



## Development of audit services pricing model

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ARTICLE INF	ABSTRACT
<p><i>Article history:</i> Received: 30-12-2017 Accepted: 11-08-2018</p>	<p>Audit fee depends on several factors, including the characteristics of the auditing firm, the characteristics of the owner, the professional conditions, the users, and the competitive environment. Consequently, this research seeks to introduce new factors influencing audit fees and ultimately provide the effective factors in the form of a model. Accordingly, the present study seeks to answer the research question of what is the appropriate model for audit fee. In this research, given the purpose of the study, the grounded theory method has been used. The results of this study indicate that some of the components of the model extracted in this research, on which studies have already been carried out, are almost consistent with the literature. However, in this model, certain factors and variables have been accentuated and some other factors have been added to the previous models.</p>
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### 1- Introduction

The study of factors affecting audit fee is of great significance in terms of its impact on audit quality. The audit fee is effective in proper planning and implementation of the financial audit. Accordingly, the prerequisite for audit quality is to receive a sufficient fee. Simunic (1980) designed a model for audit services pricing for the first time. In this study, factors such as size, complexity (number of branches and type of activity), and risk (variety of activities) of clients have statistically been determinants for audit fees. Since Simunic's seminal article was published, several studies have strived to design models to describe the deviation in the level of audit fees paid by

companies. Empirical models of audit fees generally consider fee as a function of working hours spent. The common factors in all previous studies are size, complexity, and risk of the employer's company. These models show a high explanatory power and have been powerful factors in determining audit fee in different samples, countries, and periods (Menon, & Williams, 2001). Therefore, due to the fact that, first, attention to other factors has not been considered in the studies including the conditions relating to the audit profession, cultural and environmental factors, and some features of the audit firm and client, second, major studies are limited to the audit market of countries such as United States, UK, and Australia, and little attention has been paid to audit services in other countries, a deep study and extraction of a comprehensive and integrated audit fee model are essential in Iran.

## **2- Research Question**

This research seeks to introduce new factors influencing audit fees and ultimately provide the effective factors in the form of a model. Accordingly, the present study seeks to answer the research question of what the appropriate model for audit fee is.

## **3- Methods**

In this research, given the purpose of the study, the grounded theory method has been used. In this study, the grounded theory method was used to get a deep understanding of the issue and to accomplish all the factors and processes of determining audit fees from the perspective of experts and presenting a data-based model. The data were collected and coded through interviews and voice recording. An unstructured interview was used as a data collection method. The samples were selected using a purposive sampling technique. Purposive sampling continued until we reached the theoretical saturation of the data which led to the selection of 15 partners of Trusted Audit Institutions of the Stock Exchange, 2 members of the Iranian Association of Certified Public Accountants, 4 financial managers, and 2 Managing Directors of the Companies Accepted in Stock Exchange. In the present study, Strauss and Corbin (1998) triple coding, which includes open, axial, and selective coding, has been used.

## **4- Results**

In the present study, all the factors affecting audit fees from the perspective of the supplier and the applicant for these services and professional and environmental conditions have been analyzed and extracted. Causal conditions have been raised at each of these levels. Because audit fees

at each level (supplier, applicant, and profession, and community) are affected by a variety of factors, to comprehensively examine the issue of audit fee action strategies, intervening factors and the consequences at each of the levels mentioned were investigated and the context condition in the country was also described for audit fee. According to the results and model presented, the size of the audit firm, the degree of observance of the Code of Ethics, the value (worthiness) of the work for the client, and the attributes and credibility of managers and partners were recognized as the most important factors at the level of the audit firm. Furthermore, size, risk, the demand for quality, the purpose of the client for auditing, and effective corporate governance were the most important factors at the level of the client. Besides, the perception of key users and stakeholders from auditing, attitudes, and characteristics of policymakers and decision-makers, and the formulation of effective rules and regulations were the most important factors at the level of the profession and environmental conditions. If appropriate strategies are adapted and proper context at the macro-level and audit profession including the provision of economic substrate, market, and the power of supervisory institutions on audit firms, and the constructive interaction of these institutions with the government and lawmakers are provided, it will lead to obtaining reasonable audit fee. The set of these factors, together with the consequences of reasonable audit fee, constitute the model of the audit fee.

#### **5- Discussion and Conclusion**

The results of this study indicate that some of the components of the model extracted in this research, on which studies have already been carried out, are almost consistent with the literature. However, in this model, certain factors and variables have been accentuated and some other factors have been added to the previous models. Categories such as the purpose of the client for auditing, the demand of quality, the existence of effective corporate governance, and the type of the systems established in the firm at the level of client, the degree of observance of codes of ethics, the attitudes and characteristics of managers and partners, the existence of different units in the firm, the value of work for the client, providing timely information to the client, the credibility and validity of the firm and partners at the level of audit firm, and the perception of stakeholders and key users of the audit, the attitudes and characteristics of policymakers and decision-makers, the formulation of effective rules and regulations, size and market concentration, and the risk of legal claims in Iran at the level of users, professional and environmental conditions are the most important achievements of this research that are considered as increasing knowledge along with the concepts

related to each category, dimensions, and characteristics of each concept.

**Keywords:** Audit Profession, Client, Audit Fee Model, Audit Firm, Grounded Theory