
The Effect of Interest Division Policy and Managers' Overconfidence on Audit Fees

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ABSTRACT

From a long time ago, determining accounting fees were an argumentative subject according to the effective factors on it and in an appropriate style. Regarding the amount of interest in companies, managers tend to adopt interest division policy. The amount of the interest can cause a type of self confidence in company managers. According to the researches in this area, it is possible to say that some interest division policies can be affected by managers behavioral styles such as overconfidence of (an excessive self confidence of them), so, in this research, we studied the effect of the two variables: interest division policy and managers overconfidence that are effective on one another on accounting fees in some ways. The results of the study of the effect of interest division policy and managers overconfidence on accounting fee among 124 companies in Tehran Stock exchange between the years 2011 and 2015 , utilizing multi variable regression style and panel data, indicate that, the interest division policy and managers overconfidence have a negative and meaningful impact on audit fees.

JEL Classification: M41; M42.

Keywords: Managers Overconfidence; Accounting Fees; Interest Division Policy; Audit.

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1. INTRODUCTION

In order to facilitate and optimal resource collection of growth and economical development of the country, accounting is the main supervision tool. On the other side, answering the Public is the necessity of democracy process fulfillment, one of the main answering tools is accounting and accountability. In fact, accounting and accountability exist in supervision dimension of every system and in a broad way ,is applied from the highest level of country management to the smallest commercial unit, because every system needs supervision and feedback in order to be durable, but inspite of accounting job breadth, regarding the necessity of it, the way of fee determination of these services are not based on a scientific model in our country and it is not possible to say that (according to a logical and defendable model) this action can be taken (regarding the investigating units characters) with how much expenses (Nikbakht and colleagues, 2016, Nikbakht and Tanani, 2010). The study of effective factors on audit fees is of a high prominence, because ignoring these factors and audit pricing can have negative impacts on independence and the quality of audit actions as a homogen and non-competitive product. (khodadadi et al., 2016, Mehrani and Jamshidi Eivanaki, 2011).

The auditor characteristics and the addressed unit, are auditor fees determinant. The characteristics of the addressed unit, including interest quality and interest division policy can be effective on audit fees (Rajabi and Mohammad Khoshooii, 2008). According to this, effective factors on audit fees should be identified in order to evaluate audit fees by auditors based on effective factors. Since share interest, presents valuable information about company's quality with interest report, auditors may utilize achieved information from interest division policies to interest quality evaluation and presenting to the customers. Companies those are of more interest stability in their reports, have less audit risk and these companies normally have more interest division. The payment share interest is presenting guarantee to auditor that stable interest is not reported less than real and as a result, interest stability and proportional interest division, lead to receiving less fee by auditor's due to the lower audit risk (Lawson and Wang, 2015)

The late researches show that audit fee is related to managers rewarding payment plans. These plans reduce risk appetite (Yeganeh et al., 2015, Kim et al, 2014, Kannen et al, 2014). According to the experimental studies, managers overconfidence in auditors estimating is affected by the danger of financial statements distortion caused by employer's deception. (Johnson et al,2013) Overconfidence is one of the most important personal characteristics of managers that affects risk appetite (Duellman et al, 2015). According to the mentioned subjects, overconfidence of managers can have a considerable effect on interest division policies and these policies make informational contexts on audit risk alternatively. Audit fees can be mentioned under the effect of every audit action risk by auditors, so, the question that we want to answer in this research is that: If interest division politics variables and managers overconfidence –those are affected by one another- can be effective on audit fees?

2. LITERATURE REVIEW

At the end of each financial year, a percentage of reported interest of companies is divided among share holders. The matter that how much interest is dividable and in what way is divided is the subject that is important for share holders. The policy of interest division can show the authenticity of it and reported interest's not being real and fair presentation of future function of the commercial unit (Alavi Tabari et al., 2009). The theory of interest information content declares that cash share interest consists of information about future perspective interests of the company (Tehrani and Zakeri, 2009). Deciding the payment of cash share interest informs the auditor that there is a limitation in managers ability to interest alteration, in other words, when there is a considerable danger of customer's alteration, the payment of share interest causes the reduction of auditor's worry about customer's intention to main alterations in financial sheets. This role of cash share interest in a situation with high interest alteration risk is similar to the role of the representative in cash share interest that shows share interest payment can reduce the worry of share holders of opportunist behavior of the management (Easterbrook, 1984). Regarding the fact that there is a positive relationship between audit fees and customer's alteration risk (Bedard and Johnstone,2004), it is expected that with the increase of interest alteration, the auditors ask less fee from customers who do not pay share interest (Khodadadi et al., 2016).

Audit fees, are determined based on auditor assessed risk from the employer, competition in audit market and negotiation between the employer and the auditor. The auditor, at the time of audit planning, needs to identify and estimate the danger of important distortion (including the evaluation of management competence and qualification, accountant's capabilities and important distortion revelation). These factors affect the auditor's ability in distortion discovery on financial sheets that: is of high prominence of audit institution. (1980) Simunik, (In relation with audit risk), declares that with the increase of audit risk, auditors ask for more fees. Since overconfident managers, estimate the expected efficiency of investment projects more than real, it is possible that they cause financial report risk increase for auditors. In the area and evaluation of auditors from personal characteristic of managers, Johnson et al.(2013), figured out that there is a positive relationship between overconfidence of management and audit risk estimation (Nikbakht et al., 2016). We will explain about the similar and related researches to the current one that is done by other researchers. Pouraghajan et al. (2012), in a research with the title of audit fees and company's function studied the relationship between audit expense and company's function. The selected sample for this research was non-financial general companies in America between 2000 and 2008. They used fixed effects in order to study relationship between variables. Also studied control variables in this research are size, lever, sale increase and development and research expenses. Additionally, they utilized company domination variables for control variable. The result of their research shows that company's functional interest a meaningful relationship with audit expenses.

Desender et al.(2013), concluded- in studying the relationship between company's domination characteristics and audit fees- that, audit services and board of director's independence are complementary when ownership is scattered and mentions that centered ownership and board of direction, are suitable substitutions in management supervision. Lawson and Wang (2015), in a research with the subject of interest division politics, interest information and quality and audit fees, showed that there is a negative relationship between audit fee and interest durability in companies with higher share interest, and share interest payment causes the decrease in the positive relationship between interest alteration and audit expenses. Also, the result of the research shows that auditors receive less fees in companies with higher share interests than companies with low share interests. Duellman et al.(2015), studied the relationship between management overconfidence and audit fee in an article with the title of audit expenses and managers overconfidence. The result of the research showed that in companies with overconfident managers, less audit fee is paid. Also, overconfident managers use an industrial audit expertise with less probability.

Darabi and Moradloo (2011), studied the relationship between information clearance and accounting interest information content. They declare that accounting interest is the main information source in financial sheets user's decision making and this interest is effective on decisions and has informational content when it is clear and of a high quality. In other words, more clearance cause more accounting interest informational content. They studied 107 sample companies in Tehran stock exchange during 1382-2009. They used regression method in order to test theories in their research. Research findings showed lack of positive relationship between information clearance with accounting interest informational content. Salehi et al., (2013), studied the relationship between audit fees and companies financial function. In this research, the function indicators consist of interest power, assets efficiency rate, share holders salary efficiency rate and Tobin's Q Ratio. Community and statistical sample in this research were accepted companies in Tehran stock exchange during 6 years from 2006 to 2013. To evaluate research theories, Spearman Correlation test, unit root test. Variance difference test, Multicollinearity test and tableau data related tests. The results show that audit fee did not have a meaningful relationship between functional indicators and audit fees.

Hogan and Wilkins (2008), studied the relationship between audit fee and audit expert knowledge and interest management in Tehran stock exchange. They chose 123 accepted companies in Tehran stock exchange to examine theories between 2009 and 2013. They used Jones adjusted model to measure interest management. In this research, for testing theories, they did Chav Test and theories test with polling method showed that there is a meaningful relationship between audit service fees and interest management and there is no meaningful relationship between audit expertise and interest management. Yeganeh et al.(2015), in a research with the subject of management overconfidence and audit fees, studied the effect of management overconfidence on audit fee. Statistical community of the research was accepted companies in Tehran stock exchange during 1386-2013. In this research, for measuring overconfidence of management, 2 factors based on investment decisions were utilized. The results of the research show that there is a negative and meaningful relationship between management overconfidence and audit fees. According to more studies, management overconfidence does not have a meaningful effect on industrial expert auditors.

Nikbakht et al.(2016), in a research, studied the impact of overconfidence of managers on audit fee. In this research managers overconfidence was evaluated using 3 criterions. Statistical samples of this research consist of 147 companies during the period of 2009 to 2014, the results showed that all 3 criterions of managers overconfidence of audit fee have a meaningful and positive effect. They declared that the consequence and impact of financial report risk that is caused by managers overconfidence, leads to a positive relationship between managers overconfidence and audit fee. Khodadadi et al. (2016), in their research studied the interest division politics on the relationship between interest quality and audit fee. Statistical sample consists of 82 accepted companies with the utilization of multivariable regression pattern with tableau data method, the results were analysed. In this research, interest durability and interest alteration were considered as interest quality indicators. The result of the research showed that there is not a negative and meaningful relationship between interest durability and audit fee. Additionally, the findings of this research declare that paid cash interest does not have a meaningful effect on the relationship between interest alteration and audit fee. Based on the literature that mentioned above, the research hypotheses are proposing below:

H1: Interest division policy has a meaningful effect on audit fee.

H2: Overconfidence of managers has a meaningful effect on audit fee.

3. METHODOLOGY

This research, according to the aim, is descriptive- functional and based on nature and style, is from correlation type. This research is in the area of functional researches in terms of being utilized by audit companies, stock exchange organizations. Financial analysts and stockbrokers, company's financial managers, universities and higher education centers and researchers. Also, in this research, statistical information related to the past is used in order to prove theories, that is why it is of post incident researches. The style of data gathering and research information in this research, is liberarian, in the way that is done with the usage of books, articles, thesis, Persian and Latin specialized publications, the interest and audited financial sheets study of sample companies, descriptive notes, member of the board of directors Reports, Tehran stock exchange organization. Also, research variables information extracted from stock company's financial sheets, is presented as field method.

Study community of research consists of all accepted companies in Tehran stock exchange between 2011 to 2015 that below characters are considered in order to choose the sample:

- Company's share has been able to trade between 2011 -2015 in Tehran stock exchange.
- In order to comparing company's information, end of financial year is the 29 th of Esfand.
- It should not be a part of financial intermediary companies and investments.
- The company should not have loss during the research time frame in audit interest and loss in accounting sheets.

According to the considered limitations and with systematic omission method, 124 companies are selected as static samples between 2011-2015. According to the subject, this research consists of 2 model theories that we used 2 regression models in order to analyse them. Regression models consist of 3 type of variables such as dependent and controlling and independent variables. Dependent variables in this research are audit fees, interest division policies, independent variables and managers overconfidence. Also, research controlling variables are company's size, its sale increase, financial lever, company market official value, assets efficiency and cash flow ration. In this research, firstly, we analyze each dependent, independent and controlling variable related to regression model in each theory regarding company's financial sheets information and analyze each regression model utilizing statistic test. Below, we explain regression model related to each theory.

First theory regression model:

$$AFEES_{it} = \beta_0 + \beta_1 \text{Dividend}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{SG}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{BTM}_{it} + \beta_6 \text{ROA}_{it} + \beta_7 \text{CFO}_{it} + \varepsilon_{it} \quad (1)$$

Second theory regression model:

$$AFEES_{it} = \beta_0 + \beta_1 \text{Overconf}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{SG}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{BTM}_{it} + \beta_6 \text{ROA}_{it} + \beta_7 \text{CFO}_{it} + \varepsilon_{it} \quad (2)$$

Audit fee of company I in time t: $AFEES_{it}$

Interest division policy of company I in time t Dividend_{it}

Overconfidence of managers in company I in time t: Overconf_{it}

Size of company I in time t: SIZE_{it}

Sale growth of company I in time t: SG_{it}

Financial lever of company I in time t: LEV_{it}

Market official value of company I in time t: BTM_{it}

Asset efficiency of company I in time t: ROA_{it}

The ratio of cash currents of company I in time t: CFO_{it}

Standard error ε and regression coefficient β

In this research, regression models are patterned accordingly to Duellman et al. research (2015), Lawson and Wang, 2015, Nikbakht et al. (2016), Khodadadi et al. (2016) and Yeganeh et al. (2015).

This research consists of 3 variables: dependent, independent and controlling. Audit fee dependent variable, interest division politics independent variables, managers overconfidence and controlling variables consist of company's size, its sale growth, financial lever, company market official value, assets efficiency and cashflow ratio.

-Audit fee: In this research, audit fee is extracted from natural logarithm of audit fee amount from financial sheets notes from general and office expenses (Lawson Wang,2015), Duellman et al,2015, nikkakht and colleagues,2016)

-Interest division politics: The amount of dividing interest companies is the criterion of interest division politics that is calculated by the ratio of dividing interest to pure interest of companies (Lawson and Wang,2015, Khodadadi et al., 2016).

-Managers overconfidence: In order to measure overconfidence of managers, according to Malmendir and Tate (2011) and (Heydari, 2014) research, the percentage of share price increase during the financial year is used. If the share price increase is more than share price decrease percentage, it is supposed that management overconfidence is more and number 1 is allocated, otherwise number 0.

-Size of the company: To calculate company's size, in this research, we used company's assets natural logarithm as below:

$$\text{SIZE} = \text{Log}(\text{total asset}) \quad (3)$$

- Company's sale increase: It is calculated from the deduction of company's sale in the beginning and the end of the period divided by ending of period sale as below:

$$\text{SG} = \frac{\text{Sales}_t - \text{Sales}_{t-1}}{\text{Sales}_t} \quad (4)$$

SG= Company's sale increase

Company's sale at the end of year =Sales_t

Company's sale at the beginning of year =Sales_{t-1}

In this research, financial lever is calculated from ratio of total debt and toata asset as below:

$$\text{LEV} = \frac{\text{Total debt}}{\text{Total assets}} \quad (5)$$

LEV= **debt ratio**

Is calculated from the ratio of share official value to company's share market value as below:

$$\text{BTM} = \frac{\text{share official value}}{\text{share market value}} \quad (6)$$

Is calculated from the ratio of before tax interest to total company's asset as below:

$$\text{ROA} = \frac{\text{Earning befor tax}}{\text{Total Assets}} \quad (7)$$

ROA= asset efficiency

4. RESULTS AND DISCUSSION

As the first step to analyze research variables, we calculate variables descriptive indicators. Variables descriptive indicators are: average – medium- maximum-minimum criterion distortion that are presented in table 1. In dependent, controlling and dependent variables descriptive statistic, consist of 620 observations:

Table 1. Descriptive Statistics

Observation numbers	Criterion distortion	minimum	maximum	medium	average	variable	Variable types
620	0/911	3/213	9/621	5/988	6/098	AFEES	dependent
620	0/827	0/000	3/912	0/412	0/504	Dividend	independent
620	0/471	0/000	1/000	0/000	0/576	Overconf	
620	3/625	11/113	24/721	18/132	19/235	SIZE	controlling
620	0/501	-0/645	4/912	0/258	0/311	SG	
620	0/318	0/102	1/652	0/691	0/723	LEV	
620	0/202	1/378	3/022	1/546	1/697	BTM	
620	0/214	0/023	0/571	0/177	0/191	ROA	
620	1/123	0/014	0/487	0/157	0/195	CFO	

According to Table 1, among variables, the most average amount belongs to company's size variable (19/235) and the least average amount belongs to assets efficiency (0/191). with studying data dispersion, it is seen that among variables, the most criterion distortion belongs to the company's size variable and the least one belongs to the ratio of share official value to company's share market value (0/202). In order to be assured of research results and not the relationship to be fake in meaningfulness of variables and regression, they did durability test and calculating models research variable units, the tests were done with the test style of Shin and sons test, Eim test, Lin and Choo test Lovin Test, Fisher –Dikki generalized unit root test and Fisher Phillips unit root test. In unit root test, the theory of zero declares unit root existence and if the probability of the table is below 0/05, zero theory is not accepted eith the probability of 0/95. The result of unit root test for model variables are as Table2:

Table 2. Results of Unit Root Test

PP - Fisher Chi-square	ADF - Fisher Chi-square	Im, Pesaran and Shin W-stat	Levin, Lin & Chu	Test type
P-value	P-value	P-value	P-value	variable
0/000	0/001	0/000	0/013	AFEES
0/000	0/000	0/000	0/002	Dividend
0/019	0/000	0/030	0/000	Overconf
0/000	0/000	0/000	0/000	SIZE
0/000	0/000	0/002	0/000	SG
0/000	0/031	0/000	0/041	LEV
0/009	0/026	0/001	0/000	BTM
0/000	0/000	0/000	0/000	ROA
0/000	0/001	0/000	0/027	CFO

According to the results of table 2, it is seen that the amount of probability(P-value) in tests for all variables is less than 0/05, so, above variables are in a durable level. We analyzed the lack of multicollinearity among controlling and independent variables utilizing variance inflation factor(VIF). As an experienced rule, if VIF is more than 10, multicollinearity is high. The results of studying multicollinearity among controlling and independent variables are in Table 3.

According to the results of Table 3, VIF has vacillation less than 10 for all variables between 1 and 2 that is a result of lack of multicollinearity among variables.

Table 3. Result of Multicollinearity

								VIF
CFO	ROA	BTM	LEV	SG	SIZE	Overconf	Dividend	Theories model
1/994	1/448	1/078	1/045	1/901	1/404	----	1/223	Model 1
1/714	1/044	1/107	1/884	1/624	1/087	1/541	----	Model 2

In order to define calculation type (composing data and tableau dats method), in this research F test is used. The result of F test is in table 4.

Table 4. Result os F Limer Test

P-value	Statistic	statistic	Theory's model
0/208	1/398	Period F	Model 1
0/341	2/075	Period Chi-square	
0/601	1/112	Period F	Model 2
0/313	3/324	Period Chi-square	

According to Table 4 and regarding this fact that (P-value) probability achieved from f test for first theory model is 0/0208 and for third theory model is 0/0601 more than 0/05, composing data model is used in order to calculate model 1 and 2.

In order to study errors normality in regression models, we used Jark test. The results are presented in table 5.

Table 5. Errors in Normality Test

testvresult	meaningfulness	statistic	Test type	regression model errors
errors normality	0/087	1/354	Jarque and Bera	Model 1
errors normality	0/103	1/702	Jarque and Bera	Model 2

As seen in table 5, the meaningfulness of models spoiling is more than 0/05 that shows the normality of errors. In order to study errors variance analogy, we used White test as Table 6.

Table 6. Results of Errors Variance Analogy Test

Test result	Statistic test	Critical level	Thories model
Errors variance analogy	2/11	4/39	Model 1
Errors variance analogy	2/94	3/50	Model 2

According to table 6 results, all models calculated statistics are below critical level, so, it is said that errors variance is analog and zero theory is accepted based on steadiness of model's variance. In table 7, the results of first theory regression model analysis is presented. This table shows the relationship among first theory regression model variables.

According to the results of table 7, F test probability is 0/000 and below 0/05, so, with the probability of 0/95 it can be said that this model is meaningful and of a high credit. Also, calculated meaningful level for interest division politics independent variable equals to 0/021 and calculated coefficient for this variable is -0/402, so, it is said that interest division politics has a meaningful and negative effect on audit fee, so, research first theory in assurance level of %95, based on interest division politics meanimgful effect on audit fee is accepted. Also the results of T7 shows that adjusted coefficient in theory 1 model is 0/481. This figure shows that %48 of dependent variable changes are defined by first theory model variables.

Table 7. Results of First Theory Regression Model Analysis

AFEES _{it} = β ₀ + β ₁ Dividend _{it} + β ₂ SIZE _{it} + β ₃ SG _{it} + β ₄ LEV _{it} + β ₅ BTM _{it} + β ₆ ROA _{it} + β ₇ CFO _{it} + ε _{it}				
Meaningfulness level (Prob)	(t-Statistic)	(Std. Error)	(Coefficient)	variable
0/325	-0/521	0/052	-1/231	Width from the (C)beginning
0/021	-1/541	0/102	-0/402	Dividend
0/008	3/871	0/054	0/098	SIZE
0/039	4/651	0/671	1/117	SG
0/043	2/084	0/061	0/291	LEV
0/000	4/231	0/214	0/034	BTM
0/000	1/508	0/712	0/007	ROA
0/034	1/897	0/041	0/135	CFO
0/481 = Adjusted Ascertainment coefficient			0/498 = Ascertainment coefficient	
Watson camera statistic 2/005 =		0/000 = Test probability F		Test statistic 56/321 = F

Watson camera statistic is 2/005 that being positioned between 1/5-2/5 shows lack of correlation between errors and one of regression theories certainty. In table 8, results of 2nd theory regression model analysis is explained. This table shows the relationship between 2nd theory regression model variables in research.

Table 8. Results of Second Theory Regression Model Analysis

AFEES _{it} = β ₀ + β ₁ Overconf _{it} + β ₂ SIZE _{it} + β ₃ SG _{it} + β ₄ LEV _{it} + β ₅ BTM _{it} + β ₆ ROA _{it} + β ₇ CFO _{it} + ε _{it}				
(Prob)	(t-Statistic)	(Std. Error)	(Coefficient)	variable
0/845	-0/347	0/178	-2/121	(C) Width from the beginning
0/005	-2/511	0/021	-1/113	Overconf
0/027	3/701	0/064	0/047	SIZE
0/009	3/921	0/113	0/521	SG
0/000	1/687	0/108	0/327	LEV
0/039	4/021	0/317	0/174	BTM
0/032	2/547	0/389	0/057	ROA
0/000	3/354	0/874	0/689	CFO
0/592 = Adjusted Ascertainment coefficient			0/621 = Ascertainment coefficient	
Watson camera statistic 2/011 =		0/000 = Test probability F		59/028 = Test Statistic F

According to the results of table 8, F test probability is 0/000 and less than 0/05, so with the probability of %95, it is said that this model is meaningful and of a high credit. Also calculated meaningfulness level for managers overconfidence independent variables are 0/005 and calculated coefficient for this variable is -1/113, so it can be said that managers overconfidence has a meaningful and negative effect on audit fee, so the second theory of the research with the assurance level of %95 based on managers overconfidence meaningful effect on audit fee is accepted. Also results of table 8 show that second theory model adjusted coefficient is 0/592. This figure declares that %59 of dependent variable Watson camera statistic equals to 2/011 that being it in 1/5 to 2/5 shows lack of correlation between errors and certainty of one of regression theories.

5. CONCLUSION

Due to the importance of determining audit fee according to effective factors on it and being a participant of determining audit fee in country, we studied the effect of two variables: interest division policy and managers overconfidence on audit fee. The results show that interest division policy has a negative and meaningful effect on audit fee, it means that with the increase of interest division policy, audit fee decreases. This finding is in accordance with Lawson and Wang study (2015) but contradicts with Khodadadi et al. research on 2016. The results declare that managers overconfidence has a negative and meaningful effect on audit fee. This finding contradicts Nikbakht et al.(2016) while is in accordance with Duellman et al.2015 and Yeganeh et al.2015. It is suggested that in future researches, other aspects of interest effects and other managers behavioral variable effects on audit fee is studied. Also, we can say that countless variables can affect audit fee, so it is suggested that researchers consider other effective variables on audit fee.

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