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The Impact of Managers' Narcissism on Audit Fees[1]

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Research Paper

Introduction

Research has shown that narcissistic managers are more likely than other managers to engage in dubious and fraudulent transactions that ultimately lead to lower tax costs or higher profits to receive more rewards. These findings indicate that narcissistic managers take more job risk and make important strategic operational decisions to carry out transactions. This behavior of managers occurs more often when the board of directors agrees with the managers, and due to their position and power in the company's organizational chart, there is less resistance against their risk-taking. The presence of a narcissistic manager reflects audit risk due to higher inherent risk and control risk, the auditor should perform additional audit procedures to reduce this risk to an acceptable level. Therefore, an auditor

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typically increases the amount of audit evidence collected, which leads to a higher audit fee. According to these issues, the present research seeks to investigate the effect of managers' narcissism on audit fees.

Methodology

In the current research, the audit fee is considered the dependent variable of the research. The dependent variable is calculated through the natural logarithm of the auditor's fees, which is announced in the financial statements. The reason for using the natural logarithm in calculating the auditor's fee is to homogenize the fees of large and small companies.

The size of the managers' signatures was extracted from the first page of the financial statements where the board members approve the financial statements with their signatures. A rectangle was drawn around each signature to indicate the endpoint of the signature on each side. Then, with the help of Image J software, the signature area was measured and entered into Excel software. The areas were divided into quartiles and codes were determined according to three groups: small (first quartile), medium (second and third quartiles), and large (fourth quartile). For the size of the small signature of code 1 (one), the medium signature of code 2 (two) and the large signature of code 3 (three) were included. For each fiscal year, the number of signatory members in each quarter was multiplied by the code corresponding to the quarter, then these numbers were added together. In this way, for each financial year, the score related to the signatures of the members of the board of directors was calculated and divided by the number of members with signatures of the same year, and the resulting number was considered as the size of the signatures of the board of directors in that year. The next variable is the ratio of managers' bonuses to employees' salaries.

Finally, according to the investigations, 90 companies in the period 1390 to 1399 (900 years-companies) had the above conditions and were selected for the statistical sample. The required information of the selected companies has been collected by referring to the financial statements and explanatory notes with the financial statements of the companies admitted to the Tehran Stock Exchange. Finally, the statistical tests of the data were performed using Eviews version 8 and Image J software.

Results and Discussion

The significance level reported in the results of the first hypothesis through the test statistic for the variable of the ratio of managers' bonuses to salaries and wages is lower than the acceptable error level of 5%; therefore, a significant effect on the audit fee is confirmed and leads to the acceptance of the first research hypothesis. However, the higher the ratio of managers' bonuses to employees' salaries, the higher the level of audit fees.

The significance level reported in the results of the second hypothesis through the test statistic for the manager signature size variable is lower than the acceptable error level of 5%; therefore, a significant effect on the audit fee is confirmed and leads to the acceptance of the second research hypothesis. The bigger the managers' signatures, the higher the managers' narcissism, and finally the audit risk increases and the auditor has to increase the audit program to reduce it, which ultimately increases the audit fee.

Conclusion

In confirming the results of the research and as part of the account of the audit planning process and following the auditing standards, he must evaluate to perform his work. Auditors assess the risk and the controller to determine the criteria for determining the diagnosis of the need to achieve an acceptable level of the audit. Has the highest level of inherent or control risk, the auditor mitigates the risk of non-detection. Reducing the risk of not needing planning, in addition

to increasing the audit cost. Firms where insider managers can have inherent risk and control that lead to increased audit costs.

Keyword: Behavioral Finance, Managers' Narcissism, Audit Fees

JEL Classification: H3, M42

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