KMAN PUBLISHING INSTITUTE
Journal Website

Article history:
Received 16 October 2023
Accepted 11 December 2023
Published online 20 December 2023

International Journal of Innovation Management and Organizational Behavior

Volume 3, Issue 5 (Special Issue on Finance and Economics), pp 208-218

IJIMOB
International Journal of Innovation Management and Organizational Behavior

E-ISSN: 3041-8992

A Model for Determining Audit Fees with Emphasis on the Tone of Financial Reporting Based on Grounded Theory

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Article Info

Article type:
Original Research

How to cite this article:
Abdollahi, T., Jabbarzadeh Kangharloui, S., Bahri Sales, J., & Pakmaram, A. (2023). A Model for Determining Audit Fees with Emphasis on the Tone of Financial Reporting Based on Grounded Theory. *International Journal of Innovation Management and Organizational Behavior*, *3*(5), 208-218.
https://doi.org/10.61838/kman.ijimob.3.5.25

ABSTRACT

Objective: The objective of this study is to develop a model for determining audit fees with an emphasis on the tone of financial reporting, using a grounded theory approach.

Methodology: This research employs a qualitative methodology utilizing grounded theory based on the Strauss and Corbin approach. Data were collected through in-depth and semi-structured interviews with 12 participants, including auditors from firms, auditors from the Audit Organization, financial managers, and individuals with experience in contracting with auditors. The interviews were conducted between April and June 2021. Data analysis was performed using MAXQDA10 software, following open, axial, and selective coding procedures.

Findings: The analysis identified 1,518 codes, leading to 38 subcategories and 14 main categories. The study found that client size, the complexity of operations, and the client's budget significantly influence audit fees. It also highlighted that the tone of financial reports serves as a significant intervening factor, moderating audit fees. Specifically, a positive tone in financial reports is associated with lower audit fees, while a negative tone leads to higher fees. The findings suggest that firms with higher reputations and industry specialization command higher fees due to their perceived reliability and expertise.

Conclusion: The study concludes that audit fee determination is a multifaceted phenomenon influenced by various factors, including client characteristics, firm reputation, industry specialization, and the tone of financial reporting. The tone of annual reports plays a critical role as an intervening variable, moderating audit fees either positively or negatively. The findings underscore the importance of considering qualitative factors, such as report tone, alongside traditional quantitative factors in audit fee determination. The study also provides recommendations for policymakers, audit firms, and corporate managers to enhance the fairness and rationality of audit fee structures.

Keywords: *Audit fees, Financial reporting tone, Grounded theory, Audit risk, Client characteristics, Audit firm reputation, Industry specialization.*

1 Introduction

Audit fees represent an economic cost imposed on organizations, which has led to numerous investigations aimed at examining the factors influencing audit fees. Studies (Francis, 1984; Francis & Simon, 1987; Ghosh & Pawlewicz, 2009; Simunic, 1980; Simunic & Stein, 1990) have used various variables to establish a standard audit fee model. The factors influencing audit fees are generally divided into two main categories:

The first category includes the size of the auditor, auditor tenure, audit quality, audit competition, industry specialization, and the reputation of the audit firm, which are related to the characteristics of the audit firm. One of the critical factors in determining audit fees is the size of the auditor (Francis & Simon, 1987; Pong & Whittington, 1994; Sandra & Patrick, 1996). Research has shown that there is a positive relationship between audit size and audit quality, as well as between audit quality and audit fees. The Financial Reporting Council (FRC) of the United Kingdom has identified four main factors encompassing audit quality: 1) the culture of the audit firm, 2) the skills and capabilities of audit staff, 3) the effectiveness of the audit process, and 4) the credibility and usefulness of the audit report (Faghfouriazar, 2023; Tania et al., 2023).

In the past decade, significant changes in the economic and regulatory landscape have been observed. These changes, which began with the global recession in the late 1980s, have led to a substantial increase in the level of competition in the audit market in many countries (Beattie & Fearnley, 1998). The audit fee management process is carried out by audit firms in a competitive environment to provide audit services, attract and retain clients, and outperform other competitors (Dichev et al., 2013; Diouf & Boiral, 2017; Eliwa et al., 2021).

The second category involves the characteristics of the client or company that engages the audit firm, which includes client size, client complexity, client profitability, client risk, and linguistic features (tone) of annual reports. One of the most important factors in determining audit fees is client size, which is typically measured by total assets, revenues, sales, and the number of employees. Research indicates that company size directly impacts the auditor's work and the amount of time spent on the audit (Salman & Setyaningrum, 2023; Sari et al., 2019). Since auditors allocate more time to auditing large companies, higher audit fees are expected (Xiao et al., 2020). Numerous studies have demonstrated that client complexity is positively and significantly correlated with audit fees (Esmaeilzadeh Moghri & Trameshloo, 2012; Pham et al., 2017; Van et al., 2022).

Studies show that companies with high profitability are subject to more rigorous audit testing regarding their revenues and expenses, which entails higher audit costs (Joshi & Al-Bastaki, 2000). Given the increasing number of lawsuits and complaints against auditors due to negligence in cases of corporate misconduct and violations, which can result in the loss of both reputation and audit revenue, auditors consider audit risk as a significant factor in determining audit fees. Audit risk is defined as the likelihood that an auditor will issue an unqualified opinion when the financial statements contain material misstatements (Chung & Lindsay, 1988).

The disclosure of qualitative information provided by management is increasingly recognized as an important complement to the information presented in financial statements (Huang et al., 2014; Kothari et al., 2009). Consequently, recent accounting and finance research has focused on the relationship between the linguistic features (tone) of company reports and corporate behavior and economic outcomes, as the tone of the messages conveyed in annual reports can influence investors' and financial analysts' opinions (Huang et al., 2014). Similarly, it can be argued that the tone of annual reports is related to the assessment of audit risk (Yang et al., 2018). In other words, auditors evaluate risk based on the tone of annual reports. However, it is essential to investigate and test how the overall tone of annual reports affects auditors' decision-making in risk assessment. In recent years, information accompanying audited financial statements has received increasing attention. This trend is consistent with the need for financial statements to disclose qualitative information as a critical source of information (Lang & Lundholm, 2000; Lawrence, 2013). The linguistic features of the tone of messages conveyed in companies' annual reports have been particularly associated with economic outcomes (Henry, 2008; Huang et al., 2014), and are therefore likely to reflect audit risk factors.

Research conducted so far shows that auditors have primarily used financial and quantitative information from companies to determine audit fees (Hay, 2013; Hay & Knechel, 2010; Hay et al., 2006). This study demonstrates that, in addition to quantitative components, auditors should also consider qualitative information, or in other words, the environmental conditions influenced by various factors, when determining audit fees.

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E-ISSN: 3041-8992

Accordingly, audit fees are influenced by environmental conditions affected by various factors, as identified in multiple studies conducted in different countries. In the context of Iranian auditing, there is no model for determining audit fees that encompasses all relevant aspects, which could assist the auditing profession by strengthening its dimensions and components. The results and findings of this research could have beneficial effects on the determination of audit fees in our country. In fact, by being aware of and determining all factors, auditors will be able to develop reliable and consistent criteria, leading to a specific coherence and order in the profession regarding audit fees. This will reduce the damage to the auditing profession caused by a market-oriented perspective (Pham et al., 2017).

Identifying the factors influencing audit costs also helps clients better understand the benefits of this service and know why they incur these costs. It is evident that awareness of this issue will expedite and facilitate the audit process, and due to client participation, the audit will be conducted with higher quality (Gist, 1992). Therefore, considering such a unique auditing environment characterized by competition, regulatory disorder in the auditing profession, and concerns about the low quality of auditing in the country, it is necessary to examine the factors determining audit costs in the country.

A review of the existing literature shows that in studies related to audit fees, some have emphasized client characteristics, while others have focused on the characteristics of audit firms. Various factors influencing audit fees have been examined in different studies. In other words, a comprehensive and integrated model for audit fees and their influencing factors has not yet been developed, and the issue of this research is to fill the existing gaps in the literature on this subject. In this context, by identifying all the factors determining the received audit fees, appropriate policies can be developed to address some of the issues facing the profession. Therefore, understanding how audit fees are determined is important for auditors, clients, and policymakers alike. Accordingly, the present study aims to identify the factors influencing the determination of audit fees and ultimately propose a model for determining audit fees with an emphasis on the tone of financial reporting based on grounded theory.

2 Methods and Materials

This study is qualitative in nature, and given the lack of a reliable existing theory in this area, grounded theory with the Strauss and Corbin approach was utilized. The grounded theory method is typically employed to develop theories, but it also has the capability to use its techniques within other qualitative methods.

The target population for this research includes auditors from firms, auditors from the Audit Organization, financial managers, and those with experience in contracting with auditors. The most critical characteristic of the samples in this study was having relevant live experience and knowledge or expertise. The grounded theory method, like other types of qualitative research, does not rely on the assumption that the sample is representative for generalizing the data and the authenticity of the findings. Generally, samples are purposefully selected. In this research, purposive sampling was used to select participants, and theoretical sampling was employed for data collection. Theoretical sampling is based on emerging concepts derived from the data. The sampling process continued until theoretical saturation was reached, meaning that no new features emerged, or no new concepts were developed during data collection. In this study, data analysis was conducted simultaneously with data collection, and researchers reached saturation after conducting 12 interviews.

The data in this study were collected through in-depth interviews with auditors and specialists. The process was as follows: after extensive study and review and utilizing expert opinions, an interview guide was prepared. Additionally, to determine the exact interview guide, a pilot interview was conducted on a smaller scale, which ultimately defined the key questions for the interview with participants. Ten interviews were conducted in April and May, and two interviews were conducted in June 2021, with each interview lasting an average of 60 to 90 minutes.

Data analysis was conducted using MAXQDA10 software with a grounded theory approach (open coding, axial coding, and selective coding). For this purpose, information was recorded during the interview and then transcribed into text for analysis in the software. In grounded theory studies, data collection and analysis proceed in parallel and simultaneously from the start. Data analysis began after the initial steps of data collection, and the extracted ideas and thoughts guided further data collection and analysis. This process continued until the end of the research.

The three stages of coding used to develop a coherent, systematic, and detailed theory were as follows:

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Open Coding: Open coding involves breaking down the collected data into the smallest possible conceptual components. This type of coding helps create a set of first-hand concepts that, while rooted in raw data, are also abstract. At this stage, the researcher reviewed the data line by line, identified processes, and coded them using words and phrases. By continuously comparing codes for similarities and differences in concepts, subcategories and main categories were formed, and the characteristics and dimensions of each were determined.

Axial Coding: In this stage, known as axial coding, the researcher selects one category as the central category and places it at the center of the process under investigation, determining the relationship of other categories to it. The relationship of other categories to the central category can be realized in five aspects as follows:

Causal Conditions: These refer to events or incidents that lead to the occurrence or growth of a phenomenon.

Context: The specific conditions that influence strategies.

Intervening Conditions: General contextual conditions that influence strategies.

Strategies: Specific actions or interactions resulting from the central phenomenon.

Outcomes: The results obtained from employing strategies.

Selective Coding: Selective coding involves taking the findings from the previous coding stages, selecting the central category, systematically linking it to other categories, validating those relationships, and completing categories that require further refinement. During selective coding, an analytical integration of all stages was performed, categories were merged, and the basic social processes were described. The result of this stage was the main category, which was related to other categories, explained them, and was, in essence, the refined outcome of the initial codes.

In this study, to confirm the validity and reliability of the data, two methods were used: participant review and expert review by non-participating experts (one university faculty member and two PhD accounting students). After receiving feedback and making necessary revisions, the final model was presented.

3 Findings and Results

Based on the analysis conducted through the three stages of open coding, axial coding, and selective coding, a total of 1,518 codes were extracted from the 12 interviews, leading to the identification of 38 subcategories. Ultimately, from their classification, 14 main categories were extracted. The relationships between the categories formed in the data showed that the model aligned with the original paradigmatic model of Strauss and Corbin. In this model, the central phenomenon (determining audit fees with an emphasis on the tone of the annual report) is influenced by causal conditions and, in turn, affects strategies. These strategies, influenced by contextual and intervening conditions, shape the outcomes related to the phenomenon under investigation. This paradigmatic model is depicted in Figure 1, which is followed by a detailed explanation of the model's categories and examples of participant quotes for each.

The analysis indicates that no prior research has focused on determining audit fees with an emphasis on the tone of financial reporting. However, some findings of this study align with previous similar studies, while other new and noteworthy findings were also presented. From the 12 interviews, 1,518 codes were identified, leading to 38 subcategories, from which 14 main categories were ultimately extracted. The criteria for defining and naming the categories were as follows:

- Theoretical literature and research background.
- The nature and frequency of codes or subcategories with the largest share.
- Reviewing dictionaries and terminologies to consider the name and nature, perspective, and implicit implications of the variables.

Of the 1,518 identified codes, 484 codes pertained to causal conditions, with the main category being human resources and organization, including the following subcategories: knowledge and experience of the firm's auditors (54), evaluation and training of firm employees (39), organization and structure of the firm (38), and recruitment and appointments within the firm (38). The analysis indicates that participants emphasized the open code of recruiting specialized and full-time staff (with a frequency of 14) and the code of knowledge and experience of the firm's auditors (with a frequency of 13). Therefore, participants considered it important for audit firms to avoid hiring part-time employees, especially hourly auditors, and instead strive to recruit full-time specialized audit staff. Additionally, the high level of knowledge and experience of the firm's audit staff was viewed by participants as influential on the quality of the audit work and the output delivered to the client. Consequently, a firm with more skilled and experienced staff is likely to command higher contract fees compared to others.

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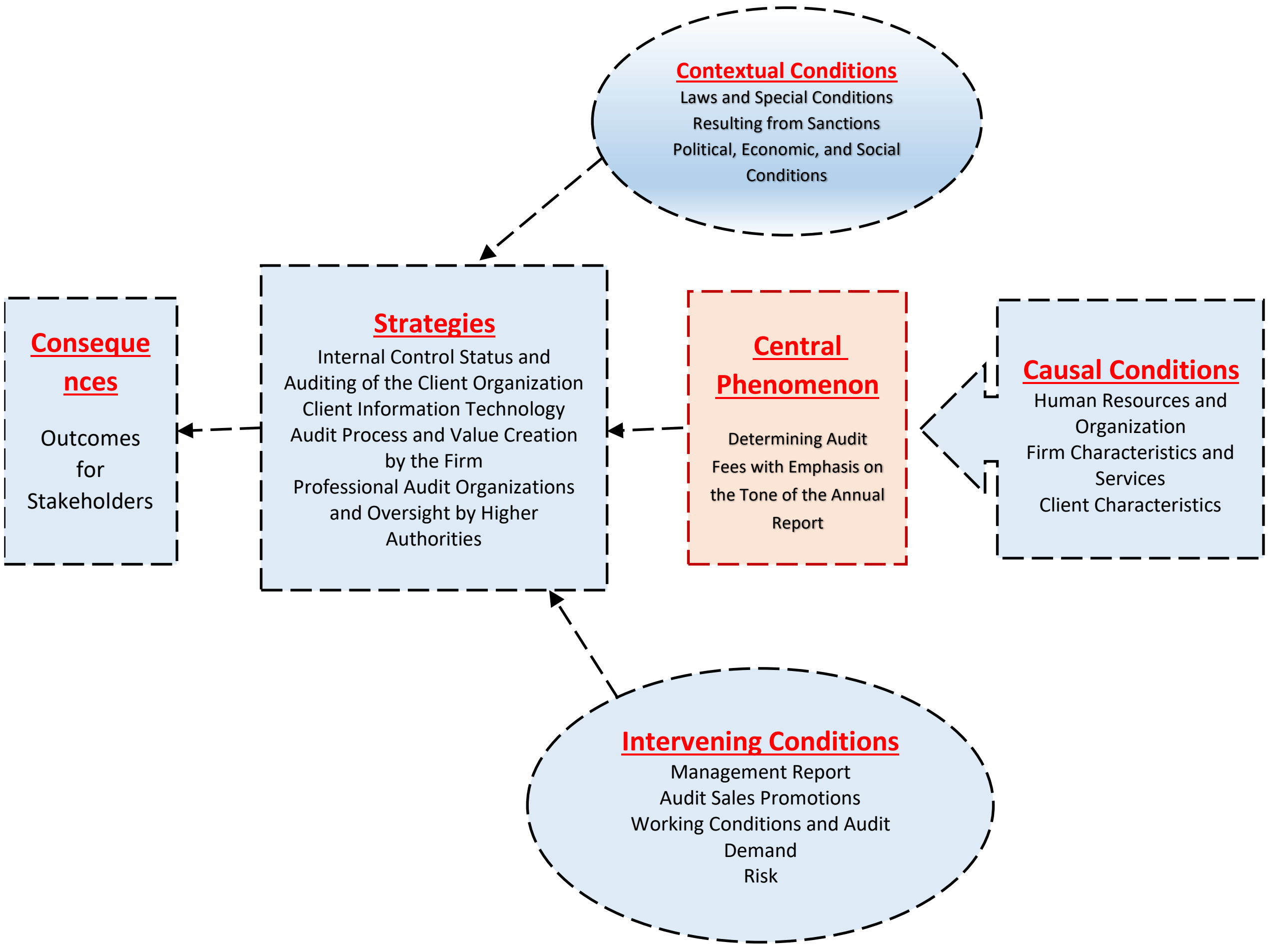
E-ISSN: 3041-8992

Moreover, client characteristics, with a code frequency of 162, ranked second among the main categories of causal conditions. The subcategories included client size (57), the client's budget and audit objectives (56), and the status of financial statements and attitude toward auditing in the company (49). Participants paid particular attention to the open codes of reliance on the auditor's report for obtaining bank facilities (10), the budget allocated for auditing (10), the client's financial ratios (9), and the number of company units (9).

Figure 1

Final Paradigm Model



4 Discussion and Conclusion

Based on the lived experiences of the interviewees, large companies, including those listed on the stock exchange and OTC market, tend to pay higher audit fees. This is because these conditions are expected to increase the scope and complexity of the audit procedures required for these clients. The existing literature in this area indicates that the volume of operations, the reputation of the client, and the size of the client are influential in determining audit fees, which aligns with the results of this study. In this regard, Nikbakht et al. (2016) and Nikbakht and Tenani (2010) consider the volume of operations and the size of the client as factors involved in determining audit fees. Additionally, Rosmanto and Waworuntu (2014) and Mehrani and Jamshidi Ivanaki (2011) consider total assets as influential on audit fees.

On the other hand, according to the study's findings, the budget allocated by the client for auditing provides a predetermined framework for determining auditors' fees.

The characteristics of the audit firm and its services, with a frequency of 155, constitute another category of causal conditions, including the subcategories of firm characteristics (55), adherence to professional conduct

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regulations and international experience (40), audit quality and type of service (39), and auditor tenure (21). The most emphasized code from the findings was the ranking of the firm within the community of certified public accountants, with a frequency of 16. As a result, large clients consider audit firms with higher rankings to be more reliable and prefer to contract with top-tier and reputable firms. It was also noted that clients are willing to pay higher fees for firms with higher rankings.

One of the most significant codes in the present study, and in most studies where its impact on fees has been established, is the auditor's industry specialization. Clients are willing to pay higher fees to auditors with industry expertise to benefit from their valuable experience, receive constructive suggestions for improving operations, identify and address specific industry issues, and enhance the quality of information.

Studies (Hay, 2013; Hay & Knechel, 2010; Hay et al., 2006) found a significant positive relationship between auditor industry specialization and audit fees. Cresswell et al. (1995) concluded that paying fees for industry-specialized auditors is more common among large firms (Craswell et al., 1995). Additionally, the study by Ferguson et al. (2003) indicated that fees for industry-specialized auditors increase with client size (Ferguson et al., 2003).

Regarding contextual conditions, 185 out of 1,518 identified codes were related to contextual conditions, with the main category being political, social, and economic conditions, having a frequency of 93, which includes the subcategories of economic and social conditions (47) and social acceptance and adaptability (46). The analysis shows that the interviewees emphasized the codes of inflation (frequency of 14) and the lack of institutionalization of accountability culture (frequency of 12). The rapid increase in prices in recent years has led to product prices rising by as much as ten times. Participants expressed that, despite this, wages have not increased proportionally with prices, making nominal increases in audit fees insufficient. Therefore, the rationalization of audit fees should consider the general price increases and inflation in recent years.

Laws and special conditions arising from sanctions (92) constitute the second main category of contextual conditions, including legislation and enforcement (64) and the unique conditions of the client due to sanctions (28). Experts believe that when drafting laws and regulations, it is essential to research and consider whether the laws are reasonable and acceptable to society. Otherwise, drafting laws without practicality will not yield results. Additionally, there should be enforceable guarantees for compliance with the laws. For instance, if a fee schedule for audit services is drafted and issued, first, the provisions of this schedule should be acceptable to both the service requesters and providers, and second, there should be enforcement guarantees, including disciplinary sanctions for non-compliance.

Intervening factors are considered moderators of audit fees. In this study, 326 out of 1,518 identified codes were related to intervening factors. One of the significant categories in the findings emphasized by participants was the main category of the tone of management reports, with a frequency of 123, including the subcategories of report readability (29), judgment about the text (27), managers' constraints in choosing tone (27), positive tone context (21), and negative tone context (19). In this study, report readability, according to participants, included the clarity of the report's text and the comprehensibility of the financial information. Open codes such as avoiding ambiguity in bad news (5), comprehensibility of the report (5), and text clarity (5) were emphasized by the interviewees. They expected that increased readability and comprehensibility of financial reporting would reduce the audit scope and project risk, leading to a reduction in audit fees. Previous research in this area suggests that financial statements with difficult readability may indicate complexity (Hoitash & Hoitash, 2015), which could increase audit fees and require auditors to work harder to manage audit project risk. Financial statements with lower readability may also indicate managerial ambiguity or low earnings quality (Li, 2008; Loughran & McDonald, 2011, 2014). In this context, Li (2008) states that the annual reports of companies with lower profits are longer and more complex than those of other companies (Li, 2008). Xu et al. (2020) believe that low-readability financial reporting is costly for the company. They argue that if a business unit is committed to disclosing high-quality financial reporting, it will not expose itself to risk by providing lower-readability financial statements and will pay higher audit fees to improve the quality and comprehensibility of the financial statements. In other words, paying higher audit fees reduces managerial opportunism in providing low-readability financial reporting (Xu et al., 2020).

When judging the text of the report, participants paid more attention to the code of positive or negative vocabulary, with a frequency of 15. They used a content analysis approach based on the frequency count of specific words (dictionary) to analyze the report. They categorized words into positive or negative classes based on predefined rules and judged the financial reporting by comparing the number of positive words with negative ones. Participants believed that companies using negative (pessimistic) tones usually do so because they reflect audit risk factors and are therefore willing to pay higher audit fees. This finding aligns with DeCastro et al. (2019), who stated that companies issuing reports with an optimistic tone pay lower audit fees than those issuing reports with a pessimistic tone. Thus, it is expected that an increase in the optimistic tone of financial reporting will lead to a reduction in audit fees.

The subcategory of managers' constraints in choosing tone referred to factors such as timing considerations (13), legal requirements (4), and others, which influence the tone used in the report. Previous research has confirmed this by pointing out a significant relationship between managers' interests and the company's stock price. A manager may manage market reactions to financial news in their favor by changing the timing of its presentation. When managers have good news, they try to inform the market as quickly as possible to benefit from the positive market reaction. However, they conceal bad news as much as possible to minimize the impact of negative market reactions.

Additionally, participants emphasized the codes of concealing poor financial performance (5), minimizing share price reaction to negative news (7), and hidden managerial motives (9) as contexts for a positive tone. Similarly, the findings of Meloni et al. (2016) indicate that companies use a positive tone to reflect a favorable image of their status.

The lived experiences of the interviewees indicated that codes such as stating the company's problems and realities (12), not manipulating information (4), and stating facts (3) underlie the use of a negative or pessimistic tone. In reality, managers use this tone when they want to transparently and honestly explain the company's existing problems, obstacles, and economic realities. These companies are more inclined toward conservatism and seek to reduce shareholder pressure by managing expectations. On the other hand, by using a pessimistic tone to realistically disclose their performance, they aim to control stock prices in the market, as, under these conditions, market prices react less to information containing pessimistic words.

The second main category of intervening factors is working conditions and demand for auditing (76), where participants emphasized the codes of client bargaining power (11) and market size (6) as subcategories of the competitive environment and demand for auditing (39), which significantly impact audit fees. Larger markets lead to higher demand for audit services, which can result in higher audit fees. Additionally, the greater the concentration resulting from firm mergers and the existence of a non-competitive environment, the higher the audit fees. Eshelman (2013) concluded that the fees paid by clients are influenced by market concentration (due to firm mergers and a non-competitive environment) and market size, both of which increase audit demand (Eshleman, 2013).

Numan and Willekens (2012) also found that audit fees have increased in both the client's relative position in the industry and the difference in market share compared to the closest competitor (Numan & Willekens, 2012).

Additionally, codes such as the complexity of the client's business and the auditor's familiarity with it (8) and the likelihood of continued collaboration with the client (6) were emphasized in the subcategory of working conditions of the client for the auditor (37). As a result, the complexity of the client's operations and the auditor's limited familiarity with it make the auditor's judgment more challenging, requiring more time for auditing and ultimately leading to greater difficulty in concluding the audit work. Therefore, auditors may request higher fees, which aligns with the prior findings (Tanani & Nikbakht, 2010) which found that the complexity of operations influences audit fees. However, the present study's findings contrast with those of Rusmanto and Waworuntu (2014), who believe that business complexity does not impact audit fees (Rusmanto & Waworuntu, 2015).

Audit sales promotions (67) constitute the third main category of intervening factors, with the subcategory of firm sales promotions (40) including elements such as customer interaction (3), firm lobbying and advertising (3), firm branding (14), and service diversity (7), which were extracted from the lived experiences of participants. Simply put, audit sales promotion refers to the activities and tools an audit firm uses to increase the value of its services and enhance the firm's brand in the client's mind. The results indicate that clients are willing to pay higher fees to firms with a well-known brand. Moreover, firms that offer additional services beyond auditing, such as tax consulting or business process consulting, are perceived as more valuable by clients, who are willing to pay more. Hay and Knechel (2010) found that advertising and lobbying, if they lead to differentiation and brand creation, increase audit fees (Hay & Knechel, 2010).

Conversely, the subcategory of audit compliance with service sales characteristics (27) emphasizes that auditing, as a service, follows the characteristics of services, including non-storability, intangibility, and inseparability

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E-ISSN: 3041-8992

(inseparability from the provider's will). Therefore, in the sale and marketing of audit services, this factor must be considered. The quality of services provided depends heavily on the auditors hired, and to deliver high-quality services, more skilled personnel must be employed, which ultimately impacts and increases fees. Moreover, according to participants, auditors attract work at lower fees during quiet periods while charging higher fees during busy periods. Therefore, the seasonality of work and the fiscal year-end are important intervening factors affecting audit fees.

Risk is the fourth main category of intervening factors, including client risk (36) and litigation risk (24). The analysis indicates that the interviewees emphasized the codes of client reputation risk with a frequency of 15 and managerial non-transparency with a frequency of 5.

According to the study's findings, collaborating with a client known for good reputation is considered an advantage for the audit firm. However, clients with a bad reputation and constant controversy in the community will result in the auditor's report being scrutinized with particular sensitivity, necessitating more thorough work by the audit team and thus leading to higher fees. The findings of this study are consistent with the research by Cresswell and Francis (1999), which found that audit fees are likely to be adjusted by litigation risk (Craswell & Francis, 1999).

The presence of the main categories related to strategies can play a significant role in determining fair and reasonable audit fees. The study results showed that strategies (356) in this research consist of four main categories. The first main category is the internal control and auditing status of the client's organization (136). The results of this study indicated that having adequate control and documentation (52), the presence of an audit committee (43), and an internal audit unit (41) within the client's organization could lead to financial discipline, increased adherence to accounting standards, and consequently, greater transparency, efficiency, and effectiveness of the client's organization. For the audit firm, this also reduces the risks associated with auditing the client and saves time and human resources needed for auditing. Based on the lived experiences of the participants, having an audit committee with characteristics such as experienced and specialized personnel, sufficient time dedication by members, and familiarity with current audit reporting methods was emphasized.

The second main category of extracted strategies is professional audit organizations and oversight by higher authorities (96), with the subcategories of having a professional organization and regulated competition (54) and oversight by regulatory bodies and interaction (42). The study's findings indicate that these strategies have been weakly implemented in our country. The audit fee schedule lacks efficiency due to the absence of enforcement guarantees. There is no professional accounting organization, and regulatory bodies, professional authorities, and lawmakers are not interacting with each other, leading to unhealthy competition in the audit market, where fee reductions are accompanied by quality declines.

The third main category extracted is the audit process and value creation of the firm (76), which includes audit reporting and value-added (40) and the firm's audit process (36). Auditing can help eliminate the harmful effects of the separation of ownership from management and create value for the company by reducing information asymmetry and agency conflict between users and providers of financial statements. Additionally, having a strong quality control unit within the firm (12) can enhance the quality of the audit team's work, allowing the firm to request higher fees. Moreover, the firm can increase client satisfaction by assisting and advising the client on improving company processes, resulting in higher payments by clients.

Client information technology (48) and its subcategory of how clients use IT tools (48) were emphasized. The American Institute of Certified Public Accountants (AICPA) announced in 1988 that the accounting profession must possess the necessary skills to use effective and efficient tools and technologies. Although accounting standards have remained largely unchanged over the years, information technology has constantly evolved. Accounting committees and associations require changes in accountant education, which can be achieved by enhancing knowledge of information systems and IT. This will facilitate the calculation process and provide better commercial data for more effective decision-making. Additionally, information technology will significantly impact costs, improving accounting effectiveness, saving time, and increasing calculation accuracy.

The lived experiences of the interviewees suggest that audit fee determination should be viewed as a multifaceted phenomenon, particularly when emphasizing the tone (language) of annual reports. A superficial approach in related decisions and planning should be avoided. In this study, to achieve the overall objective of providing an audit fee model with an emphasis on the tone (language) of annual reports, various categories and dimensions were identified using the Strauss model. The analysis shows that, in addition

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E-ISSN: 3041-8992

to examining the number of positive or negative words used in the financial report, attention should be paid to aspects such as the underlying causes of the positive or negative tone and the constraints faced by managers in choosing the tone.

Overall, the results showed that tone, as an intervening variable, acts as a positive or negative moderator of audit fees. Therefore, when the financial report tone is positive, based on the lived experiences of the participants, it is expected to result in a negative adjustment and decrease in audit fees. Conversely, when the financial report tone is negative, a positive adjustment and increase in audit fees are expected.

Some limitations of this research include the spread of COVID-19 and its associated pandemic, which prevented in-person interviews and led to some experts' refusal to participate. Additionally, in qualitative research, the researcher's preconceptions and personal biases may also affect the study's results.

It is recommended that the Tehran Stock Exchange design a specific framework for drafting explanatory reports with specific vocabulary in drafting new laws and revising existing ones, being aware of how managers manage perceptions.

Audit firms should consider the tone of financial reports alongside other factors when assessing client company risk levels, planning operations, and determining the audit scope.

Public sector owners and shareholders are advised to protect minority shareholder rights in the audit process by using legal strategies when all company information cannot be disclosed due to national interests under sanction conditions.

Public sector owners and shareholders are advised to reduce litigation and client risk for audit firms using legal strategies when all company information cannot be disclosed due to national interests under sanction conditions.

Policymakers should use strategies such as "developing effective regulations and standards," "regulating competition (competitive pressure)," "establishing a comprehensive professional accounting organization," "evaluating the effectiveness of the audit fee schedule," "auditor responsibility for issued reports and consequences of violations," "oversight by regulatory bodies," "facilitating mergers and firm expansion," and "enhancing the interaction between regulatory bodies, lawmakers, and professional authorities" to influence audit fees and prevent price undercutting.

Company managers are advised to be sufficiently sensitive to the company's auditing and take necessary steps to establish an active audit committee and an independent internal audit unit as a necessity.

It is recommended that the government and policymakers prioritize knowledge- and experience-based selection criteria, especially adhering to professional ethics, when certifying certified public accountants.

The impact of financial reporting tone on audit quality, the type of auditor opinion, and internal control weaknesses should be examined and tested.

Given the importance of financial reporting tone for investors, it is suggested that the impact of financial reporting tone on company financial performance, stock returns and prices, stock liquidity, and corporate social responsibility disclosures be investigated.

Future research should examine the impact of political factors such as sanctions and elections on financial reporting tone and audit fees.

The impact of social media on financial reporting tone and audit fees should be examined.

Each of the main categories extracted from the qualitative section that influences audit fees should be explored from various dimensions.

Authors' Contributions

All authors have contributed significantly to the research process and the development of the manuscript.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

Acknowledgments

We would like to express our gratitude to all individuals helped us to do the project.

Declaration of Interest

The authors report no conflict of interest.

Funding

According to the authors, this article has no financial support.

IJIMOB
E-ISSN: 3041-8992

Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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