



Jump and consistency at the abnormal audit fee and financial reporting quality

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ARTICLE INF	ABSTRACT
<i>Article history:</i> Received: 5-05-2018 Accepted: 6-08-2018	The review of the literature shows that there are different findings regarding the relationship between abnormal audit fees and financial reporting quality. The reasons for these different results can be determined by a minor and detailed analysis of the abnormal audit fees; therefore, this research intends to investigate the relationship between abnormal audit fees and financial reporting quality in the emerging market like Tehran Stock Exchange (TSE). In this regard, the effect of the abnormal audit fees on the quality of financial reporting in 86 companies listed on the Tehran Stock Exchange during the period 1390 to 1395 was examined. To test the research hypotheses, a multivariate regression model, and the least-squares method have been used. The result showed that there is a positive and significant effect of jump at abnormal audit fees on financial reporting quality. Moreover, results showed long-term abnormal audit fee has a positive and significant effect on financial reporting quality.
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1- Introduction

The main purpose of financial reporting is to provide financial transaction and event economic consequences on the financial position and performance. This information can help financial users in decision making about business entities, but because of asymmetric information between manager and stockholder also the existence of the conflict of interest between them, it is possible the reliability of financial information to become problematic. In order to solve this problem, auditing is tools that make a financial statement to be reliable and enhance the quality of financial information.

Defond and Jiang (2016) believe that abnormal audit fee indicates the extra future effort of auditor which may increase the quality of accounting

information. Also, it can indicate future litigation risks that relate to the low quality of accounting information.

Literature review shows there are different findings of the relationship between abnormal audit fees and financial reporting quality; therefore, this research intends to investigate the relationship between abnormal audit fees and financial reporting quality in detail in the emerging market like Tehran Stock Exchange (TSE).

2- Hypotheses

According to confirmation theory and audit fee pressure theory, we expect there is a relationship between abnormal audit fees and financial reporting quality. Thus, the research hypothesis is as follow:

H1: *jump in abnormal audit fees has a significant effect on financial reporting quality.*

H2: *long-term abnormal audit fee has a significant effect on financial reporting quality.*

3- Method

A good research plan is acquired for an answer to the research question and test of hypothesis so for this purpose, we use a panel data analysis method by estimating the ordinary least square model based on a sample of 86 non-financial companies listed in Tehran Stock Exchange for the period 2008-2016.

For analyzing data, we use EViews and Stata software. For testing of our research hypothesis, we use Coulton et al (2016) models which are:

$$\begin{aligned} RQ_{it} = & \alpha + \beta_1 LWRANK_{it} + \beta_2 JUMP_{it} + \beta_3 BIG_{it} + \beta_4 LCA_{it} & (1) \\ & + \beta_5 LNMVE_{it} + \beta_6 CFF_{it} + \beta_7 LEV_{it} + \beta_8 MB_{it} \\ & + \beta_9 LOSS_{it} + \beta_{10} CFO_{it} + \sum_n^{j=1} INDUSTRY \\ & + \sum_m^{t=1} YEAR + \varepsilon_{it} \end{aligned}$$

4- Results

The research finding shows there is a positive and significant effect of jump at abnormal audit fees on financial reporting quality. Moreover, results show long-term abnormal audit fee has a positive and significant effect on financial reporting quality.

5- Discussion and Conclusion

The main purpose of this research is the investigation of the effect of the abnormal audit fee on financial reporting quality. The main theory of this effect is based on confirmation and audit fee pressure theory. Our findings show that in the companies with high abnormal audit fees the quality of financial reporting is increased. Jump of abnormal audit fees affects financial reporting quality.

These findings consist of the other research as Blankly et al (2012) and lobo and Zhao (2013).

Keywords: Abnormal Audit Fee, Financial Reporting Quality, Jump at the Abnormal Audit Fee.