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From CEO to chairman: Does leadership legacy influence the ESG–audit fees nexus? Evidence from UK FTSE 350 companies

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Abstract

Purpose – This study aims to examine whether the chairman's status as a former chief executive officer (ex-CEO) moderates the relationship between environmental, social and governance (ESG) performance and audit fees in UK companies. It explores how leadership legacy shapes the extent to which ESG engagement is reflected in audit pricing.

Design/methodology/approach – Using a panel dataset of the Financial Times Stock Exchange (FTSE) 350 firms from 2017 to 2024, the study investigates the ESG–audit fee nexus. Audit fees serve as a proxy for audit effort and perceived audit risk, while ESG performance is measured using overall and pillar scores. A moderation model assesses the effect of the chairman's ex-CEO status.

Findings – Results show a positive correlation between ESG performance and audit fees, indicating that greater ESG involvement increases reporting complexity and audit scrutiny. However, when the chairman is a former CEO, this relationship weakens, suggesting that leadership legacy influences auditors' risk assessments. Leadership continuity, such as the presence of an ex-CEO chairman, may reduce how auditors evaluate risk.

Research limitations/implications – The study focuses on FTSE 350 firms between 2017 and 2024. Future research could extend the analysis to multi-country settings and alternative audit quality measures.

Practical implications – For boards, the findings raise questions about balancing continuity and independence during leadership succession. For auditors and regulators, the results highlight how governance structures influence audit pricing and the credibility of ESG reporting.

Originality/value – This study links ESG performance, leadership legacy and audit pricing, showing that ex-CEO chairmanship weakens the ESG–audit fee relationship.

Keywords ESG, Audit fees, Leadership legacy, FTSE 350

Paper type Research article

1. Introduction

The Environmental, Social, and Governance (ESG) standards, which were initially introduced by the United Nations Environment Programme in 2004, have evolved into ethical guidelines

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and have become indispensable requirements in the decision-making process. The growing prominence of ESG in financial markets has led to increased reporting requirements that include ESG-related disclosures (Ling *et al*., 2024). Considerable progress has been made with ESG as a green paradigm for assessing non-financial information (Dhaliwal *et al*., 2012). The lack of consistent criteria, however, causes significant diversity in ESG ratings, resulting in disparities across agencies (Christensen *et al*., 2022), which increases market risk and uncertainty (Ling *et al*., 2024). There is a call for standardization to reduce this variation, as there are flaws in the evaluation methods used by agencies, which performed the evaluation that led to such differences (Berg *et al*., 2022).

ESG has a substantial influence on long-term corporate prospects (Edmans, 2023). Differences in ESG rating standards due to utilizing different data sets and interpretations increase the firm risk (Berg *et al*., 2022; Kimbrough, 2022), which requires auditors to go beyond financial risks and evaluate non-financial risks of corporate operations (Ling *et al*., 2024). A consistent finding in the literature is that higher ESG engagement often translates into more extensive assurance needs, leading to higher audit fees. This is due to the increased complexity and verification challenges associated with ESG reporting (Ling *et al*., 2024). ESG can create operational unpredictability and information gaps, making it complex for shareholders to evaluate companies and increasing the associated risks with audits, thus raising audit fees (Serafeim and Yoon, 2023). Furthermore, ESG may increase market risk and demand additional resources from auditors, which further increases audit fees (Berg *et al*., 2022). Additionally, ESG-related risks lead creditors to demand higher interest rates or offer less funding, which increases financial risks and related costs and makes external borrowing less desirable and more expensive (Liu, 2022). According to reputation theory, larger disparities also attract more analyst attention, which could increase the chance of audit failures and necessitate larger reserves for reputation risks (Fombrun, 2005).

In addition, we hold the view that the cumulative impact of a long-standing leadership legacy extends beyond the market's perception of control and may influence the ESG-audit fee nexus. While the association between ESG and audit fees has been widely acknowledged, little is known about whether a CEO-to-chairman leadership legacy affects this relationship. This investigation seeks to examine such an influence using a sample of United Kingdom (UK) firms, particularly those in the FTSE 350. It is relatively common for individuals to move from the role of CEO to chairman in UK-listed companies, which arises as an important governance issue that must be considered. The UK provides an excellent research environment because its corporate governance regulations require organizations to maintain transparent operations, yet the process of CEO succession to the chairman position remains a poorly understood governance practice.

Leadership legacy, like a former CEO who holds the role of board chairman, could be an important consideration in how external auditors assess risk. An ex-CEO chairman may bring contextual knowledge, continuity, and/or strategic value with respect to the firm's specific context. Strong ESG engagement is perceived as a dual aspect of risk and opportunity. ESG may reflect a proactive approach to managing social and environmental concerns. Nevertheless, this also heightens disclosure obligations and intensifies the examination from both regulators and investors. Auditors will usually require a higher risk premium under such circumstances. However, the presence of an ex-CEO chairman, auditors may perceive this kind of leadership as indicative of stability, profound understanding of the company, and effective internal control, which lessens their view of audit risk. This could potentially dilute the positive relationship that typically exists between audit fees and ESG.

The rest of this paper is structured as follows. The next section explores theoretical and empirical studies on ESG, audit fees, and leadership legacy. This is then followed by the methodology, empirical results, and a discussion of the findings in relation to theory and practice. Finally, this paper presents its implications and directions for future research.

2. Literature review, theoretical framework, and hypothesis development

2.1 ESG and audit fees

Recent studies have examined the impact of differences in ESG ratings on corporate value, taxes, and access to credit (Yoon *et al.*, 2021; Li *et al.*, 2025; Zhang *et al.*, 2025). A high ESG rating is usually associated with a higher level of investment sustainability (Van Duuren *et al.*, 2016), a higher degree of investment efficiency (Benlemlih and Bitar, 2018), a higher level of firm value (Cheng *et al.*, 2024; Ananzeh, 2024), and a reduced level of corporate credit risk (Li *et al.*, 2024). Other researchers have focused their efforts on the role of ESG practices in firm-level innovation (Meng *et al.*, 2023), digital transformation processes (Su *et al.*, 2023), and total factor productivity in family-owned firms (Sheng *et al.*, 2022). However, the scholarly community demonstrates a relative lack of research related to the outlook of the audit sphere on the ESG differences (Ling *et al.*, 2024; Zhang *et al.*, 2023).

Viewing governance as an "infrastructure" that enables monitoring, accountability, and credible disclosure (Awwad and El Khoury, 2024) reframes ESG assurance not merely as an extra audit procedure but as a test of the firm's information architecture. Intelligent governance systems—algorithmic dashboards, AI-driven risk maps, and continuous data feeds—reduce information asymmetry by codifying non-financial metrics in real time (Awwad, 2026; Awwad *et al.*, 2025; Awwad and Rimawi, 2025; Alshurafat *et al.*, 2026). However, ESG disclosure exemplifies the governance challenge: it is forward-looking, metrically heterogeneous, and minimally standardized (Berg *et al.*, 2022; Chatterji *et al.*, 2016). According to Simunic's (1980) pricing theory, audit fees increase in response to elevated risk levels. Accordingly, applying risk-based pricing theory, fees are related to an evaluation of engagement risk and auditor effort. Firms with significantly greater information asymmetry, operational complexity, and increased exposure to disclosure risk could incur greater audit fees to account for additional verification work and litigation risk (Simunic, 1980; Hay *et al.*, 2006).

Related studies are based on the assumption that increased ESG engagement implies additional disclosure requirements, greater complexity in reporting, and increased reputational or regulatory risk (Gidage and Bhide, 2025; Ling *et al.*, 2024). This would increase the audit requirements, including audit duration needed to assess risk-related controls, design appropriate substantive procedures, and planning intensity (e.g. Lee *et al.*, 2022; Ling *et al.*, 2024; Zhang *et al.*, 2023; Gou and Li, 2025).

On the other hand, according to stakeholder theory, ESG information may present an attempt to distract from negative actions and improve stakeholder satisfaction, which also suggests more complex management practices that might increase operational and legal risks (Huang, 2020; Freeman, 2010; Ananzeh *et al.*, 2024). Research indicates that ESG may be primarily practiced to enhance public image and secure financial resources. In some cases, firms with high ESG ratings may increase pollution to meet profitability targets, relying on their established reputations to offset negative consequences (Thomas *et al.*, 2022). Such actions can either demonstrate effective stakeholder engagement or serve to conceal unethical behavior (Zhang *et al.*, 2023). Here, greenwashing emerges to reflect symbolic action intended to improve a firm's image without any real intention towards genuine commitment to ESG initiatives (Li and Xu, 2022). This leads auditors to charge higher audit fees due to higher perceived litigation risks (Simunic, 1980; Hay *et al.*, 2006), to verify that ESG is not merely symbolic and to fulfill their ethical responsibilities (Zhang *et al.*, 2023; Sun *et al.*, 2025). Accordingly, we hypothesize the following:

H1. ESG and its components are likely to have a positive relationship with audit fees.

2.2 The moderating role of ex-CEO

"Leadership legacy" relates to establishing either an insider or outsider succession and transforming the positions of former and incoming CEOs (Brockman *et al.*, 2022). Such transitions involve shifts from operational to monitoring roles and increased control over corporate decisions. We adopt the term "leadership legacy" to define whether the current chairman is an ex-CEO. Leadership legacy reflects the ongoing influence, management knowledge, and relational capital that the CEO carries into the chairmanship role. Therefore, throughout this paper, "leadership legacy" will refer to a governance mechanism, namely ex-CEO chairmanship, rather than an abstract leadership quality.

The role of the chairman is critical in setting board oversight. When the chairman is a former CEO, it is likely to bring extensive firm-specific knowledge, long-standing relationships, and insight into the firm's strategies (Brockman *et al.*, 2022). Simultaneously, it brings up questions about independence since the previous CEO might be motivated to defend earlier choices or keep control over the management. Studies about CEO succession indicate that this effect is tied to legacy, which can either boost governance by making sure there is stability or harm it by lessening the ability of the board to effectively question management (Huang *et al.*, 2014; Bills *et al.*, 2016; Ghafran and O'Sullivan, 2017).

Former CEO chairperson may be viewed by auditors as a source of a lower degree of uncertainty, because of their inside information and ability to ensure continuity. The Resource Dependence Theory by Pfeffer and Salancik (1978) highlights the importance of managerial experience and networks as strategic resources of the firm. The presence of a former CEO chairperson facilitates continuity and experience that can make auditors trust internal risk management (Amin *et al.*, 2025; Dedman, 2016). As a result, it can alleviate the perceived risks of audit pricing despite high ESG commitments (Ghafran and O'Sullivan, 2017). This view is consistent with the stewardship theory that suggests that achievement and responsibility intrinsic motivation guides managerial behavior (Dedman, 2016; Donaldson and Davis, 1991). It suggests that managers are intrinsically driven and that they can gain satisfaction in competently performing their responsibilities. This inherent drive CEO to meet shareholders' needs eliminates the necessity of external controls and, thus, also leads to a reduction in audit fees (Dedman, 2016).

Nonetheless, agency theory suggests that independence might be compromised as the ex-CEO may be motivated to defend previous choices or retain control over the company's management (Dedman, 2016). This suggests weakening corporate governance by reducing the board's ability to challenge management effectively. Despite this, we can argue that surface-level unity between a CEO and Chairman, particularly after a succession, often indicates power distribution that favors the CEO but permits ongoing influence from the Chairman's office (Brockman *et al.*, 2022). This remains a relevant model despite potential reductions in former CEOs' influence over strategy and operations upon transitioning to Chairman. The combination of retained leadership legacy and strong ESG commitments tends to indicate an environment of reduced uncertainty, enabling auditors to conduct assurance with fewer reservations (Brockman *et al.*, 2022). Under these circumstances, organizations that have high ESG performance may not experience elevated audit fees, as the presence of an ex-CEO chairman can help stabilize organizational expectations (Ghafran and O'Sullivan, 2017).

H2. Ex-CEO chairmanship negatively moderates the ESG-audit fee relationship.

3. Methodology

3.1 Sample and data of the study

We employ a panel data approach to study the moderating role of the chairman's ex-CEO status on the link between ESG and audit fees in UK FTSE 350-listed companies. The UK provides a suitable institutional context due to its well-established corporate governance code and mandatory ESG disclosure requirements. The sample includes the FTSE 350 listed London Stock Exchange. This sample provides an appropriate setting for the study. First, these companies are all governed by the same set of rules and principles regarding corporate governance, which are mature and well-established, allowing for easy comparison between them. Second, these firms have greater public visibility, more complex operations, and higher ESG reporting intensity.

The time frame for the sample is from 2017 to 2024. The selected time period starts after the EU Non-Financial Reporting Directive implementation and extends to ESG reporting obligations that became mandatory for companies during that period. Data was retrieved from Refinitiv Eikon Database on the following: (1) ESG scores; (2) Audit fees; (3) Board characteristics; and (4) Financial data. Companies in the financial services industry were excluded from the study sample because due to having reporting requirements varied from those included in the sample.

3.2 Definitions of the study variables

Table 1 shows the key measures of the variables used in this study as follows:

Dependent variable: The dependent variable is *audit fees,* which represent the total fees paid to the external auditor for conducting audit services. Consistent with prior auditing literature, the natural logarithm of audit fees is employed to reduce skewness and enhance comparability across firms of different sizes (Berg *et al*., 2022).

Independent variable: The ESG performance data come from the Refinitiv ESG database, which offers a uniform composite ESG score of 0–100. This score represents the firm-level performance in the environmental, social, and governance factors based on publicly available content and third-party verified reports. We use the overall ESG score as a continuous variable, consistent with prior literature, to capture the firm's overall sustainability performance and reporting transparency (Ling *et al*., 2024; Zhang *et al*., 2023; Cheng *et al*., 2024).

Moderating variable: The moderator of interest is the *chairman's ex-CEO status*. This variable captures whether the current chairman of the board previously served as a chief executive officer. A dummy variable equal to 1 is assigned when the chairman previously served as the CEO of the same company, and 0 otherwise (Ma *et al*., 2022).

Table 1. Definition of the study variables

Variable	Definition/measurement
Dependent variable	
Audit Fees (AUDITFEES)	Natural logarithm of total audit fees paid to the external auditor for statutory audit services (Berg *et al*., 2022)
Independent variables	
ESG Performance (ESG) Environmental Performance (EP) Social Performance (SP) Governance Performance (GP)	Environmental, Social, and Governance (ESG) score and its sub-components (Cheng *et al*., 2024)
Moderating variable	
Ex-CEO Chairman (EXCEO)	Dummy variable equal to 1 if the current board chairman previously served as a CEO, 0 otherwise (Ma *et al*., 2022)
Control variables	
Board Diversity (BOARDDIV)	Percentage of female directors on the board (proxy for gender and cultural diversity)
Board Size (BOARDSIZE)	Total number of directors serving on the board
CEO Duality (CEODUALITY)	Dummy variable equal to 1 if the same individual serves as both CEO and chairman, 0 otherwise
Board Independence (BOARDINDEP)	Percentage of independent non-executive directors on the board
Auditor Tenure (AUDITORTENURE)	Number of consecutive years the same auditor has audited the firm
Leverage (LEV)	Ratio of total debt to total assets
Return on Equity (ROE)	Net income divided by shareholders' equity
Firm Size (SIZE)	Natural logarithm of total assets
Cash Holdings (CASH)	Natural logarithm of total cash and cash equivalents
COVID-19 (COVID)	Dummy variable equal to 1 for fiscal years 2020–2021, and 0 otherwise

Control variables: Firm- and governance-level variables are included to control for factors that have been shown in prior research to influence audit fees (Berg *et al*., 2022; Ma *et al*., 2022; Cheng *et al*., 2024).

3.3 Econometric model

The researchers used panel OLS regression techniques to test the hypotheses. Model 1 presents the baseline model estimated the effect of ESG performance on audit fees, controlling for firm and governance characteristics. On the other hand, Model 2 presents the moderating effect of the chairman's ex-CEO status, which was then examined by adding an interaction term between ESG performance and the ex-CEO dummy. The model can be expressed as:

$$\begin{aligned} AUDITFEES_{it} = {} & \beta_0 + \beta_1 ESG_{it} + \beta_2 BOARDDIV + \beta_3 BOARDSIZE + \beta_4 CEODUALITY \\ & + \beta_5 BOARDINDEP + \beta_6 AUDITORTENURE + \beta_7 LEV_{it} + \beta_8 ROE_{it} \\ & + \beta_9 SIZE_{it} + \beta_{10} CASH_{it} + \beta_{11} COVID_{it} + \varepsilon_{it} \end{aligned} \quad \text{Model (1)}$$

$$\begin{aligned} AUDITFEES_{it} = {} & \beta_0 + \beta_1 ESG_{it} + \beta_2 ESG * EX - CEO + \beta_3 BOARDDIV \\ & + \beta_4 BOARDSIZE + \beta_5 CEODUALITY + \beta_6 BOARDINDEP \\ & + \beta_7 AUDITORTENURE + \beta_8 LEV_{it} + \beta_9 ROE_{it} + \beta_{10} SIZE_{it} \\ & + \beta_{11} CASH_{it} + \beta_{12} COVID_{it} + \varepsilon_{it} \end{aligned} \quad \text{Model (2)}$$

Where:

AUDITFEES represents audit fees; *ESG* represents ESG performance; *BOARDDIV* represents board diversity; *BOARDSIZE* represents board size; *CEODUALITY* is CEO duality; *BOARDINDEP* represents board independence; *AUDITORTENURE* represents audit tenure; *LEV* is corporate leverage; *ROE* is firm profitability; *SIZE* is firm size; *CASH* is firm cash holdings; and *COVID* represents the COVID-19 pandemic.

Specifically, we estimate Ordinary Least Squares (OLS) models with robust standard errors to account for heteroscedasticity, as the baseline specification (Ananzeh *et al*., 2024). To account for unobserved firm-level heterogeneity, we re-estimate the models using Generalized Least Squares (GLS) with random effects. The GLS estimations provide validation that the findings are not sensitive to unobserved heterogeneity and autocorrelation issues (Jusoh and Che-Ahmad, 2014).

4. Empirical results

4.1 Descriptive statistics

The descriptive statistics for the study are provided in Table 2. Audit fees have an average of 13.87, with a range of 10.05–20.07, respectively. The average ESG score is 53.93, which means that the firms in the sample attain a moderate level of ESG engagement; the standard deviation is 19.78, which reflects the significant variance among the study variables. Analyzing the pillar scores, the highest mean score is indicated by governance performance (GP) (56.81), followed closely by the social pillar (SP) (55.85), and the lowest mean score is that of environmental performance (EP) (46.46).

The average board size stands at 8.54, which is in line with recommendations on corporate governance in the UK. The median type of board diversity is 34.29%, but that 0 to 80 range indicates high heterogeneity in gender diversity across boards. In terms of independence,

Table 2. Descriptive statistics

Variable	Mean	Std. dev.	Min	Max
Auditfees	13.874	1.891	10.048	20.069
ESG	53.925	19.778	1.791	95.595
SP	55.854	20.764	1.985	97.6
GP	56.806	23.971	1.37	98.888
EP	46.458	27.021	0	96.718
Boarddiv	34.286	12.402	0	80
Boardsize	8.542	2.509	2	19
CEOduality	0.049	0.215	0	1
Boardindep	70.784	17.5	0	100
Auditortenure	6.474	4.979	1	30
ROE	15.666	6.59	−0.328	26.82
Lev	0.21	0.176	0	1.25
Size	21.973	1.799	16.86	28.73
Cash	18.807	2.279	7.84	26.739
Covid	0.25	0.433	0	1

Source(s): Authors' own work

70.78% of the boards have independent directors, which shows that the UK companies comply with governance codes that ensure a high number of independent board members compared to other nations. CEO duality is minimal in this sample, with 5% of cases of CEO duality.

The average tenure of auditors is 6.47 years, with a maximum tenure of 30 years, indicating that there are both new and old auditors. Return on equity (ROE) has a mean of 15.67%. The average firm size is 21.97, and the average leverage ratio is 0.21, which indicates very low levels of leverage. In addition, firms hold an average value of 18.81 cash on their balance sheet. Finally, the dummy variable representing the COVID-19 pandemic period (2020–2021) is equal to 0.25, indicating that approximately 25% of the observations occurred during the COVID-19 period. The correlation matrix in Table 3 demonstrates that there is no significant multicollinearity among the variables evaluated in this analysis.

4.2 Regression results

Table 4 reports the relationship between ESG performance and audit fees. The baseline model (Model 1) shows that the aggregate ESG score is positively and significantly associated with audit fees ($\beta = 0.0269$, $p < 0.01$). This result is consistent with Ling *et al*. (2024) and Zhang *et al*. (2023). Under risk-based pricing theory, auditors can include ESG activities in their risk models. This inclusion justifies why firms with better ESG scores pay higher amounts for financial audits even before formal ESG assurance is fully adopted. Companies use ESG activities to improve legitimacy, yet these activities increase the risk of audits while also creating information asymmetry and assurance problems that auditors account for in fees (Zhang *et al*., 2023). According to stakeholder theory, ESG information is used as a tool to appease the interests of stakeholders (Huang, 2020). Such activities may be an attempt by firms to distract stakeholders from attention to unethical behavior, which requires auditors to put substantial effort into their auditing practices (Zhang *et al*., 2023), which subsequently translates into an increase in audit fees. Finally, when the ESG pillars are examined separately (Column 2–4), all three dimensions—social, environmental, and governance—display significant and positive relationships with audit fees.

Board diversity and board size are positive and statistically significant. Larger boards and boards with higher diversity are assumed to provide broader expertise and better monitoring. However, they could also make decision-making harder and increase the reporting requirements that the auditor must deal with. This complexity is reflected in higher audit

Table 3. Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Auditfees	1.000														
ESG	0.723	1.000													
SP	0.544	0.855	1.000												
GP	0.685	0.804	0.472	1.000											
EP	0.603	0.848	0.688	0.545	1.000										
Boarddiv	0.047	0.160	0.133	0.134	0.113	1.000									
Boardsize	0.716	0.617	0.507	0.517	0.529	−0.007	1.000								
CEOduality	−0.013	−0.040	−0.049	−0.048	0.008	−0.120	0.023	1.000							
Boardindep	−0.304	−0.155	−0.054	−0.195	−0.155	0.354	−0.275	−0.172	1.000						
Auditortenure	0.041	0.007	0.033	−0.079	0.077	−0.002	0.050	0.067	−0.003	1.000					
ROE	−0.099	−0.115	−0.083	−0.103	−0.116	0.090	−0.151	−0.012	0.082	−0.024	1.000				
Lev	0.306	0.271	0.233	0.218	0.259	−0.008	0.239	0.034	−0.263	0.030	−0.111	1.000			
Size	0.677	0.542	0.489	0.390	0.509	0.103	0.608	−0.091	0.076	0.039	−0.145	0.096	1.000		
Cash	0.726	0.566	0.440	0.491	0.507	0.000	0.623	−0.045	−0.119	0.029	−0.091	0.125	0.074	1.000	
Covid	−0.011	0.003	−0.009	0.030	−0.031	−0.006	−0.027	0.017	−0.015	−0.039	−0.101	0.022	0.000	0.049	1.000

Source(s): Authors’ own work

Table 4. The relationship between ESG and audit fees

Model Cloumn Variables	1 (1) Auditfees	1 (2) Auditfees	1 (3) Auditfees	1 (4) Auditfees
ESG	0.0269*** [20.53]			
SP		0.0107*** [9.16]		
EP			0.00958*** [9.70]	
GP				0.0247*** [26.43]
Boarddiv	0.00628*** [3.70]	0.0118*** [6.52]	0.0110*** [6.04]	0.00516*** [3.24]
Boardsize	0.118*** [10.07]	0.163*** [12.43]	0.168*** [13.07]	0.119*** [10.90]
CEOduality	−0.0313 [−0.43]	−0.0578 [−0.76]	−0.108 [−1.35]	0.0302 [0.45]
Boardindep	−0.0211*** [−15.05]	−0.0236*** [−15.27]	−0.0220*** [−14.36]	−0.0193*** [−14.72]
Auditortenure	0.00399 [1.11]	0.00113 [0.28]	−0.000922 [−0.23]	0.0130*** [3.67]
ROE	0.882*** [7.45]	1.096*** [8.88]	1.071*** [8.82]	0.996*** [8.57]
Lev	0.00931*** [3.35]	0.00765*** [2.64]	0.00878*** [3.03]	0.0108*** [3.95]
Size	0.241*** [13.98]	0.254*** [13.03]	0.252*** [13.04]	0.298*** [18.33]
Cash	0.202*** [12.83]	0.248*** [14.69]	0.234*** [13.81]	0.172*** [12.22]
Covid	−0.0824* [−1.95]	−0.0849* [−1.88]	−0.0653 [−1.45]	−0.105*** [−2.65]
Constant	3.395*** [14.07]	2.686*** [10.36]	3.040*** [11.22]	2.544*** [10.73]
R-squared	0.759	0.725	0.728	0.782

Note(s): Column (2)–(4) specifications correspond to Model (1), which separately tests the environmental, social, and governance pillars. Robust *t*-statistics in parentheses ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$
Source(s): Authors' own work

fees. On the other hand, board independence is negatively associated with audit fees, which supports the argument that greater independence reduces audit risk by improving the effectiveness of monitoring. This then leads to a reduction in extensive audit effort. CEO duality is not significant, entailing that the dual position of the CEO is not a decisive factor in determining audit fees. Auditor tenure is insignificant in most columns but turns positive and significant in Model 4.

Profitability and size are strongly positive in all columns, indicating that bigger profitable firms have larger and more complex operations requiring greater audit effort. Leverage is significant and positive. Auditor charging higher fees for a firm with greater financial risk and scale. Cash holdings have a positive relation to audit fees. High liquidity needs more examination of cash management and investment policy. The COVID-19 dummy is negative and significant in some specifications, particularly in Model 4, indicating that audit fees were, on average, lower during the pandemic period. This is due to the temporary decreases in audit scope due to remote auditing methods and the crisis-related fee concessions that were provided.

Table 5 shows whether the Ex-CEO is a moderator of the ESG-audit fee link. The interaction terms are consistently negative and statistically significant across all columns. The interaction term between aggregate ESG and Ex-CEO is negative ($\beta = -0.0139$, $p < 0.01$), as in Column (1). When the chairman is a former CEO, the positive ESG-audit fees link is weakened. Put differently, although higher ESG scores are generally associated with higher audit fees (as shown in Table 4), this effect becomes weaker in firms with legacy leadership. When ESG is decomposed into its pillars (Columns 2–4), similar patterns emerge. The

Table 5. The moderating role of ex-CEO on the ESG-audit fees nexus

Model Column Variables	2 (1) Auditfees	2 (2) Auditfees	2 (3) Auditfees	2 (4) Auditfees
ESG	0.0274*** [20.51]			
SP		0.0110*** [9.16]		
EP			0.0101*** [10.06]	
GP				0.0249*** [26.03]
ESP * Ex-CEO	−0.0139*** [−4.64]			
SP * Ex-CEO		−0.00610** [−2.01]		
EP * Ex-CEO			−0.0143*** [−4.14]	
GP * Ex-CEO				−0.00534* [−1.77]
Ex-CEO	0.143 [0.82]	0.0915 [0.47]	0.812*** [4.16]	−0.522*** [−2.81]
Boarddiv	0.00626*** [3.70]	0.0118*** [6.50]	0.0110*** [6.07]	0.00517*** [3.25]
Boardsize	0.119*** [10.16]	0.164*** [12.45]	0.170*** [13.23]	0.119*** [10.91]
CEOduality	0.544*** [6.40]	0.171* [1.94]	−0.219** [−2.45]	0.832*** [9.63]
Boardindep	−0.0207*** [−14.78]	−0.0234*** [−15.12]	−0.0216*** [−14.13]	−0.0192*** [−14.59]
Auditortenure	0.00416 [1.16]	0.00130 [0.32]	0.000259 [0.06]	0.0126*** [3.54]
ROE	0.880*** [7.45]	1.097*** [8.90]	1.058*** [8.74]	0.992*** [8.52]
Lev	0.00915*** [3.30]	0.00756*** [2.61]	0.00820*** [2.84]	0.0109*** [3.99]
Size	0.241*** [13.97]	0.254*** [13.00]	0.252*** [13.09]	0.298*** [18.30]
Cash	0.200*** [12.67]	0.247*** [14.63]	0.232*** [13.66]	0.172*** [12.12]
Covid	−0.0824* [−1.95]	−0.0849* [−1.88]	−0.0650 [−1.45]	−0.105*** [−2.65]
Constant	3.379*** [14.01]	2.677*** [10.33]	3.007*** [11.11]	2.549*** [10.74]
R-squared	0.760	0.725	0.729	0.782

Note(s): Column (2)–(4) specifications correspond to Model (2), which separately tests the environmental, social, and governance pillars. Robust *t*-statistics in parentheses ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$

Source(s): Authors' own work

interaction with the social pillar is negative and significant ($\beta = -0.0061$, $p < 0.05$); the environmental pillar shows a stronger moderating effect ($\beta = -0.0143$, $p < 0.01$); while governance performance interacts negatively but only has a marginal effect ($\beta = -0.0053$, $p < 0.10$).

This inverse relationship of leadership legacy alters the risk perception of auditors. Auditors are likely to perceive the firm as less risky as the ex-CEO chairman has specific knowledge, institutional memory, connections, and have well control over management (Brockman *et al*., 2022). This is the risk premium embedded in audit pricing, thereby lowering incremental audit fees. This can also be explained through the lens of the resource dependence perspective, where an ex-CEO chair provides valuable resources—experience, external connections, and potentially credibility—that assure auditors about internal controls (Dedman, 2016; Amin *et al*., 2025). Stewardship theory argues that ex-CEOs are motivated by loyalty to the firm and a desire to safeguard its reputation, which reassures auditors that management acts in the interest of the firm (Huang *et al*., 2014). Agency theory suggests that ex-CEO chairmen may compromise board independence by protecting their legacy or maintaining influence over management (Ghafran and O'Sullivan, 2017). Nonetheless, auditors might still interpret their presence as reducing uncertainty. Despite independence concerns, auditors discount ESG-related risks when ex-CEO chairmen are in place, assuming their involvement enhances monitoring effectiveness.

The impact of the Ex-CEO on audit fees is not significant in either Column (1) or (2), but is significantly high in Column (3) and (4). This discrepancy implies that having an ex-CEO chairman does not have a direct effect on increasing and/or decreasing audit fees. Rather, it operates conditionally, by altering the perception and pricing of ESG efforts by auditors. The changes in the sign and the significance of ex-CEO across the models do not indicate contradictory findings, but instead reflect the different roles of ex-CEO as both a direct governance variable and a moderating factor. Leadership legacy and continuity of organizational knowledge may reduce the incremental audit risk associated with ESG activities without directly affecting audit fees.

4.3 Robustness tests

Generalized Least Squares (GLS) estimation was used to further consider the possibility of a heteroskedasticity issue and autocorrelation. The robustness of the study findings is supported by the GLS regressions reported in Columns (1) and (3) of Table 6. In particular, the positive and significant association between the ESG performance and the audit fees is still present. The interaction term is still negative and significant.

Besides the methodological checks, alternative proxies of ESG performance are used to check for measurement bias. A binary ESG dummy variable is used, where the firms are classified as 1 if their ESG score is higher than the sample median and 0 otherwise. This dichotomous indicator addresses the difference between firms with either high or low ESG. The debt-to-equity ratio was also used as an alternative proxy of corporate leverage. The findings in Columns (2) and (4) support earlier findings: the firms, which have an increased ESG engagement (ESG Dummy = 1), pay significantly increased audit fees ($\beta = 0.569$, $p < 0.01$). Notably, the interaction term (ESG dummy and Ex-CEO) is negative and statistically significant ($\beta = -0.421$, $p < 0.05$), which further supports our argument.

5. Conclusion

This study investigates whether leadership legacy influences the ESG-audit fee relationship. In particular, we examine the case of former CEOs who subsequently serve as chairmen of UK-listed companies. ESG practices have become increasingly important in corporate strategy, affecting not only investor perceptions but also how firms are audited and regulated. At the same time, the question of whether former CEOs continue to exert significant influence over corporations remains an ongoing debate in the corporate governance literature.

Table 6. Robustness test

Model	1	1	2	2
Column	1	2	3	4
Variables	GLS model	ESG dummy	GLS model	ESG dummy
ESG	0.0269***		0.0274***	
	[20.01]		[20.19]	
ESG * Ex-CEO			−0.0139**	
			[−2.45]	
ESG Dummy		0.569***		0.591***
		[11.61]		[11.81]
ESG Dummy * Ex-CEO				−0.421**
				[−2.18]
Ex-CEO			0.143	−0.0240
			[0.15]	[−0.03]
Boarddiv	0.00628***	0.0113***	0.00626***	0.0112***
	[3.74]	[6.25]	[3.74]	[6.19]
Boardsize	0.118***	0.167***	0.119***	0.168***
	[10.21]	[13.67]	[10.32]	[13.76]
CEOduality	−0.0313	−0.0547	0.544	0.159
	[−0.35]	[−0.56]	[0.62]	[0.17]
Boardindep	−0.0211***	−0.0251***	−0.0207***	−0.0249***
	[−15.60]	[−17.47]	[−15.30]	[−17.29]
Auditortenure	0.00399	0.00221	0.00416	0.00200
	[1.06]	[0.54]	[1.11]	[0.49]
ROE	0.882***		0.880***	
	[7.63]		[7.62]	
Lev	0.00931***		0.00915***	
	[3.40]		[3.35]	
Debttoeqity		0.000183***		0.000177***
		[2.94]		[2.84]
Size	0.241***	0.260***	0.241***	0.260***
	[13.73]	[13.52]	[13.73]	[13.53]
Cash	0.202***	0.238***	0.200***	0.236***
	[14.56]	[15.96]	[14.41]	[15.83]
Covid	−0.0824*	−0.0789*	−0.0824*	−0.0767
	[−1.92]	[−1.68]	[−1.92]	[−1.64]
Constant	3.395***	3.331***	3.379***	3.330***
	[12.33]	[11.04]	[12.27]	[11.03]
R-squared		0.720		0.720
Number of years	8		8	

Note(s): Column (1)–(2) specifications correspond to Model (1). Column (3)–(4) specifications correspond to Model (2). Robust *t*-statistics in parentheses ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$

Source(s): Authors' own work

We find a positive and significant relationship between the audit fee and the ESG performance. The better the companies on ESG are, the higher the audit fees. Probably it is due to more verification procedures due to more associated ESG risk assessment, which audit firms are further liable to evaluate. This finding applies to all pillars of ESG. Second, an ex-CEO serving as a chairman also moderates the association between ESG and audit fees. The positive correlation between ESG performance and audit fees is weakened in the case where the chairman was the former CEO. This result indicates that the auditors have a better perception of the companies with the chairmanship of Ex-CEO as being more stable or supervised, thus lessening the incremental audit effort with respect to ESG activities. The robustness of the estimates has been checked using another measure of ESG performance with a binary ESG dummy, Generalized Least Squares estimation to take care of heteroskedasticity and autocorrelation; the results are consistent.

This research is significant in theory and practice. Theoretically, it adds to the literature on ESG assurance and corporate governance because it reveals the impact of leadership legacy on ESG and the effect of sustainability initiatives on audit costs. This study also demonstrates that the impact of the CEO-to-chairman change may be beneficial in terms of audit pricing of ESG activities. The perspective offers a comprehensive insight into the relationship between business leadership systems and sustainability actions that bridge the gaps between the theory of governance, ESG literature, and auditing literature. In practical terms, such findings inform managers and boards that it is incorrect to believe that ESG initiatives will necessarily result in a reduction in audit fees. To regulators and policymakers, the findings imply that there is an immediate need to have better definitions of reporting standards on ESG problems. More standardization would eliminate auditor uncertainty and ultimately decrease the long-run fee premiums associated with the ESG performance. This study can also be helpful to regulators in identifying the most important aspects of governance, e.g. ex-CEO chairman, to perceived risk. This data can also be used by the regulators to develop policies on the quality assurance of ESG reporting as well as offer consistency, comparability, and protection to investors.

In terms of the study limitations, this research is based on the companies in the UK; therefore, its results are relevant to the UK. Results may not be generalized to other countries with different institutional backgrounds. This study also relies on audit fees as a proxy of the external monitoring costs; future studies could liberalize this aspect by using other proxies, such as ESG assurance fees, credit rating, or investor response. The relationship between ESG and audit fees can also be conceptualized using other attributes, such as CEO directorship and audit oversight systems of boards. Comparison between countries can also be informative and shows various trends in terms of risk judgment. Another area of research can evaluate the effectiveness of policy change, e.g. new ESG assurance criteria or stricter independence in former CEOs.

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