Investigating the relation between rate of Corporate Governance, leverage and size of Audit on Audit Fee in Tehran Stock Exchange

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Abstract
The purpose of this study is to investigate the influence of rate of corporate governance, financial leverage and the size of the audit firm on audit fees. This study, use data from 72 companies listed on the Tehran Stock Exchange in years 2008 to 2014. The study is based on consolidated data and was used a random effects mode. The results showed that the level of corporate governance and financial leverage have no significant effect on audit fees. Also, results showed audit firm size has significant positive impact on audit fee.

Keywords: Corporate Governance rate, Audit firm size, Audit fee.
**Introduction**

Companies as firms are always looking for profitability and achieve greater wealth. This liner for various reasons, notably the separation of ownership, the company also undertake the task of economic activities, the company also undertake the task of responding. Based on empirical data, the most efficient form of accountability, financial reporting, such as Enron, WorldCom and credit accounting figures that make up the most important part of financial reporting, the intensity is questioned, so that investors have confidence in the financial statements prepared by management. Environmental compliance and organizational characteristics of effective corporate governance are concerned. Shareholders in overseeing the management, can be different mechanisms of corporate governance, such as board independence and independent auditors trust. Empirical evidence shows that poor corporate governance often decrease the quality of financial reporting, manipulation and fraud in the financial statements of profits and flora. With regard to the subjects mentioned the importance of corporate governance, in this study we are trying to review these indicators on the right to audit fees to pay.

**Theoretical Foundations**

*The emergence of the audit profession*

Audit within the meaning of either word has a long history. Was born from the need to control audit of the financial operations of government funds was felt. After the Renaissance and the development of global trade need to be more accountable. Therefore, the principles of double entry accounting were born in Italy in the 15th century. The industrial revolution brought big factories and small capital formations and feed them, big capital and contributes to the exchange and securities markets (National Audit Office, 2005).

Securities and Exchange Organization, a new dimension to accounting, including the need to provide financial information to shareholders and others on how to handle investment, performance evaluation and performance assessment of managers and ... gave (National Audit Office, 1388).

External reports accounting practitioners alone could provide the perfect because direct employment relationship, they are forced to accept the managers of the firm in preparing financial statements. However, the financial statements must meet the needs of different users of financial statements as well. Therefore, the choice of the independent auditor is chartered by the general assembly of shareholders. Aggregation of trained accountants and have sufficient expertise to conduct these operations in associations that it was necessary requirement to adhere to professional conduct, created the auditing profession. The first example of Chartered Accountants England, was a model in other countries (National Audit Office, 2005).

*Of audit*

Audit financial statements: aim, how to determine whether the financial statements with generally accepted accounting principles is provided. Compliance audit: professional opinion about whether the notification of the forensic department rules and regulations are being complied with or not to participate correctly? Operational audits (performance) evaluation of specific parts of the organization to measure their mode of operation.
Performance audit
The term audit function to the audit operations are usually to create differences between the financial statement auditing and auditing for comment professional on selected aspects of an organization outside the scope of the judgment is applied. The purpose of this audit was to determine the effectiveness and cost savings opportunities and improve operational effectiveness that these objectives related to increased organizational goals. The major difference in the objectives of the audit. Audited financial statements involve factors that are leading to comment on the financial statements and what is called operational audits for the purpose of efficiency, economy, effectiveness and achieve profitable results is executed. A major difference in the approaches contained in the audited financial statement, and Audit Management does not exist or operate in any type of audit is performed on four stages:
1. evaluation activities necessary to obtain records;
2. The evaluation responsibilities related to authorized activities to ensure the power and limitations related operations;
3. study and familiarity with the policies established by management through operating procedures and administrative proceedings and determine the effectiveness of the troubled areas and weak;
4. is the systematic process of assessing the economy, efficiency and effectiveness of operations under management control and reporting of results with appropriate justifications to improve the individuals and stakeholders.

Basic concepts
Performance audit has three components efficiency, effectiveness and economy that is very important. internal or external auditors recommended.

Factors justify the demand for audit
In general, there are three major hypotheses proposed to require an audit (Lamb, 1998). These assumptions include:

1. Representation theory
This hypothesis, which refers to the role of auditing in reducing the problems and dangers of ignoring morality plays. According to the agency theory, the auditor within the framework of relations between the agent - the owner is an integral part of the contractual mechanism for controlling agency costs please be created. According to Jensen and Mac Ling (1976) when agent (manager) to find out more about the owner of the company's internal operations, given that the director is seeking personal gain, more than desirable use of corporate resources and to transfer of wealth from owners to win tries. So investors have rational behavior, such behavior in pricing securities companies will be less money to pay for its securities (Lamb, 1998). Even as a last option may be their capital from outside their company. As a result, investors are trying to avoid such circumstances to establish mechanisms affecting the behavior and motivation of opportunistic monitoring and control. Thus, the hypothesis representation is about the role of auditors reducing information asymmetry and risks of violations of moral principles. Without the auditor may be biased and inaccurate financial statements to be submitted (Lamb, 1998).
2. Hypothesis confidence
According to this hypothesis, the auditor helps to reduce incorrect decisions in the capital market and investor tries to adopt recognized auditors to demonstrate to the capital markets is fair and transparent operation. Potential investors for their investment decisions of their symptoms (Lamb, 1998) are to bring more companies (Francis, 1984).

3. Hypothesis Accreditation
Based on the hypothesis that compared to the previous hypothesis, less attention has researchers and theorists may claim the auditing profession in validating the results and financial statements are not responsible for any but on the other hand, investors believe that if as a result of the use of misleading financial statements to be damaged, auditors must pay the price to pay and compensate for their losses. So may be damaged in cases where investors, auditors be held. As a result, the auditor should consider the risk in pricing their services and the results of operations of the company is weaker (lower profitability or loss of) the risk has increased and consequently also increases audit fees (Saymvnyk, 1984).

In practice, one or a combination of cultural and environmental conditions in accordance with the legal assumptions used in one country may be one of them than others, to provide better justification (lemma, 1998).

The concept of audit fees
Audit quality indices can be divided into two groups Classification of the input and output. An example of input criteria include: experience, qualifications, technical resources (teaching and learning), employment levels and proportions of partners and employees, as well as the inclusion criteria can be outlined as follows: financial information (remuneration of services in the regions and different industries), legal cases related to independence, reports and denied wrongdoing and accept new clients (new clients and for clients with whom information concerning the cooperation has been cut). In this regard, one of the most important concepts in the field of auditing suppliers can partly be audit quality, audit fees (Lee and Bai, 2012). Economic interests auditor is supplied through fee income generated from contracts with clients. Auditors for pricing auditing services they use and a variety of factors, many studies have been conducted in relation to the identification and evaluation of these factors. Descriptive factors considered in studies of risk factors, the size and complexity of the entity's operations. Audit audit fees has been the subject of much research and numerous studies have been conducted to investigate the factors affecting audit fees (Nikbakht and shellfish, 2010).
Considering the prices of other goods, audit fees for audit services is also a reflection of the market value. New services related to the audit are significantly different from other services. This can be the difference in specific relation between the applicant and the applicant audit observed. The Supplier audit, the external auditor and the applicants These owners, creditors, managers and foreign investors important loss. Manager of foreign-owned firms to perform their duties to the question of audit services from this location. Therefore, formation of audit fees is not the result of a balance between supply and demand, but the first audit determines that these costs stems. Due to the lack of direct communication between investors and audit firm to determine the quality of audit services directly does not exist. Therefore it could audit fees to audit quality, for to investors, linked. When the audit is lower than the standard rate, profit margin also decreased audit firm, audit firm to
achieve a reasonable profit so inevitably audit standards are fully implemented in other words and audit quality decreases.

Symvnyk (1980) suggests that the remuneration of audit firm composed of three parts: First, the inherent cost of audit (including audit procedures required, report and missed opportunity costs), then the expected costs (involve risks and potential costs resulting from the implementation of the audit) and, ultimately, profits audit firm. Employers hoping to reduce the cost of reporting systems and the auditors are hoping to earn a reasonable profit of audit and audit fees as a result of maximizing the interests of both sides. Audit fees can be looked from two perspectives also that:

A) Representation theory
Representation theory that makes up part of the PAT, states that a company based on a contract between sponsors (investors) and managers (as a representative) are formed and to control and use of this resources. In joint stock companies, senior managers do not always work to maximize return on investment, therefore, a problem arises in connection with the interests of shareholders. In terms of corporate executives, agency costs due to conflict of interests between investors and please be created. The purpose of the audit forcing administrators uses appropriate procedures in order to maximize the interests of foreign investors and reduce perverse incentives for managers. Audit as a tool to control the behavior of managers by investors and the increased interest of investors-is considered. Audit fees make up the bulk of the costs of representation. Ensuring the performance of managers in the interests of investors and the general review of company accounts is the responsibility of the auditor. Thus, it can be expected that with increasing problems of representation, auditors spend more time to review the client In other words audit fees also increased (Jensen and Mac Ling, 1976).

B) The theory of information asymmetry
According to the theory of information asymmetry, the audit due to information asymmetry is between managers and clients. Because employers do not have access to all available information when making decisions to determine how the managers in order to maximize the interests of the client is impossible. In addition to the optimal allocation of management resources in the capital markets, the need for reliable financial information for decision-making and the nature of the audit, while increasing the quality of financial information. However, investors, creditors and other stakeholders have access to enough information, but not always, they decide to rely on financial information, and this situation creates demand for more quality information. To increase the quality of information, auditors should audit plan carefully plan and execute with maximum efficiency and effectiveness of their operations. In other words, efforts increase the quality of auditing the auditors. With the increase in effort and time course of the audit audit fees also increased.

Enclosures
Date: 12/22/15
Time: 16:34
Sample: 2005 2012

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<th>MTB</th>
<th>ROA</th>
<th>SCORE</th>
<th>SIZE</th>
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http://www.ijhcs.com/index
The correlation coefficient table

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### Reliability test

Null Hypothesis: Unit root (common unit root process)

**Series: BIG**
- **Date:** 12/22/15  **Time:** 16:36
- **Sample:** 1387 2012
- **Exogenous variables:** Individual effects
- **User-specified lags:** 0
- Newey-West automatic bandwidth selection and Bartlett kernel
- **Total (balanced) observations:** 2
- **Cross-sections included:** 5 (67 dropped)

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**Probabilities are computed assuming asymptotic normality**

**Series: GRW**
- **Date:** 12/22/15  **Time:** 16:36
- **Sample:** 1387 1392
- **Exogenous variables:** Individual effects
- **User-specified lags:** 0
- Newey-West automatic bandwidth selection and Bartlett kernel
- **Total (balanced) observations:** 340
- **Cross-sections included:** 68 (4 dropped)

<table>
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**Probabilities are computed assuming asymptotic normality**

**Series: LEV**
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- **Sample:** 1387 1392
- **Exogenous variables:** Individual effects
- **User-specified lags:** 0
- Newey-West automatic bandwidth selection and Bartlett kernel
- **Total (balanced) observations:** 340
- **Cross-sections included:** 68 (4 dropped)

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<th>Method</th>
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**Probabilities are computed assuming asymptotic normality**

**Series: LNAUDITFEE**
- **Date:** 12/22/15  **Time:** 16:37
- **Sample:** 1387 1392
- **Exogenous variables:** Individual effects
User-specified lags: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Total (balanced) observations: 340
Cross-sections included: 68 (4 dropped)

<table>
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<th>Method</th>
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** Probabilities are computed assuming asymptotic normality

Null Hypothesis: Unit root (common unit root process)
Series: MTB
   Date: 12/22/15  Time: 16:38
   Sample: 1387 1392
   Exogenous variables: Individual effects
   User-specified lags: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Total number of observations: 330
Cross-sections included: 67 (5 dropped)

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** Probabilities are computed assuming asymptotic normality

Series: ROA
   Date: 12/22/15  Time: 16:39
   Sample: 1387 1392
   Exogenous variables: Individual effects
   User-specified lags: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Total (balanced) observations: 335
Cross-sections included: 67 (5 dropped)

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<tr>
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** Probabilities are computed assuming asymptotic normality

Null Hypothesis: Unit root (common unit root process)
Series: SCORE
   Date: 12/22/15  Time: 16:40
   Sample: 1387 1392
   Exogenous variables: Individual effects
   User-specified lags: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Total (balanced) observations: 300
Cross-sections included: 60 (12 dropped)
\begin{tabular}{lll}
Method & Statistic & Prob.** \\
Levin, Lin & & \\
\& Chu t* & -26.0173 & 0.0000 \\
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** Probabilities are computed assuming asymptotic normality

Null Hypothesis: Unit root (common unit root process)
Series: SIZE
Date: 12/22/15 Time: 16:40
Sample: 1387 1392
Exogenous variables: Individual effects
User-specified lags: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Total (balanced) observations: 330
Cross-sections included: 66 (6 dropped)
\hline
Method & Statistic & Prob.** \\
Levin, Lin & & \\
\& Chu t* & 7.38000 & 0.0000 \\
\hline
** Probabilities are computed assuming asymptotic normality

\textbf{Chow test}

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects
\hline
\textbf{Effects Test} & Statistic & d.f. & Prob. \\
Cross-section F & 6.635829 & (64,277) & 0.0000 \\
Cross-section Chi-square & 324.388003 & 64 & 0.0000 \\
\hline
\textbf{Hausman test}

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects
\hline
\textbf{Test Summary} & Chi-Sq. Statistic & Chi-Sq. d.f. & Prob. \\
Cross-section random & 11.937462 & 7 & 0.1026 \\
\hline

Results using random effects model
Dependent Variable: LNAUDITFEE
Method: Panel EGLS (Cross-section random effects)
Date: 12/22/15 Time: 16:45
Sample: 1386 1392
Periods included: 7
Cross-sections included: 72
Total panel (unbalanced) observations: 504

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Swamy and Arora estimator of component variances
Cross-section weights (PCSE) standard errors & covariance (no d.f. correction)

<table>
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<tr>
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<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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Effects Specification

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<th>S.D.</th>
<th>Rho</th>
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<td>Idiosyncratic random</td>
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<td>0.4721</td>
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Weighted Statistics

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<tbody>
<tr>
<td>R-squared</td>
<td>0.186773</td>
<td>Mean dependent var</td>
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<tr>
<td>Adjusted R-squared</td>
<td>0.170079</td>
<td>S.D. dependent var</td>
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<tr>
<td>S.E. of regression</td>
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<td>Sum squared resid</td>
</tr>
<tr>
<td>F-statistic</td>
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<td>Durbin-Watson stat</td>
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<tr>
<td>Prob(F-statistic)</td>
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</table>

Unweighted Statistics

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<tbody>
<tr>
<td>R-squared</td>
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<td>Sum squared resid</td>
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Conclusion

There were some limitations in this study, which is outlined below:

A) Limitation due to spatial and temporal study period: Since this research during the period from 1386 to 1393 and according to available information companies Tehran Stock Exchange has been made, extend the results obtained in different years of the research and the other companies listed on the exchange not act, we must act with caution.

B) Limit imposed by the Materials and Methods: In this study, according to the rating of corporate governance, audit firm size and financial leverage, as well as some specific features and controls used as independent variables and other factors related ownership, quality was deleted and therefore it is necessary to be careful in applying the results in practice.

Audit financial statements: aim, how to determine whether the financial statements with generally accepted accounting principles is provided. Compliance audit: professional opinion about whether the notification of the forensic department rules and regulations are being complied with or not to
participate correctly? Operational audits (performance) evaluation of specific parts of the organization to measure their mode of operation.
References