

The Relationship between Corporate Governance and Audit Fees in Listed Companies at Exchange

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Abstract: The purpose of research was investigating the relationship between corporate governance and audit fees in listed companies at exchange. The results of the samples indicated the negative correlation between corporate governance and audit fees. For this purpose, financial information of 97 companies listed in Tehran Stock Exchange were studied during the period of 2007 to 2012 (485 company-year), but the results of investigating the samples for a subset of the total sample showed that the impact of corporate governance on the fee of the audit effect by the company's growth. There was negative correlation between corporate governance and audit fees economically and statistically in the companies group with moderate growth during the study period and there was not significant to the companies during the period of rapid growth or had experienced negative growth.

Keywords: Corporate Governance, Audit Fees, Company's Growth.

Introduction

Companies as economic units, always looking for profitability and achieve greater wealth. For various reasons, that the most important is the separation of ownership from management, companies are responsible to respond to people outside of the company in addition to the duty of business. According to empirical evidence, the most effective form of accountability is financial reporting. With the bankruptcy of large companies such as Enron, WorldCom and etc. (Malekian et al., 2012), figures credit of accounting which form the most important part of financial reporting is severely undermined, so that investors have no confidence in the financial statements prepared by management.

These bankruptcies provide questions about the role of corporate governance and other reassuring information about transparency and completeness of financial reporting. (Ahmad-pour .A, 2010), but this issue that whether corporate governance has effect on the fee of the audit or not and if it is, how it affects, it is unknown. At least, there are two arguments about the relationship between corporate governance and audit fee. The first and second arguments are affected by the alternative and signal theories, respectively, and both are reached to different conclusions. Alternative theory claims that once the internal management structure of an company is complete and the cost of representation and mediation are lower, consequently, corporate auditing and auditor will be faced to less risk of encounter and subsequently the cost of the audit will be less. In other words, the auditor is considered as a foreign management that the efficient management of internal of company is partly replaced (Salehi M, 2013).

Signal theory is argued that the use of an external auditor precise, it is shown high-level managers in corporate governance to external stakeholders that companies with strong corporate governance pay more fees to audit of accounting firms. So far, empirical evidence was reported that the question is left unanswered which theory describes better corporate performance. Many studies were focused on the relationship between corporate governance and accounting fees to find one or more aspects of corporate governance such as ownership, property

manager or the board as a representative of the corporate governance variables. Although, the use of such variables makes it easy to collect and study data, however, it has some disadvantages. For example, the eliminating possibility of the variables arises in the model because of the tabby corporate governance variables were not included in this model (Rahmani A, 2010).

In addition to the various features, they may be interacted with each other as undetectable very complex, and which is led to conjunct with the orientation. Finally, due to the uncertainty of impact for each feature on corporate governance, it is disputed whether there is the impressiveness of appropriate corporate governance or not. For example, some researchers are believed that CEO duality is led to disrupt corporate governance while other researchers have opposite view with this view.

So it is clear that finding the relationship between audit fees and corporate governance on the basis of such an agent is associated with difficulties, while such problems can be substantially reduced or destroyed with more comprehensive corporate governance. The main aim was to involve the public in the review process and also, encourage active investors in the market to the issue of corporate governance.

Materials and Methods

This research was in the field of accounting empirical research, and applied research which was correlation study. The mentioned method is useful for researches such as this study that intend to explore the relationship between different variables. The study was cross-sectional because try to study associated data with specific time periods. Also, it was applied because obtained results in this study can be used in the process of financial information.

The population of this research includes companies listed on the Stock Exchange in Tehran, Iran. The quality of information and ease of access to information, financial statements and other information of financial statements and other corporate information were the reasons for selecting the population. Considering the nature of the variables, the requirements for sample selection were presented as follows:

1. The company was accepted in the Tehran Stock Exchange from 2007 to 2012.
2. In terms of increasing the comparability, the financial period end to the March.
3. During the financial year, it has no the fiscal year change or modify activities.
4. It should not have stop trading interval more than 6 months.
5. There is required information to calculate the variables in the study period, and the financial statements and related notes are fully available.
6. It should not be among banks and financial institutions (investment companies, financial intermediaries, holding companies, banks and leasing), because financial disclosures and corporate governance structures are different among them.

The study period was from 2007 to 2012 for a period of 6 years. Year of 2007 was selected for starting research because the Stock Exchange has accepted the corporate governance in 2007 and has collected the required information of companies through Tadbir-pardaz databases and official website of Exchange Organization and then was prepared with needed calculations in Excel spreadsheet software for analysis. The final analysis was performed using statistical SPSS software version 18.

Results

Table 1. Dickey-Fuller test for research variables.

Variables	Dickey-Fuller test ADF	Critical level	MacKinnon critical value Mcv
Tobin's Q	-16.439	0.05	-2.866
Recint	-19.817	0.05	-2.866
Type of growth	-22.036	0.05	-2.866
Other members of the Board of Directors	-26.470	0.05	-2.866
The controlling shareholder	-24.294	0.05	-2.866
Institutional shareholders	-25.361	0.05	-2.866
Company Size	-24.325	0.05	-2.866
The size of the audit company	-22.238	0.05	-2.866

Given that the statistic absolute value for each variable by Dickey-Fuller tests (ADF) was larger than MacKinnon critical value (MCV); all variables were reliable during the study period.

$$AQ = B0 + B1OUTRATIO + B2OWNTYPE + B3INSTOWN + B4QTOBING + B6SIZE + B7RECINT$$

$$AQ = -65.883 + (-0.09) + 0.240 + (-0.144) + 0.037 + (-0.002) + (-0.083) + (-0.051)$$

Findings analysis of the research hypothesis

The findings related to the hypothesis (1)

Hypothesis (1): corporate governance mechanisms are effective on audit fees;

The ratio of Outside members in the board of director has an impact on the fee of the audit;

Table 2. The correlation between the fee and outside members in the board of director.

	Outside members in Board of director
Pearson correlation of audit fee	-0.093*
Sig.	0.04
Number of samples	485

*Correlation was significant at $p \leq 0.05$

Table 2 shows that based on the Pearson correlation, there was a negative correlation between the fee of audit and Outside members in Board of director at 95%. This means that whether the number of Outside members in Board of director increase audit fee of companies decrease.

Outside members in Board of director: ($p=0.093$, $n=485$, $R=0.040$)

The findings related to the hypothesis (2)

Hypothesis (2): The controlling shareholder is effective on audit fees;

Table 3. The correlation between the fee and controlling shareholders of companies.

	The controlling shareholder of companies
Pearson correlation of audit fee	0.233**
Sig.	0.000
Number of samples	485

**Correlation was significant at $p \leq 0.01$

Table 5 shows that based on the Pearson correlation, there was a positive correlation between the fee of audit and Outside members in Board of director at 99%. This means that whether the number of controlling shareholder of companies increase, audit fee of companies increases.

The controlling shareholder of companies: ($p=0.005$, $n=485$, $R=0.233$)

The findings related to the hypothesis (3)

Hypothesis (3): The Institutional shareholders are effective on audit fees;

Table 4. The correlation between the audit fee and major institutional shareholders.

	Institutional shareholders
Pearson correlation of audit fee	-0.112*
Sig.	0.014
Number of samples	485

*Correlation was significant at $p \leq 0.05$

Table 7 shows that based on the Pearson correlation, there was a positive correlation between the fee of audit and major institutional shareholders at 95%. This means that whether the number of major institutional shareholders of companies increases, audit fee of companies decreases.

The major institutional shareholders: ($p=-0.112$, $n=485$, $R=0.014$)

1. Whether there is significant difference in the audit fee between companies that their audit reference is inspection organization with companies with institutions audit reference in different years?

Table 5. Comparing Variance analysis of fees between companies in different years with different accounting reference.

		Average of squares	df	F	Sig.
Between groups	2008	78035.03	1	0.185	0.66
	Within groups	422236.03	95		
Between groups	2009	206585.82	1	0.895	0.34
	Within groups	230946.95	95		
Between groups	2010	399726.14	1	0.530	0.46
	Within groups	754120.32	95		
Between groups	2011	80933.30	1	0.333	0.56
	Within groups	243126.93	95		
Between groups	2012	67008.33	1	0.213	0.64
	Within groups	315208.92	95		

Table 5 based on the analysis of variance shows that there was significant difference in the audit fee between companies that their audit reference is inspection organization with companies with institutions audit reference in different years.

2. Is the growth type has an impact on audit fees of companies?

Table 6. The correlation between the growth type of companies and audit fees

	Type of company growth
Pearson correlation of audit fee	-0.065
Sig.	0.15
Number of samples	484

Table 6 shows that based on the Pearson correlation, there was a negative relationship between the growth of companies (negative, average and fast) and the fee of the audit, but this relationship was not statistically significant.

Growth type of Companies: ($p=-0.065$, $n = 484$, $R=0.15$)

Regression analysis of research variables

The results of the regression analysis of the variables affecting the fee audit

Table 7. Overall regression analysis of research variables

Model	SS	t	Adjusted R-squared	Durbin-Watson	F	Sig.
Regression	1.535	7	0.074	432.1	6.478	0.000
Residuals	1.608	475				
Total	1.761	482				

Table 7 shows the significance of all research variables on the fee audit.

(adjusted R-squared=0.074, $P < 0.00005$ and $F_{7,475}=6.478$)

Table 8. Regression analysis of factors affecting the fee of audit.

Model	Standard Error	Beta Standard coefficient	t	Variance inflation factor (Vif)	Sig.
Outside members of board of directors	24.08	-0.09	-2.16	1.075	0.031
controlling shareholder	3.01	0.240	5.37	1.036	0
Institutional shareholders	1.35	-0.144	-3.23	1.032	0.001
Tobin's Q	45.39	0.037	0.831	1.037	0.406
Recent	10.46	-0.051	-1.05	1.228	0.293
The size of the audit Company	68.52	-0.083	-1.84	1.05	0.066
Company Size	48.42	-0.002	-0.05	1.236	0.96

The dependent variable: the fee audit

Using Enter, the significant model was achieved. (Adjusted R-squared=0.074, $P < 0.0005$, $F_{7,475}=6.478$)

Significant variables include:

Predicted variable	Beta	P
Outside members of board of directors	-0.098	0.031
controlling shareholder	0.240	0.0005
Institutional shareholders	-0.144	0.001

(In this Tobin's Q model (MVBV); Recent, receivable accounts to total assets; audit company size and predictor company size were not significant). Table 8 shows that among all independent and control variables, the controlling shareholder had the highest correlation with dependent variable (the amount of audit fee) and company size variable had the minimum relationship with the dependent variable (the audit fee). The results of the regression analysis of the relationship between the growth type of companies with research variables and the audit fee of companies.

Table 9. Multivariate regression relationship between the growth types of companies with research variables in 2008.

	Frequency	Adjusted R-squared correlation	ViF	F	Sig.
Negative growth of Tobin's Q (MVBV)	29	0.200	1.19		0.15
Receivable accounts to total assets	29	-0.359	1.02	1.68	0.02
Size of the company (SIZE)	29	0.037	1.21		0.42
Average growth of Tobin's Q (MVBV)	31	-0.332	1.12		0.034
Receivable accounts to total assets	31	-0.195	1.08	3.50	0.147
Size of the company (SIZE)	31	-0.254	1.19		0.084
Rapid growth of Tobin's Q (MVBV)	37	-0.002	1.02		0.49
Receivable accounts to total assets	37	0.175	1.12	0.40	0.15
Size of the company (SIZE)	37	-0.123	1.14		0.23

The dependent variable: the audit fee

Based on multivariate regression analysis (Table 9) show that in 2008, among all the variables and growth type, there was negative correlation in the negative growth of receivable accounts to total assets (Recint) with the dependent variable i.e. the amount of audit fees at 95% and other variables are not significantly related to the fee audit.

Table 10. Multivariate regression relationship between the growth type of companies with research variables in 2009.

	Frequency	Adjusted R-squared correlation		ViF	F	Sig.
Negative growth of Tobin's Q (MVBV)	23	0.295		1.003		0.08
receivable accounts to total assets	23	-0.246	0.020	1.003	1.14	0.12
size of the company (SIZE)	23	0.108		1		0.31
Average growth of Tobin's Q (MVBV)	24	0.143		1.52		0.25
Receivable accounts to total assets	24	-0.192	0.053	1.16	0.615	0.18
Size of the company (SIZE)	24	-0.181		1.50		0.19
Rapid growth of Tobin's Q (MVBV)	50	1.015		1.02		0.45
Receivable accounts to total assets	50	-0.246	0.030	1.01	0.52	0.11
Size of the company (SIZE)	50	-0.018		1.01		0.45

The dependent variable: fee

Table 10 based on multivariate regression analysis show that there was not a significant relationship in 2009 between the research variables and the growth type with the dependent variable i.e. The fee of the audit.

Table 11. Multivariate regression relationship between the growth types of companies with research variables in 2010.

	Frequency	arranged	R-squared correlation	ViF	F	Sig.
Negative growth of Tobin's Q (MVBV)	11	0.291	0.002	1.11	1.006	0.19
Receivable accounts to total assets	11	0.508		1.08		0.05
Size of the company (SIZE)	11	-0.007		1.07		0.49
Average growth of Tobin's Q (MVBV)	57	0.008	0.037	1.002	0.330	0.47
Receivable accounts to total assets	57	-0.052		1.006		0.35
Size of the company (SIZE)	57	-0.120		1.007		0.18
Rapid growth of Tobin's Q (MVBV)	29	0.426	0.171	1.10	2.92	0.01
Receivable accounts to total assets	29	-0.286		1.12		0.06
Size of the company (SIZE)	29	0.236		1.02		0.10

The dependent variable: fee

The analysis of multiple regression test in 2010 (Table 11) shows that among all the research variables and the type of growth, there was positive correlation in the rapid growth of Tobin's Q variable (MVBV) with the dependent variable i.e. the amount of audit fee at 95% and other variables are not significantly related to the audit fee.

Table 12. Multivariate regression relationship between the growth type of companies with research variables in 2011.

	Frequency	Adjusted	R-squared	ViF	F	Sig.
			correlation			
Negative growth of Tobin's Q (MVBV)	20	-0.170	0.093	1.04	0.462	0.23
	20	-0.205		1.01		0.19
Receivable accounts to total assets	20	-0.163		1.04		0.24
Size of the company (SIZE)						
Average growth of Tobin's Q (MVBV)	46	-0.181	0.035	1.05	0.498	0.11
	46	-0.034		1		0.41
Receivable accounts to total assets	46	0.009		1.05		0.47
Size of the company (SIZE)						
Rapid growth of Tobin's Q (MVBV)	30	-0.004	0.013	1.06	1.12	0.49
Receivable accounts to total assets	30	-0.315		1.03		0.04
Size of the company (SIZE)	30	0.133		1.05		0.24

The dependent variable: fee

Based on multivariate regression analysis (Table 12) show that in 2011, among all the variables and growth type, there was negative correlation in the rapid growth of receivable Accounts to total assets (Recent) with the dependent variable i.e. the amount of audit fees at 95% and other variables are not significantly related to the fee audit.

Table 13. Multivariate regression relationship between the growth types of companies with research variables in 2012.

	Frequency	Adjusted	R-squared	ViF	F	Sig.
			correlation			
Negative growth of Tobin's Q (MVBV)	18	-0.080	0.11	1.16	0.438	0.37
	18	0.272		1.15		0.13
Receivable accounts to total assets	18	0.125		1.01		0.31
Size of the company (SIZE)						
Average growth of Tobin's Q (MVBV)	44	0.241	0.10	1.18	2.62	0.05
	44	-0.272		1.02		0.03
Receivable accounts to total assets	44	0.266		1.19		0.04
Size of the company (SIZE)						
Rapid growth of Tobin's Q (MVBV)	35	0.356	0.085	1.10	2.05	0.01
	35	0.024		1.07		0.44
Receivable accounts to total assets	35	0.225		1.03		0.09
Size of the company (SIZE)						

The dependent variable: fee

the analysis of multiple regression test in 2012 (Table 13) shows that among all the research variables and the type of growth, there was negative correlation in the average growth of receivable accounts to total assets (Recent) with the dependent variable i.e. the amount of audit fee at 95% and in the negative rapid growth of Tobin's Q variable (MVBV), there was positive relationship with the dependent variable i.e. audit fees and other variables had no significant correlation with the fee of audit at 95%.

Hypotheses test results**Hypothesis (1) corporate governance mechanisms are effective on audit fees;**

The proportion of outside members of director board has an effect on the fee of the audit;

The Pearson correlation test shows that there was a negative correlation between outside members of director board and the fee of the audit at 95%, this means that whether outside members of director board increases audit fee decreases.

Outside members of director board: ($p=-0.093$, $n=485$, $R=0.040$)

Hypothesis (2): controlling shareholder has an effect on the audit fee;

The Pearson correlation test shows that there was a positive correlation between the fee of auditing and controlling shareholder at 99%. This means that whether controlling shareholders increases audit fee increases, as well.

The controlling shareholder of companies: ($p=-0.005$, $n=485$, $R=0.233$)

Hypothesis (3): major institutional shareholders have an impact on the fee audit;

The Pearson correlation test shows that there was a negative correlation between the fee of auditing and major institutional shareholders at 99%. This means that whether major institutional shareholders increases audit fee decrease, as well.

Major institutional shareholders: ($p = -0.112$, $n = 485$, $R = 0.014$)

The findings related to the research questions:

The findings of the research question (1)

Whether the companies they audit authority and inspection organization with reference to companies in many different audit institutions in the audit fee there is a significant difference?

Based on the analysis of variance, there was no significant difference between companies that their audit reference is inspection organization companies with institutions reference in different years in audit fee.

Whether the growth type of company is effective on audit fee?

The Pearson correlation test shows that there was a negative correlation between Growth type of Company (negative, average and fast) and the fee of the audit, but this relationship was not statistically significant.

Growth type of company: ($p = -0.065$, $n = 484$, $R = 0.15$)

Conclusion

In this study, we tried to study the relationship between some of the mechanisms of corporate governance and audit fee. In this regard, in the current study has been focused on the role of the director Board, the structure of directors board regarding and features of corporate governance. The results of hypotheses test showed that there was a correlation between the audit fee and outside members of the directors' board.

negative Accounting fee and controlling shareholders of companies were positively correlated. This means that how controlling shareholders of companies increases, audit fee of companies increases, as well. There was negative relationship between Audit fee and major institutional shareholders of companies. This means that how major institutional shareholders increases audit fee of companies decreases.

Finally, test results showed that the relationship between members outside the board of directors and institutional and major shareholders of companies and audit fees are not affected by ownership. Also, there is the stronger relationship between controlling shareholders and audit fees. The results of were not consistent with the results of Alavi-tabari et al (2011) and Mashayekh M, (2009).

Conflict of interest

The authors declare no conflict of interest

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