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The Relationship Between CEO's Duality and Audit Fees

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Abstract
The purpose of this study is to examine the relationship between CEO duality and audit fee. The data used in testing the hypotheses consists of all the Tehran Stock Exchange listed companies for the period 2012 to 2021. Multivariate regression analysis is used to estimate the relationships proposed in the hypotheses. The findings show that there is a positive association between CEO duality and audit fees. In companies where the CEO is also the chairman of the board of directors, they will probably face an increase in audit fees. The results indicate that companies with the presence of a CEO duality role boards tend to demand higher audit quality, and consequently, pay higher audit fees to protect shareholders' interests .It is expected that the presence of CEO duality and the subsequent effect that this will have on board independence is likely to result in a less effective monitoring system that will increase the perceived inherent risk of the firm, and will subsequently result in higher audit fees being charged. This study contributes to the literature by providing extensive understanding of the influence on audit fees of the independence of the CEO Duality. This study provides policymakers with insights into the existing relationships between CEO duality and audit fees.

Keyword:
AgencyTheory,
Audit Costs,
CEO's Duality.

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1. Introduction

There is considerable debate in the corporate governance literature about the role of the board of directors in regulating corporate governance. A board's ability to exercise a governance function depends on a number of board characteristics, including the distribution of authority between the chairman of the board and the chief executive officer (CEO). The CEO's duality means that the CEO also chairs the board of directors. From the perspective of the agency theories for explaining the relationship between corporate governance and auditing (Le et al., 2023). Worldwide, sound corporate governance practices and agency theory agree that both positions should not be held by the same person. Monitoring and controlling the activities and decisions of the CEO is the responsibility of the chairman of the board of directors (Weir & Laing, 2001). According to Fama and Jensen (1983), the CEO's duality creates the issue of not separating decision management and decision control. A CEO's duality is generally viewed as compromising board independence because one individual has a large amount of power and discretion (Jensen, 1993). In addition, previous research on the leadership perspective of CEO's duality shows that there is a positive relationship between CEO's duality and CEO power and pay (Usman et al., 2018; Usman et al., 2018). Simunic and Wu (2009) consider the audit fee to consist of audit costs (including the cost of resources used by the auditor and the expected costs resulting from the losses of legal claims against the auditor) plus profit. Similarly, previous research in the audit fee literature also reports that the CEO's duality increases the external auditor's risk, which leads to an increase in audit fees (Bliss, Muniandy, & Majid, 2007; Jizi & Nehme, 2018). Lin and Liu (2009) concluded that when CEOs simultaneously chair the board, a downward shift may lead to lower auditor quality. The findings of Carcello, Hermanson, Neal and Riley Jr (2002) show that companies with a higher proportion of independent directors on the board of directors are associated with higher audit quality (indicated by audit fees). The results of Salah and Ragab (2023) show that the most important factors affecting audit fees are liquidity, audit committee independence, audit report delay, and audit institute status. Study Gull et al. (2021) documents a significantly negative relationship between CEO succession with gender change and audit fees. Kim et al. (2024) found that audit fees are positively related to board reforms.

However, evidence is provided that this good corporate governance mechanism is not effective for having a higher proportion of independent directors on the board in firms with CEO's duality. That is, the effectiveness of directors on the board of directors to request a higher quality audit may be compromised when the CEO and the chairman of the board of directors are the same person. Therefore, we expect that the separation of both roles will improve board independence (Bliss, 2011). Some studies also did not show significant evidence about the relationship between CEO's duality and audit fees (Salleh, Stewart, & Manson, 2006).

The purpose of this research is to provide a descriptive and empirical analysis of the importance of CEO's duality as a measure of corporate governance and audit fees as a measure of audit risk. Many studies have been done on this topic and researchers have used different criteria to examine corporate governance. Undoubtedly, the relationship between the duality of the CEO's duality and audit fees is one of the most important issues to be investigated. However, early studies

were mostly descriptive and focused on developed countries. As a result, there is a lack of empirical studies investigating the relationship between CEO's duality and audit fees of active companies in developing countries. In this regard, the background of the research points to a gap in which CEO's duality has a different effect on audit risk and audit fees. To solve the existing gap in accounting and auditing background, this research raises the question of what is the importance of the relationship between the duality of the CEO's duality on audit fees as a measure of audit risk? Therefore, the aim of this research is to cover the existing gap by examining the relationship between the duality of the CEO's role and audit fees. In accordance with previous research, in this research, the dichotomous index of zero and one was used to measure the independent variable of CEO's duality, and the logarithm of paid fees was used to measure the dependent variable of audit fees.

The findings of this study contribute to the literature in the following ways. First, the results of this research can expand the theoretical foundations of the texts related to corporate governance and audit costs. Second, the current research provides relatively new evidence by testing the relationship between the duality of the CEO's duality and audit fees. Third, its scientific achievement can provide useful information to standard setters and auditors so that they can improve audit quality standards.

The remainder of the paper is organized as follows. Section 2 literature review and hypothesis development. Section 3 presents research methodology. Section 4 empirical results. Section 5 conclusion.

2. Literature review and hypothesis development

Audit fees may be examined from the supply or demand perspective. From the supply perspective, it posits that external auditors are able to reduce the external audit testing and therefore result in lower audit fees provided that the internal governance mechanism serves as a substitute for the external auditors in monitoring the management. While on the other hand, the demand perspective holds that if the internal governance mechanism complements the work performed by the external auditors, higher audit fees will be charged to the audited clients because the internal governance mechanism will demand more audit procedures from the external auditor in order to avoid material misstatement in the financial reporting. In this study, a demand side perspective argues that stronger corporate governance practices may demand a higher quality of audit, lead to a greater audit effort and higher audit fees. These demand side theories contend that there is a positive relationship between corporate governance and audit fees. This section is dedicated to the agency's theoretical framework and summarizing the studies conducted on the relationship between CEO's duality and audit fees.

2-1. Agency theory

From the perspective of the agency theories for explaining the relationship between corporate governance and auditing (Le et al., 2023). Agency theory was first propounded by Mitnick in 1973. He defined agency theory to be the study of the agency relationship and the issues that arise from this, particularly the dilemma that the principal and the agent, while working towards the same goal, may not always share the same interests. Meckling and Jensen (1976) explained further that the agency relationship is one in which one or more persons (the principals) engage another person (the agent) to perform some services on their behalf which involves delegating some decision-making authority

to the agent. Agency theory explains the agency problem, which is due to the agent (management) acting for their own benefit and in an opportunistic manner at the expense of the principal (owners/shareholders) (Meckling & Jensen, 1976). Management generally has an information advantage due to their direct involvement in the daily operations of the company (Meckling & Jensen, 1976). That is why information asymmetry is considered an important attribute of financial statements. The financial statements are normally produced and controlled by management, while owners are not involved in their preparation. Owners need to have relevant and reliable financial information to be able to evaluate the potential risks of their investment. According to the agency theory, conflict of interest between management and owners of the company may exist. In which managers can misreport financial information and exploit the information in favor of the management (Carcello et al., 2002). Management may not provide all necessary information to owners, and may even manipulate it. For example, manipulation by management could happen by increasing the net income of the company in order to receive more bonuses (Watts & Zimmerman, 1983). The agency theory posits that the distinction between ownership and managerial decision-making creates agency problems between agents and principals (Watts & Zimmerman, 1983). According to Adams (1994), there are two main problems related to the agency relationship between the principal and the agent. “Moral hazard” is one of the agency problems, in which agents act against the interest of the owners and use the contracting process in favor of maximizing their wealth (Meckling & Jensen, 1976). The second problem is “Adverse selection” in which the principal does not fully access all the available information that the agent takes into consideration during the decision-making process, which makes the principal unable to evaluate whether this decision has been made for the best interest of the company or not (Adams, 1994). Although the company is considered by law a separate legal entity, it still does not act as an individual. Instead, management acts as an agent for the company under certain contracts and is appointed to manage daily operations of the company. Nowadays, there is dispersed ownership in which shareholders are not mainly involved in the companies’ decisions, while management act as the agents who are responsible for the decision-making. The agency theory assumes that the company is a nexus of contracts between the principals and the agents who are responsible for using and controlling the financial resources invested by the principals/owners (Adams, 1994). Lessening the effect of agency problems can be accomplished by monitoring the behavior of the agent. Monitoring costs can involve appointing appropriate agents such as external auditors and paying audit fees to them, costs related to internal control implementation and creation of policies and procedures. Agency theory recognizes external auditing as the most efficient monitoring activity to reduce information asymmetry and mitigate conflict of interests (Watts & Zimmerman, 1983). The demand for auditing is highly connected to the agency theory. According to Wallace (1980), investors demand audit services to improve the quality of financial information. He further suggests that audited financial statements can reduce both market risk and any company-specific risks and improve the quality of information supplied for decision-making. Auditors provide management, investors and other

users with independent, reliable and timely assurance of financial information and the value of assets. An independent audit should mitigate the risk of fraud or illegal reporting in the financial statements, and therefore provide recommendations that can improve the internal control and operational efficiency of the company (Wallace, 1980; Chow, 1982). Therefore, according to the agency theory, the role of auditors is to mitigate the information asymmetry between managers and investors (Wallace, 1980). A company with more information asymmetry will need more audit effort, time and fees. Information asymmetry increases when a company's size, risk and complexity increase due to problems of difficulty in valuation of accounts and that needs more audit tests by the auditor to make sure of the accounts' accuracy. According to Meckling and Jensen (1976), costs paid by the principals for monitoring the actions of managers are called agency costs. Thus, audit prices are considered an important component of agency costs. Because auditors are responsible for ensuring that managers are behaving in favor of owners' interests, not their own wealth. Rahman, Zhu, and Hossain, (2023) findings show that compared to non-family firms, Chinese family firms are less inclined to hire Big-4 auditors due to fewer agency problems between owners and managers. Therefore, they have higher audit fees. However, Chinese family firms audited by Big-4 auditors incur lower audit fees. Unlike young family firms, older firms are less likely to select high-level auditors and maintain lower audit fees.

2-2. CEO's duality and audit fees

In any company, strategic decisions are very critical, and the CEO is an important strategic leadership position, and because of the CEO's decision-making authority, he (she) has a great influence on organizational results. One of the main and important duties of the board of directors is to select the CEO. Choosing the right CEO will put the organization under the long term. (Gull et al., 2021). Business and audit risks have a significant impact on audit fees because it seems that the mentioned risks are important factors in audit pricing and there is a direct relationship between the mentioned risks and audit costs. Auditors increase the audit fees for the client company in order to reduce the possibility of litigation costs due to business and audit risk. (Kanapathippillai et al., 2024). Dey, Engel and Liu (2009) argue that firms choose their leadership structure after evaluating the costs and benefits associated with their leadership structure and provide evidence that the market often reacts to changes caused by deviance. Companies react negatively to having a CEO's duality and that such a change does not always lead to improved performance. It is expected that the duality of the role of the CEO and the subsequent impact on board independence are likely to lead to an ineffective supervisory system that increases the perceived inherent risk of the firm and subsequently leads to higher audit costs. The findings of Le et al., (2023) show that the CEO's duality limits the supervisory function of the board and that a large board size promotes the dominance and power of leaders, which creates more conflicts. Also, the number of executive directors in top management has a positive effect on the company's performance. Jizi and Nehme (2018) investigated research entitled Board supervision and audit fees: the moderating CEO's duality. They found that audit fees are positively related to the independence of the board of directors, the size of the board of directors, the dual role of the CEO and the financial experts of the audit committee. The results of the moderating variables show that boards with higher independence

and more effective audit committees demand higher audit quality and thus pay higher audit fees to protect the interests of shareholders in companies with a CEO's duality. Aktas et al., (2019) supported the agency theory, in which they found that duality leads to the allocation of firm capital on inefficient investment decisions, and this is a problem in firms suffering from high agency costs and in firms which have high free cash flows that appear more. Katti and Raithatha (2018) found that CEO's duality reduces agency cost by reducing information transmission costs and increasing the effective use of assets. Yang and Zhao (2014) found that duality has a positive effect on the performance of companies with effective corporate governance, a high competitive environment, and high information costs, because duality helps to reduce information transfer costs and accelerate the decision-making process within the company. Auditors assess companies with weak internal governance as having higher levels of inherent risk and control risk. For these companies, auditors have to spend more time, perform more audit work and bear more audit risk, and accordingly, they receive higher audit fees. Jamei, Kolivand and Mohammadi (2018) in research titled Weakness of Internal Control and Audit Fee stated that there is a positive and meaningful relationship between the weakness of internal control and audit fee and the political connections of the company weaken the relationship between the weakness of internal control and audit fee. Some studies did not show significant evidence on the relationship between CEO's duality and audit fees (Salleh et al., 2006). The results of Kanapathippillai et al. (2024) show that higher turnover of managers is associated with increased audit fees, which disrupts the stability of top management's monitoring and consulting performance. Empirical analyses Bolor-Erdene (2024) reveal that audit fees for firms with local CEOs are lower than those for firms without local CEOs, suggesting a lower audit risk associated with local CEO clients. Results of the study Zhang, Ma and Hu (2023) highlighted that; CEO duality has both positive and negative effect on audit quality. Mansur et al. (2021) investigated the perceptions of external auditors in terms of the influences on audit fees. Findings revealed that there is a considerable positive association between firm origin and audit fees, where regional and international corporations paying greater audit fees than local ones. Furthermore, the findings demonstrated a significant positive association between overall assets, profitability, and audit fees. In contrast, the study demonstrated that no statistically significant association between audit fees and complex of operation (Mansur et al., 2022). The findings of Qadipour and Dastgir (2015) in research titled the study of the impact of auditors' litigation risk factors on audit fees show that in the Tehran stock market, only three factors, the effectiveness of internal control, the auditor's independence ratio, and the concentration of ownership, have a significant effect on the auditor's fees. In other words, in the Tehran securities market, independent auditors do not pay much attention to the issue of litigation risk, and the audit fee is mostly adjusted based on the volume of proceedings. As a result, the presence of a CEO's duality impairs the effectiveness of internal control and thus increases the agency's cost. Therefore, it is expected that the CEO's duality will decrease the company's management efficiency. Therefore, the audit risk is assessed at a high level and the audit fee is considered high. As discussed in this section, prior research

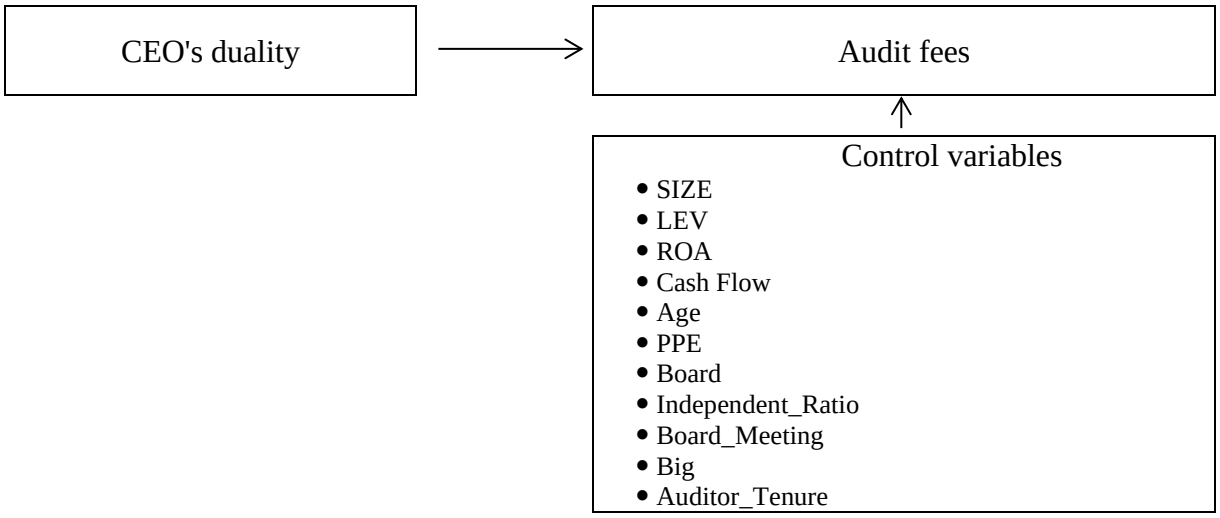
shows that companies with the presence of a CEO duality role boards tend to demand higher audit quality, and consequently, pay higher audit fees to protect shareholders' interests. It is expected that the presence of CEO duality and the subsequent effect that this will have on board independence is likely to result in a less effective monitoring system that will increase the perceived inherent risk of the firm, and will subsequently result in higher audit fees being charged. The hypothesis model is expressed as follows:

Hypothesis 1: There is a significant relationship between the CEO's duality and audit fees.

3. Research methodology

3-1. Data and sample

This research is applied in terms of purpose and correlational in terms of descriptive implementation method. In Iran there is not any database which provides firm level data regarding the governance variables. So data related to CEO's duality and audit fees were hand collected from the annual reports of the companies. To test our developed hypothesis, we use the data of Tehran Stock Exchange listed companies. Our initial sample contains all listed firms includes the Tehran Stock Exchange for the period 2012-2021. Consistent with prior research, we exclude financial institutions, banking, finance and investment firms, and observations with missing data on the variables used in Eq. (1). This gives a total sample size of 145 firms from which data was hand collected from the annual reports. All the continuous data are winsorized at the 1% and 99% levels to eradicate the effect of outliers.



Conceptual model of research

3-2. Variables measurement

Dependent variable - The explained variable in Model 1 is $Audit\_Fee_{it}$, which is measured as the natural logarithm of total audit fees in year t for firm i (Carcello et al., 2002; Ashbaugh, LaFond, & Mayhew, 2003; Abbott, Parker, & Peters, 2004; Hsieh et al., 2020).

Independent variables - The explanatory variable is CEO's duality$_{it}$, which is an indicator variable that takes the value of one if the CEO is also the chairman or vice chairman of the board of directors in year t for firm i (CEO duality), and zero otherwise (CEO separation) (Muniandy, 2007; Bliss et al., 2007). The CEO duality refers to non-separation of roles between the CEO and the chairman of the board.

Control variables - Following the literature on the determinants of audit fees (Ashbaugh et al., 2003; Beck & Mauldin, 2014; Bills, Jeter, & Stein, 2015; DeFond, Lim, & Zang, 2016; Hsieh et al., 2020), the control variables for company characteristics include: company size (Size$_{it}$), which is equal to the natural logarithm of total assets in year t for firm i; gearing ratio (LEV$_{it}$), which is equal to total liabilities divided by total assets in year t for firm i; return on assets (ROA$_{it}$), which is equal to company's net profit divided by total assets in year t; cash flow from operating activities in year t for firm i (Cash_Flow$_{it}$), which is equal to company's net cash flow from operating activities divided by total assets in year t for firm i; company age (Age$_{it}$), which is equal to the natural logarithm of company age in year t for firm i; fixed assets (PPE$_{it}$), which is equal to net fixed assets divided by total assets in year t for firm i; board member (Board$_{it}$), which is natural logarithm of the number of board members in year t for firm i; independent director (Independent_Ratio$_{it}$), which is the percentage of independent directors on company's board in year t for firm i; board meeting (Board_Meeting$_{it}$), which is the natural logarithm of number of board meeting in year t for firm i. Control variables for auditor characteristics include: auditor type (Big$_{it}$). If the auditor is the audit organization in year t for firms i, then Big$_{it}$ equals one, otherwise Big$_{it}$ equals zero; and Auditor_Tenure$_{it}$, which equals the natural logarithm of auditor's tenure in year t for firm i. In our main analysis, we control over industry (industry) and year (year). The level of risk and business complexity differs between industries and at different times. Thus, we expect a relationship between the dependent variables and type of industry and time.

3-3. Empirical model

The analysis of the OLS regression model was used to examine the relationship between CEO's duality and audit fees (based on the variables described below). The functional form of the OLS regression model is as follows:

$$Audit\_Fee_{it} = \beta_0 + \beta_1 CEO\_Duality_{it} + \sum_{j=1}^{11} \beta_j Control\ variables_{it} + \varepsilon_{it} \quad (1)$$

Where, Audit_Fee$_{it}$ is the total audit fees in year t for firm i. CEO's duality$_{it}$ is the the CEO is also the chairman or vice chairman of the board of directors in year t for firm i. Firm size (Size$_{it}$), Leverage ratio (LEV$_{it}$), return on assets (ROA$_{it}$), cash flow from operating activities (Cash_Flow$_{it}$), Firm age (Age$_{it}$), Fixed assets (PPE$_{it}$), Board member (Board$_{it}$), Independent director (Independent_Ratio$_{it}$), Board meeting (Board_Meeting$_{it}$), Auditor type (Big$_{it}$), and Auditor_Tenure$_{it}$, which equals the natural logarithm of auditor's tenure in year t for firm i. In our main analysis, we control over industry (industry) and year (year). The level of risk and business complexity differs between industries and at different times. Thus, we expect a relationship between the dependent variables and type of industry and time.

4. Empirical results

4-1. Descriptive statistics

The data collected was analyzed using descriptive statistics. The descriptive statistics employed were mean, median, standard deviation, minimum and maximum values in order to show the summary of the large set of data collected from the annual reports. Table 1 reports descriptive statistics for the full sample. Audit fee is 5.720, which translates into average audit fees of approximately 340 million R. The mean value of the CEO's duality is 0.273, which means that 27.3% of the sample firm-years in which the CEO is the chairman or vice chairman of the board of directors. The mean values of accounting performance (ROA) and financial leverage (LEV) are 0.127 and 0.568, respectively. Approximately 19.9% of the sample firms are audited by the Audit Organization (Big).

Table 1: Descriptive statistics

	variables	mean	median	Maximum	Minimum	Std. dev.
(1)	Audit_Fee	5.720	6.579	8.387	2.255	2.214
(2)	CEO's duality	0.273	0.000	1.000	0.000	0.446
(3)	Size	14.454	14.582	17.558	12.269	1.362
(4)	LEV	0.568	0.582	0.904	0.186	0.199
(5)	ROA	0.127	0.101	0.415	-0.064	0.129
(6)	Cash_Flow	0.108	0.095	0.344	-0.078	0.113
(7)	Age	3.676	3.761	4.111	3.045	0.326
(8)	PPE	0.233	0.194	0.594	0.032	0.159
(9)	Board	1.614	1.609	1.946	1.609	0.040
(10)	Independent_Ratio	0.665	0.600	1.000	0.400	0.172
(11)	Board_Meeting	2.034	2.079	2.303	1.792	0.167
(12)	Big	0.199	0.000	1.000	0.000	0.399
(13)	Audit_Tenure	1.031	1.099	2.639	0.000	0.829

4.2 Correlation analysis

Table 2 shows that all the Pearson's correlation coefficients' absolute values between the independent variables are lower than the threshold value for potential multicollinearity of 0.80 (Gujarati, 2011). The decision criterion is that if the Variance Inflation Factor (VIF) has a value of 10 and above, it implies that there is the presence of perfect multicollinearity. At the same time, the VIF, less than 10, shows the absence of multicollinearity. Also, the results obtained from the VIF calculation show (less than 10) that there is no multicollinearity between the independent variables

.

Table 2: Pearson correlation matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1)	1.00												
(2)	0.17***	1.00											

(3)	0.14***	0.001	1.00										
(4)	0.09***	0.15***	-0.05*	1.00									
(5)	-0.07**	-0.08***	0.24***	-0.64***	1.00								
(6)	-0.06**	-0.06**	0.10***	-0.19***	0.40***	1.00							
(7)	0.15***	-0.004	0.14***	-0.03	0.06**	0.01	1.00						
(8)	0.13***	-0.03	-0.009	-0.06**	-0.18***	0.08***	0.008	1.00					
(9)	-0.06**	-0.09***	0.06**	-0.08***	-0.006	0.02	-0.02	0.16***	1.00				
(10)	-0.14***	-0.5***	-0.05**	-0.21***	0.12***	0.06**	-0.002	0.05*	0.12***	1.00			
(11)	-0.13***	-0.001	0.13***	-0.06**	0.09***	-0.05**	0.06**	-0.01	-0.02	-0.009	1.00		
(12)	0.15***	0.15***	0.21***	0.17***	-0.06*	-0.02	0.10***	-0.12***	-0.05*	-0.12***	-0.002	1.00	
(13)	-0.14***	0.11***	0.18***	0.11***	-0.04	-0.01	0.10***	-0.10***	-0.10**	-0.10***	0.02	0.68***	1.00
Notes: *, **, *** indicate significance at the level of 10%, 5%, and 1%, respectively.													

4-3. Multivariate analysis

Table 3 reports the multiple regression results from testing the association between the log of audit fees and the experimental variable CEO's duality. The analysis of the OLS regression model was done to test the hypothesis. To test the hypothesis, the estimation results of the model presented in Table 3 have been used with the panel data approach. there is a problem of Heteroscedasticity in the study data. Therefore, the GLS method has been used.

Table 3: Multivariate results for the relationship between CEO's duality and audit fee

	Dependent variable
Independent Variable	Audit_Fee
Constant	7.555***(3.108)
CEO's duality	0.994***(7.784)
Size	0.077***(2.587)
LEV	0.888***(4.390)
ROA	-0.468**(-2.242)
Cash_Flow	-0.564***(-2.771)
Age	0.250***(3.312)
PPE	0.528**(2.404)
Board	-3.083**(-2.107)
Independent_Ratio	-0.509**(-2.376)
Board_Meeting	-0.424**(-2.174)
Big	0.776***(6.001)
Audit_Tenure	-0.133**(-2.451)

Industry fixed effects	YES
Year fixed effects	YES
Adjusted R Square	0.554
Durbin-Watson stat	1.997
F-statistic	213.218***
Notes: t-statistics reported in parentheses are based on standard errors clustered by company and year. *,**,*** indicate significance at 10%, 5%, and 1% level, respectively. All regressions include industry and year fixed effects. All continuous variables are adjusted at the top and bottom of one percent. We have used Fisher's test to accept or reject the use of panel data. We have also added year-level and industry-level control variables in our study.	

The results show that CEO duality has a positive and significant effect on audit fees. This result supports hypothesis 1 that there is a significant relationship between the CEO duality and audit fees. The results agree with Aktas et al. (2019), and Le et al. (2023), but contradict Bliss (2011). The coefficients of the control variables, wherever significant, are consistent with those of other studies (Bills et al., 2015). For example, we find that auditors charge higher fees to larger clients, firms with higher levels of leverage (LEV), or poorer performance (lower ROA). We further find that large auditors (Big) charge a premium fee. Of the control variables, the coefficients for SIZE, LEV, Age, PPE, and Big are positively and significantly associated with audit fees. The coefficients for ROA, Cash Flow, Board, Independent Ratio, Board Meeting, and Auditor Tenure are negative and significant. The adjusted R2 of the regression test is 55.4 percent, giving confidence in the explanatory power of the model.

4.4. Diagnostic tests

Multicollinearity test - In this study, the Variance Inflation Factor (VIF) test was used for the multicollinearity test. The results of the VIF test are presented in Table 4 to verify multicollinearity, which may occur due to overlapping variables. A value of VIF = 1 indicates that no multicollinearity among explanatory variable and if its value is between 1 and 5. The VIF values indicate that there is no multicollinearity problem.

Table 4. Test for multicollinearity

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
CEO's duality	0.036	9.761	1.394
Size	0.002	135.009	1.187
LEV	0.153	17.681	1.948
ROA	0.450	4.701	2.382
Cash_Flow	0.312	2.423	1.258
Age	0.031	132.552	1.033
PPE	0.145	3.674	1.178

Board	2.042	1698.347	1.052
Independent_Ratio	0.152	22.848	1.425
Board_Meeting	0.117	154.970	1.035
Big	0.038	2.425	1.943
Audit_Tenure	0.009	4.762	1.870
Note: VIF = Variance Inflation Factor.			

Heteroscedasticity test - This study used White test to test the presence of heteroscedasticity problem. As shown in Table 5, White's test shows a significant p value (0.00 < 0.05). As a result, there is a problem of Heteroscedasticity in the study data. Therefore, the GLS method has been used.

Table 5. Test for Heteroskedasticity: White

F-statistic	5.925	Prob. F(87,1362)	0.000
*Obs*R-squared*	398.096	Prob. Chi-Square(87)	0.000
Scaled explained SS	213.739	Prob. Chi-Square(87)	0.000

Autocorrelation test - This study used Breusch-Godfrey Serial Correlation LM test to test the presence of autocorrelation problem. As shown in Table 6, Breusch-Godfrey Serial Correlation LM test shows an insignificant p value (0.420 > 0.05). This indicates that the autocorrelation problem does not exist in the data of study

.

Table 6. Test for Autocorrelation: Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.874	Prob. F(2,1435)	0.420
*Obs*R-squared*	1.854	Prob. Chi-Square(2)	0.396

5. Conclusion

With the growth of competition in the audit profession, audit firms are looking to optimize their cost and the best offer for them. In this way, they maximize their income and do not lose work in competitive conditions. For this purpose, knowing the factors affecting audit fees can be very useful. This study investigated the relationship between a firm's internal corporate governance characteristics (CEO duality) and audit fees. The results of this study provide further evidence of the positive relationship between CEO duality and audit fees. It is suggested that to appease the pressure of the shareholders and enhance monitoring, companies with dual CEOs and chairs seek audits of higher quality. This requires more chargeable hours and consequently, higher audit bills.

A possible explanation is that audit firms opt for extensive audit testing when dual roles exist to limit their firms' risk exposure and to protect their reputations, as they do not rely on internal control systems when dual roles exist. The results add to a growing body of literature that finds a link between corporate governance mechanisms and various facets of the financial reporting and audit processes (Carcello et al., 2002). Given the heightened interest of the accounting profession, the business may or may not be inclusive of travel expenses and the fees for interim reports), we cannot infer whether the data on companies that do not disclose detailed audit fees are consistent with those of other companies. The second lies in the sample firms. The sample only covers listed firms, which are likely to be large. Therefore, findings may not be generalized to small and non-listed firms. Third, we argue that lower audit fees are due to the superior quality of internal control mechanisms and financial reporting processes. However, lower audit fees may be due to the better negotiating skills of managers. Fourth, only one corporate governance variable was considered. Many more variables could be considered. Future research should include the examination of the association that managerial ownership may have on audit fee pricing.

community, and regulators in the relationship between corporate governance and financial reporting quality and auditing quality, we believe that the relationship between corporate governance mechanisms and other facets of the audit process continues to be a fruitful area of inquiry. This study's results should be interpreted with caution because this research is subject to some limitations. The first lies in the sample data. Because audit fees may be calculated in a variety of ways (e.g., they

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