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Review: Corporate Governance Audit Fees in Company

Zahra Sha'bani*

Department Accounting, Fasa Branch, Islamic Azad University, Fasa, Fars, Iran

*Corresponding Author Email: zahra.shaabani4@yahoo.com

Abstract: The main purpose of accounting is to help investors to make the right decisions. In fact, the separation of management from ownership of an entity's financial strength to investors should perhaps not be able to have access to information within the company. This leads to the creation of a single economic entity's financial reporting. At the same time there is a conflict of interest between managers and owners in many cases that leads to management of its powers to provide financial information to be manipulated. This leads to create the audit. The purpose of this study was to investigate the theory and research in the field of corporate governance and audit fees. According to studies, it can be conclude that external research usually start with this assumption that audit is such an external management that investigate the impact of agency costs and property on board the cost of the audit.

Keywords: Audit, Capital, Burse.

Introduction

Companies as economic units are always seeking to profitability and achieve greater capital. Due to various reasons, the most notably issue is the separation of ownership from management companies. Companies in addition of businesses have responsibility to respond to the people outside of the company. Based on the empirical evidence, financial reporting is the most efficient form of accountability of large companies' bankruptcies such as Enron, WorldCom and ... (Melikian et al., 2013). Credit accounting figures which form the most important part of financial reporting, is greatly undermined, So that investors do not trust in the financial statements which were prepared by management. These bankruptcies create a question about the role of corporate governance and transparency and completeness of financial reporting agents that is provided reassuring information (Melikian et al., 2013). But is there any impact on the cost of the audit of corporate governance or not? If there is, how it affects remained unknown. At least, there are two arguments about the interface between corporate governance and audit fees. The first argument is affected by the alternative theory of second signal theory (signal) and both are reached to the different conclusions. Alternative theory claims that whatever internal management structure of company to be more completed and the representation and mediation costs are less, audit companies and auditors encounter with the less risk and the cost of the audit will be less subsequently. In other words, the auditor is considered as an external management that the efficient internal management of company partly can be replaced. Signal theory argues that using a precise external auditor, the corporate governance shows high-level managers to the external stakeholders, it means that companies which have strong corporate governance, have more to pay audit fees to accounting firms. So far, the question is remained unanswered that which theory can better describes the performance of companies. Many studies are focused on the relationship between corporate governance and the accounting fees, corporate governance has one or more aspects such as ownership, property manager or the board as a representative of the corporate governance variables (Lennox et al., 2012). Although to collect and study data is made easy by to use of such variables but they also have some disadvantages. For instance, the issue of possibility of eliminating the variables in the model is raised because all variables are not included in the model of corporate governance. Moreover the various features as an undetectable and very complex may be interact with each other, which lead to the efficient results. In the end, the effect of each feature is uncertain in the level of corporate governance, therefore, this issue is questioned whatever there is appropriate factor in corporate governance. For example, some researchers believe that CEO duality impairs the corporate governance while the other researchers are opposed to the idea. The aim of this study was to examine the literature and research in the field of corporate governance and audit cost which has been done.

Theoretical Principles of Corporate Governance

Corporate governance is the set of mechanisms for guidance and control. Corporate governance system of distribution of rights and responsibilities of the various stakeholders, including enterprise directors, employees, shareholders and other stakeholders and characters influenced and inspired affect company specifies. Corporate governance system of distribution of rights and responsibilities of the various stakeholders is identified by interactions between enterprise directors, employees, shareholders and other company stakeholders. The system is being determinedthe rules and procedures which areresponsible to decision-making processes in company; these regulations are including goal setting, determining the means to achieve the objectives and design of control systems. Or the ways, in which suppliers of finance are used to ensure the return of their capital, there is a close relationship. Set of corporate governance is a series of guidelines, structures, processes and cultural norms, which companies are response to stakeholders comply with the objectives transparency in business processes, and will gain respect for their rights. Mechanisms of corporate governance reduce the agency problems in companies. The quality of these mechanisms is relative and varies from company to company. Suppose there is the quality of corporate governance in all stages of value creation in the company, one of the ways to create value is to reduce the cost of financing in companies. Therefore, it seems that the quality of corporate governance on the cost of audit companies could be effective. Until now, many researches have explored the relationship between the cost of the audit corporate governance and audit quality. Anderson (2004) using data from 500 companies found that the cost of financing through debt and inversely to the outside, as board members, audit committee and board meetings depends outside in the period from 1993 to 1998 (quoted by Fan and Wong, 2005). Their studies were concentrated on the status of creditors and so, it was interpreted that debt is on the basics of accounting. They specifically found that creditors are concerned the effectiveness of monitoring and control of the Audit Committee and the Board that according to the accounting numbers as a source of high reliability and accuracy are analyzed. The regulatory framework of corporate governance effectiveness and efficiency of care imposed by the board of directors and on the other hand, is stemmed from the institutional shareholders. Increase in care will likely lead to better control of the managers as well as the transfer of wealth to the detriment of creditors' opportunism and in turn, it is reduced the risk of creditors and cost audit. Thus, it can be said that the quality of corporate governance and audit costs as well as credit risks are inversely related. On the other hand, additions to the quality of corporate governance, creditors have particular attention to the quality of financial information (Pittman and Fotin, 2004). They found that large enterprises was served audit companies, has reported less average cost of the audit. These findings are indicated again, creditors look to the reputation and credibility of auditing as a measure of audit quality and so that they are sensitive to the quality of financial statements are published by the companies which have recently been incorporated. However, from the perspective of external consumers, audit quality is achieved by right to determine the independent and qualified auditors (quoted by Hay et al., 2004). Generally is accepted that well-known audit firms often provide diversified services and high quality, and this could be entail into the quality of the audit process which ultimately leads to the provision of information and financial reporting quality. High quality financial reporting makes confidence for creditors in decision-making and to reduce the risk of information.

Importance of Audit

Internal audit have a colorless role in Iranian companies. Studies are suggested that even a large number of listed companies do not use from the services of Internal Auditors. And the numbers of listed companies that have internal audit units are too scant attention to internal audit services, so organizational position reduces the effectiveness of the internal auditors. In recent years as mentioned earlier, internal audit as one of the mechanisms of internal audit has a very vital role in the corporate governance structure in the world. Globally, since the beginning of the last millennium, with the establishment of large businesses, and become more complex activities, to handle all the activities was denied by management, and internal audit as assistance organizations in order to do things right, was entered to this field. Internal audit were quickly accepted and was being supported by company directors the world so, it was become important. Internal audit has gained new roles per decades since 1950s to beginning new millennium. In brief is being said: In the 1950s, the role of internal audit was accounting records and reviews the events or was managed documents. In the 1960s, recognize policy compliance and a procedure of the company was added to the role of internal audit companies; In the 1970s, this role was become to the test procedures; In the 1980s, the role of internal audit was assessment of internal controls; In the 1990s, the role of the internal audit was changed to report on the internal control system. It is interesting, because of the critical importance of internal audit; at the beginning of the new millennium, Variations in the role of internal audit was being changed year to year and as such it occurred: In 2000, risk management and risk management assessment, in 2002 the assurance on risk and control management, in 2003 value-added services and others. Comment about this change will require to another chance. According to the speed global developments, it seems thatvariations will continue day-to-day on role of internal audit as one of the key components of internal mechanisms, which will be added to corporate governance (Hassas-yeganeh and Pournasab, 2006). The evidence is indicated that due to a large part of the competitiveness of manufacturing and service activities, and measuring Iranto enter to the World Trade Organization (WTO); Iranian companies do have any strategy to improve the corporate governance system and the use of all external and internal mechanisms for their survival. Considering the role of internal auditors is one of the crucial modified of corporate governance, and it seems that the bright and valuable future will be expected from internal auditors and in the circumstances, the universities, the Iranian Society of CPAs, Audit, Accounting Association of Iranian Institute of Certified Accountants have a huge task to pledge the training and knowledge of internal audit.

Players the governance of the company

Basically, the players can be divided into 3 categories of domestic players, foreign players and the board of directors. However, in some category may also be assigned independent components of the board of directors of the foreign players and members of the Executive Board as internal players. In another classification, these players might be distinguished to investors, suppliers, human resources and corporate management team members (Aguilera and Jackson, 2003, quoted by Choi et al., 2008). According to the first division, local players are those individual who take decisions and implement them, however, those foreign players (real or legal) who are being tried to influence and control over their decisions. Hence, managers and employees of the company can be considered as local players and shareholders, suppliers, customers, government agencies and legal and as foreign players. The Board of Directors may also regard as third parties due to the fact that some players can be in the form of domestic and foreign players, therefore it isno longer defined into the two categories and can be considered as the independent (Ghaffari, 2011).The Board of Director is one of the foundations of modern companies, which are often are them as leverage implementing the principles of corporate governance, and responsible for monitoring and policy-making capital in the company. Board members are elected by the stockholders, whereas in some new governance systems, set on personnel, government institutions, investors and suppliers also effect on their selection. The Board of Directors is often called the group of individuals who has the rights to monitor, control in a company and hold macro policy rule "on a particular firm (Han, 2003). This set of individuals (in the form of an effective team work) should be ensure the health of the company in various sectors, such as legality in financial performance appropriate company and fit the company's processes and initiatives with strategic goals (Ghaffari, 2011).

Conclusion

The aim of this study was to examine the literature and research in the field of corporate governance and audit fees which has been done until today. According to studies, it can be concluded that foreign studies is generally assumed that audit is a form of external management and verify the impact of agency costs and features of Board of Directors on the audit fees. For instance, Rose and et al (1998) were examined the relationship between turnover and audit fees, and have found a positive relationship between them. They were also found that the audit fees of family company are lower than the rest of companies and although, the number of independent directors are adversely associated with audit fees. For example, Audit Office of Australia has confirmed the impact of agency costs on the audit fees (Gul et al., 2001). In another, the relationship between the board of directors and external audit fees were calculated by using data from Fortune 1000, and found significant positive relationship between board independence and audit fees, skill and perseverance (Carcello et al.,2002). Hay et al (2004) believes that with Sarbanes–Oxley Act, Section 404 is provided the opportunity to analyses the relationship between audit fees and company's management which is obligated listed companies to disclose internal control. However our review of previous foreign studies does not reflect such an enhancement. In contrast, Chinese researchers have been more considering to this issue in recent years. Zhang and Zhang (2005) implied that by utilize ownership issue; audit fees of listed companies with state ownership are lower than others. Gao and Gao (2008) is reported that the proportion of share of directors is significantly associated with audit fees. In return, Zhang Zo (2005) is described that there is not vital relationship between audit fees and share of state. Li and Wang (2006) are examined role of the features Board of Directors and realized that there is negative relationship between audit fees and the number of independent directors, and null relationship (insignificant) between audit fees and the number of meetings of the Board and existing audit committee in the company. Liu and Hu (2006) is studied on listed companies data for the years 2001-2003, and the relationship between audit fees and agency fees were analyzed by using a part of the internal management. And some factors that may affecting the company's management is agency costs (proportion of independent directors on the Board, senior managers of shareholders and General Director - CEO duality) will find significant impact on audit fees, contingent to other variables. Cai (2007) is studied the impact of corporate governance structure on audit fees from the perspective of an auditor. The evidence indicated that the audit of the Board of Directors of the larger companies which are more expensive than non-public companies are subject to the duality, the company's managing proportion of corporate governance are limited. According to the analysis, it can be said that transparency of corporate information is the major mechanisms of capital market development and also is affected on economic prosperity to every country. It is recommended to Securities and Exchange Organization, in order to establishment of corporate governance, listed companies is required to disclose information related to the remuneration of directors and the independent audit fees. Moreover, internal audit and the formation of audit committees of listed companies is the constant pursuit.It also should work on the establishment of financial analysts in the capital markets.Perhaps if the entity is formed, some of the research difficulties will be organized in connection with the lack of financial information and analysis needed. To those involved in standard setting, it is recommended to review the disclosure of financial information by companies.

Conflict of interest

The authors declare no conflict of interest

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