

An Empirical Study on the Impact of Charitable Donations on Audit Fees

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Abstract. As the fulfillment of corporate social responsibility is increasingly emphasized, auditors are paying more attention to the social responsibility information of the audited entities, such as charitable donations. Therefore, this paper, after elaborating on the basic concepts of charitable donations and audit fees and reviewing relevant theories and research, deeply analyzes the influence path of charitable donations on audit fees and puts forward relevant hypotheses. This paper takes A-share non-financial listed companies from 2015 to 2024 as samples to study the relationship between charitable donations and audit fees as well as the moderating role of property rights nature. The results show that corporate charitable donations are positively correlated with audit fees; the larger the amount of corporate charitable donations, the higher the audit fees. The property rights nature of enterprises plays a positive moderating role in the impact of corporate charitable donations on audit fees.

Keywords: Charitable donation; audit fee; nature of property rights.

1. Introduction

Since the response to emergencies such as SARS and the Wenchuan earthquake, the voluntary donations made by Chinese enterprises have been gradually increasing and showing a comprehensive and sustained development trend. During the process of COVID-19 prevention and control, enterprises such as Alibaba and Hongxing Erke also responded to the government's call and actively assumed social responsibilities. Up to now, charitable donations have become an important way for most enterprises to fulfill their social responsibilities. As a concrete manifestation of the third distribution in society, it plays a significant role in narrowing the social gap and improving the social security system, and also promotes the harmonious and orderly development of society. Charitable donations by enterprises not only promote the progress of social public welfare undertakings, but also contribute to the long-term development of the enterprises themselves.

Certified public accountant auditing plays a role in re-supervising the quality of an enterprise's accounting information and is the final step in determining or dissolving the enterprise's entrusted economic responsibility. Audit fees refer to the price at which an auditing institution provides audit services to the audited entity. They are a form of price compensation based on the services provided by the auditing institution. From the perspective of auditing, when enterprises make charitable donations, on the one hand, they convey the financial information that the enterprises have sufficient funds and establish a good image of the enterprises, thereby having an impact on the auditing fees. However, on the other hand, it reduces the free cash flow available to enterprises, thereby affecting their current financial performance and future profit-making ability, increasing their financial and operational risks, and further influencing audit fees. In addition, enterprises can also divert the attention of all sectors of society from their improper behavior through charitable donations. This requires auditors to carry out more auditing procedures to verify the motives and purposes of enterprises' voluntary donations, and this will undoubtedly affect the auditing fees.

Previous studies on audit fees have generally focused on corporate financial information. However, as the public's attention to the degree of corporate social responsibility fulfillment increases, auditors will also pay more and more attention to corporate social responsibility information. Therefore, through empirical analysis, this paper studies the relationship between charitable donations and audit fees, and examines whether charitable donations will have an impact on audit fees. Meanwhile, enterprises are classified into state-owned enterprises and non-state-owned enterprises based on their

different property rights natures, so as to study the reasons why the nature of property rights affects charitable donations and audit fees.

2. Literature review and Hypothesis presentation

2.1. Corporate charitable donations

Charitable donation is an important way for enterprises to fulfill their social responsibilities. Zhao & Zhang (2007) defined it as the behavior of enterprises, based on basic social responsibilities, donating funds, goods or services to help specific objects [1].

The motivation of corporate charitable donations has always been a focus of academic attention. The viewpoints proposed by scholars at home and abroad can be divided into self-interested motivation and altruistic motivation. Altruistic motivation emphasizes that enterprises should take the initiative to assume social responsibilities. Godfrey (2005) proposed from the perspective of impression management that donations can enhance the moral capital of enterprises and increase the trust of stakeholders [2]. Xu et al. (2020) found that altruistic thoughts such as "benevolent people love others, righteousness before profit, and the public good of the world" in traditional Chinese culture are one of the incentives for enterprises to actively donate [3]. Self-interest motives focus on the economic and management roles of donations, such as advertising effects, tax deduction functions, and reputation enhancement. Navarro (1988) agreed that corporate donations could serve as advertising and promotion, and also pointed out that donations could maximize profits through tax deductions [4]. Chen Jianying, Chen et al. (2019) found that in enterprises with poor performance, management would take advantage of the reputation effect of donations to shirk responsibility for poor management, thereby consolidating their positions and maintaining their personal reputation [5]. Huang & Wang (2020) found that local fiscal pressure forces private enterprises within their jurisdictions to actively donate, and this phenomenon is more severe in regions with a lower degree of marketization [6].

In addition, some scholars hold other views on charitable donations. Managers may pursue personal gain through excessive donations, resulting in the loss of shareholders' wealth. Brammer & Millington (2005) conducted an empirical study and found that the relationship between donations and financial performance follows an inverted U-shaped curve. Moderate donations are beneficial, but excessive donations may have negative impacts due to resource misallocation [7]. Flammer (2015) found that when investors perceived donations as "strategic behaviors" (such as those related to core businesses), stock prices responded more positively. If regarded as a "symbolic act", it may trigger negative reactions [8].

2.2. Audit Fees

The influencing factors of audit fees can be systematically sorted out from two aspects: the characteristics of the audited entity and the accounting firm. For the audited entity, the scale of the enterprise is the core influencing factor. Simunic (1980) was the first to propose that asset size significantly affects audit fees [9]. Rusmanto & Waworuntu (2015) verified the significant correlation between size and fees using listed companies in Indonesia as samples [10]. Dong & Sun. (2021) also confirmed that business complexity has a positive effect on fees [11]. In terms of financial risk, Shi et al. (2015) found through group research that the debt ratio of large-scale enterprises is more significantly associated with expenses [12]. In addition, scholars should also study that other characteristics of the auditing entity can affect the auditing fee, such as the concentration of clients and the quality of internal control, which can also influence the auditing fee. In terms of accounting firms, the scale effect is significant. Gul (2011) both verified the conclusion that large-scale firms charge higher fees [13]; The type of audit opinion is an important factor. He & Liu (2015) found that non-standard opinions were significantly positively correlated with costs [14].

Although existing studies have systematically sorted out the motives and consequences of charitable donations and the influencing factors of audit fees, there are three deficiencies: First, the

direct relationship between charitable donations and audit fees has not been systematically explored. It is still unclear how donations affect audit fees by influencing corporate risks, reputation or government-enterprise relationships. Secondly, the differences in the role of donations on audit fees under different property rights natures (state-owned enterprises/non-state-owned enterprises) have not been fully explored. Based on this, this paper intends to explore the intrinsic connection between corporate charitable donations and audit fees, and analyze the moderating role of property rights nature and donation motivation.

2.3. Theoretical Analysis and Hypothesis Research

The impact of charitable donations on audit fees is mainly realized through information risk and audit response costs. Firstly, charitable donations, as non-recurring expenditures, may intensify the financial liquidity pressure on enterprises, especially when the profit level is low or the cash flow is tight. Auditors need to be vigilant against enterprises using donations to "transfer resources" to cover up operational difficulties, such as inflating revenue or concealing losses, thereby increasing substantive testing procedures for the flow of funds. Secondly, some enterprises may take advantage of the "ambiguity" of donations to divert the attention of stakeholders. For instance, when product defects are exposed, employee disputes or violations occur, they may make high-profile donations to shape the image of a "responsible enterprise" and downplay negative attention. At this point, auditors need to expand their audit scope, verify the legality of the contract and the compliance of the fund usage to validate the "authenticity" of the donation, and even introduce expert work, directly increasing the audit cost. Furthermore, if the donation amount does not match the scale and profit level of the enterprise, it may convey a distorted signal. Auditors need to assess whether the donation is in line with the enterprise's long-term strategy or has the motive of "short-term speculation". At the same time, they need to deal with the increased difficulty of auditing brought about by complex transaction structures, further increasing the input of human resources and time. Therefore, the higher the donation amount, the stronger the auditor's perception of the risk of "egoistic donation", and the more likely the audit fee is to increase. Based on this, Hypothesis 1 is proposed.

H1: The higher the amount of corporate charitable donations, the higher the auditing fees it bears.

Due to the complex equity structure, strong government correlation and high media supervision costs of state-owned enterprises, auditors are more cautious in assessing donation risks: The management of state-owned enterprises may achieve personal or small group interests through donations rather than aiming at maximizing enterprise value. Auditors need to strictly review the rationality of donation decisions, such as whether they have been approved by the State-owned Assets Supervision and Administration Commission and whether they are in line with policy guidance. At the same time, donations from state-owned enterprises are often linked to government tasks and may be required to "meet donation targets". Auditors need to assess whether the donations comply with policy requirements. If any abnormalities are found, they may face government accountability or negative media reports. Therefore, the auditing standards need to be raised and the fees increased. In contrast, non-state-owned enterprises are more constrained by the market. Their donations are more focused on efficiency and effectiveness, and they need to balance costs and benefits. They are more inclined to formulate strategic-oriented donation plans. Meanwhile, non-state-owned enterprises are more proactive in disclosing donation details to attract investors. Auditors can verify the authenticity through public information, reducing the need for on-site verification. In addition, the ownership and control of non-state-owned enterprises are relatively unified, and the interests of management and shareholders are more consistent. The motivation for donations is more likely to be based on long-term development. Auditors do not need to overly worry about "opportunistic" motives. Therefore, the audit procedures focus more on conventional risks, and the positive correlation impact is relatively weak. Based on this, Hypothesis 2 is proposed:

H2: Under other unchanged conditions, compared with non-state-owned listed companies, the positive correlation impact of charitable donations on audit fees in state-owned listed companies is more significant.

3. Research Design

3.1. Data Sources

This paper selects A-share listed companies from 2015 to 2024 as research samples. The data on enterprise audit fees, charitable donation fees, and related financial indicators are all obtained from the CSMAR database. Among them, the data on corporate charitable donations is collated from "Notes to the Financial Statements" - "Non-operating Income and Expenses" in the CSMAR database. The sample data was screened as follows: (1) Financial and insurance companies were excluded; (2) Listed companies that have been excluded from the ST list; (3) Eliminate companies that contain missing values.

3.2. Variable Definition

The selection of the explained variable is the audit fee, and the natural logarithm is taken and denoted as the audit fee (Lnfee).

The explanatory variable is selected as the amount of charitable donations. Since the amount of charitable donations can be 0, the natural logarithm is taken after adding 1 to the amount of charitable donations, which is recorded as charitable donations (Lndon).

The moderating variable is the nature of property rights (State), and dummy variables are constructed, setting state-owned listed companies as 1 and non-state-owned listed companies as 0.

In terms of control variables, this paper refers to existing literature and takes the characteristics of the audited entity such as company size, return on total assets, asset-liability ratio, whether there was a loss in the previous year, years of listing, equity concentration, and the audit opinion of the previous year, as well as the characteristics of whether it is one of the Big Four international firms, as control variables and incorporates them into the model to examine the impact of charitable donations on the audited entity. The specific definitions of all variables are shown in Table 1.

Table 1. Variable Definition Table

Variable name	Variable symbol	Variable definition and explanation
Audit fee	Lnfee	The natural logarithm of the enterprise's audit fee
Charitable donation	Lndon	Add 1 to the amount of corporate charitable donations and then take the natural logarithm
Nature of property rights	State	Dummy variable: Whether the attribute of the actual controller of the company is state-owned. For holding a stake, take 1 if it is right and 0 if it is wrong
Company scale	Lnsize	The natural logarithm of the total assets of a company
Return on assets	Roa	Total profit/total assets
Asset-liability ratio	Lev	Total liabilities/total assets of the company
Loss	Loss	Dummy variable: The value of the company's loss for the current year is 1, and the value of no loss is 0
Years on the market	Age	The natural logarithm of the years a company has been listed
Equity concentration	Topshare	The shareholding ratios of the top ten shareholders of the company
Auditing firm size	Big4	Dummy variable: Whether the firm auditing the annual report is one of the Big Four in the world. For a transaction, take 1 if it is correct and 0 if it is not correct
Audit opinion	Opinion	Dummy variable: The opinion of the previous year 's audit report is a standard unqualified opinion of 1, otherwise it is 0
Industry	Industry	Industry dummy variables
Year	Year	Annual dummy variable

3.3. Research Model

This article mainly studies the relationship between corporate charitable donations and audit fees, as well as the influence of property rights nature on the relationship between the two. Based on Suminic's (1980) audit pricing model group and by referring to the literature collation on the influencing factors of audit fees, model variables were designed to improve the research on relevant variables. To verify H1, the following multiple regression model is constructed.

$$Lnfee = \alpha_0 + \alpha_1 Lndon + \alpha_2 Lnsize + \alpha_3 Roa + \alpha_4 \alpha_5 Lev + \alpha_5 Age + \alpha_6 Topshare + \alpha_7 Big4 + \alpha_7 Opinion + \sum Industry + \sum Year + \varepsilon \quad (1)$$

For H2, this paper considers adding the nature of property rights as a moderating variable to model (1), thereby obtaining model (2). If the coefficient of the cross-product term (Lndon*State) is significant, it verifies that the nature of property rights has a moderating effect on the relationship between charitable donations and audit fees.

$$Lnfee = \alpha_0 + \alpha_1 Lndon + \alpha_2 State + \alpha_3 Lndon * State + \alpha_4 Lnsize + \alpha_5 Roa + \alpha_6 Lev + \alpha_7 Age + \alpha_8 Topshare + \alpha_9 Big4 + \alpha_{10} Opinion + \sum Industry + \sum Year + \varepsilon \quad (2)$$

Among them: α_0 - α_{10} are the coefficients of each term, and ε is the residual term.

4. Empirical Result analysis

4.1. Descriptive Statistical Analysis

Table 2 reflects the descriptive statistics of these variables. The average value of the explained variable, audit fee (Lnfee), is 14, the median is 13.59, the standard deviation is 0.658, the minimum value is 12.21, and the maximum value is 17.69. It can be seen that due to the complexity of the factors influencing the audit fees of enterprises, there are certain differences in the audit fees of different enterprises. The average value of the audit fee is slightly higher than the median. It is indicated that the audit fee values after logarithmic processing generally conform to the characteristics of a normal distribution, but show a slight rightward bias. The average value of the explanatory variable Charitable donations (Lndon) is 11.47, the standard deviation is 4.893, the minimum value is 0, and the maximum value is 20.73, indicating that the level of charitable donations of enterprises in China varies greatly, and there are significant differences in the donation levels of different enterprises. The average value of the moderating variable property rights nature (State) is 0.302, indicating that 30.2% of the listed enterprises in the sample statistics are state-owned enterprises. In terms of control variables, the descriptive statistical results show that there are significant differences in variable indicators among various enterprises, which facilitates further statistical analysis.

Table 2. Descriptive statistical results

Var	N	mean	p50	sd	min	max
Lnfee	23862	14.00	13.91	0.658	12.21	17.69
Lndon	23872	11.47	12.90	4.893	0	20.73
State	23873	0.302	0	0.459	0	1
Lnsize	23873	22.53	22.34	1.319	19.32	28.79
Roa	23873	0.0300	0.0330	0.0780	-0.931	1.285
Age	23873	2.354	2.398	0.689	0.693	3.526
Topshare	23873	0.564	0.566	0.154	0.0690	1
Big4	23873	0.0640	0	0.245	0	1
Opinion	23873	0.970	1	0.171	0	1
Lev	23873	0.438	0.430	0.201	0.0160	1.939
Loss	23873	0.152	0	0.359	0	1

4.2. Regression Result Analysis

4.2.1 The impact of charitable donations on audit fees

This paper conducts a regression on charitable donations and audit fees based on Model (1) to verify H1. The regression results are shown in the first column of Table 3. The regression results show that after controlling for other variables, the linear fit of the model is good, and the adjusted R2 is 0.616. This indicates that each control variable basically has a strong explanatory power.

The regression coefficient between charitable donations and audit fees is 0.006, which is significantly positive at the 1% level. The results indicate that as the amount of corporate charitable donations increases, audit fees will increase significantly. This validates the analysis of Hypothesis H1, indicating that when auditing listed companies, although charitable donations by enterprises can bring reputation assets to the enterprises, the value of this part of the reputation assets is difficult to estimate. At the same time, considering that charitable donations have actually reduced the economic benefits of enterprises, along with the complexity of the motives for enterprises to make charitable donations and other factors, certified public accountants will determine that the audit risks of enterprises after donations have increased. This indicates that when auditors audit companies with higher charitable donations, they are more inclined to consider the risks brought about by the charitable donations, thereby leading to an increase in the audit fees borne by the enterprises.

Table 3. Model regression results

	(1)	(2)	(1)	(2)
	Lnfee	Lnfee	Lnfee	Lnfee
Lndon/D	0.006*** (0.001)	0.002** (0.001)	0.058*** (0.008)	0.010 (0.010)
State		-0.238*** (0.015)		-0.230*** (0.016)
Lndon*State /D* State		0.010*** (0.001)		0.116*** (0.016)
Lnsizes	0.333*** (0.003)	0.339*** (0.003)	0.339*** (0.003)	0.344*** (0.003)
Roa	-0.595*** (0.042)	-0.584*** (0.042)	-0.581*** (0.042)	-0.579*** (0.042)
Lev	0.094*** (0.017)	0.110*** (0.017)	0.088*** (0.017)	0.104*** (0.017)
Loss	0.072*** (0.009)	0.074*** (0.009)	0.071*** (0.009)	0.073*** (0.009)
Age	-0.028*** (0.005)	0.006 (0.005)	-0.030*** (0.005)	0.005 (0.005)
Topshare	0.059*** (0.020)	0.105*** (0.020)	0.057*** (0.020)	0.107*** (0.020)
Big4	0.535*** (0.012)	0.532*** (0.011)	0.534*** (0.012)	0.533*** (0.012)
Opinion	-0.161*** (0.016)	-0.140*** (0.016)	-0.161*** (0.016)	-0.140*** (0.016)
Industry	Control	Control	Control	Control
Year	Control	Control	Control	Control
Constant	6.436*** (0.063)	6.272*** (0.064)	6.331*** (0.062)	6.168*** (0.062)
N	23861	23861	23861	23861
r2_a	0.616	0.623	0.615	0.622

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

4.2.2 The impact of charitable donations under different property rights natures on audit fees

The second column of the regression model in Table 3 shows the moderating effect of the nature of property rights on charitable donations and audit fees. The regression coefficient of the crossover term (Donation*State) between charitable donations and the nature of property rights is 0.01, which is significantly positive at the 1% level. The results show that as the cost of charitable donations increases, the auditing fee also rises accordingly, and the changing trends of state-owned enterprises and non-state-owned enterprises are the same. The slope of the straight line under state-owned enterprises is greater than that under non-state-owned enterprises, indicating that state-owned enterprises have strengthened the positive correlation impact of charitable donations on the increase of audit fees, while non-state-owned enterprises have weakened this impact instead. In state-owned enterprises, the equity structure and principal-agent relationship are more complex. The higher the media attention an enterprise receives, the lower the auditor's tolerance for misstatement, and the more prudently they will consider the donation motives of enterprises that use charitable donations to cover up improper practices such as earnings management. The possibility of potential audit failures being discovered is also higher. Therefore, the nature of property rights positively moderates the impact of charitable donations on audit fees, thereby verifying Hypothesis H2.

4.3. Robustness test

To further verify the reliability of the conclusion and to reduce the endogeneity problems caused by differences in sample selection. In this paper, the propensity for charitable donations (D) is used as a surrogate variable for charitable donation expenses (Indon). Among them, when the enterprise makes a donation, then $D=1$; When the enterprise does not make a donation, $D=0$.

As shown in the third and fourth columns of Table 3, the regression coefficients of the impact of charitable donation propensity (D) on audit fees are significantly positively correlated at the 1% level, and in the state-owned enterprise group, this coefficient is even larger. The regression coefficient of the crossover term ($D*state$) between charitable donations and the nature of property rights is 0.004, showing a significant positive correlation at the 1% level. The result is consistent with the previous text.

5. Summary

Based on the data of non-financial listed companies in the A-share market from 2015 to 2024, this study empirically analyzed the relationship between corporate charitable donations and audit fees, revealing the core mechanism of their positive correlation and the moderating effect of property rights nature. The research finds that the pricing of audit fees stems from auditors' perception of donation risks, which specifically increase the fees through three paths: First, information risk - enterprises may use donations to cover up issues such as earnings management and fund misappropriation. Auditors need to add substantive testing procedures to verify the use of funds and the rationality of decisions, such as by tracking the flow of donations or reviewing related-party transactions; Secondly, financial constraints - donations reduce cash holdings, which may intensify operational risks. Auditors need to assess the financial stability and sustainable operation capacity of the enterprise, with a focus on debt-paying ability and capital turnover efficiency. Thirdly, the complexity of motivation - the donation motivation is a mixture of altruistic, economic or political goals in compliance with policies. Auditors find it difficult to directly determine the "authenticity" and thus adopt a more conservative pricing strategy. They need to conduct a comprehensive assessment in combination with industry characteristics and the historical behavior of the enterprise.

Further analysis shows that the nature of property rights plays a significant regulatory role in the relationship between the two: the equity structure of state-owned enterprises is complex, there is a problem of owner absence, and they are closely related to the government. Donation behaviors are often associated with policy goals. Meanwhile, the cost of media supervision over state-owned enterprises is relatively high. Once an audit fails, it is easy to trigger government accountability or

negative reports. Therefore, auditors will be more cautious when assessing the motives of state-owned enterprises' donations. For instance, they will focus on examining whether the donations are used to cover up violations, which reinforces the positive correlation between the two. In contrast, non-state-owned enterprises are subject to stronger market constraints. Their donation behaviors need to focus on efficiency and have higher information transparency. They will proactively disclose donation details. Therefore, auditors' assessment of the donation risks of non-state-owned enterprises is more rational, and the positive correlation between the two is relatively weak.

The research implications include: The government needs to improve the standards for disclosing donation information, mandatorily requiring enterprises to disclose the use of funds, decision-making processes and explanations of motives, and reduce information asymmetry. Enterprises should establish a strategic-oriented donation mechanism, avoid opportunistic behavior, and integrate donations with long-term development goals. Auditors need to enhance their risk identification capabilities and formulate differentiated audit strategies in combination with donation motives, industry characteristics and corporate governance structures. Future research can further subdivide donation motivations, such as strategic or self-interested, or analyze long-term dynamic relationships or explore industry and regional heterogeneity.

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