



## **Audit Fee and the Basis of its Determination and Reasons for Dumping in Iran and the Effect of that on Financial Reporting Quality**

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### **Abstract**

**Objective:** This study investigates the audit fee and the basis for determining that and the reasons for dumping in Iran and the impact of dumping on the quality of financial reporting.

**Methodology:** The research method in the first stage to analyze the qualitative data - a questionnaire from interviews with experts - is to test the research hypotheses and the structural equation model with the help of Smart PLS Software. In the second stage, to analyze the quantitative data - information obtained from financial statements in the period 2015 to 2020 in 100 companies listed on the Tehran Stock Exchange - is to test the research hypotheses, multivariate regression with panel data.

**Results:** The results of testing the qualitative data showed that audit quality, expertise in the industry of the auditing firm, reputation of the auditing firm, type of audit comment, length of the auditor's tenure, size of the client, dependence of the client on business groups, having several companies by one client, large number of auditing firms, lack of work in the auditing profession, elimination of Article 272 of the Law on Direct Taxes, exemption of small companies from auditing, low income of auditing firms, loss of auditing firms, lack of adherence of members of the community to professional conduct, lack of auditor expertise and the auditor's lack of knowledge of the profession, lack of accuracy in selecting certified public accountants by relevant authorities, the size of the auditing firm, being a single product and focusing only on auditing services and not paying attention to non-auditing services, economic crisis, lack of specific and compiled principles to determine the audit fee by the Society of Certified Public Accountants of Iran and other relevant authorities, the factor of reputation and credibility of the client's company, audit risk, ownership structure of the client's company, lack of supervision of audit services rates by relevant organizations are those critical factors that according to the theory of auditing professionals and activists in Iran, affect the audit fee and price breaking in auditing contracts. The results obtained from the effect of dumping on audit fees and competition between audit firms on the quality of financial reporting indicate that dumping in audit fees and competition between audit firms reduce the quality of financial reporting.

**Innovation:** The research results can be helpful for investors, creditors, policymakers, standards and regulatory bodies. It can also effectively develop and improve the quality of auditing and economic development by identifying existing weaknesses and challenges and explaining theoretical frameworks.

**Keywords:** Audit Fee, Financial Reporting Quality, Audit Quality

## 1. Introduction

In some countries, such as the United Kingdom and Australia, there has been mandatory disclosure of audit fees for decades. Many other countries, such as the United States (US) (US Securities and Exchange Commission 2000 and the European Union and Belgium (Royal Decree, 2007), following various accounting scandals (e.g. Enron, Lernout and WorldCom), the introduction of Audit Cost Disclosure Regulations mainly arises from concerns about the independence of the auditor from the independent audits that provide audit reports. When mandatory disclosure of information about the costs paid to the auditor and the range of services the auditors provide to their clients is provided, it is likely to increase the competitive price in the audit market (Averhals, Van Caneghem and Willekens, 2020).

Auditors provide their services to the company for a fee. Audit fees are the product of the rate and quality of audit services provided to the companies under review. The audit fee is determined by the auditor and a committee of non-executive members of the board of directors (audit committee) (Auditing Standards, Standard No. 21). According to the Code of Professional Conduct, auditing fees should be determined based on reasonable criteria such as the duration of the audit process, costs associated with providing audit services and expected profits. Audit fee pricing is usually influenced by normal and competitive market conditions of auditing services. This means that the audit fee is usually higher than the fee amount under competitive conditions under normal market conditions. Under the conditions of competition in the market, auditing firms to attract and retain customers may reduce the fee in auditing contracts with the client and as a result, the phenomenon of dumping may occur, ultimately reducing the quality of auditing and financial quality of companies. Accordingly, this study investigates the audit fee, the basis for determining the reasons for dumping in Iran and the impact on the quality of financial reporting.

Understanding how to determine audit fees is essential for auditors, owners, and policymakers. Independent auditors and auditing firms, due to the multiplicity of auditing firms in the market and the creation of competitive conditions for the provision of auditing services, may reduce the audit fee in their audit contract to penetrate the market for auditing services, attract more customers, and continue to operate and cover auditing costs and earn appropriate profits in the future. Due to the possible consequences of reducing the audit fee on the audit services market and the quality of audit services provided, audit researchers can consider this issue to work with the pathology of this phenomenon to protect the audit profession and its position. Previous studies have been conducted in countries where large international institutions have been active and have the largest market share. So far, no research in this field has been conducted in Iran. In the audit services market in Iran, due to creating a community of certified public accountants and increasing competition in the market, examining the impact of this issue on the pricing of the first and subsequent years of auditing can provide evidence in this regard. This has not been seen in previous audit research. For this reason, this study will be the first study that examines the audit fee, the basis for determining the reasons for dumping in Iran and the impact of dumping on the quality of financial reporting in the Iranian audit services market.

## 2. Theoretical principles and hypothesis development

The pricing of audit services is one of the topics of interest to many audit researchers. For this reason, much research has been done in developed and even developing countries (including the United States, the United Kingdom, Australia, France, New Zealand, Finland, Canada, Japan, India, Bangladesh, Taiwan, Singapore, the United Arab Emirates, and Kuwait) (DeAngelo, 1981; Simon and Francis, 1988; Ashton, Willingham and Elliott, 1987).

Audit fee pricing is usually influenced by normal and competitive market conditions of audit services.

This means that the audit fee is usually higher than the fee amount under competitive conditions under normal market conditions. Under the conditions of competition in the market, auditing firms to attract and retain customers may reduce the fee in the initial audit contracts or even subsequent contracts with the client, resulting in a dumping phenomenon. There are two theories about how to price auditing contracts:

The first theory holds that the audit fee is higher in the first year than in subsequent years. The high fee in the first year is so-called start-up costs, such as the cost of recognizing the auditor from the client and the formation of permanent audit files. The second theory holds that because of competition in the market for auditing services, auditors typically charge less than normal underwriting in early audit contracts because of their superiority over competitors, customer acquisition, and the hope of offsetting reduced costs in subsequent contracts (Van Caneghem, 2010).

Until the emergence of the Iranian Society of Certified Public Accountants, i.e. before 2001, the market for the supply of Iranian auditing services was mainly in possession of the auditing organization. The law's approval on the use of specialized services of certified public accountants in 1993 and the formation of the Iranian Society of Certified Public Accountants in 2001 increased the number of auditing firms in the market and increased competition among these firms. This increased level of competition among audit firms may affect the pricing of auditing services. Also, the Tehran Stock Exchange Organization, to improve the quality of financial reporting and the quality of auditing financial reports, approved the auditors' rotation Act and set the period of the auditor's cooperation with the client for four years.

Mandatory rotation of auditors may increase audit risk by creating competition in the market and increasing the number of competing firms. Copley and Doucet (1993) showed that the periodical rotation of auditors' can correct competition in the auditing market and remove it from monopoly. In addition, proponents of forced rotation believe that the audit market is over-centralized and that rotation can

improve competition between large and small audit firms. The audited firms have to change their current auditors. With the mandatory rotation and reduction of the auditor's tenure with the client, the cost of recognizing the client is likely to be included in the pricing of the initial audit fee and increase the fee in the first audit contract. This study examines the following questions:

What are the principles of audit fee determination in auditing contracts in Iran?

**H1:** What factors affect the determination of fees in auditing contracts and price dumping in auditing fees in Iran?

Corporate financial statements are the most important source of information for investors to make decisions. Performing quality audits gives credit to the financial statements. The fees paid to auditors affect the quality of the audit. Audit fees are imposed on organizations as an economical cost and are determined based on the time required to perform the audit operations. Auditors may be paid less to hire despite competition in the auditing market. According to DeAngelo (1981), due to the competitiveness of the audit market and the auditors' competition for future benefits, auditors may offer a discounted contract amount to attract the client so that with a future increase in remuneration, the discount amount is compensated. In this situation, auditors tend to reduce the initial audit fees to earn future benefits (Stanley, Brandon and McMillan, 2015).

The business unit's profit is one of the decision criteria of special importance for all users. However, due to realities such as conflict of interest between information providers and investors, the use of estimates in calculating some elements of profit and loss and the possibility of using different accounting methods, this decision criterion is threatened and, ultimately, the quality of profits is reduced. Profit quality refers to the potential for growth and the likelihood of future profits. Stable profits are important and are considered sustainable. The more stable the profit, the more power the company has to maintain current profits and, as a result, the higher the quality of

profit. Shareholders use audited financial statements as a reassuring tool to assess the correctness of a manager's performance and performance. Therefore, profit quality can be affected by factors such as audit fees.

The audit's mission is to give credentials to the financial statements and build confidence in the users of the financial statements. Independent auditing provides the basis for economic transparency, public and community trust in the capital market, and government accountability to the people. Therefore, low fees and unhealthy competition in this field shake the foundations of the auditing profession. Therefore, fee reduction is associated with less auditor effort and lower quality of accounting information (Beswick, 2013). Several studies have examined the relationship between audit fees and earnings quality. For example, Bala, Amran and Shaari (2018) found that the quality of accruals has a positive relationship with audit fees and higher audit efforts increase the quality of profits. Caramanis and Lennox (2008) found that less audit effort increases earnings management.

**H<sub>2</sub>:** there is a significant relationship between audit fee dumping and financial reporting quality.

**H<sub>3</sub>:** there is a significant relationship between audit firms' competition and financial reporting quality.

DeAngelo (1981) argues that the reduction of auditing fees in auditing contracts is the reaction of independent auditors to competitive market conditions; in fact, the reduction of auditing fees in auditing contracts is equivalent to the cost of superiority in a competitive market. Another study in 1988 found that by creating competition between auditing firms to hire a new client, the amount fee at the beginning of the work (initial audit) is less than the fee for continuing audits. In their study, Chu et al. (2018) concluded that competition between audit firms affects the cost of auditing (audit fees). In their research, Krishnan, Patatoukas and Wang (2019) found that focusing on major customers increases audit costs and reduces the quality of financial reporting. Gunn, Kawada and Michas (2019) found that concentration in the audit market has reduced audit costs as well as reduced audit

quality. Mao, Ettredge and Stone (2020) showed that audit costs are significantly reduced for firms with good work environments, and the results also showed that auditors consider such clients to be less risky. As a result, auditors spend less effort or charge less risk premiums. Averhals Van Caneghem and Willekens (2020) stated that after mandatory disclosure of audit fees, price competition among auditors intensifies because the transparency of audit fee information is likely to increase customer bargaining power or competitive pressure. Using a set of data including audit costs before and after disclosure of private clients, they observed that after mandatory disclosure of audit costs, clients with unusual positive (negative) audit costs experience adjusted downward (downward) costs. Darabi et al (2021), in a research titled "explain the relationship between audit quality, auditor independence and audit fees with the quality of financial reporting in insurance companies". The method of the present study was correlational in nature and content and hypothesis testing based on multivariate regression was used and in terms of the type of purpose, it has been part of applied research and the research has been done in the framework of inductive reasoning. Its statistical population includes all insurance companies in Iran In order to achieve the research goal, the period between 2013 to 2019, has been selected as a sample. The results of the test of research hypotheses indicate a significant and direct (positive) relationship between audit quality, auditor independence and audit fees with the quality of financial reporting in insurance companies in Iran.

### 3. Research methodology

Since the results of this study are to inform accountants, auditors and the Iranian Society of Certified Public Accountants about the assessment of auditing fees, the basis for determining the reasons for dumping in Iran and the effect of that on the quality of financial reporting in listed companies on the Tehran Stock Exchange and identifying the factors affecting that, this study is a type of applied research, in terms of purpose. Since the necessary data to significantly

assess the opinions of the selected sample members were obtained through a field questionnaire, it is based on the type of field research.

This research is of applied type and qualitative and data-based type. The statistical population of this research is all auditing firms that are members of the Iranian Society of Certified Public Accountants and activists in the accounting and auditing profession in universities and companies. The total number of auditing firms in Iran, which are members of the Iranian Society of Certified Public Accountants, is 255 auditing firms. For this purpose, a sample of 90 audit firms with a rating of A (the highest quality audit rating in Iran) was selected, and their members were interviewed about the audit fee, the basis for determining the reasons for dumping in Iran and the impact of that on the quality of financial reporting. Factors affecting audit fees in Iran and reasons for dumping in Iran were identified. Then, forty questionnaires were sent from the final interview, and the variables that were identified were sent to the experts, of which 36 valid questionnaires were obtained. To determine the questionnaire's external validity (reliability), the method of halving and Cronbach's alpha were used. Based on the results, it can be said that the coefficients of the two halves of 0.886 and 0.905 indicate relatively high reliability of the alpha of both halves. When using the whole data for the above variable, the value obtained for the Guttman halving coefficient is equal to 0.728, which indicates relatively high reliability. To assess the internal validity of the questionnaire, Lavache's (1975) content validity measurement was used. The final results showed the approval of 47 factors affecting the audit fee and the basis for determining the reasons for dumping in Iran and the impact on Iran's financial reporting quality.

To collect a part of the data required for the research, first, the financial statements and notes attached to the financial statements and basic information of the stock exchange board (collected in Rah Avar Novin Software and the database of the Bureau of Statistics) were used. Hypotheses were

tested and their conclusions were analyzed using statistical software of Eviews, SPSS, and Lisrel.

The scope of this research is 2021 in terms of time for the research question and six years between 2015 and 2020 for the second and third hypotheses. The statistical population of this research for the research question includes all auditing member firms of the Iranian Society of Certified Public Accountants and activists in the accounting and auditing profession in universities and companies. In addition, the questionnaire of this research was sent electronically to all auditing firms active in the country and accounting professionals in universities and companies. 520 questionnaires were sent to individuals and auditing firms and 107 answers were received that statistical tests were carried out on the entire sample.

### **3.1. Research models and variables**

To test the first question, interviewing auditing experts in Iran was used and a high-precision questionnaire was prepared and distributed after interviewing auditing experts and elders. The factor analysis method in SPSS software and the structural equation method in LISREL software was used to test the answers given to the distributed questionnaire.

Cronbach's alpha test was used to assess the reliability of the questionnaires. This test examines and calculates the internal consistency of the designed questionnaire. The alpha coefficient obtained for the research question was 0.846. Since Cronbach's alpha is greater than 0.7, the test has acceptable reliability and indicates the questionnaire's high validity.

However, the data panel approach has been used in EViews software to test the second and third hypotheses. In this regard, the real data of listed companies should be used, so the calculation of variables to test the second and third hypotheses is as follows:

Statistical model of the second hypothesis:

$$FRQ_{it} = \beta_0 + \beta_1 BR_{it} + \beta_2 MB_{it} + \beta_3 size_{it} + \beta_4 Leverage_{it} + \beta_5 \Delta Cash_{it} + \beta_6 Audit Tenure_{it} + \beta_7 Ceo Tenure_{it} + \varepsilon_{it}$$

FRQ: The quality of financial reporting was calculated using a model developed by Rajgopal and Venkatachalam (2011). Regression of working capital of accruals for past, present, and future cash flows plus changes in income and gross value of machinery and equipment property is calculated. The quality of accruals is the standardized residuals of this regression (Dechow and Dechow, 2002).

$$\frac{TCA_{it}}{Assets_{it-1}} = \beta_0 + \beta_1 * \frac{CFO_{i,t-1}}{Assets_{it-1}} + \beta_2 * \frac{CFO_{i,t}}{Assets_{it-1}} + \beta_3 * \frac{CFO_{i,t+1}}{Assets_{it-1}} + \beta_4 * \frac{\Delta REV_{i,t}}{Assets_{it-1}} + \beta_5 * \frac{PPE_{i,t}}{Assets_{it-1}} + \varepsilon_{i,t}$$

TCA: all current accruals for the firm i in the year t

Assets: total assets of the firm

$\Delta REV_{i,t}$ : change in net sales from t-1 to t

$PPE_{i,t}$ : the gross value of properties and machinery in the year t

CFO: operational cash flow

$\varepsilon_{i,t}$ : estimation error

$TCA = (\Delta CA - \Delta Cash) - (\Delta CL + \Delta STD)$ -dep

$\Delta CA$ : change in current assets

$\Delta CL$ : change in current debt

$\Delta STD$ : change in long-term debts

$\Delta Cash$ : change in cash

Dep: depreciation of in/tangible assets

BR: dumping in auditing fees (if there is dumping in auditing contracts 1, otherwise, 0 will be assigned.

Dumping occurs when the amount of the auditing fee in a new contract is less than the amount of the auditing fee in the previous contracts. Of course, the amount of the audit fee can be deducted from the notes

attached to the financial statements can be extracted from the attached notes to the financial statements).

MB: market value to book value

Size: firm size (natural logarithm of total assets of the firm)

Leverage: debt ratio of the firm (equal to total firm debts divided by total assets of the firm)

$\Delta Cash$ : change in firm cash (cash in the current year minus that of the previous year divided by cash in the previous year)

Audit tenure: auditor's tenure (refers to the number of years the auditing process of the firms held by an auditing firm)

CEO tenure: tenure of the firm CEO (refers to the number of years a person has been in the position of CEO)

Statistical model of the third hypothesis:

$$FRQ_{it} = \beta_0 + \beta_1 MSA\_DIFFERENCE_{it} + \beta_2 MSA\_DOM\_DIFF_{it} + \beta_3 IND\_DOM\_DIFF_{it} + \beta_4 NATION\_DOM\_DIFF_{it} + \beta_5 MB_{it} + \beta_6 size_{it} + \beta_7 Leverage_{it} + \beta_8 \Delta Cash_{it} + \beta_9 Audit Tenure_{it} + \beta_{10} Ceo Tenure_{it} + \varepsilon_{it}$$

In this paper, four components are used for measuring competition among audit firms (Chu et al., 2018) that include MSA\_DIFFERENCE, MSA\_DOM\_DIFF, IND\_DOM\_DIFF, and NATION\_DOM\_DIFF

MSA\_DIFFERENCE: It is equal to the total amount of auditing costs among large auditing firms in the market divided by the total auditing costs of listed companies (Chu et al., 2018).

MSA\_DOM\_DIFF: If the audit costs in the industry in which the company is active are higher than the average audit costs in listed companies, one, otherwise, zero (Chu et al., 2018).

IND\_DOM\_DIFF: If the auditor has the highest number of audits in the industry, one; otherwise is equal to zero (Chu et al., 2018).

NATION\_DOM\_DIFF: If the auditor leads the market, it is equal to one and otherwise equal to zero (to measure this variable, if the auditor is large, he is considered the audit market leader (Chu et al., 2018). However, the auditing organization responsible for developing auditing standards is approximately equal to 100%.

#### 4. Research findings

Results obtained from the research question are presented, in short, in Table 1:

As can be seen in Table 1, it can be stated that the factors affecting the determination of fees in auditing contracts and dumping in auditing contract fees in Iran, given the KMO index that is close to 1, and also according to Chi-square statistics the significance level of which is less than 0.05, it can be stated that the factors affecting the determination of fees in auditing contracts and dumping in auditing contracts fees in Iran and also due to the high degree of commonalities among the questions of the questionnaire: audit quality, auditing firm industry expertise, reputation of the auditing firm, type of audit opinion, duration of the auditor's tenure, size of the client, dependence of the

client on business groups, having several companies by one client, large number of audit firms, lack of work in the audit profession, deletion of Article 272 of the Law on Direct Taxes, exemption for small companies from auditing, low income of auditing firms, loss of auditing firm work, lack of adherence of community members to the code of professional conduct, lack of auditor expertise and lack of sufficient knowledge of the auditor of the profession, lack of careful selection of accountants By the relevant authorities, the size of the auditing firm, being a single product and emphasizing only on auditing services and lack of attention and activity in non-auditing services, the economic crisis in the country, lack of clear and defined principles for determining the auditing fee by the Association of Certified Public Accountants and others Relevant authorities, the factor of reputation and credibility of Sahebkar company, audit risk, ownership structure of client's company, lack of supervision of audit services rates by relevant organizations are the most critical factors that according to the theory of auditing professionals and activists in Iran affect the audit fee and dumping in audit contracts.

**Table 1. The Results of research question test**

Hypothesis	KMO index	Chi-square	Significance level	Total explainable variance (Coefficient of determination)
Factors affecting the determination of fees in audit contracts and dumping in audit contracts fees in Iran	0.72	9016.231	0.000	82.484

#### 4.1. Structural equation model of factors affecting the audit fee

According to the results obtained from Figure 1, the significance of the coefficients and parameters obtained from the measurement of factors affecting the determination of auditing contracts fees and dumping in auditing contracts in Iran in the standard estimation form with output (0.000) show the RMSEA for the model that is a good fit for this model. Also, the

obtained p-value is greater than 5 percent, so the model is approved. Also, the Chi-square index divided by the degree of freedom is less than 3, so it is a good model for fitting the factors affecting the determination of fees in auditing contracts and dumping in auditing fees in Iran.

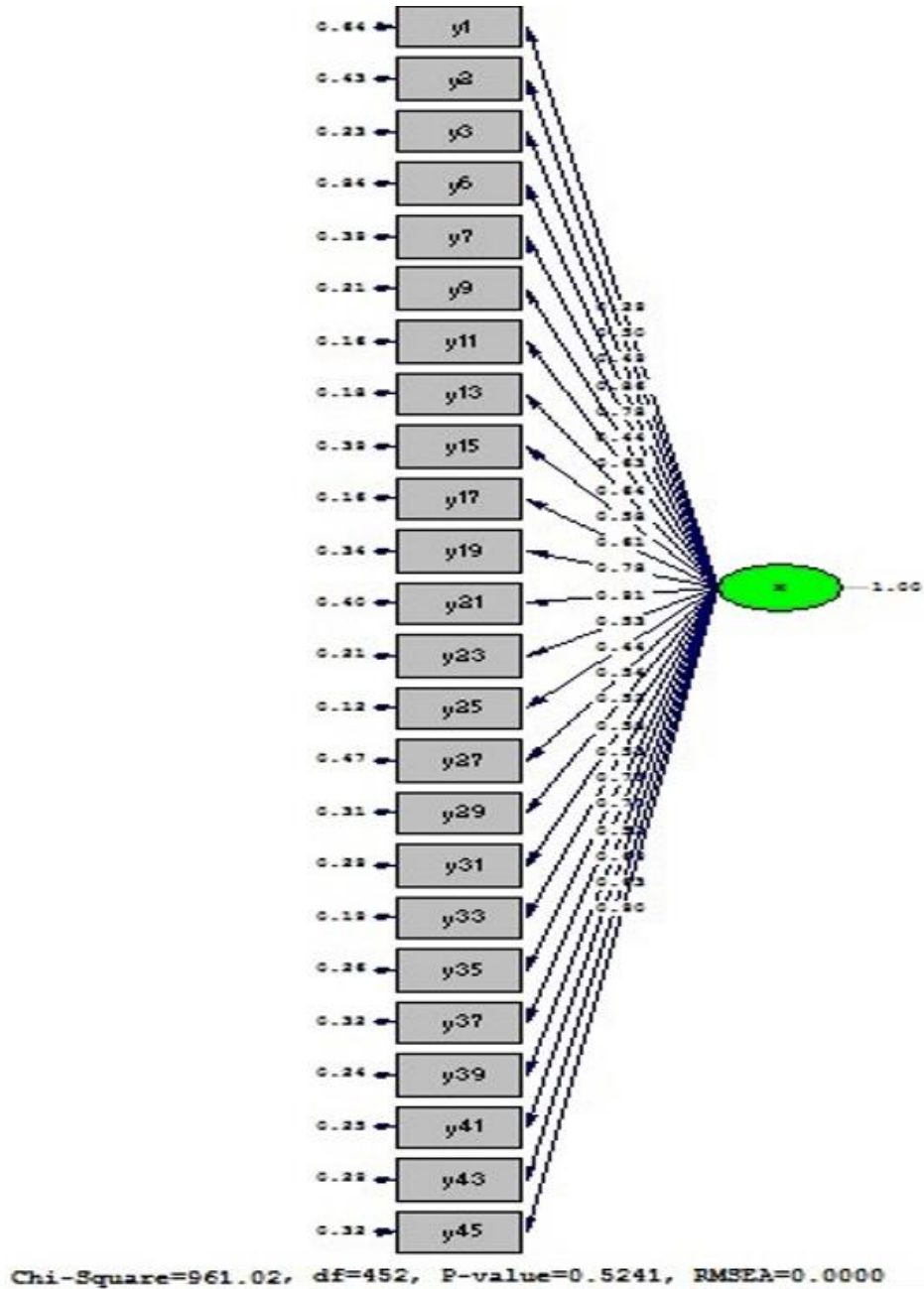


Figure 1. The Structural equations model of factors affecting dumping in audit fee



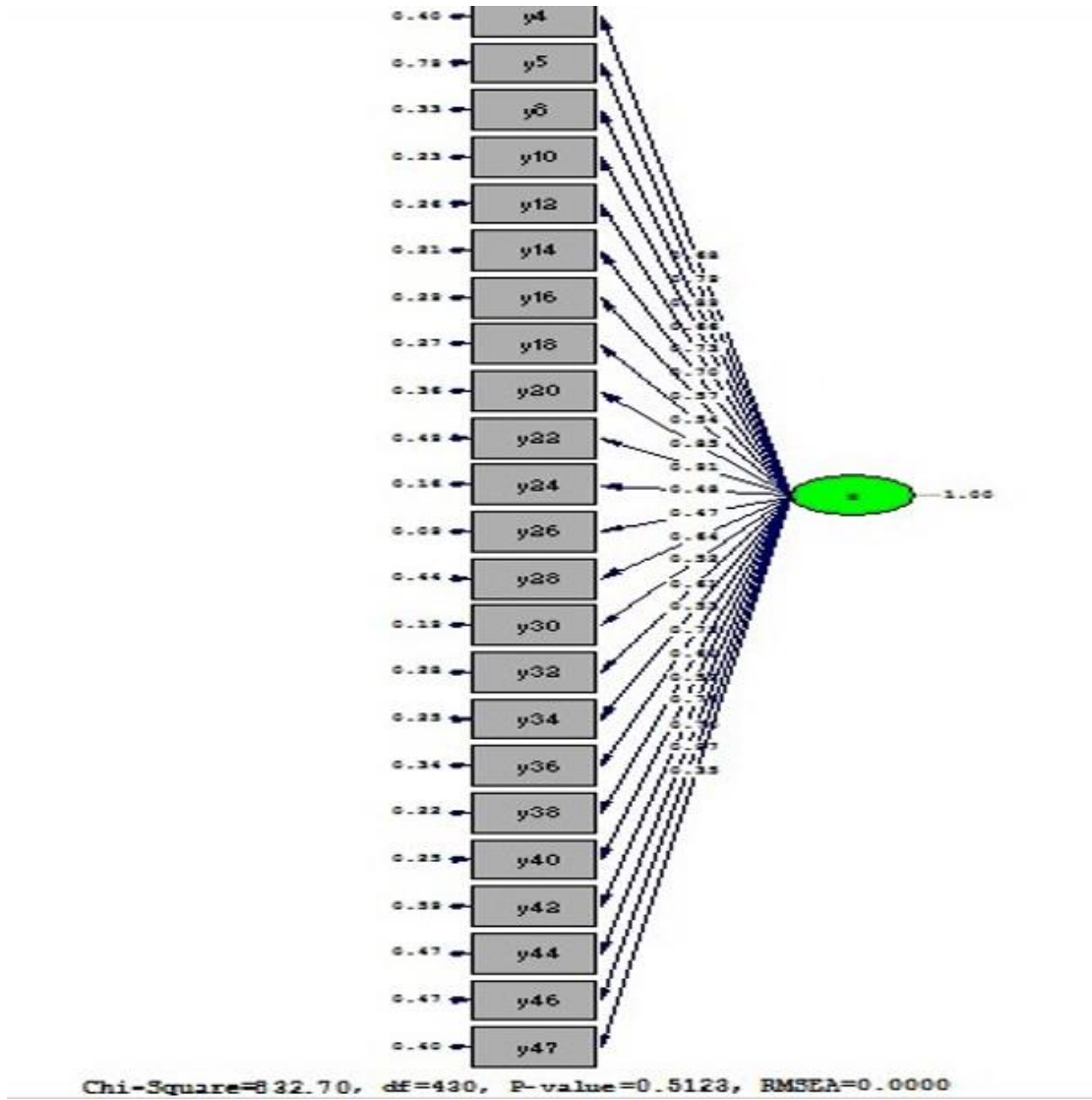


Figure 2. The structural equation model of the factors affecting the rate breaking of audit fees

**4.2. Results of second hypothesis testing**

As shown in Table 2, The significance level of the F-statistic for independent variables (auditing fee dumping) is less than 0.05, so the second hypothesis of the research is confirmed, considering that the value of the t-statistic related to audit fee dumping is -2.622 and

the significance level is related to the audit fee dumping is less than 0.05. Also, according to t-statistics, it can be said that the dumping in the audit fee has reduced the quality of financial reporting.

### 4.3. Results of third hypothesis testing

As shown in Table 3, the significance level of the F-statistic for the independent variables of the third research hypothesis (competition of auditing firms) is less than 0.05, so the third research hypothesis is confirmed. Besides, in interpreting the effect of independent variables on the dependent variable, we can express that between the four components that were considered to measure the competition between auditing firms, two components of auditing costs in the

industry in which the company is active compared to the average auditing cost in Tehran Stock Exchange and also the component of the number of companies examined in the industry by the auditor on the amount of auditing costs had a positive effect, which means they increased the quality of financial reporting, but the two variables of the amount of auditing costs of large institutions to the total cost of auditing in the stock market and having market leadership by the auditor had no effect.

**Table 2. The Results of second hypothesis testing**

Variables	Estimated coefficient	Standard error	T-test statistic	T-test probability
BR	0.059	0.022	-2.622	0.009
MB	0.029	0.003	7.579	0.000
SIZE	0.007	0.005	-1.286	0.198
LEVERAGE	0.146	0.067	-2.186	0.029
CASH	0.003	0.003	0.945	0.343
AUDITTENURE	0.009	0.008	-1.204	0.228
CEOTENURE	0.006	0.004	1.348	0.178
C	0.554	0.098	5.615	0.000
Coefficient of determination	0.282	Durbin-Watson Criterion		1.854
The adjusted coefficient of determination	0.272			
Fischer F statistic	18.831			
Fischer F probability	0.000			

**Table 3. The Results of third hypothesis testing**

Variables	Estimated coefficient	Standard error	T-test statistic	T-test probability
MSA_DIFFERENCE	-0.225	0.267	-0.842	0.399
MSA_DOM_DIFF	0.742	0.029	25.272	0.000
IND_DOM_DIFF	0.173	0.027	6.334	0.000
NATION_DOM_DIFF	-0.052	0.028	-1.878	0.060
MB	0.027	0.003	6.984	0.000
SIZE	-0.008	0.006	-1.312	0.189
LEVERAGE	-0.167	0.067	-2.471	0.013
CASH	0.004	0.003	1.084	0.278
AUDITTENURE	-0.013	0.008	-1.625	0.104
CEOTENURE	-0.004	0.004	-0.945	0.344
C	0.628	0.132	4.745	0.000
Coefficient of determination	0.377	Durbin-Watson Criterion		1.742
The adjusted coefficient of determination	0.333			
Fischer F statistic	36.727			
Fischer F probability	0.000			

## 5. Discussion and conclusion

As mentioned, the purpose of this study is auditing fees, the basis for determining the reasons for dumping in Iran and the impact of rate breaks on the quality of financial reporting. One question and two hypotheses were tested. The results showed that audit quality, expertise in the industry of the auditing firm, reputation of the auditing firm, type of audit comment, length of the auditor's tenure, size of the client, dependence of the client on business groups, having several companies by one client, large number of audit firms, lack of work in the auditing profession, elimination of Article 272 of the Law on Direct Taxes, exemption of small companies from auditing, low income of auditing firms, loss of auditing firms, non-adherence of community members to the practice of professional conduct, lack of auditor expertise, lack of recognition of adequate auditor of the profession, lack of accuracy in selecting certified public accountants by the relevant authorities, the size of the auditing firm, being a single product and focusing only on auditing services and inattention and activity in non-auditing services, economic crisis in the country, lack of specific principles and development to determine the audit fee by the Association of Certified Public Accountants of Iran and other relevant authorities, the factor of reputation and credibility of client's company, audit risk, ownership structure of client's company, lack of supervision of audit services rates by relevant organizations are the most important factors in Iran that based on the theory of auditing professionals and activists in Iran influence auditing fees and dumping in audit contracts and are among the effective factors in determining the amount of audit fees as well as dumping in audit contracts in Iran.

It should also be noted that there is a significant relationship between auditing fee pricing and competition of auditing firms with the quality of financial reporting. Financial results directly show that these results mean an increase in the quality of financial reporting while increasing competition between auditing firms. However, a closer look reveals

that the two components of audit costs in the industry in which the company operates proportionate to the average audit cost in the Tehran Stock Exchange and also the component of the number of companies examined in the industry by the auditor have a positive effect on the amount of audit costs, and this indicates that whenever audit firms have received higher fees and have more expertise in the industry, the quality of financial reporting has increased. To put it simply, whenever the level of competition decreases, the accuracy of the auditor is increased, and finally, the quality of the companies' financial reporting is increased.

## Research suggestions

Now, according to what was mentioned above and considering the results obtained from the research question and research hypotheses, it is suggested:

The Society of Certified Public Accountants of Iran and other institutions in charge of auditing in the country to the factors affecting the rate of audit contracts in Iran and also factors that can cause rate breaks in auditing contracts including: audit quality, expertise in the industry of the auditing firm, reputation of the auditing firm, type of audit comment, length of the auditor's tenure, size of the client, dependence of the client on business groups, having several companies by one client, large number of audit firms, lack of work in the auditing profession, elimination of Article 272 of the Law on Direct Taxes, exemption of small companies from auditing, low income of auditing firms, loss of auditing firms, non-adherence of community members to the practice of professional conduct, lack of auditor expertise, lack of recognition of adequate auditor of the profession, lack of accuracy in selecting certified public accountants by the relevant authorities, the size of the auditing firm, being a single product and focusing only on auditing services and inattention and activity in non-auditing services, economic crisis in the country, lack of specific principles and development to determine the audit fee by the Association of Certified Public

Accountants of Iran and other relevant authorities, the factor of reputation and credibility of client's company, audit risk, ownership structure of client's company, lack of supervision of audit services rates by relevant organizations are the most important factors in Iran that based on the theory of auditing professionals and activists in Iran influence auditing fees and dumping in audit contracts and considering the effectiveness of the above-mentioned factors, they should try to provide standards and laws in the field of improving the status of contract rates, as well as the type of determination of auditing fees in the country.

Regarding the factors that affect the audit fees as well as dumping in the audit fees in Iran, it is suggested; The Iranian Society of Certified Public Accountants should try to merge and consolidate auditing firms in the country so that this reduction in the number of auditing firms and their transformation into larger firms reduces competition between firms. Audit managers in these institutions eventually cause the audit work to be done with higher quality, and also if the shape and structure of audit firms as large companies with employees in different positions who are all certified public accountants, the possibility of dumping and also the decline of audit quality will be reduced.

Another factor that should be considered by the Iranian Society of Certified Public Accountants to try to ban is that if an auditing firm audits several companies or all companies in a business group, then with increasing dependence on auditing firm revenues, we will encounter contracts with that business group that can reduce the auditor's independence as well as revenue dependence and ultimately reduce the quality of the audit and the quality of financial reporting. Therefore, it is recommended that a directive on the prohibition of auditing more than one company from the business group be proposed and approved by an auditing firm to reduce the degree of auditors' dependence on a client and thus the degree of auditors' independence and quality of audit work as well as distribution of revenue between all institutions and ultimately reduction of dumping.

One of the issues that have led to dumping in auditing contracts is the lack of work in the auditing profession. Of course, this can be done with the above cases in the field of banning the audit of several companies from a business group by an auditing firm, as well as suggestions on activating audit firms in other areas such as financial services and financial evaluations and activating firms in these areas increases the work and revenue of auditing firms and ultimately reduces the cost of auditing contract fees.

Another issue that has caused dumping in the contract fees is the lack of basis for determining the fee of audit contracts and the lack of supervision of auditing services rates by the relevant organizations. Of course, these principles can be determined based on the client's assets, debts, or sales. Other auditing firms cannot ignore the code of professional conduct and turn to price-cutting in customer acquisition competitions.

Of course, one of the cases that the interviewees and respondents of the questionnaire emphasized was the lack of expertise of the auditor and the lack of sufficient knowledge of the auditor about the profession and also the lack of sufficient accuracy in selecting certified public accountants by the relevant authorities, who have no background or activity in the field of profession and are classified as certified public accountants by directives and laws, which has led to the entry of people into the auditing profession who do not know the profession and professional etiquette, and most are active in the auditing profession after retirement from other departments due to their influence without considering the conditions of the profession. They do not know how to review and audit the financial statements and approve the companies' financial reports, which ultimately reduces the quality of auditing and weakens the profession in the country. Of course, it should be borne in mind that the removal of Article 272 of the Law on Direct Taxes and the increase in inflation also indirectly reduced the income of auditing firms and ultimately led to an increase in dumping.

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