the audit function.

7. Layman's Summary

(Describe in layman's language the nature, significance and value of the research project, in no more than 200 words)

Past business ethics research highlights negative perceptions about corporate governance of family firms, and yet many auditors evaluate family businesses favorably and charge them lower audit fees; however, this inconsistency remains unexplained. Moreover, the impact of family firms' political connections and board gender diversity on audit fees is still not clear. Based on the data from listed Chinese family firms, we address these important research gaps by using the local institutional environment in which the client operates as a moderator of the process by which auditors assess the implications of clients' political connections. Political connections reduce audit fees when a client is located in a region with high-quality public administration. Female representation in audit committees positively moderates the relationship between political connections and audit fees, as female committee members react to their firms' political connections by demanding higher levels of assurance from auditors. Female committee members also demand higher audit efforts for family firms managed by non-family-member CEOs.

Part C: Research Output**8. Peer-Reviewed Journal Publication(s) Arising Directly From This Research Project**

(Please attach a copy of the publication and/or the letter of acceptance if not yet submitted in the previous progress report(s). All listed publications must acknowledge RGC's funding support by quoting the specific grant reference.)

The Latest Status of Publications				Author(s) (denote the corresponding author with an asterisk*)	Title and Journal / Book (with the volume, pages and other necessary publishing details specified)	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
Year of Publication	Year of Acceptance (For paper accepted but not yet published)	Under Review	Under Preparation (optional)						
2024				CHEUNG Pat-yan & LEUNG Tak-yan	Do Political Connections Help or Harm Family Firms? An Auditing Pricing Perspective / <i>The Chinese Economy</i>	No	Yes [Attachment 1]	Yes	Yes

9. Recognized International Conference(s) In Which Paper(s) Related To This Research Project Was / Were Delivered

(Please attach a copy of each conference abstract)

Month / Year / Place	Title	Conference Name	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
2023	Audit Fee and Political Connections in Family Firms: The Moderating Effects of Local Institutional Environment and Gender Diversity	14th International Odyssey Conference on Economics and Business	No	Yes [Attachment 2]	Yes	Yes

10. Whether Research Experience And New Knowledge Has Been Transferred / Has Contributed To Teaching And Learning

(Please elaborate)

The successful presentation of this research project at a reputable academic conference and its subsequent publication in a well-known journal demonstrate the valuable contribution this work has made to advancing knowledge in the field. The insights gained through the research process can now be effectively integrated into practical concerns. This helps to bridge the gap between research and practice, ensuring that new knowledge is actively disseminated and applied. The transfer of this research expertise can inspire and engage accounting practitioners and policy makers, encouraging them to explore emerging topics and become active participants in the ongoing advancement of the discipline.

11. Student(s) Trained

(Please attach a copy of the title page of the thesis)

Name	Degree Registered for	Date of Registration	Date of Thesis Submission / Graduation
NA			

12. Other Impact

(e.g. award of patents or prizes, collaboration with other research institutions, technology transfer, teaching enhancement, etc.)

NA

13. Statistics on Research Outputs

	Peer-reviewed Journal Publications	Conference Papers	Scholarly Books, Monographs and Chapters	Patents Awarded	Other Research Outputs (please specify)	
No. of outputs arising directly from this research project	1	1			Type	No.

14. Public Access Of Completion Report

(Please specify the information, if any, that cannot be provided for public access and give the reasons.)

Information that Cannot Be Provided for Public Access	Reasons
NA	