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# Are family firms less audit-risky? Analysing audit fees, hours and rates

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We examine differences in audit scope between publicly-listed family and non-family firms in Israel, using a unique dataset that includes external and internal audit hours, audit fees and billing rates. We find that external auditors charge lower average hourly rates for family firms than for non-family firms. However, audit effort, measured as the number of audit hours, is lower in family firms than in non-family firms, but the difference is not statistically significant. Moreover, the number of internal audit hours is smaller, on average, in family firms than in non-family firms. Our findings suggest family ownership affects audit mainly when the family is actively involved in the firm's management. We also examine a subsample of eponymous family firms and obtain similar results. Analysis of a sub-sample of firms that switched from family to non-family status or vice-versa shows that audit fees and hourly rates decrease (increase) when a firm changes its status from non-family (family) to family (non-family) status. Lastly, we find that the reporting quality of family firms is higher than that of non-family firms. Overall, our results suggest that auditors perceive family firms to be less audit-risky.

Keywords: family firms; auditing; audit risk; audit hours; audit rate; internal control JEL Classification: G32; M41; M42

# 1. Introduction

Family firms, which constitute a significant part of the economy, have attracted the attention of researchers across different disciplines. The literature identifies traits characterising family firms. First, family firms are more concerned with preservation, long-term prosperity, and the reputation of the controlling family (Prencipe et al. 2014), and care for these values more than they care for short-term profitability (Anderson and Reeb 2003, Burkart et al. 2003). Second, family firms act more cautiously and take fewer risks (Miller and Breton-Miller 2005, Miller et al. 2008). Hence, prior literature found family firms are less likely to engage in earnings

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manipulation, exhibit lower abnormal accruals, lower likelihood of earnings smoothing, and fewer restatements – all indicating a better quality of financial reporting relative to non-family firms (see Ali et al. 2007, Cascino et al. 2010, DeFond and Zhang 2014, Khalil and Mazboudi 2016, Prencipe et al. 2011, Tong 2008, and Wang 2006).

In this paper, we focus on an additional dimension of financial reporting quality by examining the external and internal audit scope of publicly listed family firms. In light of theoretical research that analysed the demand for audit services (e.g. Baiman et al. 1987, Knechel and Willekens 2006), we conjecture that the attributes of family firms reduce this demand and examine this research question using a unique dataset that includes audit hours and audit rates. When external auditors perceive reporting quality to be low, they may increase the scope of the audit by increasing audit hours, their risk premium by charging higher hourly rates, or both. However, as audit hours are not readily available for US and European firms, most studies use audit fees as a measure of audit effort. For example, Ghosh and Tang (2015) find that auditors charge family firms lower audit fees than non-family firms, and conclude that family firms have superior reporting quality. However, their study is silent on the effect of family ownership on each component of audit fees: audit hours and hourly rate. Hence, it is not clear what is the mechanism that drives down the audit fees for family firms.

Another important element in determining external audit scope is internal controls (Simunic 1980). Prawitt et al. (2009) argue that stronger internal controls have a moderating effect on earnings management. If family firms implement stronger internal controls than non-family firms, that may reduce the required amount of work and the riskiness for the external auditors. Relatedly, Weiss (2014) finds that family firms record fewer material internal control weaknesses than non-family firms. However, the weaknesses recorded by family firms tend to be more severe. Bardhan et al. (2015) report that family firms exhibit more material weaknesses than non-family firms, but that the greater likelihood of material weaknesses is driven by family firms with dual-class shares. Therefore, whether family firms exhibit stronger or weaker internal controls remains an open question.

Our analysis is based on data from all publicly listed firms on the Tel Aviv Stock Exchange (*TASE*) in Israel from 2006 to 2018. During the sample period, public corporations in Israel were required to disclose, in their annual reports, the total remuneration paid to external auditors for audit services and the work hours invested in providing these services. Both figures enable a calculation of auditors' hourly billing rates. In addition, public firms must report the scope of employment of their internal auditors. Reporting regulations in Israel also require public firms to explicitly detail any family relationships between stakeholders, directors, and managers, which makes the identification of family firms simpler and reliable. The availability of both comprehensive audit data and transparent family ownership supports an analysis of both external and internal audit scope.

We begin the analysis with an examination of the association between family ownership and audit fees. Consistent with prior literature, we find that family firms pay, on average, lower audit fees than non-family firms. Next, we separate fees to hours and rates. We find that auditors charge lower hourly rates for family firms than for non-family firms. As auditors' rates reflect their risk premia, this finding suggests that auditors perceive family firms as less risky. Analysing audit hours, we do not find a significant difference between the number of audit hours in family and non-family engagements. That is, auditors in family firms exert similar effort as in nonfamily firms in terms of total hours. Taken together, our findings suggest that it is the billing rate, rather than the number of hours, which drives the lower audit fees paid by family firms compared to non-family firms.

Not all family firms exhibit lower audit rates. We find that lower rates are concentrated in the group of family firms managed by a family member; that is, firms in which a member of the

controlling family serves as the chief executive officer (CEO) or other type of top manager. Conversely, family firms with no direct involvement of the family do not record lower rates (nor audit hours) compared with non-family firms. Our interpretation of these results is that the special attention given to preservation, long-term prosperity, and reputation, all of which diminish audit risk, occurs mainly when the family is actively involved in managing the firm. Otherwise, the influence of these factors is too weak to significantly reduce the firm's audit risk. To reinforce the conclusion that strong ties between the controlling family and the firm magnify the influence of family ownership on the audit process, we examine eponymous firms – family firms that are named after their founding family – and find similar results as in the sample of family firms with direct involvement of the family.

We also use internal audit hours to analyse control risk. This measure represents the effort exerted by the internal audit function, where greater internal control efforts are associated with lower control risk. We find that family ownership does not significantly affect internal audit hours. However, firms managed by family members record fewer internal auditing hours. This finding is consistent with the interpretation that family management significantly magnifies the special characteristics of family firms.

To establish a causal link between family status and lower audit risk, we identify a subsample of companies that switched from non-family to family status and from family to nonfamily status. We show that total audit fees and hourly rates declined (increased) when the firm became a family firm (non-family firm). A regression analysis of this sub-sample shows similar results: the switching firms paid lower audit fees and were charged lower hourly rates in the years under family ownership compared to the years under non-family ownership.

Finally, we examine the accruals quality to confirm that the reduced efforts of both internal and external auditors do not hinder reporting quality, which is the product of the auditing process. The results indicate that family firms have higher accrual quality than non-family firms. Hence, there is no evidence that the reporting quality of family firms is damaged because of the lower efforts invested in it.

We contribute to the literature by analysing the effect of family ownership on both audit effort and audit risk. Our unique data enables us to conclude that it is the audit hourly rates (reflecting risk), rather than the audit hours (reflecting effort), that drives down audit fees charged from family firms. Thus, we provide direct evidence on the relation between the audit process and family firm ownership. We also contribute to the literature by analysing both external and internal audit hours. The results of the analysis on internal audit hours are consistent with the findings on external auditing and suggest that the reduced audit billing rates do not stem from more intense internal audit in family firms. Moreover, the combined findings of lower internal audit hours, similar external audit hours and lower audit rates provide comprehensive evidence that family firms produce higher quality financial reporting, hence perceived by auditors as less risky. Finally, our study accentuates the importance of active family involvement and family heritage. The findings suggest that family ownership affects the audit process primarily when a family member serves as a top executive in the firm. A similar effect occurs in the case of eponymous firms.

#### 2. Prior literature and research questions

Family firms have certain features that may affect their auditing process. Prior studies have shown that family members are motivated to preserve the long-term prosperity of the firm rather than its short-term profitability (Anderson and Reeb 2003, Miller and Breton-Miller 2005, Miller et al. 2008). In addition, given the typical involvement of family members in the management and monitoring of the firm, family firms are characterised by fewer

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owner-manager conflicts than non-family firms (Anderson and Reeb 2003, Prencipe et al. 2014). Hence, family involvement may lead family firms to report more conservatively, take fewer risks, and discourage manipulation of financial reporting, which often stems from short-term managerial incentives. Moreover, the strong identification of family members with the firm, and the desire to protect its reputation are important drivers of business decisions (Anderson et al. 2003, Prencipe et al. 2014, Wang 2006). This further discourages family firms from engaging in earnings management which endangers both family and firm reputation. The literature indicates that these forces are more dominant in family firms in which a member of the controlling family serves as a top manager compared with family firms in which the controlling family takes a more passive role (e.g. Anderson and Reeb 2003, Maury 2006, Bennedsen et al. 2007, Yang 2010, Prencipe et al. 2011, and Prencipe et al. 2014).

Consistent with the weaker motivation and stronger disincentives of family firms to manipulate financial reporting, prior studies report that family firms have better earnings quality than non-family firms, reflected in lower abnormal accruals, lower likelihood of earnings smoothing, and greater earnings informativeness (Ali et al. 2007, Cascino et al. 2010, Prencipe et al. 2011, Tong 2008, Wang 2006). Furthermore, Khalil and Mazboudi (2016) and Tong (2008) show that family firms record fewer restatements, while Khalil et al. (2011) argue that family firms exhibit a lower likelihood of auditor resignation.

However, there are contradicting findings, mostly from China and Taiwan. These studies find that family firms have less informative accounting earnings, higher discretionary accruals, and an equal likelihood of restatements (Ding et al. 2011, Sue et al. 2013, Yang 2010). Furthermore, Chen et al. (2008) examine voluntary disclosure practices and find that family firms provide fewer earnings forecasts and conference calls, but more earnings warnings than non-family firms, consistent with the argument that management of family firms have longer business horizon and greater concerns for reputation and litigation costs. Thus, the question whether family firms have higher financial reporting quality relative to non-family firms has no definit answer.

In Israel, the regulatory environment is like that in the US. For example, the Securities Commission in Israel have adopted the Sarbanes-Oxley requirements. Weiss (2014) uses a sample of publicly listed firms in Israel and finds that family firms report fewer material weaknesses in internal controls but that these weaknesses are, on average, more severe. The findings of Weiss (2014) are consistent with higher reporting quality for family firms in Israel. Lauterbach and Vaninsky (1999) find that family firms report lower earnings than non-family firms. Due to this similarity to the US, we conjuncture that family firms in Israel have better reporting quality than non-family firms.

Prior studies argue that the demand for audit services is different in family firms than in nonfamily firms due to several reasons. First, as family firms care more about reputation, their longterm going concern, and about mitigating potential conflicts between owners, family firms engage less in earnings management and ensure high quality financial reporting (Miguel et al. 2024). In turn, the higher quality of reporting allows family firms to hire cheaper auditors and pay lower audit fees (Ho and Kang 2013). Second, prior studies (e.g. Weiss 2014) find that family firms have lower leverage, which may reduce the demand for auditing from creditors. Also, family firms are controlled by larger blocks of equity holdings than non-family firms, which may reduce audit risk and hence the demand for audit services by equity holders (Weiss 2014). Consequently, prior studies find that family firms pay, on average, lower audit fees. In contrast, family firms may face agency problems arising from conflicts between family and non-family owners, which are less prevalent in non-family firms (Srinidhi et al. 2014). This last argument suggests an increase in the demand for audit services in family firms resulting in higher audit risk, and higher audit effort (Miguel et al. 2024).

From the auditors' perspective, better reporting quality reflects lower risk of material misstatements, leading to lower potential liability and litigation exposure. While to the best of our knowledge, an analytical study that examines the audit of a family firm has not been published yet, more general theoretical studies on auditing can reason why family firms are likely to require less audit inputs.<sup>1</sup> Simunic (1980) develops a model where profit-maximising riskneutral auditor and auditee jointly determine the cost of the audit (cost per unit of audit times the number of audit units) in a competitive market, linking the cost of the external audit to litigation risk. Knechel and Willekens (2006) argue that demand for external auditing increases when there are multiple stakeholders. In the presence of financial risks and agency costs, stakeholders prefer a higher level of external audit, because each stakeholder has a different demand for control. In addition, the presence of multiple stakeholders allows shifting a share of control costs to other stakeholders. In family firms, however, ownership is more concentrated and the involvement of owners in managing the firm is likely to reduce agency costs, allowing lower control costs. Datar et al. (1991) argue that owners of firms with riskier future cash flows hire higher quality auditors and retain a lower share of the firm, but only if riskier future cash flows do not increase the cost of the audit. As owners of family firms retain a higher percentage of ownership, they might perceive future cash flows to be less risky, which could result in lower auditing costs.

Additional analytical studies examine the role of the auditor in a principal-agent setting. For example, Baiman et al. (1987) study the optimal contracts between the principal (owner) and the agent (manager) and between the principal (owner) and the auditor. Their study shows that hiring an auditor improves the contractual relationship between the principal and the agent. In family firms, the principal-agent problem is mitigated by the stronger ties between the owners and management, thus allowing the firm to reduce the cost of the audit.

Thus, the analytical studies in auditing suggest that auditing family firms is expected to be less costly than auditing non-family firms. Indeed, Ghosh and Tang (2015) examine audit fees and find that auditors charge family firms lower fees relative to non-family firms. They argue that the lower audit fees paid by family firms reflect the reduced effort needed to audit their financial statements. However, the lower fees charged from family firms may stem from two non-mutually exclusive sources. The first is reduced audit effort, meaning that fewer hours are necessary to conduct the audit process. The second is lower auditing rates. Prior literature shows that the hourly auditing rate is affected by perceived client risk. Auditors will charge a risk premium for firms with a substantial risk of earnings manipulation because of increased auditor litigation risk or the need for a higher number of specialised personnel in the auditing team to reduce this risk (Bedard and Johnstone 2004, DeFond and Zhang 2014, Johnstone and Bedard 2001). Therefore, even though Ghosh and Tang (2015) interpret reduced audit fees for family firms as a result of reduced auditing efforts – the difference in the audit process of family firms remains an open question. Our unique dataset enables us to analyse the mechanisms driving audit fees by providing direct evidence of the effect of family ownership on both audit effort and audit risk premium.

Another piece of the auditing puzzle that is mostly unexplored is whether the role of internal audit function varies across family and non-family firms. Weiss (2014) documents that family ownership is significantly associated with fewer material weaknesses in internal controls; however, when such weaknesses occur, they are more acute and associated with lower earnings quality compared with those of non-family firms. Conversely, Bardhan et al. (2015) report that compared with non-family firms, family firms exhibit more material weaknesses in their internal

<sup>&</sup>lt;sup>1</sup>Ye (2023) presents a comprehensive review of the analytical auditing research.

controls, but this result is driven by family firms with dual-class shares. Thus, the existing evidence on control risk in family firms is inconclusive. Our unique data set allows an analysis of internal audit working hours. This input-based measure follows the prior use of the number of employees involved in internal audit as a measure of the internal audit function (Anderson et al. 2012, Goodwin-Stewart and Kent 2006). Moreover, the use of internal audit hours as a proxy for internal audit effort is consistent with our use of external audit hours as a proxy for audit effort. These two-hour-based measures provide a comprehensive view of the efforts exerted, both internally and externally, to prevent material misstatements. Hence, we also examine whether internal auditors of family firms put in fewer hours than internal auditors of non-family firms.

## 3. Data and sample selection

Publicly listed companies in Israel must disclose in the annual report the identity of family ownership, involvement in management, and family relationships among directors, managers and significant stakeholders.<sup>2</sup> Weiss (2014, p. 464) argues that the availability of this information enables a more accurate identification of family firms and allows an evaluation of the strength of the ties between the family and the firm. In addition, companies were obligated to disclose, on a yearly basis, the total remuneration paid to external auditors for auditing services and the work hours invested in providing such services, starting from 2006. Both figures enable a calculation of auditors' average hourly rates. Furthermore, firms should report the scope of employment of internal auditors as the number of working hours per year. Notably, in most countries, firms disclose only the fees paid to the external auditors; thus, data on work hours and hourly rates are unavailable.<sup>3</sup> Likewise, data on internal audit hours are not disclosed to the public. The Appendix provides two examples of the disclosures required by publicly listed firms in Israel during the sample period.

Our sample consists of all firms listed on the *TASE* from 2006 to 2018. We obtain from each firm's annual financial statements the number of family members on the board of directors and in top management. We also collect data on external and internal auditors' hours worked and fees. Similar to Anderson and Reeb (2003), Villalonga and Amit (2006), and Weiss (2014), we classify a firm as a family firm if at least two family members serve either as directors or officers, irrespective of the level of family ownership.<sup>4</sup>

Financial data are extracted from the SuperAnalyst database, which provides financial statement data for publicly-listed firms in Israel.<sup>5</sup> We exclude financial institutions from the initial sample because their financial statements are subject to US regulation, which does not require disclosure of audit hours. We also exclude firms with sales revenue below 10 million Israeli

<sup>&</sup>lt;sup>2</sup>Securities Regulations (Periodic and Immediate Reports); https://www.isa.gov.il/Download/IsaFile\_4948.pdf.

<sup>&</sup>lt;sup>3</sup>Firms report audit hours in Greece (Caramanis and Lennox 2008) and South Korea (Bae et al. 2016). In addition, several studies use proprietary hourly data from big audit firms (Bell et al. 2001; Bedard and Johnstone 2004; Davis et al. 1993; Johnstone and Bedard 2001; O'Keefe et al. 1994). However, these studies usually cover a small sample over a relatively short period of time.

<sup>&</sup>lt;sup>4</sup>We repeat the analysis using an alternative specification in which a firm is considered a family firm only if at least three family members serve as directors and/or officers. We obtain similar results (not reported in tables).

<sup>&</sup>lt;sup>5</sup>We retrieve data from consolidated financial statements. Whenever we have data on audit hours both at the group level and at the reporting publicly-listed firm level, we require that at least 25% of all group-level hours are attributed to the reporting firm to avoid cases in which there are no material audit efforts in the publicly traded reporting firm.

Shekels (ILS), approximately \$2.78 million, because these firms are typically either start-up firms in their early stages, during which financial statements do not capture their research and development activities, or firms in distress.<sup>6</sup> Finally, in cases of firms that changed ownership status during the sample period, we exclude the transition year since we cannot determine when during the year a family started (or ceased) controlling the firm and whether the transition affected the audit in this year.<sup>7</sup> All continuous variables are winsorised at the 1st and 99th percentiles.

The sample includes 421 firms, of which 142 (181) companies are classified as family firms (non-family firms) during the entire sample period (2006–2018), and additional 98 firms switched status during the sample period from family to non-family or vice versa. The number of firm-year observations is 3,607, of which 1,706 firm-year observations (47.3%) are classified as family owned, while the remaining 1,901 observations (52.7%) are classified as non-family owned. These proportions are similar to those reported in Weiss (2014), Kliger et al. (2021) and Abudy and Shust (2022) that examined family firms using data of Israeli firms (45%–48%).

Table 1, panel A, provides the industry composition of the sample. Three industries make most of the sample – Commerce and Service, Real Estate, and Manufacturing (2,884 of the 3,607 observations). In those industries, the proportion of family firms is about 50% of the total observations. The proportion of family firms in the Biomed and Technology industries is lower. Panel B shows the family involvement in the firm. The median of family particpants in the board and as executives is three. In 56% of the sample, the CEO is a member of the family and in 70% of the observations at least one family member serves as a senior executive (either as CEO or in other position). Panel C presents information on audit fees, audit hours and audit rate by industry and classification to family and non-family firms. Audit fees are reported in thousands in Israeli Shekels (ILS) and audit rates are in ILS. In six of the eight industries, including the largest three industries in the sample, average audit fees and average audit hours in family firms are lower than those in non-family firms. The two exceptions are the Investment and Holdings industry and Other, which account for only four percent of the sample. The average audit rate is lower in family firms than in non-family firms in seven of the eight industries (all except Other).

Table 2 reports descriptive statistics for the external and internal audit variables and control variables used in the analyses. We report means, medians and standard deviations for the full sample, and for the subsamples of family and non-family firms. We also report *t*-tests for the differences in means of the subsamples. Consistent with the industry statistics in Table 1, family firms pay significantly lower audit fees. The mean of Ln(Audit Fees) is 13.10 in family firms, lower at the 0.01 level from the mean of 13.33 for non-family firms. The mean of *Ln* (*Audit Hours*) is 7.96 for family firms, which is lower at the 0.01 level than the mean of 8.12 for non-family firms. The mean Ln(Audit Rate) is also lower for family firms (5.13 versus 5.21) at the 0.01 level.<sup>8</sup> Hence, both the number of audit hours and billing rates charged by external auditors are lower for family firms. Table 2 also documents fewer internal audit hours for family firms: the mean Ln(IC Hour) is 5.52, which is lower at the 0.01 level from the mean Ln(IC Hours) of non-family firms (5.71).

<sup>&</sup>lt;sup>6</sup>To calculate US Dollar values, we use the average exchange rate for 2018, which is 3.5949 ILS for \$1. <sup>7</sup>We repeat the analysis without excluding these observations and obtain similar results.

<sup>&</sup>lt;sup>8</sup>Family firms pay an average of 182.63 ILS (\$50.52) per hour, while non-family firms pay 197.16 ILS (\$54.84) per hour (significant at the 0.001 level).

Table 1. Sample selection.	Panel A.	Industry Composition		
	Table 1.	Sample selection.		

	Obs.	F	family firms	Non-family fire	ms	% Family
Biomed	100		17	83		17.0%
Technology	407		124	283		30.5%
Commerce and Services	889		470	419		52.9%
Real Estate	1,046		524	522		50.1%
Manufacturing	949		493	456		51.9%
Investment and Holdings	89		54	35		60.7%
Oil and Gas	79		16	63		20.3%
Other	48		8	40		16.7%
Total	3,607		1,706	1,901		47.3%
Panel B: Family Classif	ication					
	Obs.	Mean	Q1	Median	Q3	Std.
Family Members	1,706	3.09	2.00	3.00	4.00	1.27
Family CEO	1,706	0.56	0.00	1.00	1.00	0.50
Family Manager	1,706	0.70	0.00	1.00	1.00	0.46

#### Panel C: Audit Fees by Industry (Thousands of Israeli Shekels)

		Family firms		Ν	on-family firms	3
	Fees	Hours	Rate	Fees	Hours	Rate
Biomed	170.34	1,486.59	125.84	475.21	2,772.36	173.29
Technology	459.14	2,566.33	191.86	697.47	3,691.98	201.30
Commerce and services	670.26	3,930.14	169.29	697.46	4,022.43	178.02
Real estate	1,340.59	5,085.50	191.52	1,679.94	6,385.33	215.06
Manufacturing	1,102.52	4,441.68	186.44	1,227.55	5,409.86	193.65
Investment & Holdings	3,594.64	21,115.81	172.97	5,638.12	25,479.54	181.67
Oil and Gas	210.70	1,249.27	173.04	997.25	4,181.03	221.91
Other	6,661.25	28,871.24	212.52	2,613.02	12,423.30	198.85

Notes: The sample includes all firms listed on the Tel Aviv Stock Exchange (*TASE*) from 2006 to 2018. There are 421 firms: 142 (181) firms are family (non-family) firms for the entire sample period, and additional 98 firms that switched status from family to non-family and vice versa. We consider a firm as a family firm if at least two family members serve either as directors or officers of the firm. Panel A presents the sample's industry composition; Panel B presents information on the family's involvement in the firm; and Panel C presents information on audit Fees (in thousands of Israeli Shekels – ILS), hours and rates. *Family-Members* is the total number of family members serving on the board or serving as officers. *Family-CEO* is an indicator variable equals '1' if the firm's CEO is a family member, otherwise '0'. *Family-Manager* is an indicator variable equals '1' if at least one family member serves as an officer (CEO / CFO / COO ...), otherwise '0'.

Table 2 also presents statistics for 13 control variables. On average, family firms are smaller in terms of total assets ( $Ln\_Assets$ ), than non-family firms at the 0.01 level, which is consistent with prior literature (e.g. Ghosh and Tang 2015, Weiss 2014). The ratio of inventory to total assets (INVT) is higher at the 0.01 level in family firms than in non-family firms. Profitability, represented here by return on assets (ROA) is similar across both samples. In addition, the HHI index is higher in non-family firms, although both subsamples operate in non-centralised industries. Consistent with Ho and Kang (2013), family firms are less likely to use big audit firms, and their audit opinion is less likely (at the 0.05 level) to deviate from the standard opinion. The rest of the control variables do not exhibit any differences across family and non-family firms.

		Full Sample		F	amily Firm	s	Nor	ı-Family Fir	su	Difference	
	Mean	Median	Std.	Mean	Median	Std.	Mean	Median	Std.	in means	T-value
Audit Fees (thousands of ILS)	1,164.98	470.00	3,069.06	1,097.09	377.00	3,212.43	1,225.90	558.00	2,933.96	-128.81	-1.25
Ln(Audit Fees)	13.22	13.06	1.04	13.10	12.84	1.07	13.33	13.23	1.00	-0.24	-6.87
Audit Hours	5,225.65	2,856.00	8,401.93	4,945.15	2,478.00	7,887.12	5,477.37	3,307.00	8,832.92	-532.22	-1.91
Ln (Audit Hours)	8.04	7.96	0.91	7.96	7.82	0.92	8.12	8.10	0.89	-0.16	-5.31
Audit Rate (ILS)	190.29	172.14	80.03	182.63	164.01	77.05	197.16	180.27	82.03	-14.52	-5.48
Ln (Audit Rate)	5.18	5.15	0.37	5.13	5.10	0.37	5.21	5.19	0.37	-0.08	-6.21
IC Hours	733.99	250.00	2,643.75	656.82	226.00	2,174.23	800.87	273.00	2,990.61	-144.05	-1.61
Ln(IC Hours)	5.63	5.52	1.08	5.52	5.42	1.07	5.71	5.61	1.08	-0.19	-5.11
Assets (in millions of ILS)	2,540.28	502.37	7,905.11	2,318.57	420.37	8,266.52	2,739.24	563.96	7,562.74	-0.42	-1.59
LN ASSETS	13.27	13.13	1.63	13.16	12.95	1.60	13.37	13.24	1.65	-0.21	-3.96
INUT	0.15	0.10	0.17	0.17	0.13	0.18	0.13	0.07	0.15	0.05	8.44
CURRENT	1.79	1.32	2.53	1.78	1.31	2.07	1.80	1.33	2.87	-0.02	-0.22
SSOT	0.25	0.00	0.43	0.25	0.00	0.43	0.25	0.00	0.43	0.00	0.10
ROA	0.06	0.06	0.13	0.06	0.06	0.11	0.06	0.06	0.15	0.00	1.02
FCF	0.04	0.04	0.15	0.04	0.04	0.12	0.04	0.05	0.17	-0.00	-0.10
GROWTH	0.28	0.05	1.59	0.24	0.05	1.44	0.32	0.05	1.70	-0.08	1.45
LEVERAGE	0.34	0.34	0.23	0.34	0.35	0.22	0.34	0.33	0.23	0.01	1.10
DISCONT	0.01	0.00	0.08	0.01	0.00	0.07	0.01	0.00	0.08	-0.00	-0.41
IHH	0.10	0.07	0.08	0.09	0.06	0.07	0.11	0.07	0.09	-0.02	-9.23
										0	ontinued)

Table 2. Descriptive statistics.

	'alue	5.32 0.98 2.25 2.92	titions audit ours, ours, ets is ratio, us theurrenturl tosalessales $dit$ is
	Ţ-v		id on the e definition of the e definition of the educities of the educiti
Difference	in means	-0.06 -0.01 -0.03 -0.01	all firms liste firm. Variabli Hours is the : divided by $_{i}$ variable $_{i}$ current is co muss between dicator varii ed value of se equal to '1' i m, and '0' of
us	Std.	$\begin{array}{c} 0.33\\ 0.20\\ 0.38\\ 0.10\end{array}$	ple includes i fibers of the tees, Audit tees, Audit Fees, Audit f annual inter ansets of the sector of the squart of the squart of the squart non-family fi
Non-Family Firms	Median	1.00 0.00 0.00 0.06	The full sam lifectors or of of annual audi of annual audi of annual logarithm of a logarithm of otherwise; $RC$ otherwise; $RC$ and assets; $DJS$ red as the sum ch is an indica tandard unqu of family and i
	Mean	0.87 0.04 0.17 0.09	family firms. rve either as $c$ al logarithm o lby the audito T is the natura T is the ratio loss and $0^{\circ}$ c loss and $0^{\circ}$ c loss and $0^{\circ}$ c litures; $GRO$ m debt to tot index, measur terwise; <i>Switc</i> tes from the s tes from the s
	Std.	0.39 0.19 0.35 0.08	mple of non- members set i) is the natura (ILS) charged Ln(IC Hours) al assets, INI- m recorded a apital expen- ted and short-ten Il Hirschman i is, and '0' oth auditor devia
Family Firms	Median	1.00 0.00 0.06 0.06	s and a subsa ist two family <i>in(Audit Fees</i> ourly rate (in ilit hours and ilit hours and ilit hours and the firm's tot fows minus c the long-term the long-term the long-term the voluting firm out of di
	Mean	$\begin{array}{c} 0.81\\ 0.04\\ 0.15\\ 0.08\end{array}$	of family firm y firm if at lee (ILS), and <i>I</i> is (ILS), and <i>I</i> <i>t</i> Rate is the h al internal au of a linternal au of log the sum of wise; <i>HHI</i> is 1 or of the big variable eque variable eque
	Std.	$\begin{array}{c} 0.36\\ 0.19\\ 0.37\\ 0.09\end{array}$	a subsample of trm as a family Israeli Sheke Israeli Sheke <i>rs</i> is the amu <i>rs</i> is the amu <i>rs</i> is the amu <i>rs</i> is the amu <i>rs</i> is the amu <i>rs</i> is the amu <i>rs</i>
ıll Sample	Median	$\begin{array}{c} 1.00\\ 0.00\\ 0.00\\ 0.06\end{array}$	full sample, fe classify a fi thousands of of annual aud of finue and $L_I$ fills) and $L_I$ fills) and $L_I$ ties; $Loss$ is a cash flow, in rage, measure ordinary items qual to '1' if' isse; <i>Opinion</i> i isse; <i>Opinion</i> i
FI	Mean	$\begin{array}{c} 0.84 \\ 0.04 \\ 0.16 \\ 0.08 \end{array}$	tatistics for the 006 to 2018. We 006 to 2018. We all audit fees in trithm of Audit the trithm of Audit to the first is (in millions of the trithment its (in millions) to the trithment attorn or extra atto
		BIG SWITCH OPINION AQ	Notes: Table 2 presents descriptive si Aviv Stock Exchange ( <i>TASE</i> ) from 21 are as follows: <i>Audit Fees</i> is the annu hours and $Ln(Audit Rate)$ is the natural loga and $Ln(Audit Rate)$ is the natural loga the book value of the firm's total asset measured as current assets divided by ratio of operating income to total asset year and the prior year, <i>LEVERAGE</i> ii '1' if a firm reports discontinued oper- divided by total sales; <i>BIG</i> is an indic performed by an incoming audit firm is accruals quality, measured as in Fr

Table 2. Continued.

#### 4. Multivariate association tests of external and internal audit in family firms

Next, we examine differences in audit fees, audit hours and audit rates across family and non-family firms using multivariate association tests. Consistent with prior studies (Hay 2013), our regressions include 13 control variables as explained below. Each of the following equations has three elements: Audit variables, Family Involvement variables and control variables

$$AUDIT_{i,t} = \alpha + \beta_1 FAMILY_{i,t} + \beta_2 FAMILY_INVOLVE_{i,t} + \beta_3 CONTROLS_{i,t} + \varepsilon_{i,t}$$
(1)

were

AUDIT = {Ln(Audit Fees), Ln(Audit Hours), Ln(Audit Rate), Ln(IC Hours)} FAMILY\_INVOLVE = {FAMILY\_CEO, FAMILY\_MNG} CONTROLS = {Ln\_Assets, INVT, CURRENT, LOSS, ROA, FCF, GROWTH, LEVERAGE, DISCONT, HHI, BIG, SWITCH, OPINION}

Ln(Audit Fees) is the natural logarithm of annual audit fees; Ln(Audit Hours) is the natural logarithm of annual audit hours, and Ln(Audit Rate) is the natural logarithm of hourly audit rate (in ILS) charged by the auditor, where audit rate is calculated as audit fees divided by audit hours; and Ln(IC Hours) is the natural logarithm of internal audit hours.

*FAMILY* is an indicator variable equals to '1' for family-firm observations and '0' otherwise. *FAMILY\_CEO* is an indicator variable equals to '1' for family firms in which a family member serves as the *CEO* and '0' otherwise (non-family firms or family firms whose *CEO* is an outsider). *FAMILY\_MNG* is an indicator variable equals to '1' for family firms in which at least one family member serves as an executive in the firm (e.g. *CEO*, *CFO*, *or COO*) and '0' otherwise.

Ln Assets is the natural logarithm of the firm's total assets; CURRENT is the current ratio. equal to current assets divided by current liabilities; INVT is the ratio of inventory to total assets; LEVERAGE is financial leverage, calculated as the ratio of the sum of long-term and short-term debt to total assets; LOSS is an indicator variable equals to '1' if the firm recorded a loss and '0' otherwise; ROA is return on assets, calculated as the ratio of operating income to total assets; DISCONT is an indicator variable equal to '1' if a firm reports discontinued operations and extraordinary items and '0' otherwise; HHI is the Herfindahl Hirschman index, calculated as the sum of the squared value of the firm's sales to total industry sales ratio; GROWTH is the change in revenues between the current year and the prior year; FCF is free cash flow scaled by beginning of year total assets; BIG is an indicator variable equals to '1' if the auditor is one of the Big five auditing firms (Deloitte, Ernst & Young, KPMG, PwC and BDO);<sup>9</sup> SWITCH is an indicator variable equal to '1' if the audit is performed by an incoming audit firm and '0' otherwise; and OPINION is an indicator variable equal to '1' if the auditor deviates from the standard unqualified opinion. Since the last three variables (BIG, SWITCH and OPINION) concern the external audit, they are omitted from the regressions analysing internal audit hours. All regressions control for industry and year fixed effects, and standard errors are clustered by firm.

Table 3 presents results for Equation (1) with *Ln(Audit Fees)* as the dependent variable. As column (1) shows, the coefficient on *FAMILY* is negative (-0.090) but significant only at the 0.10

<sup>&</sup>lt;sup>9</sup>In Israel, the local branch of BDO is considered equivalent to the local branches of the Big-4 and is responsible for auditing a comparable portion of the publicly traded firms. For example, BDO served as the auditor of 77 public firms in 2018, while KPMG audited 82 public firms during the same period.

		Ln(Audit Fees)	
Dependent variable	(1)	(2)	(3)
Family $(\beta_1)$	-0.090*	-0.032	0.023
Family-CEO (β <sub>2</sub> )	(-1.77)	(-0.49) -0.109	(0.29)
Family-MNG (B <sub>2</sub> )		(-1.61)	-0.170**
			(-2.03)
LN_ASSETS	0.543***	0.538***	0.537***
	(21.58)	(21.51)	(21.59)
INVT	-0.38**	-0.368**	-0.342**
	(-2.50)	(-2.46)	(-2.30)
CURRENT	-0.007	-0.007	-0.007
	(-0.97)	(-0.98)	(-1.01)
LOSS	0.186***	0.182***	0.178***
	(4.54)	(4.45)	(4.40)
ROA	-0.031	-0.023	-0.016
	(-0.23)	(-0.17)	(-0.12)
FCF	-0.143	-0.143	-0.146
	(-1.27)	(-1.27)	(-1.29)
GROWTH	-0.010	-0.011	-0.010
	(-1.44)	(-1.52)	(-1.42)
LEVERAGE	-0.171	-0.169	-0.166
	(-1.36)	(-1.34)	(-1.32)
DISCONT	0.493**	0.478**	0.468**
	(2.11)	(2.07)	(2.07)
HHI	-0.105	-0.109	-0.103
	(-0.33)	(-0.35)	(-0.33)
BIG	0.172***	0.161**	0.155**
	(2.61)	(2.45)	(2.36)
SWITCH	0.118**	0.118**	0.119**
	(2.41)	(2.42)	(2.44)
OPINION	0.024	0.019	0.014
	(0.48)	(0.38)	(0.28)
Year + Industry effects	YES	YES	YES
Firm clustering	YES	YES	YES
$R^2$	0.66	0.66	0.66
Observations	3,607	3,607	3,607
$\mathbf{H}_0: \boldsymbol{\beta}_1 + \boldsymbol{\beta}_2 = \boldsymbol{\theta}$		-0.141**	-0.147***
		(-2.46)	(-2.70)

Table 3. Audit fee regressions.

Notes: Table 3 reports results for estimating Equation (1). The dependent variable is Ln(Audit Fees). Family is an indicator variable equal to '1' for observations classified as family firms, and '0' otherwise; Family-CEO is an indicator variable equals to '1' for family firms in which a family member serves as the CEO and '0' otherwise (non-family firms or family firms whose CEO is an outsider); Family-MNG is an indicator variable equals to '1' for family member serves as an executive (e.g. CEO, CFO, or COO) and '0' otherwise. For variable definitions, see Table 2. The regressions include controls for industry and year fixed effects, and standard errors are clustered by firm. For sample selection, see Table 1. We report *t*-values in parentheses. \*, \*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

level. This result suggests that family firms pay (weakly) lower audit fees than non-family firms, which is consistent with the findings of Ghosh and Tang (2015).

Prior literature suggests that the special attributes of family firms are more dominant in firms in which a family member serves as a top manager. We therefore examine heterogeneity

in the group of family firms; that is, whether a direct involvement of family members in the firm matters. We distinguish between family firms in which a family member serves as the *CEO* and when the *CEO* is an outsider. As column (2) of Table 3 shows, the coefficient on *FAMILY* remains negative (-0.032); the coefficient on *FAMILY\_CEO* is also negative (-0.109), both are not significant at the 0.10 level or better. To analyse audit fees of family firms with a family member as *CEO*, we test the sum of coefficients on *FAMILY\_CEO*. The sum is negative and significant at the 0.05 level (-0.141, t = -2.46).

We use an alternative specification that broadens the definition of family involvement. Family members may occupy other influential positions in the firm, such as chief financial officer (*CFO*) or chief operating officer (*COO*). Column (3) of Table 3 presents estimation results with *FAMILY\_MNG* as an explanatory variable instead of *FAMILY\_CEO*. The coefficient on *FAMILY\_MNG* is negative, but not significantly different from zero (-0.023). The coefficient on the indicator *FAMILY\_MNG* is also negative (-0.170) and significant at the 0.05 level. The full effect of family ownership accompanied by family management position is captured by the sum of the coefficients on *FAMILY* and *FAMILY\_MNG*. This sum is negative (-0.147) and significant at the 0.01 level (-0.147, t = -2.70). This result suggests that family firms in which a family member serves as a top manager, but not necessarily the *CEO*, pay lower audit fees than non-family firms. Thus, the wider definition of direct family involvement upholds the negative effect on audit fees recorded above.

A cleaner measure of audit effort than audit fees is audit hours. However, audit hours is not a perfect measure because the data only show the total number of hours without specifying the mix of hours (e.g. partner, manager, specialist, junior auditor hours). We estimate Equation (1) with Ln(Audit Hours) as the dependent variable and present the results in Table 4. The coefficient on FAMILY in column (1) is negative (-0.031) but not significant. In column (2), the coefficient on FAMILY\_CEO is also negative albeit not significant. In addition, the sum of the coefficients on FAMILY and FAMILY\_CEO is negative but not statistically significant. Similarly, in column (3), the sum of the coefficients on FAMILY and FAMILY and FAMILY and FAMILY mode is also negative but not statistically significant. Thus, while the number of audit hours is lower in family firms than in non-family firms, the difference is not statistically significant.

We now turn to estimating Equation (1) with Ln(Audit Rate) as the dependent variable. Audit rates (total audit fees divided by audit hours) reflect the perceived risk posed by the client from the auditor's perspective. A higher rate compensates the auditor for bearing greater litigation risk or using specialists, and a more senior (expensive) audit engagement team to mitigate audit risk. The results are presented in Table 5.

We find that the coefficient on *FAMILY* in column (1) is negative (-0.060), and significant at the 0.05 level, suggesting that family firms pay lower audit rates than do non-family firms. Thus, while auditors work a similar number of hours per engagement, they charge a lower average hourly rate, perhaps because the mix of the audit team is cheaper (for example, more junior hours and less specialist/partner hours). This result implies that auditors perceive family firms to be inherently less risky. Hence, even though auditing efforts are similar across family and non-family firms, in terms of total hours, auditors still assess the overall audit risk of these firms as being lower than that of non-family firms.

We also examine the effect of direct family involvement in the firm's management and report the results in columns (2) and (3) of Table 5. Like our findings on audit fees, lower audit rates are concentrated in family firms managed by family members. The coefficients on *FAMILY* are negative but not significant in both specifications. The coefficients on *FAMILY\_CEO* and *FAMILY\_Y\_MNG*, weakly significant at the 0.10 level only in the latter specification. However, when we compare the audit rates of family firms managed by a family member and non-family

		Ln(Audit Hours)	
Dependent variable	(1)	(2)	(3)
Family $(\beta_1)$	-0.031	0.008	0.041
Family-CEO (β <sub>2</sub> )	(-0.72)	(0.14) -0.072 (-1.27)	(0.64)
Family-MNG (β <sub>2</sub> )		( 1.27)	-0.108
LN_ASSETS	0.463***	0.46***	(-1.60) 0.459*** (22.05)
INVT	(23.04) -0.090	(22.93) -0.082 (-0.62)	(23.05) -0.066
CURRENT	(-0.08) -0.008 (-1.40)	(-0.03) -0.008 (-1.41)	(-0.51) -0.009 (-1.42)
LOSS	(-1.40) $0.106^{***}$ (3.10)	(-1.41) $0.104^{***}$ (3.03)	(-1.43) $0.102^{***}$ (2.97)
ROA	(3.10) -0.170 (-1.31)	(3.03) -0.164 (-1.27)	(2.97) -0.160 (-1.23)
FCF	(-1.31) -0.143 (-1.31)	(-1.27) -0.143 (-1.27)	(-1.25) -0.145 (-1.28)
GROWTH	(-1.31) -0.016* (-1.90)	(-1.27) -0.016* (-1.93)	(-1.20) -0.016* (-1.80)
LEVERAGE	(-1.90) -0.150 (-1.41)	(-1.93) -0.149 (-1.39)	(-1.39) -0.146 (-1.38)
DISCONT	(-1.41) 0.432*** (3.33)	(-1.39) 0.422*** (3.19)	0.415***
HHI	0.202	0.199	0.203
BIG	0.33***	0.323***	0.319***
SWITCH	0.111**	0.111**	$0.112^{**}$ (2.24)
OPINION	(2.23) 0.053 (1.27)	(2.25) 0.050 (1, 19)	(2.21) 0.047 (1.10)
Year + Industry effects Firm clustering	YES	YES	YES
$R^2$ Observations	0.67 3,607	0.68 3,607	0.68 3,607
$\mathbf{H}_0: \boldsymbol{\beta}_1 + \boldsymbol{\beta}_2 = \boldsymbol{\theta}$		-0.064 (-1.30)	-0.067 (-1.44)

Table 4. Audit hours regressions.

Notes: The Table presents results for estimating Equation (1) with *Ln(Audit Hours)* as the dependent variable. See Table 1 for sample selection, Table 2 for variable definitions and Table 3 for the classifications of *Family, Family-CEO* and *Family-MNG*. The regressions include controls for industry and year fixed effects, and standard errors are clustered by firm. We report *t*-values in parentheses. \*,\*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

firms using the sum of coefficients on *FAMILY* and *FAMILY\_CEO*, we find that the sum is negative (-0.080) and significant at the 0.05 level. The same applies if we test family firms with a family manager who is not necessarily the *CEO*, where the coefficients on *FAMILY*+*FAMIL-Y MNG* are equal to -0.083 (significant at the 0.01 level).

Internal audit hours are an inverse proxy of control risk. We use Equation (1) with *Ln(IC Hours)* as the dependent variable. We exclude the three variables that refer to external auditor status and activity (*BIG, SWITCH, OPINION*) because these variables are not expected to

		Ln(Audit Rate)	
Dependent variable	(1)	(2)	(3)
Family (β <sub>1</sub> )	-0.060**	-0.036	-0.013
Family-CEO (β <sub>2</sub> )	(-2.18)	(-1.13) -0.044 (-1.22)	(-0.35)
Family-MNG (β <sub>2</sub> )		(-1.22)	$-0.070^{*}$
LN_ASSETS	0.080***	0.078***	(-1.83) 0.077***
INVT	(7.23) -0.281***	(6.88) -0.276***	(6.91) -0.266***
CURRENT	(-3.60) 0.002 (0.46)	(-3.54) 0.002 (0.47)	(-3.39) 0.002 (0.45)
LOSS	(0.46) 0.076*** (2.20)	(0.47) 0.074*** (2,22)	(0.43) $0.073^{***}$ (2.24)
ROA	0.138	0.141	(3.24) 0.144 (1.53)
FCF	(1.47) -0.007 (0.15)	(1.50) -0.007 (-0.15)	-0.009
GROWTH	(-0.13) 0.006 (1.20)	(-0.13) 0.005 (1.15)	(-0.18) 0.006 (1.22)
LEVERAGE	(1.20) -0.018 (-0.26)	(1.13) -0.017 (0.25)	(1.22) -0.015 (-0.22)
DISCONT	(-0.26) 0.060 (0.28)	(-0.23) 0.054 (0.24)	(-0.23) 0.050 (0.22)
HHI	(0.38) -0.267 (-1.26)	(0.34) -0.269 (1.26)	-0.267
BIG	(-1.20) $-0.153^{***}$ (-4.09)	(-1.20) $-0.157^{***}$ (-4.23)	(-1.23) $-0.160^{***}$ (-4.23)
SWITCH	(-4.09) 0.007 (0.20)	(-4.23) 0.007 (0.20)	(-4.23) 0.210 (0.83)
OPINION	-0.035 (-1.40)	(0.20) -0.037 (-1.46)	-0.039
Year + Industry dummies	YES	YES	YES
Firm clustering	YES	YES	YES
$R^2$	0.21	0.21	0.21
Observations	3,607	3,607	3,607
$\mathbf{H}_0: \boldsymbol{\beta}_1 + \boldsymbol{\beta}_2 = \boldsymbol{\theta}$		-0.080**	-0.083***
		(-2.42)	(-2.74)

Table 5. Audit rate regressions.

Notes: Table 5 reports results for estimating Equation (1) with *Ln(Audit Rate)* as the dependent variable. See Table 1 for sample selection, Table 2 for variable definitions and Table 3 for the classifications of *Family, Family-CEO* and *Family-MNG*. The regressions include controls for industry and year fixed effects, and standard errors are clustered by firm. We report *t*-values in parentheses. \*, \*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

influence the scope of the internal audit.<sup>10</sup> Table 6 reports the results in the same format as shown in Tables 3–5.

The coefficient on *FAMILY* in column (1) is negative (-0.091), but not significant (t = -1.41). Hence, when looking at the entire sample of family firms, internal audit effort is unaffected by

<sup>&</sup>lt;sup>10</sup>Adding back these variables (*BIG*, *SWITCH*, *OPINION*) to the regression does not affect the results.

	Ln(IC Hours)				
Dependent variable	(1)	(2)	(3)		
Family (β <sub>1</sub> )	-0.091	0.070	0.110		
	(-1.41)	(0.86)	(1.14)		
Family-CEO (β <sub>2</sub> )		-0.306***	. ,		
· · · ·		(-3.58)			
Family-MNG (β <sub>2</sub> )			-0.305***		
, ( <u>)</u>			(-3.09)		
LN ASSETS	0.459***	0.444***	0.447***		
<u> </u>	(13.07)	(12.93)	(13.14)		
INVT	0.398**	0.444***	0.479***		
	(2.39)	(2.63)	(2.88)		
CURRENT	-0.021*	-0.021*	-0.021*		
	(-1.77)	(-1.78)	(-1.81)		
LOSS	0.039	0.028	0.026		
	(0.69)	(0.49)	(0.45)		
ROA	-0.458**	-0 429**	-0.422**		
	(-2.27)	(-2, 20)	(-2.16)		
FCF	0.112	0.105	0.099		
101	(0.81)	(0.75)	(0.73)		
GROWTH	-0.026**	-0.028**	-0.025**		
	(-2.30)	(-2.44)	(-2.25)		
LEVERAGE	-0.63***	-0.63***	-0.626***		
	(-3.67)	(-3.74)	(-3.72)		
DISCONT	-0 587***	-0.632***	-0.636***		
	(-2.98)	(-3.04)	(-2.94)		
HHI	-1 366***	-1 365***	-1 371***		
	(-2.96)	(-2.89)	(-2.89)		
Year + Industry dummies	YES	YES	YES		
Firm clustering	YES	YES	YES		
$R^2$	0.45	0.45	0.45		
Observations	3,371	3,371	3,371		
$\overline{\mathbf{H}_0: \boldsymbol{\beta}_1 + \boldsymbol{\beta}_2 = \boldsymbol{\theta}}$		-0.236***	-0.195***		
-		(-3.23)	(-2.79)		

Table 6. Internal control hours.

Notes: Table 6 reports results for estimating Equation (1) with *Ln(IC Hours)* as the dependent variable. See Table 1 for sample selection, Table 2 for variable definitions and Table 3 for the classifications of *Family*-*CEO* and *Family*-*MNG*. The regressions include controls for industry and year fixed effects, and standard errors are clustered by firm. We report *t*-values in parentheses. \*, \*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

family ownership. We also examine whether direct family involvement in the firm's management affects internal audit hours and report the results in columns (2) and (3) of Table 6. In both cases, the coefficient on *FAMILY* remains insignificant. However, the coefficient on *FAMILY\_CEO* is negative (-0.306) and significant at the 0.01 level, and so is the sum of the coefficients on *FAMILY\_CEO*, which is equal to -0.236 (significant at the 0.01 level). Hence, family firms in which a family member serves as the *CEO* have fewer internal audit hours compared with non-family firms and family firms with an outsider *CEO*. We obtain a similar result when we extend the definition of family involvement so that is not limited to the *CEO*. The coefficient on *FAMILY\_MNG* is negative (-0.305) and significant at the 0.01 level. The sum of the coefficients on *FAMILY\_MNG* is -0.195 and is significant at the 0.01 level.

To summarise the results in Table 6, family firms in which a family member serves as a top executive have fewer internal audit hours compared with non-family firms and family firms

managed by outsiders. These findings suggest that the direct involvement of the family in managing the firm matters. Combining these results with those reported in Tables 3–5, we conclude that family firms managed by family members have fewer internal audit hours, lower external audit rates, and overall lower external audit fees. These results support the claim that family firms are perceived as less audit-risky.

### 5. Additional analyses

# 5.1. Causality, self-selection, and robustness tests

The evidence thus far suggests that external auditors charge family firms lower audit fees and lower audit rates. Also, family firms record fewer internal audit hours. While association tests using linear regressions provide useful evidence, it is possible the results are driven by correlated omitted variables. We address this issue by focusing on a special subset of companies that were non-family firms and became family firms, and companies that were family firms and became non-family firms.

We have identified 39 firms that became family firms and 59 firms that stopped being family firms during the sample period – a total of 98 firms. Moreover, to have an adequate period for the analysis of audit under family versus non-family ownership, we require that each firm have at least seven observations. In addition, to balance the subsample, we focus the analysis on the period starting three years before the ownership change and ending three years after it. These requirements result in 78 firms. Table 7 presents **changes** in Ln(Audit Fees), Ln(Audit Hours) and Ln(Audit Rate) from three years before until three years after a firm became a family firm (left panel). Similarly, the panel on the right presents changes in Ln(Audit Fees), Ln(Audit Hours) and Ln(Audit Rate) from three years before until three years after a firm stopped being a family firm.

As the left panel of the table shows, audit fees and both of its components (audit hours and audit rate) started declining in the year of achieving family status. This trend continued in the subsequent years, where all three measures further decreased. Therefore, firms that became family owned demonstrated a pattern of decline in audit inputs. The panel on the right of the table shows that when a firm loses its family status, the pattern is reversed: audit fees, audit hours and audit rate increase in the actual year and in the year after the firm stopped being a family firm. This evidence supports the claim that changing status from non-family to family

	No	n-family to Fan	nily	Family to non-family		
Period	Change in Ln (Audit Fees)	Change in Ln (Audit Hours)	Change in <i>Ln</i> (Audit Rate)	Change in Ln (Audit Fees)	Change in Ln (Audit Hours)	Change in Ln (Audit Rate)
-3 to $-2$	-0.137	-0.127	-0.009	-0.012	0.012	-0.029
-2 to -1	0.101	0.105	-0.020	-0.025	0.052	-0.057
-1 to 0	-0.096	-0.011	-0.063	-0.091	-0.055	-0.046
0 to 1	-0.151	-0.072	-0.086	0.199	0.122	0.074
1 to 2	-0.113	-0.035	-0.070	0.021	-0.033	0.052
2 to 3	-0.075	-0.025	-0.058	0.073	0.100	-0.027

Table 7. Change in audit fees, audit hours, and audit rate when a non-family (family) firm becomes a family (non-family) firm.

Notes: Table 7 presents changes in Ln(Audit Fees), Ln(Audit Hours) and Ln(Audit Rate) from three years before until three years after a firm became a family firm (left panel). Similarly, the right panel presents changes in Ln(Audit Fees), Ln(Audit Hours) and Ln(Audit Rate) from three years before until three years after a firm stopped being a family firm. There are 39 firms that switched to family firms and 59 firms that switched from family to non-family status.

	Ln(Audit Fees)	Ln(Audit Hours)	Ln(Audit Rate)
Dependent variable	(1)	(2)	(3)
Family	-0.103*	-0.028	-0.070**
-	(-1.74)	(-0.59)	(-2.00)
LN_ASSETS	0.543***	0.463***	0.077***
	(9.81)	(10.77)	(3.9)
INVT	0.191	0.153	0.050
	(0.41)	(0.37)	(0.34)
CURRENT	0.017	0.016	-0.002
	(0.69)	(0.82)	(-0.19)
LOSS	0.212*	0.135	0.070
	(1.77)	(1.41)	(1.25)
ROA	0.898**	0.741*	0.183
	(1.96)	(1.88)	(0.82)
FCF	-1.321***	-1.314***	-0.049
	(-2.63)	(-3.01)	(-0.20)
GROWTH	-0.044	-0.039	-0.004
	(-1.09)	(-1.31)	(-0.30)
LEVERAGE	0.006	0.066	-0.057
	(0.02)	(0.26)	(-0.33)
DISCONT	0.302	0.56***	-0.267**
	(1.37)	(3.45)	(-2.59)
HHI	3.443	1.977*	0.799
	(1.60)	(1.93)	(0.67)
BIG	0.109	0.334***	-0.211***
	(0.79)	(3.04)	(-2.84)
SWITCH	-0.019	-0.035	-0.006
	(-0.16)	(-0.44)	(0.08)
<b>OPINION</b>	0.074	0.118	-0.032
	(0.61)	(1.19)	(-0.55)
Year + Industry dummies	YES	YES	YES
Firm clustering	YES	YES	YES
$R^2$	0.66	0.70	0.262
Observations	416	416	416

Table 8. A sub-sample of firms switching ownership.

Notes: The Table presents regression results for a sub-sample of firms that switched from non-family to family firm status and vice versa and has at least 7 years of observations. To balance this subsample, we use observations from the period of three years before and after the ownership change. The regressions include controls for industry and year fixed effects, and standard errors are clustered by firm. We report *t*-values in parentheses. \*, \*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

firm results in a lower audit scope, while changing from family to non-family status results in larger audit scope.

Table 8 augments the analysis in Table 7 by estimating Equation (1) for the subsample of firms that switched their status from non-family to family firm or vice versa.<sup>11</sup> As before, we focus on firms that experienced both family and non-family ownership periods to confirm that our results do not stem from unobserved firm attributes or a selection bias, which drives families to own a certain type of firms.

<sup>&</sup>lt;sup>11</sup>For consistency with the main analysis, we exclude transiton year observations from this sub-sample. However, for robustness we repeat the analysis adding back these observations and obtain similar results.

Column (1) of Table 8 uses Ln(Audit Fees) as the dependent variable, column (2) uses Ln (Audit Hours), and column (3) uses Ln(Audit Rate) as the dependent variable. Looking at column (1), the coefficient on Family is negative (-0.103), but significant only at the 0.10 level. In column (3), the coefficient on Family is negative (-0.070) and significant at the 0.05 level. In column (2), the coefficient on Family is negative but not statistically significant. These results are consistent with the main association tests – family firms pay lower audit fees, resulting from lower audit rates. In sum, the results support the argument that auditors perceive family firms as less audit risky due to their nature.

Next, we examine whether our results are robust to persistence in the audit process. Caramanis and Lennox (2008) argue that auditors often plan their audit hours for the upcoming year based on their working papers from the previous year; thus, they expect strong persistence in audit hours. Given that hours are a component of audit fees, this variable may also exhibit persistence. Moreover, this line of reasoning can be extended to internal audit hours. To control for persistence, we incorporate the lagged audit variable as an additional dependent variable and re-estimate all the regressions in the main analysis (using the full sample). Specifically, the regressions for audit fees include the lagged audit fees, and so forth. The results (not tabulated) are qualitatively similar to the ones reported above. That is, family firms record lower audit fees and audit rate, and the effect is concentrated in firms managed by family members. However, the results of this robustness test differ from the main analysis with respect to audit hours: when including lagged audit hours in the regression, the results indicate that family firms record significantly fewer audit hours than non-family firms, whereas in the main analysis the difference between family and non-family firms was not significant. As for internal audit, the results are like those reported in the main analysis: only firms with active family involvement exhibit fewer internal audit hours compared to non-family firms.<sup>12</sup>

#### 5.2. Eponymous firms

An interesting sub-sample of family firms is eponymous firms – family firms that are named after their founding family. Minichilli et al. (2022) argue and find that eponymous firms care more about their reputation and hence have higher financial reporting quality. If indeed eponymous firms exhibit higher quality financial reporting, we would expect these firms to report lower audit fees, fewer audit hours, lower audit rates and fewer internal control hours. We have identified 399 eponymous firm-years in our sample (approximately 23% of all family firm observations) and based on this identification, we use a modified version of Equation (1):

$$AUDIT_{i,t} = \alpha + \beta_1 FAMILY_{i,t} + \beta_2 Eponymous_{i,t} + \beta_3 CONTROLS_{i,t} + \varepsilon_{i,t}$$
(2)

where *Eponymous* is an indicator variable equals to '1' if the family firm is named after the founder, and the family still controls the firms, and '0' otherwise. All other variables are as defined above. The results are reported in Table 9. We estimate Equation (2) with four different dependent variables: Ln(Audit Fees) in column (1), Ln(Audit Hours) in column (2), Ln(Audit Rate) in column (3) and Ln(IC Hours) in column (4). As before we also report the sum of the coefficients on *Family* and *Eponymous*.

 $<sup>^{12}</sup>$ In addition to the robustness tests described in this section, we have identified other potential controls that could have an effect on the results. Specifically, we collected data on Mergers and Acquisitions activity, audit tenure and firm age. Using these variables in our models reduces the sample size but does not affect the results. Furthermore, we combined together external and internal audit hours and re-estimated Equation (1) with the sum of internal and external audit hours as the dependent variable. The results are virtually identical to those reported in Table 6 with *Ln(IC Hours)* as the dependent variable.

Dependent variable	Ln(Audit Fees) (1)	Ln(Audit Hours) (2)	Ln(Audit Rate) (3)	Ln(IC Hours) (4)
Family (R.)	-0.064	-0.020	-0.043	-0.090
$(p_D)$	(-1.18)	(-0.45)	(-1.49)	(-1.31)
EPONYMOUS (B2)	-0.123	-0.051	-0.080*	-0.008
	(-1.25)	(-0.63)	(-1.64)	(-0.06)
LN ASSETS	0.544***	0.463***	0.081***	0.459***
	(21.77)	(23.16)	(7.34)	(13.09)
INVT	-0.338**	-0.072	-0.254***	0.401**
	(-2.23)	(-0.54)	(-3.20)	(2.26)
CURRENT	-0.007	-0.008	0.002	-0.021*
	(-0.95)	(-1.39)	(0.48)	(-1.77)
LOSS	0.182***	0.105***	0.073***	0.039
	(4.46)	(3.07)	(3.28)	(0.69)
ROA	-0.035	-0.171	0.135	-0.458**
	(-0.26)	(-1.33)	(1.45)	(-2.27)
FCF	-0.137	-0.141	-0.003	0.112
	(-1.23)	(-1.25)	(-0.06)	(0.81)
GROWTH	-0.011	-0.016*	0.005	-0.026**
	(-1.49)	(-1.91)	(1.170)	(-2.30)
LEVERAGE	-0.165	-0.147	-0.014	-0.629***
	(-1.32)	(-1.38)	(-0.20)	(-3.66)
DISCONT	0.49**	0.43***	0.058	-0.587***
	(2.10)	(3.32)	(0.36)	(-2.99)
HHI	-0.114	0.198	-0.273	-1.366***
	(-0.36)	(0.67)	(-1.29)	(-2.96)
BIG	0.161**	0.326***	-0.160***	
	(2.43)	(5.43)	(-4.23)	
SWITCH	0.117**	0.111**	0.007	
	(2.39)	(2.22)	(0.19)	
OPINION	0.019	0.051	-0.037	
	(0.39)	(1.22)	(-1.52)	
Year + Industry dummies	YES	YES	YES	YES
Firm clustering	YES	YES	YES	YES
$R^2$	0.66	0.67	0.21	0.00
Observations	3,607	3,607	3,607	3,607
$H_0: \beta_1 + \beta_2 = 0$	-0.187**	-0.071	-0.122**	-0.097
, -	(-1.97)	(-0.88)	(-2.56)	(-0.77)

Table 9. Eponymous family firms.

Notes: The table presents results for estimating Equation (2). The dependent variables are *Ln(Audit Fees)*, *Ln(Audit Hours)*, *Audit Rate, and Ln(IC Hours)*, respectively. See Table 1 for sample selection and Table 2 for variable definitions. *EPONYMOUS* is an indicator variable equals '1' if the firm is named after its founding family, and the family still controls the firm, and '0' otherwise. The regressions include controls for industry and year fixed effects, and standard errors are clustered by firm. We report *t*-values in parentheses. \*, \*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

We find that the coefficients on *Family* and *Eponymous* are negative in all four specifications. These coefficients are not significantly different from zero in all cases. However, the sum of the coefficients on *Family* and *Eponymous* is negative in all four specifications, and significant at the 0.05 level in columns (1) and (3), when Ln(Audit Fees) and Ln(Audit Rate) are the dependent variables, respectively. These results suggest that auditors charge eponymy family firms lower audit fees. The lower audit fees are a consequent of lower audit rates. The results also suggest that external and internal audit hours are not materially different between eponymy family

firms and other family firms. The results for eponymy are in line with the ones reported above for family involvement in the firm's management. This consistency may stem from the positive correlation between these two attributes: the correlation between Eponymy and the presence of family CEO (family manager) is 0.41 (0.40).

#### 6. The quality of financial information

Prior literature links the scope of auditing to the quality of financial information. If auditors charge family firms lower audit rates, and hence lower audit fees, does that result in lower reporting quality? We examine whether family firms exhibit higher or lower accrual quality relative to non-family firms. The inverse measure of accrual quality AQ is based on the modified Dechow and Dichev's (2002) model, which is also used by Francis et al. (2005). The model reflects the extent to which working capital accruals map into operating cash flow realisations. The cross-sectional model regresses total current accruals (total accruals excluding depreciation expenses) against cash flows from operations in the current, previous, and future periods, as well as property, plant, and equipment (PPE) and change in revenues. The residuals derived from these annual cross-section of firm *i*'s regression residuals ( $\varepsilon_{i,t}$ ) calculated over the recent five years. We should emphasise that AQ is an **inverse** measure of accruals quality; a larger (smaller) standard deviation of residuals indicates lower (higher) quality of accruals. We then examine the association between family ownership and accruals quality using the following regression:

$$AQ_{i,t} = \gamma + \gamma_1 FAMILY_{i,t} + \gamma_2 LN(ASSETS_{i,t}) + \gamma_3 CURRENT_{i,t} + \gamma_4 LEVERAGE_{i,t} + \gamma_5 LOSS_{i,t} + \gamma_6 ROA_{i,t} + \gamma_7 FCF_{i,t} + \gamma_8 BIG_{i,t} + \gamma_9 SWITCH_{i,t}$$
(3)  
+  $\gamma_{10} OPINION_{i,t} + \gamma_{11} Lagged_TCA_{i,t} + \varepsilon_{i,t}$ 

where AQ is accrual quality, TCA is total current accruals measured as in Francis et al. (2005). All other variables are as defined above. If family firms exhibit lower (higher) accrual quality, we would expect the coefficient on *FAMILY* to be positive (negative). In addition, we examine differences between family firms managed by family members and those managed by outsiders, as before. We report the results in Table 10.

Column (1) of Table 10 shows a negative coefficient on *FAMILY* (-0.014) significant at the 0.01 level. This result suggests that accrual quality is higher in family firms than in non-family firms. Column (2) includes *FAMILY\_CEO* as an additional explanatory variable. The coefficient on *FAMILY\_CEO* is virtually zero. However, the sum of the coefficients on *FAMILY\_MNG* as an explanatory variable instead of *FAMILY\_CEO*. Again, the coefficient on *FAMILY\_MNG* is virtually zero, but the sum of the coefficients on *FAMILY\_CEO*. Again, the coefficient on *FAMILY\_MNG* is virtually zero, but the sum of the coefficients on *FAMILY\_CEO*. Again, the coefficient on *FAMILY\_MNG* is virtually zero, but the sum of the coefficients on *FAMILY\_MNG* is negative and significant at the 0.05 level. Hence, the findings suggest that family firms exhibit higher accrual quality than non-family firms. The same applies to family firms with direct family involvement in management. Therefore, the evidence suggests that lower audit rates and lower audit fees recorded for these firms do not lead to lower accrual quality; in fact, the quality of accruals in family firms is significantly higher.

To establish causality between family firms and accrual quality and to reduce the effect of omitted variables, we focus on firms that changed their status from family to non-family and from non-family to family status. We estimate Equation (3) only for the firms that changed their status from non-family to family firms or vice versa, and report the results in Table 11. We find that the coefficient on *FAMILY* is negative, but significant only at the 0.10 level. This result supports the main finding that the accrual quality of family firms is higher than that of

	Accruals quality (AQ)				
Dependent variable	(1)	(2)	(3)		
Family (A)	-0.014***	-0.014**	-0.015**		
Family-CEO (B)	(-2.67)	(-2.41) 0.000 (-0.04)	(-2.35)		
Family-MNG (B)		(-0.04)	0.001		
LN_ASSETS	$-0.012^{***}$	$-0.012^{***}$	(0.09) $-0.012^{***}$ (-4.62)		
CURRENT	0.001	0.001	(-4.02) 0.001 (1.03)		
LOSS	0.022***	0.022***	0.022***		
ROA	0.121***	0.121***	0.121***		
FCF	(2.55) -0.098*** (-3.23)	(2.93) -0.098*** (-3.24)	$-0.098^{***}$ (-3.23)		
GROWTH	0.012***	0.012***	0.012***		
LEVERAGE	-0.007 (-0.38)	-0.007 (-0.38)	-0.007 (-0.38)		
BIG	-0.010 (-1.24)	-0.010 (-1.23)	-0.010 (-1.22)		
SWITCH	0.022	0.022	0.022		
<b>OPINION</b>	0.013** (2.17)	0.013** (2.17)	0.013** (2.17)		
Lagged_TCA	0.044 (1.37)	0.044 (1.37)	0.044 (1.37)		
Year + Industry dummies Firm clustering	YES YES	YES YES	YES YES		
<i>R</i> <sup>2</sup> Observations	0.25 2,981	0.25 2,981	0.25 2,981		
$\mathbf{H}_0: \mathbf{A} + \mathbf{B} = 0$		-0.015** (-2.23)	-0.014** (-2.38)		

Table 10. Accruals quality.

Notes: The Table presents results for estimating Equation (3). The dependent variable is AQ, an inverse measure of accruals quality measured as in Francis et al. (2005). TCA is total current accruals measured as in Francis et al. (2005). See Table 1 for sample selection, Table 2 for variable definitions and Table 3 for the classifications of *Family*, *Family-CEO* and *Family-MNG*. The regressions include controls for industry and year fixed effects, and standard errors are clustered by firm. We report *t*-values in parentheses. \*, \*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

non-family firms. While the evidence in Table 11 is rather weak, at the very least, the quality of accruals in family firms is not lower than that of non-family firms. We can therefore conclude that auditors charge family firms lower rates and lower audit fees without compromising the quality of accruals.

#### 7. Summary and conclusions

Do auditors exert less effort in auditing family firms? Does lower audit effort lead to lower quality of financial information in family firms? We address these questions using a unique

Dependent variable	Accruals quality (AQ)		
Family	-0.02*		
	(-1.75)		
LN_ASSETS	-0.024**		
	(-2.52)		
CURRENT	0.002		
	(0.64)		
LOSS	0.001		
	(0.05)		
ROA	0.305		
	(1.56)		
FCF	-0.160*		
	(-1.89)		
GROWTH	-0.005		
	(-1.05)		
LEVERAGE	0.110		
DIC	(1.17)		
BIG	0.023		
SWITCH	(1.15)		
Switch	-0.012		
ΟΡΙΝΙΟΝ	(-0.37)		
	(0.94)		
Lagged TCA	0.067		
	(1 41)		
Year + Industry dummies	YES		
Firm clustering	YES		
$R^2$	0.28		
Observations	411		

Table 11. Accruals quality for firms that switched family status.

Notes: The table presents regression results for a sub-sample of firms that switched from non-family status to family firm status. The regressions include year and industry dummies and firm-clustered standard errors. Variables are defined in Table 2. The use of AQ in this regression causes a reduction in the number of observations. *t*-values are given in parentheses. \*, \*\* and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels, respectively.

dataset that contains external and internal audit hours as well as external audit billing rates, for all companies listed on Israel's Tel Aviv Stock Exchange. Consistent with prior studies, we find that family firms pay, on average, lower audit fees than non-family firms. We also find that billing rates are lower in family firms than in non-family firms. These results suggest that auditors perceive family firms as less audit-risky. In addition, we find that external audit hours are not materially difference between family and non-family firms, but family firms have fewer internal audit hours, suggesting lower control risk. A more detailed analysis reveals that these findings are concentrated in the group of family firms managed by a family member, while family firms with no direct involvement of the family record neither lower rates nor fewer internal audit hours compared with non-family firms. Similar results are obtained for eponymous firms.

Overall, our findings suggest that family firms are characterised by lower inherent risk, enabling relaxed controls and external audits. This conclusion is supported by the finding that family firms have higher accruals quality than non-family firms; thus, their overall reporting quality is not impaired by the lower control and audit efforts.

Prior studies have addressed the question of whether family firms pay lower audit fees than non-family firms. However, given the limited data availability in the US and most other countries, studies use audit fees rather than its constructs: audit hours, reflecting effort, and auditing billing rates, representing risk premiums. Further, poor data availability also limits the ability to analyse both internal and external auditing efforts, representing control risk and detection risk, respectively, in the audit risk model. Our study contributes to the literature in three ways: First, we show that the driver of lower audit fees is the lower audit rate charged from family firms. This lower rate could be the result of using a cheaper mix of audit hours; that is less 'expensive' hours and more 'cheaper' hours. Second, unlike prior studies, we complement our analysis using internal audit hours as a measure of control risk and show that the reduced audit billing rates do not stem from more intense internal audit in family firms. Our findings regarding audit scope suggest that family firms produce higher financial quality reporting. Third, we present evidence of the importance of active family involvement and family heritage in the firm's activities. Overall, our findings demonstrate the importance of unique features of family firms in their audit process.

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#### Appendix A

# Disclosures of audit fees and audit hours in Israeli Public Firms – examples

## Example 1: Shaniv Paper Industry Ltd. – annual reports for 2015 – The firm's internal auditor

# Scope of work

The scope of work of the internal auditor and others acting on his behalf amounted to approximately 350 working hours in 2015. The internal and the firm's management believe that this audit budget will enable the fulfilment of the essential elements of the multi-year audit plan determined in accordance with the risk survey of the aforementioned issues, within a period of approximately 4–5 years.

#### The firm's auditor

Name of the auditing accountant: Ziv Haft accountants (BDO Israel).

The fee for audit services was determined by the board of directors. The fee for audit services was determined after negotiation, in which the scope and complexity of the audit and the accepted audit fees in the industry were examined. Fees for other services were determined according to the type of work and scope of work hours.

	2015		2014	
	Fees (thousands of ILS)	Hours	Fees (thousands of ILS)	Hours
Audit and tax services	224	1,075	174	1,198
Other services	0	0	21	3

#### Example 2: Medtechnica Ltd. - annual reports for 2015 - disclosure on the firm's internal auditor

#### Scope of work

In the reporting period, the scope of work of the internal auditor was about 603 audit hours.

The scope of work was determined based on the firm's activity and the nature of its business. The number of hours is derived from the work plan approved by the audit committee and from evolving 'ad hoc' needs.

## Disclosure on the firm's audit fees

The firm's auditor is Kost, Forer, Gabbay & Kasierer (Ernst & Young Israel). The signing partner is CPA Ofer Erez.

Below is a breakdown of the audit fees in thousands of ILS (not including VAT) for the services provided to the group in 2015 and the number of hours spent for these services:

Fees for audit, audit-related and tax services	Other fees	Total fees	Audit, audit-related and tax services hours	Hours for other services	Total hours
375	37	412	4,633	43	4,676

Below is a breakdown of the audit fees in thousands of ILS (not including VAT) for the services provided to the group in 2014 and the number of hours spent for these services:

Fees for audit, audit-related and tax services	Other fees	Total fees	Audit, audit-related and tax services hours	Hours for other services	Total hours
377	0	377	3,943	0	3,943