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CORPORATE GOVERNANCE MECHANISMS AND AUDIT PRICING: EVIDENCE ON CEO ACCOUNTING EXPERTISE AND AUDIT COMMITTEE INDEPENDENCE IN AN EMERGING MARKET

MECANISMOS DE GOBIERNO CORPORATIVO Y PRECIOS DE AUDITORÍA: EVIDENCIA SOBRE LA EXPERIENCIA CONTABLE DE LOS DIRECTORES GENERALES Y LA INDEPENDENCIA DE LOS COMITÉS DE AUDITORÍA EN UN MERCADO EMERGENTE.

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ABSTRACT

This study examines the influence of CEO accounting expertise and audit committee independence on audit fees, with a focus on listed firms in the Sultanate of Oman. Drawing on audit risk and corporate governance theories, the research investigates both the individual and interactive effects of these governance mechanisms on audit pricing. While previous studies have explored these relationships in developed economies, limited empirical evidence exists for emerging markets, particularly in the Gulf Cooperation Council (GCC) region. This study addresses this gap by analyzing a sample of 1,313 firm-year observations from companies listed on the Muscat Stock Exchange. Using multiple linear regression models, the analysis tests the direct effects of CEO accounting expertise and audit committee independence, as well as their interaction, on audit fees. The results reveal that CEO accounting expertise is negatively associated with audit fees, suggesting that CEOs with financial knowledge reduce auditors' perceived engagement risk. In contrast, audit committee independence shows a marginally positive relationship with audit fees, indicating a demand for higher audit assurance. Importantly, the interaction between CEO expertise and audit committee independence is positively and significantly related to audit fees, implying that auditors respond to dual-layered governance strength with increased audit effort and cost. This study contributes to the literature by offering new insights into how governance dynamics influence audit pricing in an emerging market context. The findings have implications for auditors, boards, and policymakers seeking to enhance audit quality and governance effectiveness within Oman and similar institutional settings.

KEYWORDS:

Audit fees, CEO accounting expertise, Audit committee independence, Oman.

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RESUMEN

Este estudio examina la influencia de la experiencia contable del director ejecutivo y la independencia del comité de auditoría en los honorarios de auditoría, centrándose en las empresas que cotizan en bolsa en la Sultanía de Omán. Basándose en las teorías del riesgo de auditoría y el gobierno corporativo, la investigación analiza los efectos individuales e interactivos de estos mecanismos de gobierno en la fijación de precios de auditoría. Si bien estudios anteriores han explorado estas relaciones en economías desarrolladas, existen pocas pruebas empíricas para los mercados emergentes, en particular en la región del Consejo de Cooperación del Golfo (CCG). Este estudio aborda esta laguna mediante el análisis de una muestra de 1,313 observaciones de empresas cotizadas en la Bolsa de Mascate. Utilizando modelos de regresión lineal múltiple, el análisis evalúa los efectos directos de la experiencia contable del director ejecutivo y la independencia del comité de auditoría, así como su interacción, sobre los honorarios de auditoría. Los resultados revelan que la experiencia contable del director ejecutivo está negativamente relacionada con los honorarios de auditoría, lo que sugiere que los directores ejecutivos con conocimientos financieros reducen el riesgo percibido por los auditores. Por el contrario, la independencia del comité de auditoría muestra una relación marginalmente positiva con los honorarios de auditoría, lo que indica una demanda de mayor garantía de auditoría. Es importante destacar que la interacción entre la experiencia del director ejecutivo y la independencia del comité de auditoría está relacionada de manera positiva y significativa con los honorarios de auditoría, lo que implica que los auditores responden a la fortaleza de la gobernanza de doble capa con un mayor esfuerzo y coste de auditoría. Este estudio contribuye a la literatura al ofrecer nuevas perspectivas sobre cómo la dinámica de la gobernanza influye en la fijación de precios de auditoría en el contexto de los mercados emergentes. Los resultados tienen implicaciones para los auditores, los consejos de administración y los responsables políticos que buscan mejorar la calidad de la auditoría y la eficacia de la gobernanza en Omán y entornos institucionales similares.

PALABRAS CLAVE:

Honorarios de auditoría, experiencia contable del director ejecutivo, independencia del comité de auditoría, Omán.

1. INTRODUCTION

The issue of audit fees has become a prominent area of focus in auditing research due to its implications for audit quality, auditor independence, and client risk assessments. Furthermore, the audit fee functions as an indicator of the auditor's assessment of audit and business risks, the complexity of the client company, the effectiveness of internal controls, and the quality of corporate governance (Simunic, 1980; Hay et al., 2006). Empirical studies indicate that the determinants of audit fees extend beyond firm size or audit complexity, incorporating governance-related factors such as the capabilities of senior management and the independence of oversight bodies, including the audit committee (Abbott et al., 2003; Bryan & Mason, 2016). Examining the factors that influence audit pricing is essential, as it enables auditors and other stakeholders to assess equity and fairness in the audit process.

While numerous studies have investigated the determinants of audit fees globally, a notable research gap persists concerning emerging markets, particularly within the Gulf Cooperation

Council (GCC) countries. Oman represents a unique case within the audit landscape, characterized by evolving corporate governance regulations, increased demands for financial information, and ongoing oversight by the Capital Market Authority. Despite these developments, there is a paucity of research on the impact of governance factors—such as the financial expertise of CEOs and the independence of audit committees—on audit fees in Oman. This lack of specific evidence complicates the understanding of how established determinants of audit fees operate in contexts characterized by concentrated ownership, a scarcity of institutional investors, and evolving regulations (Alajmi et al., 2009; Alqatamin et al., 2020).

This research contributes to the audit pricing literature by investigating the individual and combined effects of CEO accounting expertise and audit committee independence on audit fees in publicly traded companies in Oman. Previous studies have indicated that a CEO with financial literacy can mitigate audit risk (Kalelkar & Khan, 2016) and that increased audit committee independence may sometimes result in a higher demand for quality audits (Ali et al., 2018). However, there is a limited understanding of the interaction between these two governance mechanisms, particularly in emerging markets. By focusing on the Omani capital market, this study provides new insights into how these governance mechanisms collectively influence the pricing strategies of external auditors.

The significance of this research lies in its dual contribution to both theoretical and practical domains. Theoretically, it enhances the understanding of how corporate governance mechanisms, specifically the interplay between executive competence and board independence, jointly influence audit pricing decisions, especially in developing economies. Practically, the findings offer valuable insights for regulators, corporate governance bodies, and audit firms in Oman by highlighting how differences in governance structures affect audit cost considerations. Consequently, the research provides empirical observations that aid in formulating governance policies aligned with international standards, thereby fostering improved financial transparency and institutional accountability in the region (Al-Busaidi & Khan, 2019; Rezaee et al., 2021).

The study is structured into five main sections. The introduction outlines the research background, objectives, and significance. The literature review and hypotheses development present relevant theoretical perspectives and prior empirical findings. The research methodology section explains the research design, variable definitions, and regression models. The results and discussion section reports and interprets the empirical findings. Finally, the conclusion summarizes the key results, contributions, limitations, and directions for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 CEO accounting expertise and audit pricing

Research on audit pricing has established that auditors consider both audit and business risks when setting audit fees. Among the various factors influencing these risk assessments, the professional background and financial expertise of the Chief Executive Officer (CEO) are particularly significant. CEOs with experience in accounting or finance are associated with higher-quality financial reporting, enhanced internal controls, and more effective corporate governance. These attributes collectively lead to a reduction in perceived audit risk, potentially resulting in lower

audit fees. Kalelkar and Khan (2016) provide empirical evidence of this relationship in a panel study of U.S. companies from 2004 to 2013. They assess CEO financial experience based on previous roles in accounting or finance, such as auditor, Chief Financial Officer (CFO), or controller, and demonstrate that companies with CEOs possessing such experience consistently incur lower audit fees. This is because auditors generally perceive these executives as less likely to engage in earnings manipulation or financial misreporting, thereby reducing engagement risk. The authors emphasize that their findings remain robust across various model specifications that account for firm-specific characteristics, CFO traits, and audit committee membership. Their research indicates that CEO financial experience plays a crucial role in achieving cost efficiencies by alleviating the perceived burden on auditors and streamlining the audit process.

Rezaee, Asiaei, and Safdel (2021) provide further empirical evidence by examining the relationship between CEO characteristics and financial restatements, utilizing data from firms listed on the Iranian stock exchange. Consistent with prior research, the study defines CEO financial expertise as possessing formal accounting qualifications or previous positions involving accounting responsibilities. The authors identify a significant negative correlation between CEO financial expertise and the incidence of financial restatements, indicating that such expertise contributes to the production of more accurate and reliable financial reports. Notably, this effect is more pronounced when the CEO is internally promoted and possesses substantial decision-making authority. Given that auditors often view financial restatements as indicators of increased audit risk, a reduced frequency of these restatements could influence auditors' risk assessments, potentially resulting in lower audit fees. These findings are consistent with the upper echelons theory by Hambrick and Mason (1984), which suggests that the experiences, values, and cognitive frameworks of senior managers impact organizational outcomes. Consequently, CEOs with accounting or financial expertise are regarded as a crucial source of strategic human capital, enhancing both internal governance and the quality of financial decision-making, while also strengthening external perceptions of reporting credibility. From an auditor's perspective, such expertise serves as a favorable signal, often justifying a narrower audit scope and leading to cost savings through reduced audit fees.

Furthermore, Chief Executive Officers (CEOs) with expertise in accounting are more inclined to facilitate effective collaboration with audit committees by actively participating in technical and financial discussions. Their understanding of accounting principles enhances the board's capacity to oversee operations, thereby fortifying internal governance structures and reducing the likelihood of earnings manipulation or other aggressive financial reporting practices. This improvement in governance is reflected in the auditor's risk assessment model, leading to a diminished perception of control risk. As a result, auditors are expected to perform less extensive testing and adopt a narrower audit scope, ultimately resulting in a decrease in audit fees (Kalelkar & Khan, 2016; Rezaee et al., 2021).

Based on the above discussion, evidence suggests that CEO accounting expertise contributes to enhanced reporting quality, reduced audit risk, and ultimately, lower audit fees. This relationship is tested by the following hypothesis:

H1. There is a negative association between CEO accounting expertise and audit pricing.

2.2 Audit committee independence and audit pricing

Audit committees are integral to corporate governance, primarily by ensuring the precision of financial reporting and the independence and efficacy of external auditors. Numerous empirical studies have established a positive correlation between the independence of audit committees and the associated audit fees. This correlation suggests that more independent committees tend to demand higher quality audits and broader audit scopes. Research conducted by Harjoto et al. (2015), Johl et al. (2012), Carcello et al. (2002), Abbott et al. (2003), Goodwin-Stewart and Kent (2006), and Gul et al. (2008) all indicate that greater audit committee independence is linked to increased audit fees. This connection is largely interpreted as evidence that independent committee members are more thorough in their oversight responsibilities and are more inclined to advocate for comprehensive audit procedures to verify the accuracy of financial disclosures. Consequently, the expanded scope and thoroughness of audit work encouraged by such committees result in higher costs for audit engagements.

Abbott, Parker, Peters, and Raghunandan (2003) present empirical evidence indicating a significant positive correlation between the independence of audit committees and the associated audit fees. Their study, which examined a sample of 492 non-regulated companies audited by the Big Five accounting firms, revealed that organizations with audit committees comprised entirely of independent directors incurred higher audit fees. This relationship is attributed to the enhanced ability of independent audit committees to fulfill their oversight responsibilities, necessitating more thorough and comprehensive audit procedures. The increased demands placed on auditors to meet these heightened assurance requirements result in elevated audit costs. The study's findings underscore the critical role of audit committee independence in enhancing the quality of financial reporting through improved oversight and a strong commitment to rigorous external audits.

Ali, Singh, and Al-Akra (2018) present further evidence of the positive correlation between the attributes of audit committees and the audit fees levied on publicly traded companies in Australia. Their study utilizes a composite index to evaluate the effectiveness of audit committees, incorporating elements such as the committee's independence, financial expertise, diligence, and the chair's proficiency. The results demonstrate that more effective audit committees are associated with higher fees for both audit and non-audit services. Among the components of their composite index, the independence of the audit committee is identified as the most critical factor influencing audit fee levels. The authors argue that independent and skilled audit committees are more likely to demand comprehensive audit procedures and greater assurance, resulting in increased auditor involvement and, consequently, higher audit costs. They further assert that independent members are more inclined to prioritize financial disclosure and risk management, thereby enhancing the committee's monitoring effectiveness and increasing the demand for high-quality audits.

Krishnan and Lee (2008) contend that audit committees comprising individuals with expertise in accounting and finance, particularly those who maintain independence, function as more effective internal control mechanisms, especially in environments characterized by elevated litigation risk. Their research suggests that independent audit committees with financial expertise tend to adopt conservative, risk-averse strategies, such as endorsing more comprehensive audit procedures. While these strategies enhance audit quality and control, they also necessitate increased audit efforts, thereby elevating audit fees. Although the primary focus is on the recruitment and roles of

accounting and finance professionals, their findings implicitly highlight the critical role of independence in shaping audit-related decisions and augmenting the effectiveness of audit committees.

The underlying theory of this relationship is based on the governance role performed by independent directors, who serve as fiduciaries for shareholders. Owing to their lack of managerial affiliations, independent members of the audit committee are expected to demonstrate increased objectivity and skepticism in overseeing financial reporting processes. This independence enhances the likelihood that they will critically assess management disclosures and seek additional rigorous audit confirmations. With heightened oversight expectations, auditors frequently expand the scope and volume of their procedures, leading to increased audit effort and complexity. Consequently, audit fees are likely to escalate in response to the enhanced assurance demands engendered by more independent and vigilant audit committees.

Based on the above discussion, the literature supports a positive association between audit committee independence and audit fees, grounded in the notion that independent audit committees demand higher audit quality, thereby increasing the required audit effort. This relationship is tested by the following hypothesis:

H2. There is a positive association between audit committee independence and audit pricing.

2.3 The interaction of CEO accounting expertise and audit committee independence and audit pricing

The interaction between internal governance components, such as the characteristics of the CEO and the independence of the audit committee, exerts a significant influence on decisions related to audit pricing. When a CEO possesses accounting expertise and the audit committee functions with a high degree of independence, a governance synergy may emerge, prompting auditors to expand their audit activities. This expansion results in increased audit fees, reflecting heightened expectations for audit quality and thoroughness. According to Kalelkar and Khan (2016), a CEO with financial expertise can enhance the quality of financial reports while simultaneously reducing perceived audit risks, often leading to lower audit fees. However, they also acknowledge that such expertise might elevate expectations for the audit process itself. In companies led by financially knowledgeable CEOs, particularly those with robust governance frameworks, auditors may be compelled to adhere to more stringent standards of audit diligence and assurance, thereby increasing the associated engagement costs.

Muniandy (2007) conducts a comprehensive analysis of the moderating role of audit committee independence on the relationship between CEO dominance and audit fees. The empirical findings suggest that when a CEO occupies dual roles, audit fees are generally higher due to increased engagement risk. However, this effect is mitigated when audit committees are composed of independent members. The broader implication of these findings is that the combination of executive financial expertise and independent governance structures creates a dual-layered accountability framework. In such contexts, auditors may perceive a need for enhanced procedural rigor and analytical skills, resulting in higher audit fees to accommodate the additional effort required to satisfy both management and board assurance demands.

Abbott et al. (2003) contend that independent audit committees pursue enhanced audit assurance, resulting in the expansion of audit procedures and, consequently, an increase in audit fees. This governance oversight, particularly when coupled with a CEO possessing accounting expertise, renders the audit environment both technically more complex and subject to regulation by informed and skilled stakeholders. The integration of managerial accounting expertise with effective board-level supervision can augment the professionalism of auditors and the associated engagement risks. Consequently, auditors are warranted in charging higher fees to meet the elevated expectations set by both the board and management. This relationship is examined through the following hypothesis:

H3. There is a positive relationship between the interaction of audit committee independence and CEO accounting expertise and audit fees.

3. RESEARCH METHODOLOGY

3.1 Regression models

The hypotheses are tested using two OLS regression models with natural log of audit fees (ADF) as the dependent variable, and CEO accounting expert (CEOEXP), audit committee independence (ACIND), and interaction between CEO accounting expert and audit committee independence (CEO*ACIND) as independent experimental variables.

The full OLS regression models with control variables are specified as follows:

$$ADF = \beta_0 + \beta_1 \text{CEOEXP} + \beta_2 \text{ACIND} + \beta_3 \text{BOIND} + \beta_4 \text{ADFRM} + \beta_5 \text{SIZE} + \beta_6 \text{CURASR} + \beta_7 \text{MTB} + \beta_8 \text{ROA} + \beta_9 \text{LEV} + \beta_{10} \text{LOSS} + \beta_{11} \text{GSG} + \beta_{12} \text{BSG} + \beta_{13} \text{IND} + \varepsilon \dots\dots\dots(1)$$

$$ADF = \beta_0 + \beta_1 \text{CEOEXP} + \beta_2 \text{ACIND} + \beta_3 \text{CEOEXP*ACIND} + \beta_4 \text{BOIND} + \beta_5 \text{ADFRM} + \beta_6 \text{SIZE} + \beta_7 \text{CURASR} + \beta_8 \text{MTB} + \beta_9 \text{ROA} + \beta_{10} \text{LEV} + \beta_{11} \text{LOSS} + \beta_{12} \text{GSG} + \beta_{13} \text{BSG} + \beta_{14} \text{IND} + \varepsilon \dots\dots\dots(2)$$

3.1.1 Dependent variable

ADF	Natural log of audit fees paid to external auditor for annual financial statement audit.
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3.1.2 Independent variables

3.1.2.1 Experimental variables

CEOEXP	1 if CEO is accounting expert and 0 otherwise.
ACIND	Proportion of independent directors on the AC.
CEOEXP*ACIND	Interaction between CEO accounting expert and audit committee independence

3.1.2.2 Control variables

BOIND	Proportion of independent directors on the board.
ADFRM	1 if external auditor is big4 audit firm and 0 otherwise.
SIZE	Natural log of total assets.
CURASR	Current assets scaled by total assets.
MTB	Equity market value scaled by equity book value.
ROA	Net income scaled by total assets.
LEV	Total liabilities scaled by total assets.
LOSS	1 if a firm incurred loss in the current year and 0 otherwise.
GSG	Number of geographic segments.
BSG	Number of business segments.
IND	Indicator variables for industries.

3.2 Sample selection and data

The study is based on Omani firms and covers a period of 18 years from 2005 to 2023. In view of the regulatory nature of financial institutions, banking, finance and investment firms, they were not included in the study. The initial sample, which consists of 1313 firm observations. Data on dependent and independent variables was collected from Datastream, corporate governance reports, the annual reports of the listed companies on the Omani Capital Market.

4. EMPIRICAL RESULTS AND DISCUSSION

4.1 Descriptive results

Table 1 presents the descriptive statistics for the study variables across 1,368 to 1,451 firm-year observations. The mean audit fee (ADF), measured as the natural log, is 8.91, with moderate dispersion (SD = 0.81).

Table 1: Summary statistics

Variable	N	Mean	SD	p25	Median	p75
ADF	1368	8.91	0.81	8.37	8.82	9.23
CEOEXP	1428	0.11	0.31	0.00	0.00	0.00
ACIND	1432	0.84	0.23	0.67	1.00	1.00
BOIND	1432	0.79	0.34	0.57	0.86	1.00
ADFRM	1435	0.56	0.50	0.00	1.00	1.00
SIZE	1434	16.88	1.65	15.69	16.68	18.03
CURASR	1434	0.42	0.26	0.20	0.40	0.62
MTB	1372	2.96	92.33	0.38	1.07	1.86

ROA	1434	0.06	0.23	0.00	0.04	0.09
LEV	1434	0.55	0.52	0.26	0.48	0.71
LOSS	1451	0.23	0.42	0.00	0.00	0.00
GSG	1376	2.04	1.61	1.00	2.00	3.00
BSG	1376	1.59	1.13	1.00	1.00	2.00

Descriptive statistics reveal that, on average, 11% of the CEOs in the sample have accounting experience (CEOEXP = 0.11). In contrast, the indicators of governance strength are notably robust, with the audit committee independence score averaging 0.84 (ACIND) and the board independence score at 0.79 (BOIND). Furthermore, 56% of the companies engage the services of Big 4 audit firms (ADFRM = 0.56), reflecting a moderate concentration among major audit service providers. The average organizational size (SIZE), derived from the natural logarithm of total assets, is 16.88. Additionally, current assets constitute 42% of total assets (CURASR = 0.42), suggesting a healthy liquidity position. The mean market-to-book ratio (MTB) is 2.96; however, the high standard deviation (SD = 92.33) indicates significant outliers in the sample estimation. Profitability, as indicated by the return on assets (ROA), is relatively low, with an average of 0.06, while financial leverage (LEV) averages 0.55, indicating a moderate level of debt financing. Approximately 23% of the firms in the sample reported a net loss during the specified period (LOSS = 0.23). Regarding operational diversification, the firms have an average of 2.04 geographic segments (GSG) and 1.59 business segments (BSG), reflecting a moderate degree of diversification across markets and industries.

4.2 Univariate results

Table 2 presents the correlation matrix, offering preliminary insights into the majority of variables associated with audit pricing and highlighting potential multicollinearity issues among the independent variables.

The correlation analysis reveals that the dependent variable, audit fees (ADF), exhibits a significant positive correlation with several explanatory variables. Notably, ADF demonstrates a strong positive correlation with company size (SIZE) ($r = 0.80$, $p < 0.01$), suggesting that larger companies incur higher audit fees, likely due to the increased complexity and scale of auditing them. Furthermore, ADF is significantly and positively correlated with the employment of Big 4 auditors (ADFRM; $r = 0.40$, $p < 0.01$), supporting the notion that prominent audit firms can command higher fees. Additionally, other variables, such as return on assets (ROA), number of geographic segments (GSG), and number of business segments (BSG), also exhibit positive associations with audit fees, although these relationships are relatively weaker.

In contrast, the audit fee (ADF) demonstrates an inverse relationship with the current assets ratio (CURASR; $r = -0.12$, $p < 0.01$) and the occurrence of losses (LOSS; $r = -0.23$, $p < 0.01$), suggesting that firms with higher liquidity or weaker financial performance tend to incur lower audit fees. Concerning significant governance elements, the CEO's accounting experience (CEOEXP) does not show any linear relationship with audit fees ($r = -0.01$), whereas the independence of the audit committee (ACIND) exhibits a slight, statistically insignificant positive correlation with ADF ($r = 0.02$). Notably, ACIND is significantly linked to CEOEXP, although this connection is negative

and weak ($r = -0.07$, $p < 0.01$), warranting further investigation through multivariable analysis. Board independence (BOIND) has a moderate and statistically significant association with audit committee independence (ACIND) ($r = 0.49$, $p < 0.01$), consistent with their conceptual similarity as indicators of governance quality. Apart from the strong correlation between the audit committee's financial expertise (ADF) and firm size (SIZE) ($r = 0.80$) and the relatively strong link between ACIND and BOIND, other correlation coefficients are below 0.50. This outcome supports the assumption that multicollinearity is unlikely to pose a significant issue in subsequent regression analyses; however, caution is advised when interpreting models that include SIZE or governance variables that are correlated.

The correlation results provide preliminary support for several expected relationships in the audit pricing literature and affirm the appropriateness of including these variables in the regression model.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) ADF	1.00												
(2) CEOEXP	-0.01	1.00											
(3) ACIND	0.02	-0.07*	1.00										
(4) BOIND	-0.01	-0.03	0.49*	1.00									
(5) ADFRM	0.40*	-0.01	0.15*	0.03	1.00								
(6) SIZE	0.80*	0.02	-0.03	-0.07	0.40*	1.00							
(7) CURASR	-0.12*	-0.11*	0.10*	0.02	-0.14*	-0.25*	1.00						
(8) MTB	0.05	-0.01	0.01	0.02	0.03	0.05	-0.03	1.00					
(9) ROA	0.11*	0.00	-0.03	-0.07	0.03	0.15*	0.10*	0.00	1.00				
(10) LEV	0.04	0.01	-0.07*	-0.03	-0.09*	-0.06	0.00	0.01	-0.23*	1.00			
(11) LOSS	-0.23*	-0.08*	-0.07*	-0.02	-0.22*	-0.32*	-0.11*	-0.04	-0.41*	0.28*	1.00		
(12) GSG	0.07*	0.13*	0.07	0.10*	-0.01	-0.01	0.10*	-0.02	0.01	0.00	-0.01	1.00	
(13) BSG	0.14*	-0.14*	0.05	0.05	0.01	0.14*	0.17*	-0.01	0.04	-0.07*	-0.02	-0.10*	1.00

See Table 2 for variable definition.

4.3 Regression results

The results reported by Table 3 from multiple regression analysis examining the key drivers affecting audit fees (ADF) in terms of CEO accounting expertise (CEOEXP) and audit committee independence (ACIND), while adjusting for relevant firm-level and governance controls. The full model exhibits large explanatory power, reflected in an R-squared measure equal to 0.7124, meaning that 71% of audit fee variance is explained by model variables. In addition, the model is statistically significant (Prob > F = 0.0000), thus confirming that the set of independent variables jointly explains the variation in audit fees.

Table 3: Regression results for direct effect

Variable	Coefficient	std.	t	P>t
CEOEXP	-0.08***	0.03	-2.59	0.01
ACIND	0.17*	0.09	1.88	0.06
BOIND	-0.11	0.10	-1.15	0.25
ADFRM	0.18***	0.02	8.55	0.00
SIZE	0.34***	0.01	40.49	0.00
CURASR	0.20***	0.03	6.81	0.00
MTB	0.00***	0.00	8.01	0.00
ROA	-0.00	0.07	-0.07	0.95
LEV	0.12***	0.02	7.13	0.00
LOSS	0.06	0.05	1.08	0.28
GSG	0.04***	0.01	5.17	0.00
BSG	0.03**	0.01	2.15	0.03
IND		Yes		
cons	2.52***	0.14	17.66	0.00
Number of obs	= 1313			
Prob > F	= 0.0000***			
R-squared	= 0.7124			
*p<0.10, **p<0.05, ***p<0.01				
See Table 2 for variable definition.				

The regression analysis reveals that the Chief Executive Officer's accounting experience (CEOEXP) is associated with a statistically significant negative coefficient ($\beta = -0.08$, $p < 0.01$). This finding suggests that CEOs possessing an accounting background tend to incur lower audit fees, thereby supporting the hypothesis that such expertise mitigates risk perception and facilitates the engagement process. Additionally, audit committee independence (ACIND) demonstrates a marginally significant positive relationship with audit fees ($\beta = 0.17$, $p < 0.10$), indicating that independent committees may require additional audit work, leading to increased fees.

The control variables examined include the engagement of a Big 4 auditor (ADFRM), firm size (SIZE), liquidity status (CURASR), market value ratios (MTB), leverage levels (LEV), and the extent of both geographic (GSG) and business (BSG) activities, all of which exhibit statistically significant positive correlations with audit fees ($p < 0.05$). Among these, firm size exerts the most

pronounced effect ($\beta = 0.34$, $p < 0.01$), reinforcing the well-established association between firm size and audit fees. In contrast, board independence (BOIND), profitability (ROA), and loss occurrences (LOSS) do not yield statistically significant results, indicating their lack of substantial influence on audit fees in this context. Overall, these results corroborate the study's hypotheses: executive accounting expertise appears to reduce audit costs, whereas greater audit committee independence seems to elevate them. These findings underscore the importance of considering both governance structures and managerial expertise when analyzing variations in audit fees.

Table 4: Regression results for interaction effect

Variable	Coefficient	std.	t	P>t
CEOEXP	-0.07***	0.03	-2.72	0.01
ACIND	0.13	0.08	1.53	0.13
CEOEXP*ACIND	0.16**	0.08	2.05	0.04
BOIND	-0.11	0.09	-1.13	0.26
ADFRM	0.18***	0.02	8.47	0.00
SIZE	0.34***	0.01	41.13	0.00
CURASR	0.21***	0.03	6.95	0.00
MTB	0.00***	0.00	8.00	0.00
ROA	-0.01	0.07	-0.09	0.93
LEV	0.12***	0.02	7.08	0.00
LOSS	0.06	0.05	1.05	0.30
GSG	0.04***	0.01	4.65	0.00
BSG	0.03**	0.01	2.21	0.03
IND		Yes		
cons	2.65***	0.18	15.10	0.00
Number of obs = 1313				
Prob > F = 0.0000***				
R-squared = 0.7128				
*p<0.10, **p<0.05, ***p<0.01				
CEOEXP*ACIND is the interaction term of CEO expertise and the mean centered of ACIND.				

Table 4 presents the outcomes of regression analyses examining the interaction between audit committee independence (ACIND) and CEO accounting expertise (CEOEXP) on audit fees (ADF). The model demonstrates high statistical significance (Prob > F = 0.0000) and substantial explanatory power ($R^2 = 0.7128$), indicating that 71% of the variance in audit fees is accounted for by the independent and control variables in the analysis. In alignment with previous research, the coefficient for CEOEXP is negative and statistically significant ($\beta = -0.07$, $p < 0.01$), suggesting that firms with CEOs possessing accounting expertise tend to incur lower audit fees, likely due to auditors perceiving a reduced risk of engagement.

While audit committee independence (ACIND) continues to exhibit a positive direct effect, it does not achieve statistical significance in this analysis ($\beta = 0.13$, $p = 0.13$). This suggests that audit committee independence alone does not directly affect audit fees when potential interaction effects are considered. In contrast, the interaction term ($\text{CEOEXP} \times \text{ACIND}$) demonstrates a positive and statistically significant relationship ($\beta = 0.16$, $p < 0.05$). This finding underscores a critical insight: the relationship between CEO accounting expertise and audit fees is dependent on the degree of audit committee independence. Specifically, in organizations where an accounting-expert CEO operates in conjunction with a highly independent audit committee, audit fees tend to be higher. This is likely because auditors anticipate more rigorous scrutiny, elevated audit quality standards, and increased complexity in engagements due to the dual-layered governance structure. The control variables conform to expectations and exhibit economically significant magnitudes. Notably, factors such as firm size (SIZE), association with a Big 4 audit firm (ADFRM), current asset ratio (CURASR), market-to-book ratio (MTB), leverage (LEV), geographic segmentation (GSG), and business segmentation (BSG) display statistically significant positive correlations with audit fees ($p < 0.05$ or better). However, board independence (BOIND), return on assets (ROA), and the presence of a loss position (LOSS) are statistically insignificant, indicating they do not have a measurable impact on audit fees in the interactive model.

5. Summary and conclusion

This study explores the impact of Chief Executive Officers' accounting expertise and the independence of audit committees on the determination of audit fees, utilizing a panel data sample comprising 1,313 firm-year observations. Grounded in audit risk and corporate governance theories, the research investigates both the direct and interactive effects of these governance characteristics on auditor pricing, alongside a comprehensive array of firm-specific control variables.

The findings from the direct effects model reveal that firms led by CEOs with accounting expertise tend to incur significantly lower audit fees. This supports the hypothesis that financial acumen in executives enhances financial reporting quality and reduces perceived audit risk. Conversely, audit committee independence is positively associated with audit fees, albeit with marginal significance, suggesting that independent committees may demand greater assurance, as governance theories advocate for enhanced oversight. Regarding control variables, factors such as firm size, auditor type (particularly Big 4 auditors), liquidity, market valuation, leverage, and operational complexity (measured by business and geographic segmentation) exhibit a positive and significant impact on audit fees. In contrast, variables such as profitability (assessed through return on assets), board independence, and financial loss occurrences do not demonstrate a statistically significant relationship with audit pricing. The interaction model uncovers a critical insight: the combined effect of a CEO's financial expertise and a highly independent audit committee is associated with significantly higher audit fees. While a CEO's financial expertise generally correlates with lower fees, and audit committee independence does not exhibit a significant effect in the interaction model, their joint presence strongly influences auditors' pricing decisions. This suggests that auditors anticipate a more rigorous and demanding auditing environment when both governance factors are robust, leading to increased audit effort and, consequently, higher fees. The results underscore the importance of considering the interaction between executive competence and board monitoring when evaluating the determinants of audit fees.

This research contributes to the existing literature on audit pricing and corporate governance in several significant ways. Firstly, it corroborates previous findings that a CEO's accounting expertise is associated with reduced audit fees, thereby supporting the notion that such expertise enhances internal oversight and reduces auditors' perceived engagement risk. Additionally, it provides partial validation for demand-side governance theory by identifying a modest positive relationship between the independence of audit committees and audit fees, suggesting that independent committees are more likely to demand rigorous auditing processes. Notably, the study reveals a significant interaction effect: when a CEO's financial expertise is combined with a highly independent audit committee, audit fees increase. This indicates that auditors perceive the combination of executive expertise and robust board oversight as indicative of a more complex audit environment, necessitating increased audit effort and corresponding fee adjustments. Collectively, these findings underscore the importance of considering governance mechanisms in tandem rather than in isolation, as their interactions can significantly influence audit outcomes. Furthermore, from a practical perspective, these insights are pertinent to audit firms as they develop engagement pricing strategies and to corporate boards aiming to balance stringent governance with cost-effectiveness. Future research could build on this framework by including additional moderating factors—such as the financial expertise of audit committee members, CEO duality, or board tenure—and empirically testing the model across various institutional contexts.

While this study provides valuable insights, it is not devoid of limitations. Firstly, the reliance on cross-sectional data collected during a specific period may constrain the temporal applicability of the findings. Secondly, employing a binary approach to represent CEO accounting knowledge may not adequately capture the diversity of individual experiences, such as the duration, depth, or relevance of their past experience. Thirdly, focusing solely on audit quality in terms of audit fees neglects other fee-independent indicators, such as modifications in audit reports or the promptness of the audit process. Fourthly, the study does not explicitly consider external factors, such as regulatory influences, competitive dynamics in the audit market, or industry-specific challenges, which could affect audit pricing. Future research could be enhanced by adopting longitudinal study designs, incorporating more sophisticated measures of governance attributes, and examining the dynamic interactions among the CEO, board, and audit firm characteristics to gain a deeper understanding of the factors influencing audit pricing.

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