

## Lowballing of Audit Fees: the Consequences and Importance of the Client<sup>1</sup>

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Research Paper

### INTRODUCTION

At this situation, due to the globalization of the service market, all firms are trying to increase their share in this market. In order to achieve this goal, in addition to high quality, they should consider the price reduction. Audit institutions are not exempt from this events and must compete with each other to stay in the market. Therefore, other audit firms to hold competition level should be able to provide high-quality services at a lower cost and more appropriate audit fees. This fact is because of large audit institutions reputation, which is considered a credit for their audit report. The purpose of this research is to examine the role of the client importance in audit fees lowballing in TSE companies.

### METHOD

The purpose of this study is descriptive and based on the nature and method of correlation. Considering that this research can be used in the decision making process of investors, the type of applied research is considered. In this research, library method has been used to collect data and information. Then, for collecting the research data, compact discs, visual and statistical archives of the Tehran Stock Exchange, the official website of Tehran Stock Exchange and other related online databases have been used. The data related to 95 TSE

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companies the between 2010 and 2020 were extracted and the combined data regression model was used to test the research hypotheses.

## **FINDINGS**

Based on the research results, the first hypothesis shows the fact that there is a significant relationship between the client's credit and the audit fee lowballing. In the second hypothesis, the effect of the audit firm size on the relationship between the client credit and the audit fee lowballing has been improved. In the third research hypothesis, the effect of audit fee lowballing on the e audit fee change in the following years of the audit has become improved. Finally, the fourth research hypothesis showed that the audit fee lowballing has a significant impact on audit quality in the audit following years.

## **CONCLUSION**

If the clients consider the increase in the audit fee as an audit quality signal, they may show less resistance to the fee increasing, and when the decrease in the fee is appropriate, the clients demand to reduce the fee will be less than expected. The audit fee lowballing is a strong incentive to keep the client, in order to maintain the future stable income flow.

## **CONTRIBUTION**

Based on the research results, business owners can increase their bargaining power by anticipating the audit fees decreasing trend. Also, auditors should have the necessary planning of audit quality because it may provide an opportunity to control the bargaining power of the client.

**Keywords:** Audit Fee, Audit Quality, Importance of the Client, Lowballing.

**JEL Classification:** G41.

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