



## The effects of competition in audit market on audit fee: the role of audit market size

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ARTICLE INF	ABSTRACT
<i>Article history:</i> Received: 22-02-2017 Accepted: 12-09-2018	This study examines the impact of competition in the audit market on auditing fees; It also examines the moderating role of the audit market size. Experimental findings relating to the study of 133 companies listed on the Tehran Stock Exchange, from 2007 to 2015, showed that competition in the auditing market has a negative and significant impact on auditing fees. Besides, the size of the audit market exacerbates the negative effect of competition in the audit market on audit fees. Other findings showed that competition in the audit market leads to a decline in audit quality and the audit market size does not affect the relationship between competition in the audit market and auditing fee.
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### 1- Introduction

In recent years in which competition in all economic fields has been intensified and only those who have competitive power will remain in the market, providing audit services has not been excluded from this issue. In Iran simultaneously with the establishment of the Association of Certified Public Accountants in 2001, the audit market has experienced a significant increase in the number of audit institutes in the private sector. Increasing the number of auditors leads to an increase for the client to choose among the auditors leading to an increase in the competition (Oxera, 2006). Since audit fee is one of the most important indicators for measuring of the audit quality (Blankley, Hurtt & Gregor, 2012; Lobo & Zhao, 2013; Public Company Accounting Oversight Board, 2015), there is a general concern that an increase in the competition in audit market leads to a decrease in the audit fee and consequently reduces of the audit quality. Although studies do not support

these concerns (Pearson & Trompeter, 1994, Nurman & Willekens, 2012), the idea that severs competition leads to lower pricing and auditing lower than the standard has also many fans. On the other hand, in the majority of the researches the size of the audit market has been ignored. Since competing with the market size has a direct relationship, previous studies have not considered an important variable.

## **2- Hypotheses**

This study aims to investigate the effect of competition in the audit market on audit fees and the role of the audit market's size in the mentioned relationship in listed companies of the Tehran Stock Exchange. Thus, the research hypotheses are discussed as follow:

**H1:** *Competition in the audit market has a significant effect on audit fees.*

**H2:** *Audit market's size has a significant effect on the relationship between the competition in the audit market and audit fee.*

## **3- Methods**

The population of this study is all listed companies in Tehran Stock Exchange. 133 companies and the period extending from 2007 to 2015 were selected to test the hypotheses. To provide the information of listed companies in Tehran stock exchange different resources such as information sites of Tehran stock exchange were used. The concentration index is used for measuring the competition in the audit market. The audit market's size is also measured by companies' assets rank in industries level. Data analysis was also performed in Stata 14 software, using ordinary least squares regression (OLS).

## **4- Results**

Research findings show that competition in the audit market has a significant negative impact on audit fees. In addition, the results showed that the audit market's size has a significant negative impact on the relationship between competition in the audit market and audit fee. In the following, supplementary analysis results of the study showed that competition in the audit market leads to reducing of the audit quality and audit market size does not have any significant impact on the relationship between the competition in the audit market and audit quality.

## **5- Discussion and Conclusion**

The first hypothesis test results showed that there is a significant negative relationship between the competition in the audit market and audit fees. This result shows that when the competition in the market is increased, auditors try

to determine the lower pricing in order to have a larger share of the market. Examining the second hypothesis, it was observed that the audit market's size has a negative impact on the relation between the competition in the audit market and audit fee. In other words, by increasing the audit market's size, the negative relationship between the market competition and audit fee is reduced. According to the obtained results related to reducing the audit fee and the audit quality due to the competition in the audit market, drafters of the audit market regulations including Association of Certified Public Accountants and Audit Organization are recommended to pursue this issue and form the specialized committees to investigate the auditors' performance precisely in order to keep their independence, ethical competition and quality of auditing operations. Furthermore, it is recommended to the Association of Certified Public Accountants and Audit Organization to reduce the breaking rate probability by determining appropriate mechanisms.

**Keywords:** Competition in Audit Market, Audit Market Size, Audit fee, Audit Quality