# Who's Really in Charge? Audit Committee versus CFO Power and Audit Fees ≒

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## **ABSTRACT**

Although regulation makes audit committees responsible for determining and negotiating audit fees, researchers and practitioners express concerns that CFOs continue to control these negotiations. Thus, regulation may give investors a false sense of security regarding auditor independence. We utilize the recent financial crisis and economic recession as an exogenous shock that allows us to shed light on the relative influence of the audit committee and the CFO on fee negotiations. During the recession, we find larger fee reductions in the presence of more powerful CFOs, and smaller fee reductions in the presence of more powerful audit committees. We also find the CFO or the audit committee primarily influences fees when their counterpart is less powerful. Our findings suggest a more complex relationship between the CFO and the audit committee than current regulations recognize and cast doubt on the ability of regulation to force one structure on the negotiation process.

**Data Availability:** Data are available from public sources identified in the text.

Keywords: <u>audit fees</u>, <u>audit committee</u>, <u>CFO</u>, <u>recession</u>

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