



Ferdowsi University of Mashhad

Iranian Journal of Accounting, Auditing & Finance

Received: 2021-03-12

Accepted after revision: 2021-05-15

Published online: 2021-05-30

RESEARCH ARTICLE

DOI: 10.22067/ijaaf.2021.70386.1026

The Relationship between Auditor's Narcissism and Expectation Gap with Audit Fees: Evidence from an Emerging Market

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Abstract

The present study aims to assess the relationship between auditor's narcissism, expectation gap, and audit fee in listed firms on the Tehran Stock Exchange. In other words, this study attempts to answer the question of "whether a narcissistic auditor contributes to the expectation gap and the amount of fee or not." The multivariate regression model is used for hypothesis testing. The study's hypotheses were also tested using a sample of 768 listed year-firm on the Tehran Stock Exchange during 2012-2017 by applying the panel data approach and employing the fixed effects model. The obtained results also indicate that there is a positive and significant relationship between auditor's narcissism and expectation gap and a negative and significant relationship exists between auditor's narcissism and audit fee, which means that the increase of narcissistic features in an auditor would increase the expectation gap between auditor and users. In contrast, the presence of such features in the auditor affects its payment. Moreover, the results of hypothesis testing show that there is a negative and significant relationship between auditor change and audit expectation gap. This study utilized an empirical model for evaluating the audit expectation gap and the variable of signature magnitude for measuring narcissism. Further, this paper is the first study to assess such a relationship. Hence, the present study contributes to developing science and knowledge in this field and helps lawmakers present more effective standards and regulations based on society's needs and the obtained results.

Keywords: auditor's narcissism, audit fee, audit expectation gap

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Number of Tables: 5
Number of Reference: 78
Pages: 79-97

<https://ijaaf.um.ac.ir>

1. Introduction

Financial statements are a tool for shareholders, investors, creditors, the State, and society. The audit report provides the management based on the approved financial statements. These reports deliver plausible trust for the users, so the users expect the auditors to present honest reports to make sound economic and financial decisions. Users consider the auditors their agents. After the financial collapse of the 1970s and 1980s (like the insurance firm in Los Angeles in 1973, the collapse of Securities of Penn Bank in 1982, 340 billion dollars scam in the American Stock Exchange) (Ojo et al., 2016), the audit profession has been criticized widely by the users. Moreover, the financial scandal of Enron, as the leading company in America based on the poll of the Fortune Magazine from most of the well-known companies (Mansur and Tangl, 2018), has led to the failure of the company within a year and its stock price went to 0 (Healy and Palepu, 2003). After Enron, WorldCom was the second largest communication company in the U.S. that faced failure (Handley-Schashler and Li, 2007). The consequences of all these breakdowns and events caused the auditors to face legal petitions (Ojo et al., 2016), which brought about an expectation gap between shareholders and external auditors (Mansur and Tangl, 2018). Audit scandals are the starting point for investigating auditors' ethical principles that influence their credits (Ardelean, 2013). Most of the beneficiaries believe that auditors should assess all the documents to recognize any possible error or fraud (Messier, Glover & Prawitt, 2005; Timothy Louwers et al., 2011). Some others also expect the auditor to present the audit report and interpret the financial statements for the users so that they can assess whether the firm under study is appropriate for investment. They also expect the auditors to carry out some of the audit policies while performing their duty (like the firm's main function in supervising the firm affairs, getting involved in management supervision, and tracking illegal actions or fraud in the management section). Such heightened societal expectations from auditing created a preposterous gap between auditor and society (Salehi, 2016). The audit expectation gap phenomenon is a leading issue that has been discussed from the mid-1970s to the present in the audit profession (Ojo et al., 2016). The objectives of the conducted empirical studies in this field are detecting the auditors' current and expected duties and the factors that generate such an expectation gap (Füredi-Fülöp, 2015).

This study aims to assess the psychological feature of auditor narcissism on the expectation gap and audit fee. In other words, we attempt to figure out whether this psychological feature contributes to the expectation gap and audit fee or not. And in the case of an effect, we have to specify whether the effect is direct or inverse. Moreover, by obtaining the result of the study, we should take some steps toward strengthening or decreasing such a psychological feature by lowering the expectation gap to secure the auditor's expectations from society and vice versa. Finally, we should minimize the gap, which means the users should make the best and the most reliable economic decisions. The auditors should also be able to do their best because each profession aims to improve performance. The increase in performance is itself a function of work quality increase. According to the studies of Hoitash, Markelevich, and Barragato (2007), Simunic and Stein (1987), Davis, Ricchiute and Trompeter (1993), O'Keefe, King and Gaver (1994), Choi et al. (2010), Callen and Siregar (2012), audit fee increases along with the increase in audit quality. In addition, since the audit expectation gap is measured qualitatively in the recent studies (Pourheydari and Abousaiedi, 2011; Salehi, 2016; Masoud, 2017), this project is the first study to change the measurement criteria and assess the gap quantitatively.

2. Theoretical Principles, Literature, and Hypothesis Development

2.1. Narcissistic auditor

Narcissism is a moral character with positive or negative or even direct impacts on the decisions of individuals. Elis introduced the phenomenon in 1898 in psychology and psychiatry (Aabo and

Bang Eriksen, 2017). According to American Psychiatric Association (1994), narcissism is a severe characteristic syndrome that includes a sense of pride in oneself, striving for unlimited power and merit, weak continence, inability to bear criticism, lack of sympathy, and multiple cooperation. Hence, narcissism is a multifaceted personality trait that coexists with a sense of dominance and inclination to be engaged in others' behavior (Olsen and Stekelberg, 2015).

Campbell et al. (2011; 2005) declare that narcissism is a stable and multidimensional personal characteristic that includes magnification, self-conceit, and pretension. Raskin and Terry (1988) posit that narcissism is specified using the following seven components: power, flamboyance, dominance, pride, stability, merit decrease, and self-sufficiency, so such a psychological characteristic in an individual can contribute to his/her performance. The motive may be created by a sense of dominance and flamboyance, which causes the individual to attempt to achieve more success and show him/herself. Besides, since the individual believes that he/she is better than others, this feature may lead to more benefits for the narcissistic person, which means seeking to maximize the interests by the minimum of attempt. Hence, realizing the type of effect of psychological features in the current era is a matter of the utmost importance. This trait can erupt in the behavior or performance of an individual.

2.2. Audit expectation gap

Firms have changed extensively along with the development of communities, the escalation of industries, and economic growth. In line with the booming economy and the complication of business procedures, firms sought experienced accounting staff to align their financial activities with accounting regulations and standards. Audit firms established, in the meanwhile, to act as a supervisor on the financial performance of the firms to, in addition to giving credit to financial statements of a business firm, on the one hand, lower the chance of fraud and on the other hand, as the agent of people, to assure them by the audit reports that the included information of the financial statements has no distortion. Wallace (1987) also declares that auditing determines the quality of reported financial information and provides special quality and economic benefits for the organization and external members. Hence, the formation of audit firms ensured the users of financial statements that audit report, without any secrecy, indicates the firm's financial status. So they would be able to make the best financial decisions in that auditing is an independent and systematic process to determine whether the existing activities and their performance are officially compatible with planning requirements or not. Therefore, the presence of the auditing profession is beneficial both for the firms and users. It is considered an important section of today's world's commercial settings in each country's legal status (Gbadago, 2015). Auditing is a kind of social performance (Flint, 1998) because auditors' role changes in line with the needs and demands of individuals and groups (Porter, Simon, and Hatherly, 2005). During the 1840s to 1920s, auditors' role was mainly concentrated on detecting frauds (Masoud, 2017). However, from the 1920s to the 1960s, the primary aim of auditing has changed from detecting fraud and errors to give credit to financial statements (Lee and Ali, 2008). The empirical studies of the 1970s and 1980s by Lee (1970), Beck (1973), Steen (1990), Porter (1991), and Porter and Gowthorpe (2004) show that most people still believe that the main role of an auditor is to detect fraud (Masoud, 2017), while the main role of independent auditing is to give credit to financial statements (Behzadian and Izadi Nia, 2017). Following the serious failures of the recent decades, auditing has gained great importance because large audit firms did not expect to experience such great failures, which has caused the users of financial statements to change their opinion about the auditors. These failures show that there is a difference between what people expect from auditors and what the auditors do, and this has motivated the auditors to study the gap, more precisely, to the

point that Liggio (1974) has used the term “expectation gap” between user and auditor for the first time. On the other hand, a proportion of this distance can be due to the public expectation from the auditing role and the objectives the audit profession is expected to reach. Another proportion can stem from evaluating the quality of audit services (Behzadian and Izadi Nia, 2017). Hence, Porter (1993) also indicates that weak performance, insufficient standards, and illogical expectations are among the factors that lead to creating the audit expectation gap (Masoud, 2017). Moreover, Pierce and Kilcommins (1996) and McEnroe and Martens (2001) also declare that this gap is due to erroneous interpretation and misunderstanding about audit performance and the role of auditors by the users. However, the existing evidence shows that the user of financial statements and public people are not informed of auditors' responsibilities at the macro level, which would lead to an audit expectation gap (Gbadago, 2015). The term “expectation gap” has been used in conventional studies since the 1970s, and since then, the evidence has shown that there is a gap between the expectation of individuals (Gbadago, 2015). In this regard, Liggio (1974) defined the expectation gap as a difference between the expected performance level of independent auditors and users' predicted financial statements. Various definitions are provided, so far, on the audit expectation gap. For example, the Cohen Commission (1978) claims that this distance is the difference between people's beliefs and demands and what the auditor can logically perform. Besides, Guy and Sullivan (1988) define the audit expectation gap as the difference between public opinions and responsibilities and auditors' beliefs from their roles. In other words, such a distance in expectations is related to the complication and misunderstanding about nature, objective, and capabilities of the auditor, which is observable in the society (Porter, 1993). Dennis (2010) explains the audit expectation gap as the difference between users' and auditors' beliefs and needs. Dibia (2015) believes that there is an expected gap between auditors and users of audit services, which elucidates the opinions about auditors' duties and responsibilities and the sent messages of audit reports. Lazarus Elad (2017) also posits the expectation gap between beliefs and inclinations between auditors and public people about auditors' duties and responsibilities. In other words, the expectation gap is the difference between what people and users of financial statements perceive the auditor's role and what the audit profession expects from the auditors during the project. Regardless of the users of financial statements and public people, auditors may face some different or even worse interpretations than the audit profession (Ojo et al., 2016). In other words, we can claim that the reason for such a distance is both the auditors and users of financial statements. Therefore, it is important to consider the entire domain of the audit expectation gap to lower society's expectations and improve the perceived performance of the users (Porter, 1993).

2.3. The relationship between auditor's narcissism and audit expectation gap

According to the agency theory, an auditor presents as the agent of shareholders in business firms to minimize the conflict of interests between manager and owners, so the audit process should benefit from a high quality to enable the users to decide based on the obtained report (Jensen and Meckling, 1976). When the audit does not have the required quality, others' expectations from audit performance are more, so being familiar with the contributing factors to the audit quality is of great importance for the audit profession. Audit quality which determines the audit performance, depends on a variety of factors, including auditors' capabilities such as knowledge, experience, adaptability power, technical efficiency, and professional performance, independence, impartiality, professional care, conflict of interests, and professional judgment (Behzadian and Izadi Nia, 2017). One of the other determining factors to the performance is personal factors (Bonner and Sprinkle, 2002). The psychological characteristics of people are among the personal factors, and narcissism is one of them. People face some situations during their lifetime that they have to decide. People's decisions in their lives and under different situations are influenced by their needs, interests, tastes, and moral and psychological

characteristic. We can claim that such factors contribute directly to the decisions of people. Today, the considerable effect of people's psychological characteristics on their performance is obvious, so one of the requirements of this period is to realize the psychological traits and their effects. Accordingly, the firm or the auditor of an organization is obliged to decide during their term of service, which contributes to the firm's performance, investors, and others because auditing is a judgmental process. The auditor should make some decisions judgments. As mentioned previously, people's decisions are influenced by their psychological characteristics called narcissism in psychology. Thus, the narcissism of people, auditors, and managers may contribute to their major decisions. The audit quality measures an auditor's performance, and in case audit quality is acceptable, it can meet the users' major information needs. In other words, a high-quality auditor can cover the expectations of society. These expectations may be divergent because people in the society have different and contradictory information needs, each of whom expects differently from the auditor and their related occupation. Presently, the expectation gap exists between auditor and people, and the auditor and him/herself is called the audit expectation gap. Audit quality is one factor that directly impacts the audit expectation gap if the gap is decreased. Audit quality is derived from the quality of judgment and auditors' decisions. Consequently, auditors should be responsible for their performance and the result of audit reports because auditors' capability to overcome different situations and make high-quality judgments relies on their attempts to improve efficiency (Salehi and Dastanpoor, 2018). Iskandar et al. (2012) declare a series of motivational factors for improving such judgments that affect the audit quality. These motivational factors are divided into two internal and external motivations (Salehi and Dastanpoor, 2018). Hence, narcissism can be named an internal motivational factor in an auditor, affecting decision-making, judgment, and performance. When an auditor benefits from a high level of narcissism, this may affect the audit judgment of the client's performance and lead to incorrect and partial reports about the firm performance (Banimahd, Dianati Dilami, and Javanmard, 2013). Bonner and Sprinkle (2002) also state that an auditor's performance is influenced by three personal, environmental, and acquired skills factors. Narcissism is among the personal and intrinsic factors of people. Most of the studies on accounting, like Cohen et al. (2010), indicate that narcissism is positively associated with recent frauds and scandals. Hence, one of the required measures for decreasing the audit expectation gap is to assess the auditor's psychological characteristics, be familiar with them, and be informed of the impact of these features on the audit expectation gap. However, moral regulations cannot attract public trust individually, and users should regulate moral behavior and interpret the standards as much as possible (Ardelean, 2013). Moreover, according to Zhuang (2018), the partner's narcissism increases the audit quality considerably by increasing the auditor's independence instead of the auditor's qualification.

Accordingly, realizing an auditor's psychological characteristics and the effect of such characteristics can improve the auditor's performance and finally lower the expectation gap from the auditor's side. Among the psychological characteristics, we can refer to narcissism. Numerous studies are conducted in this field during the 1970s to present, including Humphrey, Moizer, and Turley (1992); Beattie, Brandt, and Fearnley (1998); Best, Buckby, and Tan (2001); Gbadago (2015); Salehi (2016); Behzadian and Izadi Nia (2017); Mansur and Tangl (2018) but no study is carried out, so far, on the impact of psychological effects of the auditor on audit expectation gap. Hence, this study aims to assess the effect of narcissism on the expectation gap as a psychological factor. In fact, by testing the effect of psychological characteristics on the auditor's expectations from his/her duties, we attempt to specify whether the auditor's expectations are influenced by narcissism or not and, if yes, is this effect positive or negative. By specifying the test result, we can put some steps to strengthen or weaken narcissism. Since this is the first study to evaluate the effect of an auditor's psychological

characteristics on his/her expectations, the results of this study can contribute greatly to the field and the users of audit reports. The following studies are conducted in this field: Anderson, Lowe, and Reekers (1993), De Martinis, Aw and Meng Kim (2000), and Olagunju and Leyira (2012) show that social understanding of the duties of auditors is different from what the rules and regulation proposed about the public duty of an auditor. Moreover, Taebi Noghondari and Yua Foong (2013); Kumari, Ajward, and Dissabandara (2017); Lazarus Elad (2017); Mansur and Tangl (2018) perceive that training and experience of auditors decrease the audit expectation gap considerably. Banimahd, Dianati Dilami, and Javanmard (2013) observe that the level of narcissism among auditors is different in the private section, while in the public section, such a difference is not considerable. Moreover, in the private section, the young generation of auditors' level of narcissism is more than the old generation. Operu (2016) determined a positive correlation between the audit expectation gap and the investor's understating. Gbadago (2015) discover that the audit expectation gap is even observable among the senior students of accounting. Pourheydari and Abousaiedi (2011) find that the audit expectation gap exists in the areas of auditor responsibility, fraud detection, the accuracy of internal controls, and providing financial statements. Moreover, there is a significant relationship between users and independent auditors concerning the reliability and application of audited financial statements. The quantitative results from audit performance can be attributed to the culture of trust among auditors and shareholders. Enes et al. (2016) declare that audit training does not lead to the decline of the expectation gap but will change students' views concerning auditors' responsibility for preventing and detecting errors, frauds, and illegal actions. Salehi (2016) finds that there is an expected gap between auditors and investors in Iran. Behzadian and Izadi Nia (2017) discover that auditors' expertise and experience, which are among the contributing factors to audit quality, have no impact on the audit expectation gap, while the size and quality of audit firms are under the influence of the amount audit expectation gap. Boterenbrood (2017) argues that monetary levels (significance level) proposed by the provider of financial statements of business firms are of less importance to the auditors. Masoud (2017) declares that basic evidence exists of audit expectation gap among the undergraduate students of state-owned and private universities concerning auditors' roles and responsibilities. Zhuang (2018) reveal that real audit quality increases along with partner narcissism. This study shows that changes in audit quality are positively associated with the changes in partner narcissism due to the auditor's compulsory rotation and that audit quality does not affect the signature size of the partner. Moreover, the auditor's narcissism on audit quality is more evident when the client is larger, and the auditor is linked with his/her executive managers. Partner narcissism significantly improves audit quality growth by increasing the auditor's independence instead of the auditor's qualification. Further, the results illustrate that the narcissistic partner's role in audit quality is trivial in four big audit firms that benefit from powerful quality control structures and standardized audit methods. This limits the scope of characteristics of the level of partnership to a specific topic. In addition, although the narcissistic partner has no tangible impact on the type 1 error report and lowers the chance of type 2 error, it is less probable that narcissistic partners sacrifice their independence.

Given the abovesaid facts, the first hypothesis of the study is as follows:

H₁: There is a significant relationship between the auditor's narcissism and the audit expectation gap.

2.4. The relationship between auditor's narcissism and audit fees

Based on the economic theory of transaction costs, which creates the basic assumption of opportunism, people attempt to maximize their benefit and desirability (Cyert and March 1963). This causes the people to make some decisions for increasing their benefit, though such decisions may not be logical or correct. Hence, the auditor's performance may be under the influence of the amount of

fee to gain personal benefit, so this will affect the quality of the audit report. Consequently, being familiar with the contributing factors to audit fees is an important measure affecting the auditor's performance. The audit fee reflects the effort and risk of the auditor (Kusano and Sakuma, 2019). Hence, the audit fee decreases by extending the competition level, and the level of proceedings will also be minimized, the result of which is presenting a low-quality audit report. The amount of audit fees is not fixed, and several factors are included throughout the years (Lyubimov, 2019). Narcissism is one of the psychological factors of people that can contribute to the selection of people. The auditor is not an expectation of the case. An auditor with narcissistic features probably claims that he/she is qualified for a higher fee or even to prioritize his/her interests over the interests of others. Hence, this causes the auditor to ask for higher fees for his/her performance. Furthermore, when the auditor is supposed to receive a lower fee, this feature would cause him/her to lower his/her level of proceedings, which would debilitate the audit quality. Thus, this study attempts to prove that a narcissistic auditor can contribute to the received fee. Cheng, Mitra, and Song (2017) conclude that audit fee are negatively associated with the firm level. By increasing the union rate, audit fees will be lower. Moreover, Hoitash, Markelevich and Barragato (2007); Simunic and Stein (1987); Davis, Ricchiute and Trompeter (1993), O'Keefe, King and Gaver (1994); Callen and Siregar (2012) also figure out that the higher the audit quality goes, the higher the audit fee would be. Salehi, Jafarzadeh, and Nourbakhshhosseiny (2017) discover that during the sanctions of 2010 in Iran, commercial firms tried to lower the audit fee. Bryan, Mason, and Reynolds (2018) figure out that there is a negative (positive) relationship between income correlation (fluctuations) and audit fees. Moreover, the relationship between income correlation and audit fee is weak for industry-specialized auditors. Gul et al. (2018) perceive that higher managerial capability increases the audit fee in firms with financial problems and decreases audit fees in firms with no financial problems. Mohammadi, Kardan, and Salehi (2018) find a significant relationship between cash inventory and audit fees. In addition, they observe no significant relationship between cash properties, investment opportunities, and audit costs. Al-Najjar (2018) noticed that corporate governance mechanisms are of the utmost importance in determining the audit fee. Moreover, board independence, audit meeting, and board size positively impact the audit fee. Kwon and Yi (2018) noted that the auditor's partner's social relations with the firm's CEO under study have no impact on the decline of audit effort, audit fee, and audit quality. Buslepp et al. (2019) figure out that those firms that do not disclose the costs related to audit fees incur more fees. Chen et al. (2019) find that the audit fee increases due to systematic macro risks due to tension. Moreover, there is a significant and positive relationship between audit fees and financial restatement. An indicator of risk factors is related to poor financial report quality and poor audit quality. Lyubimov (2019) noticed that the four big audit firms experienced a big change in audit fees. Rank 2 audit firms increase the audit fee for the firms which are not compatible with section 404. Kusano and Sakuma (2019) noted that financial costs are associated with audit fees. Shan, Troshani, and Tarca (2019) find that when managerial ownership levels are compatible with shareholders' interests (interest convergence), the relationship between managerial ownership and audit firms' size and audit fee is negative. In contrast, the association is positive when the levels of managerial ownership are different from shareholders' interests (for example, entrenchment). Hanlon, Khedmati, and Lim (2019) observe that the number of board sessions is associated with increased audit fees. Given the facts mentioned above, the second hypothesis is as follows:

H₂: There is a significant relationship between auditor's narcissism and audit fees.

3. Research Methodology

The present study's statistical population is all listed firms on the Tehran Stock Exchange between

2012 and 2017. First, the systematic elimination method is used for sampling, and finally, after applying the following conditions, the statistical population of the study will be selected:

- 1- Firms should be enlisted until the end of 2011 on the Tehran Stock Exchange;
- 2- Firms should be active during the period of the study, and their shares should be transacted;
- 3- The required financial information should be presented during the period of the study; and,
- 4- Firms should be affiliated with investment firms, banks, insurance, and financial intermediaries.

Given the gathered information at the end of 2017, the final sample is depicted in Table 1.

Table 1. Number of firms in the statistical population by imposing the conditions for selecting the sample

Table 1. Number of firms in the statistical population

Description	Eliminated firms in total periods	Total number of firms
Total listed firms on the Tehran Stock Exchange		445
Eliminating financial intermediaries, financial supply, insurance, and investment firms	88	
Firms with more than 6 months of transaction halt	112	
Eliminating firms entered the Stock Exchange during the study period	4	
Eliminating due to lack of access to information	113	
Statistical population		128

3.1. Data collection method

The primary and raw information and data for hypothesis testing were collected using the information bank of Tehran Stock Exchange, including Tadbir Pardaz and Rah Avard-e Novin and also the published reports of Tehran Stock Exchange via direct access (by analyzing the released reports in Codal Website and manually collected data) to CDs and also by referring to rdis.ir website and other necessary resources.

3.2. Data analysis method

The data analysis method is cross-sectional and year-by-year (panel data). In this paper, the multivariate linear regression model is used for hypothesis testing. In addition, descriptive and inferential statistical methods are used for analyzing the obtained data. Hence, the frequency distribution table is used for describing data, and at the inferential level, the F-Limer, Hausman test, test of normality, and multivariate linear regression model are used for hypothesis testing.

3.3. Research model

This paper aims to assess the relationship between auditor's narcissism and expectation gap, and audit fee. Hence, the multivariate regression model (1) is used for testing the first hypothesis, and multivariate regression model (2) is used for testing the second hypothesis, which is shown as follows:

Model (1)

$$AEG_{it} = a_0 + a_1A_NAR_{it} + a_{23}ATenure_{it} + a_{34}Achange_{it} + a_4Size_{it} + a_5Loss_{it} + a_6LEV_{it} + a_7Q - Tobin_{it} + a_8ROA_{it} + a_9Growth.sales_{it} + a_{10}ROE_{it} + a_{11}Age_{it} + a_{12}YEAR_{it} + a_{13}INDUSTRY_{it} + \varepsilon_{it}$$

Model (2)

$$LnAfee_{it} = a_0 + a_1A_NAR_{it} + a_{23}ATenure_{it} + a_{34}Achange_{it} + a_4Size_{it} + a_5Loss_{it} + a_6LEV_{it} + a_7Q - Tobin_{it} + a_8ROA_{it} + a_9Growth.sales_{it} + a_{10}ROE_{it} + a_{11}Age_{it} + a_{12}YEAR_{it} + a_{13}INDUSTRY_{it} + \varepsilon_{it}$$

Where

- Ln_{fee} is the audit fee, the natural logarithm of audit fee in the year under study.
- A_NAR: auditor's narcissism, for the measurement of which auditors' signature criterion is used.
- ATenure: auditor tenure, which is equal to the number of years the auditor held his/her position in the department,
- Achange: auditor change if the auditor is changed in the year under study 1; otherwise, 0.
- SIZE: firm size, which is the natural logarithm of total assets of the firm.
- Loss: firm loss, a dummy variable if the firm is losing in the year under study 1; otherwise, 0.
- LEV: financial leverage, total debts to total assets of the firm.
- Q-Tobin: a ratio that shows the firm's total market value plus book value of debts divided by the total book value of the firm's assets in the year under study.
- ROA: return on assets, which is equal to net profit divided by the firm's total assets in the year under study.
- Growth: firm growth, which is equal to sales minus sales of the previous year divided by sales of the firm's previous year.
- ROE: return on equity, which is equal to net profit to book value of equity.
- Age: firm age, which is equal to the time interval between the date of establishment and the year under study.
- Year: virtual variable of year.
- Industry: virtual variable of industry

Dependent variable

According to Salehi et al. (2019), the absolute value of stock price changes is computed using the determining factors for assessing the expectation gap. Therefore, the absolute value of model (2) errors is indicative of the audit expectation gap as follows:

Model (2)

$$\begin{aligned}
 |ASP|_{it} = & \beta_0 + \beta_1 \text{profit and loss}_{it} + \beta_2 \text{industry}_{it} + \beta_3 \text{change board}_{it} \\
 & + \beta_4 \text{inflation}_{it} + \beta_5 \text{earning persistence}_{it} + \beta_6 \text{price earnings ratio}_{it} \\
 & + \beta_7 \text{the liquidity}_{it} + \beta_8 \text{debt ratio}_{it} + \beta_9 \text{dividends per share}_{it} \\
 & + \beta_{10} \text{capital structure}_{it} + \beta_{11} \text{capital increase}_{it} \\
 & + \beta_{12} \text{forecast earnings per share}_{it} + \beta_{13} \text{turnover}_{it} \\
 & + \beta_{14} \text{return on assets}_{it} + \beta_{15} \text{stock returns}_{it} + \beta_{16} \text{exchange rate}_{it} \\
 & + \beta_{17} \text{oil price}_{it} + \beta_{18} \text{election}_{it} + \beta_{19} \text{current ratio}_{it} + \beta_{21} \text{quick ratio}_{it} \\
 & + \varepsilon_{it}
 \end{aligned}$$

Where

|ASP|: The absolute value of stock price changes three days before publishing the audit report and three days after that.

Profit and loss: using a 0 and 1 method, if the firm is profitable 1, otherwise, 0.

Industry: by the industry, we mean the firm in what class the firm is placed on concerning activity and mass production. The classification of the Tehran Stock Exchange is used for this purpose.

Change board: using a 0 and 1, the board's changes are analyzed, and if at least a member of the board has changes 1 otherwise, 0 will be used.

Inflation: inflation rate, which is extracted from the Central Bank.

Earnings persistence: earnings persistence, which is obtained from the errors of model no. 11.

Equation (1)

$$EARN_{i,t} = \alpha_0 + \alpha_1 EARN_{i,t-1} + \varepsilon_{it}$$

Earnit: earnings of the current period

α_1 : the (independent variable coefficient) degree of earnings persistence during the study

EARN_{t-1}: earnings of the previous period

ε_{it} : regression model residual

price-earnings ratio: dividing the stock price into the earnings per share

liquidity: stock liquidity is calculated as follows:

$$BAS = \frac{AP - BP}{\frac{AP + BP}{2}} * 100$$

BAS: the rate of the difference of the proposed price for buying and selling firm stocks

AP: average proposed price for selling the firm stocks

BP: average proposed price for buying the firm stocks

Debt ratio: total debts to total assets

Dividend per share: dividing total dividend into the number of firm shares

Capital structure: the capital structure is calculated as follows:

$$ML_{it} = \frac{BD_{it}}{BD_{it} + ME_{it}}$$

Mlit: financial leverage based on the market value for the firm i in the year t

BDit: book value of debts for the firm i in the year t

MEit: the market value of equity for the firm i in the year t (market value of equity is achieved by multiplying the market value of shares into the number of shares)

Capital increase: is analyzed using a 0 and 1 method. If the firm experienced a capital increase 1, otherwise, 0 will be assigned.

Forecast earnings per share: if the real earnings of the firm i in the year t are more than the forecasted earnings 1, otherwise, 0 will be assigned.

Turnover: the number of transacted shares of the firm i in the year t is considered as the transaction volume to control the price effects of the stocks, to the extent possible, and model no. 4 errors are used for this purpose:

Equation 1:

$$VOL_{it} = \beta_0 + \beta_1 MVOL_t + \varepsilon_{it}$$

$$MVOL_t = \frac{\text{no. of transacted shares in the entire market}}{\text{no. of published shares in the entire market}}$$

$$VOL_{it} = \frac{\text{no. of transacted shares of the firm } i}{\text{no. of published shares of the firm } t}$$

Return on assets: net profit divided by mean total assets

Stock returns:

$$R = \frac{(\text{based price} - \text{day price}) + DPS + \text{priority} + \text{awarded price}}{\text{base price} + (1000 * \text{the percentage of increase from contribution})} * 100$$

Exchange rate: rate of currency change which is extracted from the Central Bank

Oil price: oil price

Election: using a 0 and 1 method, if there is a presidential election in the year under study 1, otherwise, 0 will be assigned.

Current ratio: current assets divided by current debts

Quick ratio: current assets minus inventory divided by current debts

3.3.1. Independent variable

A_NAR: auditor's narcissism, determined by the magnitude of auditor's signature, equals 1 if the auditor's signature is large or more specifically in a particular form or its name and surname; otherwise, 0.

3.3.2. Control variables

- Size: firm size: natural logarithm of the market value of shares
- Loss: firm loss, a dummy variable if the firm is losing in the year under study 1; otherwise, 0.
- LEV: financial leverage, total debts to total assets of the firm.
- Q-Tobin: Tobin's Q
- ROA: return on assets, which is equal to net profit to book value of assets.
- ROE: return on equity, which is equal to net profit to book value of equity.
- MTenure: CEO tenure, which is equal to the period the CEO held the position until the year understudy
- Mchange: CEO change, if the CEO has changed in the year under study 1; otherwise, 0.
- Age: firm age, the time interval between the date of establishment, and the year under study.

4. Data Analysis

4.1. Descriptive statistics

In this paper, two models were used for analyzing the relationship between narcissism and the expectation gap and audit fee. Furthermore, the present study has used the panel data method, including 128 Iranian firms, in its database. Therefore, variables of the expectation gap and audit fee are used for model estimation.

Moreover, industry and year virtual variables were added to the model as descriptive variables for the modeling. The main source of these data is the Central Bank, Tehran Stock Exchange Official Website, Codel Website, and Rahavard Novin Software. Table 2 demonstrates, in brief, the information related to the variables of the firms.

According to the table of descriptive statistics, the maximum financial leverage is 4.003. In addition, the maximum and minimum value of return on equity is 6.8884 and -16.8455. On the other hand, the maximum value of the audit quality variable is 3, showing the Rank A firms and its minimum is 1, which indicates rank C firms. Further, the maximum value of management entrenchment is obtained from exploratory factor analysis of 12 variables (CEO duality, financial expertise and CEO industry, board compensation, managerial ownership, tenure, and CEO stability, board independence, financial expertise

Table 2. Descriptive statistics of variables

variable	obs	Mean	Std. dev	Min	Max
lniaegi	768	6.479	0.931	2.170	8.289
lnafee	706	7.605	1.862	3.245	14.390
a_nar	768	0.943	0.232	0	1
atenure	768	3.762	3.981	1	16
achange	768	0.346	0.476	0	1
size	768	14.247	1.526	10.533	19.374
loss	768	0.133	0.339	0	1
lev	768	0.611	0.264	0.090	4.003
qtobin	768	1.940	0.944	0.789	7.719
ROA	767	.0091	0.583	-12.273	2.618
growthsales	768	0.207	0.520	-0.845	7.705
ROE	768	0.226	0.868	-16.845	6.888

and board industry, correlation and board effort) is 13.7023 and its minimum is -5.3463.

4.2. The results of the unit root test of variables

By analyzing the unit root of variables, we realized that all variables are at no unit root (stationary). The obtained LM statistic for each variable is reported in Table 3. All variables are stationary and have no unit root.

Table 3. The results of the Hadri unit root test

Variable	Level	Variable	Sig.
Ln AEG	0.3542	LnAfee	1.0000
A_NAR	0.2984	ATenure	0.1985
AChange	1.0000	Size	0.7409
Loss	0.2389	Growth Sales	1.0000
ROA	0.1589	LEV	0.3158
Q-Tobin	0.7902	Age	0.5468
ROE	0.9402		

Note: the null hypothesis is the absence of unit root in variables. LM statistic is reported.

4.3. Inferential test

Hypothesis 1 estimation

Model (1) is used for testing the first hypothesis, the results of which are depicted in Table 4:

$$AEG_{it} = a_0 + a_1A_NAR_{it} + a_{23}ATenure_{it} + a_{34}Achange_{it} + a_4Size_{it} + a_5Loss_{it} + a_6LEV_{it} + a_7Q - Tobin_{it} + a_3ROA_{it} + a_9Growth. sales_{it} + a_{10}ROE_{it} + a_{11}Age_{it} + a_{12}YEAR_{it} + a_{13}INDUSTRY_{it} + \varepsilon_{it}$$

In order for model estimation, we should determine whether the data are pooled and panel using the F test. This test's null hypothesis shows that data are pooled, and H1 indicates that data are pooled. If performing the F test H0 is rejected, the question raised here is that using which models of random effects or fixed effects do the model is analyzable, determined by the Hausman test. Regarding the pooled test results presented in Tables 4 and 5, the null hypothesis concerning pooled data is rejected for the model at a 99% confidence level. Hence, the panel data model should be used for model estimation. According to Table (4) and (5), the Hausman test statistic based on the estimation is 140.83 and 386.58 for the research models. Therefore, the probability level of 0.000 and 0.000 is smaller than χ^2 the table's value, and the null hypothesis is rejected. So, the fixed effects model is used as the most appropriate model for both study models.

Table (4) shows a positive and significant relationship between the auditor's narcissism and the audit expectation gap. Its p-value is 0.033, less than the 0.05 significance level with the coefficient of 0.880, which confirms the presence of such a relationship. Moreover, the results of model (1) testing according to Table (4) illustrates that there is a negative and significant relationship between auditor change and audit expectation gap because its p-value is 0.008 less than the 0.05 significance level with the coefficient of 0.244, which confirms the presence of such a relationship. On the other hand, the results of Table (4) reveal that there is no relationship between tenure and audit expectation gap at 95% confidence level.

Table 4. The results of the model (1) estimation

lniaegi	Coef	Std.Err	z	p-value
A_NAR	0.880	0.405	2.17	0.033
Atenure	-0.023	0.014	-1.71	0.087
Achange	-0.244	0.093	-2.64	0.0008
Size	0.023	0.008	2.74	0.006
Loss	-0.522	0.221	-2.36	0.018
LEV	0.002	0.001	3.64	0.000
Qtobin	-0.018	0.004	-5.01	0.000
ROA	-1.106	0.420	-2.63	0.009
Growthsales	0.021	0.003	6.90	0.000
ROE	0.161	0.082	1.97	0.049
Age	0.009	0.002	5.39	0.000
_con	6.240	0.721	8.65	0.000
F-limer	F(110,446)	2.20		
	p-value	0.000		
Hausman	Chi2(11)	386.58		
	p-value	0.000		
Number of obs	568			
R-sq	0.4072			

The level of significance of the test is 95%

Hypothesis 2 estimation

A multivariate regression model is used for testing the second hypothesis:

$$\begin{aligned} \ln Afee_{it} = & a_0 + a_1 A_NAR_{it} + a_{23} A_Tenure_{it} + a_{34} A_change_{it} + a_4 Size_{it} + a_5 Loss_{it} \\ & + a_6 LEV_{it} + a_7 Q - Tobin_{it} + a_8 ROA_{it} + a_9 Growth.sales_{it} + a_{10} ROE_{it} \\ & + a_{11} Age_{it} + a_{12} YEAR_{it} + a_{13} INDUSTRY_{it} + \varepsilon_{it} \end{aligned}$$

According to Table 5, since the p-value is 0.000, less than 0.05 significant level, and its coefficient is -0.011, there is a negative and significant relationship between auditor's narcissism and audit fee. Besides, the results of model (2) test, based on Table 5, show a positive and significant relationship between change and tenure of auditor and audit fee, because the p-value is 0.006 and 0.000, respectively less than 0.05 significance level and the coefficient are 0.022 and 0.009 which is indicative of a positive and significant relationship.

As can be seen in Table 4 and 5, the results of the robust model (1) estimation are presented. In both panel data models, four classic econometric hypotheses are investigated, and reliable results are reported. These four hypotheses include linearity among variables, exogeneity of descriptive variables, the variance of homogeneity, and lack of serial autocorrelation among disruptive components. Given the applied regression, the intercept of the first model is significant for firms. The intercept of the first model is 6.420 with the p-value of 0.000, which is significant at the 99% level, but the p-value of the second model 0.148 and not significant at the 95% level. By comparing the two models, we can say that the first model outperforms the second model. The R^2 of the first model is 0.4072 and 0.3493 for the second model. Hence, the first model has more descriptive power over the second one.

Table 5. The results of the model (2) estimation

Inafee	Coef	Std.Err	z	p-value
A_NAR	-0.011	0.002	-4.49	0.000
Atenure	0.009	0.002	4.15	0.000
Achange	0.022	0.008	2.74	0.006
Size	0.703	0.120	5.86	0.000
Loss	0.252	0.114	2.21	0.027
LEV	0.529	0.267	1.98	0.048
Qtobin	0.069	0.026	2.66	0.008
ROA	-0.088	0.053	-1.65	0.099
Growthsales	-0.018	0.004	-5.01	0.000
ROE	-0.071	0.028	-2.58	0.010
Age	0.085	0.031	2.77	0.006
_con	-2.540	1.758	-1.44	0.148
F-lmer	F(127,566)	15.13		
	p-value	0.000		
Hausman	Chi2(11)	140.83		
	p-value	0.000		
Number of obs	705			
R-sq	0.3493			

The level of significance of the test is 95%

5. Conclusion

Auditor's narcissism is one of the auditors' psychological characteristics, causing an individual's performance to be affected in the related career because such people consider themselves superior to others. Hence, such a phenomenon is entangled with constant effort and performance enhancement in some people while, at the same time, such a feature by creating a sense of pride and false superiority can debilitate the performance (Raskin and Terry, 1998; Olsen and Stekelberg, 2015; APA, 1994). The payment such people ask for their performance is under the influence of such a phenomenon. Thus, we expect a narcissistic auditor to be significantly associated with the expectation gap and audit fee. Accordingly, the present study aims to assess the relationship between auditor's narcissism and expectation gap and audit fee. In this regard, the results of hypothesis testing show that there is a positive and significant relationship between auditor's narcissism and expectation gap, and the relationship between auditor's narcissism and audit fee is negative and significant, which means the increase of narcissism in the auditor would lead to the growth of expectation gap between auditor and users. In contrast, this feature in the auditor contributes negatively to the audit fee. These results are in line with that of Cohen et al. (2010). They declare that auditor's narcissism brings about the decline of audit quality because the decline of audit quality increases the audit expectation gap. Therefore, we can claim that an auditor's narcissism can lead to the audit expectation gap growth. Moreover, the study results contrast with that of Zhuang (2018), who asserts that audit firm partners' narcissism significantly enhances audit quality by increasing the auditor's independence instead of the auditor's qualification. This can be due to various reasons, including the declined market share of audit firms in the emerging markets and the competitiveness of the audit market in the developing countries are among the factors which lead to the drop in audit quality and following that the audit fee and the increase of audit expectation gap because competition in the audit market would increase the bargaining power of the employers and audit firms, to preserve their clients, work in collusion with the employers and even lower their payments in some cases (Archambeault and DeZoort, 2001). Hence, in developing countries, including Iran, such conditions are quite natural.

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