



1. Introduction

Competent managers can strategically alter financial operations to achieve organizational or personal goals. This study investigates the impact of an aggressive reporting approach on the relationship between manager competence and audit fees. The competence of managers can lead to excessive reliance on managers and increase audit risk. The aggressive reporting approach can shift benefits from shareholders to managers. Therefore, managers' personal interests, combined with their competence, can increase the likelihood of distorting financial reporting. However, the professional skepticism of auditors regarding the conflict of interest between shareholders and managers increases the scope of audit procedures, potentially increasing audit fees. Audit risk assessment standards focus on risks from managerial accounting incompetence but overlook those from managerial accounting competence. Moreover, while risk assessment standards incorporate the fraud triangle, over-reliance on these standards may lead to misjudgment of risk factors.

2. Hypotheses

This study investigates the impact of an aggressive reporting approach on the relationship between manager competence and audit fees. The research hypotheses are as follows:

H1: Manager competence significantly affects audit fees.

H2: An aggressive reporting approach significantly affects audit fees.

H3: An aggressive reporting approach significantly moderates the relationship between manager competence and audit fees.

3. Methodology

This applied research adopts a descriptive-correlational approach, with findings relevant to investors' decision-making. Data were collected using library methods. Compact discs, visual and statistical archives of the Tehran Stock Exchange, the official website of the Tehran Stock Exchange, and other related online databases were utilized. Data from 102 companies listed on the Tehran Stock Exchange from 2016 to 2023 were analyzed using a panel regression model to test the hypotheses.

4. Results

The results indicate that manager competence has a significant effect on audit fees. The aggressive reporting approach does not have a significant effect on audit fees. However, the aggressive reporting approach has a significant moderating effect on the relationship between manager competence and audit fees. Based on the findings, manager competence increases audit risk, prompting auditors to increase effort and fees to maintain acceptable risk levels. In other words, to mitigate opportunistic reporting and audit risk, auditors increase audit fees. Unlike prior research focusing on managerial efficiency, this study measures manager competence through prior audit experience and ability, examining its multifaceted impact.

5. Conclusion

The first research hypothesis, that manager competence has a significant effect on audit fees, was supported. The results are consistent with the findings of Gal et al. (2018). Manager competence is an important source of internal motivation and indicates that competent managers are more inclined to implement high-risk projects, increasing the likelihood of financial misreporting. In this regard, managers with auditing experience have a higher ability to distort reports and financial information for personal benefits.

The second research hypothesis, that an aggressive reporting approach has a significant effect on audit fees, was not supported. To pursue personal benefits, managers may engage in aggressive financial reporting, but internal control systems prevent accrual manipulation to

achieve desired profits. In other words, the simultaneous presence of motivation, aggressive attitude, and accounting competence must be constrained to prevent financial statement distortions. The results are consistent with the findings of Haribar, Kim, Wilson, and Yang (2012). The third research hypothesis, that an aggressive reporting approach moderates the relationship between manager competence and audit fees, was supported. The results of previous studies indicate that auditors increase audit fees for companies with a high risk of earnings manipulation (Bedard and Johnston, 2004). When auditors identify a high risk of misreporting, the expectation of higher audit fees increases. The fraud triangle, including motivation (rewards), conditions (previous audit experience), and opportunity, leads to an increase in audit risk and fees. The results are consistent with the findings of Kallekar and Khan (2016).

Keywords: Audit fees, manager competence, aggressive reporting approach, audit risk.



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