Investigation the effect of real earnings management and accounting earning management on audit fees in the companies listed in Tehran Stock Exchange

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Abstract

The purpose of this study was to Investigation The effect of real earnings management and accounting earning management on audit fees in The 109 companies listed in Tehran Stock Exchange for the period 1389 to 1393 that using multiple regressions with controlling determinants audit fee has been tested. This study has been applied in terms of purpose and terms of the nature after event. And a sample of 478 companies listed on the Stock Exchange for the systematic removal. In all the techniques of statistical software were used Excel and Evies. In this study, real earning management scales, abnormal operation cash flow, Abnormal production costs, abnormal Optional expense, earning management scales by Discretionary accruals, that is four hypotheses based on, the finding show that significant positive correlations between abnormal operation cash flow and abnormal Optional expense with audit fee. But abnormal production costs were not a significant impact. The finding also shows that earning management significant positive impact on audit fee.

Keywords: real earning management, accounting earning management, audit fee.
1.1 Introduction
With the increase in resources available to management, the number of stakeholders in relation to the company also increases, the consequences of which is conflict of interests. Because of conflicts of interests, to align others' interests with their own or to minimize the effects of conflict of interests, the stakeholders should pay representative expenses. Manager that is at the heart of this conflict of interest tries to reduce this cost by providing financial data of the company.
Nevertheless, the management authority and the need to monitor the performance of the manager call for independent auditor's professional judgment. The relationship between audit fees and earnings management has made up a major part of accounting research.
As the fees paid to auditors increase, so may the auditors' effort and consequently the quality. Auditor's financial dependence on the employer depends on management's ability to hire and fire the auditor. Fees for audit firms are composed of three parts: first, the inherent costs of the audit, then the expected costs, and ultimately profits of the audit firm.
Employers hope to reduce the cost of reporting systems, and in contrast, auditors hope to earn a reasonable profit of audit and an audit fee is the result of maximizing the interests of both parties. The auditor's abnormal fee is the difference between the actual fee of the auditor and the normal level of auditing fees that is expected to be paid.

Literature
Domestic research
In a study, Tanani and Alavi (2012) examined the similarities and differences between the factors affecting financial statement audit fees from the perspective of independent auditors working in auditing institutions (managers and senior managers), board members, and financial assistant and managers of the employers. The results show that there is no significant difference in the views of independent auditors and financial managers in any of the areas specific to the employer, auditor, and audit work.
In a study, entitled the impact of audit quality on audit fees, Vaez et al (2013) concluded that there is a significant negative relationship between the specialization of auditor industry and audit fees. The results also show that there is a significant positive relationship between auditor tenure, size of firm audit, and audit fees.
In his thesis, Mohammadpour (2015) examined the relationship between the auditor's and earnings management report in firms listed in the Tehran Stock Exchange in the period 2004-2013. In this study, it is tried to examine the relationship between the types of modified opinion with earnings management.
In a study, Rajabi et al. (2015) investigated the relationship between independent audit fees, earnings quality, and independence of the board in listed companies in Tehran's Stock Exchange. To this end, 70 companies in 2005-2009 were studied. The results showed that there is no significant relationship between audit fees, earnings quality, and independence of the board.

Foreign search
In their study, Lee and Bae (2012) concluded that audit quality has a direct relationship with audit fees, and an inverse relationship with the accruals and correction of errors and this relationship between audit quality and audit fees is more meaningful.
In a study, Ittonen et al. (2013) found that audit quality has a relationship with audit partners' gender. They measured audit quality through discretionary accruals (earnings management). They showed that the companies audited by female partner, compared with other companies, have less earnings management.

In his study, Sun (2014), conducted with data from 392 firms from China, examined the relationship between bonus paid to directors and manipulation of profit. He concluded that by increasing the amount of bonuses paid to company directors, the possibility of manipulating profit increases as well. Thus, company's shareholders face asymmetric information in scrutinizing the company performance and biased financial reports cannot be the realistic base for assessment of the company.

**Research hypotheses**

Research hypotheses are formulated as follows.

The first main hypothesis: There is a significant relationship between the actual profit management and audit fees.

First sub-hypothesis: There is a significant relationship between the abnormal operating cash flow and audit fees.

The second sub-hypothesis: There is a significant relationship between the abnormal production costs and audit fees.

The third sub-hypothesis: There is a significant relationship between the discretionary abnormal costs and audit fees.

The second main hypothesis: There is a significant relationship between abnormal profit accounting management and audit fees.

**Research Methodology**

The research is based on real figures of stock market and audited annual financial statements of the firms listed in the Tehran Stock Exchange. In this study, the required financial information is obtained from audited financial statements and accompanying notes related to the studied companies with the help of CDs of Tehran Stock Exchange.

To develop literature and research background, library method has been used. In the library part, research literature has been collected from books and professional journals in Persian and English.

The researcher evaluates the information and data in order to test the hypotheses and assess them. First, using the list of firms listed in the Tehran Stock Exchange from March 20, 2010 until March 20, 2014, research samples are selected. Then research variables for the selected companies in each of the years studied are collected and calculated. After collecting the required data, Excel and Eviews8 software is used to analyze data.
Research model:

In this study, considering and literature and research history, the following model is used to test the hypotheses.

\[ LNFE = \beta_0 + \beta_1 ABCFO + \beta_2 ABPROD + \beta_3 ABDISEXP + \beta_4 DAC + \beta_5 LOSS + \beta_6 LEVE + \beta_7 ROA + \beta_8 BM + \beta_9 CGSALE + \beta_{10} BIG4 + \beta_{11} AUDCHG + \epsilon \]

In this model:

Population

The sample selected consists of 109 companies out of 478 companies listed in Tehran Stock Exchange in the period 2010-2014. Choosing the study sample started from observing the year in which company was listed on the stock exchange through the exchange site.

The results and estimation of the research model

To estimate the first study model during the period 2010-2014 within the framework of combined data, first Chow test was used. This test determines whether to use Pooled model or fixed effects model. If the F statistic at the error level of 5 percent is significant, the null hypothesis (Pooled model) is rejected, and fixed effects model is accepted. Chow test results are provided in Table 4.4:

<table>
<thead>
<tr>
<th>Description</th>
<th>F statistic</th>
<th>The significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chow test for model assessment</td>
<td>4.411</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

As is shown in Table 4.4, F statistic is significant at 5% error level, so the Chow test has strongly rejected the similarity of the intercept in all periods. Hence, in this test, fixed effects model is accepted. In the next stage, fixed effects model versus random effects test method is tested. To do so, Hausman test is used. In order to evaluate the estimation method selection, Hausman test results are provided in table 4.5:

<table>
<thead>
<tr>
<th>Description</th>
<th>Test statistic</th>
<th>The significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hausman test for assessing the model</td>
<td>59.725</td>
<td>0.000</td>
</tr>
</tbody>
</table>

According to Table 4.5, computational Hausman test statistic is significant at 5% error level, so the lack of the relationship between individual effects and explanatory variables has been rejected. Thus, to estimate the model, fixed effects model will be used.
1.1.1. The results of research model estimation

Table 4.6 shows the results of the estimation of research model parameters. For this model, Durbin-Watson statistic is equal to 2.276 that at its 5 percent error level, the error statement correlation is rejected. The value of the probability associated with the F statistic to specify the model is 0.000 that is less than 5%. Hence, the null hypothesis denoting the error to specify the model is rejected.

As a result, at the 95% confidence level, the model significance is accepted. The value of the adjusted coefficient of determination of the model is equal to 0.658. This statistic shows that approximately 66 percent of the changes of the dependent variable can be explained by dependent and control variables. Due to non-rejection of the statistics of the model, the hypotheses of the study are investigated.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Test statistic</th>
<th>Probability of Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abnormal cash flow</td>
<td>0.871</td>
<td>5.804</td>
<td>0.000</td>
</tr>
<tr>
<td>Abnormal discretionary costs</td>
<td></td>
<td>3.664</td>
<td>0.000</td>
</tr>
<tr>
<td>Abnormal production</td>
<td>2.878</td>
<td>-0.425</td>
<td>0.671</td>
</tr>
<tr>
<td>Earnings management</td>
<td>-0.029</td>
<td>9.278</td>
<td>0.000</td>
</tr>
<tr>
<td>Change of auditor</td>
<td>0.752</td>
<td>0.419</td>
<td>0.675</td>
</tr>
<tr>
<td>Audit company size</td>
<td>0.022</td>
<td>4.903</td>
<td>0.000</td>
</tr>
<tr>
<td>BM</td>
<td>0.477</td>
<td>2.44</td>
<td>0.015</td>
</tr>
<tr>
<td>Growth rate</td>
<td>0.175</td>
<td>1.609</td>
<td>0.108</td>
</tr>
<tr>
<td>Rationing</td>
<td>0.134</td>
<td>-0.582</td>
<td>0.561</td>
</tr>
<tr>
<td>Financial Leverage</td>
<td>-0.111</td>
<td>2.414</td>
<td>0.016</td>
</tr>
<tr>
<td>Losses</td>
<td>0.45</td>
<td>1.49</td>
<td>0.137</td>
</tr>
<tr>
<td>ROA</td>
<td>0.136</td>
<td>-0.058</td>
<td>0.954</td>
</tr>
<tr>
<td>Intercept</td>
<td>-0.017</td>
<td>128.197</td>
<td>0.000</td>
</tr>
<tr>
<td>The coefficient of determination</td>
<td>19.734</td>
<td>Adjusted coefficient of determination</td>
<td>0.658</td>
</tr>
<tr>
<td>F statistic</td>
<td>0.735</td>
<td>The probability</td>
<td>0.000</td>
</tr>
</tbody>
</table>
Hypothesis testing

Testing the first sub-hypothesis:
The first sub-hypothesis of the research has been formulated as follows.
There is a significant relationship between the abnormal operating cash flow and audit fees.

The level of possible errors related to the null hypothesis stating no impact of abnormal cash flow on audit fees is 0.000, which is smaller than 0.05, so with 95 percent confidence, the null hypothesis is rejected. Independent variable coefficient is 0.871. Giving the positivity of the coefficient it can be concluded that abnormal cash flow has a significant and positive impact on the audit fees.

Testing the second sub-hypothesis:
The second research hypothesis has been formulated as follows.
There is a significant relationship between the abnormal production costs and audit fees.

The level of possible errors related to the null hypothesis stating no impact of abnormal production costs on audit fees is 0.671, which is larger than 0.05, so with 95 percent confidence, the null hypothesis is confirmed. Thus, abnormal production costs have no significant impact on the audit fees.

Testing the third sub-hypothesis:
The third research hypothesis has been formulated as follows.
There is a significant relationship between the discretionary abnormal costs and audit fees.

The level of possible errors related to the null hypothesis stating no impact of abnormal discretionary costs on audit fees is 0.000, which is smaller than 0.05, so with 95 percent confidence, the null hypothesis is rejected. Independent variable coefficient is 2.878. Giving the positivity of the coefficient it can be concluded that abnormal discretionary costs have a significant and positive impact on the audit fees.

Testing the second main hypothesis:
There is a significant relationship between abnormal profit accounting management and audit fees.

The level of possible errors related to the null hypothesis stating no impact of profit accounting management on audit fees is 0.000, which is smaller than 0.05, so with 95 percent confidence, the null hypothesis is rejected. Independent variable coefficient is 0.752. Giving the positivity of the coefficient it can be concluded that profit accounting management has a significant and positive impact on the audit fees.

Conclusion
In this study, the relationship between audit fees and actual management of accounting profit management in companies listed in Tehran Stock Exchange has been investigated. The results
showed that there is a significant positive relationship between profit accounting management and audit fees. This means that with an increase in profit management, the fees paid to the auditor increases, because as the amount of discretionary accruals is more, the possibility of errors and basic violations in audited financial statements increases. High accruals or low quality of accruals is the sign of reduction of reliable transparency of financial statements that would increase the requirement of more effort and planning of auditing work, the result of which is the increase of the audit fees. The results of this research is consistent with the studies by Frankel et al. (2002), Darougheh Hazrati and Pahlavan (2011) and inconsistent with the results of Ashbaugh, et al. (2003), Chang and Kalapour (2003), Larker and Richardson (2004), and Rajabi et al. (2015). Moreover, the test results related to actual management of profit show that with increase in manipulation in real activities, the fees paid to the auditor increase. This is because when a company's ability to manage profit is limited by the auditors, corporate executives manipulate the real activities to show the performance of their company better, discovery of which requires a systematic audit program and focus of auditors' look at areas of potential risk. This increase in auditors' efforts leads to an increase in audit fees. The results of this study are consistent with the studies of Darougheh Hazrati and Pahlavan (2011).
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