

## The Effect of Changing the Audit Committee Chair on the Audit Quality, Auditor's Opinion Type and Audit Fee

Akram Afsay\*<sup>ORCID</sup>

Assistant Professor in Accounting, Farabi Colleges, University of Tehran, Qom, Iran.  
a.afsay@ut.ac.ir

Mohammad Kashanipour<sup>ORCID</sup>

Associate Professor in Accounting, Farabi Colleges, University of Tehran, Qom, Iran.  
kashanipour@ut.ac.ir

Alireza Jamshidi<sup>ORCID</sup>

Master's Student in Accounting, Farabi Colleges, University of Tehran, Qom, Iran.  
jamshidi.alireza@ut.ac.ir

### Abstract

**Purpose:** This study examines the relationship between the change of the audit committee chairman on audit quality, the type of auditor's opinion, and the audit fee.

**Method:** In order to achieve the goal of the research, a sample equal to 142 companies admitted to the Tehran Stock Exchange during the period of 2018 to 2023, equivalent to 710 company-years, was analyzed using multiple regression analysis based on combined data.

**Results:** The findings indicate that the change of the head of the audit committee has a negative relationship with audit quality. In addition, the findings showed that the change of the chairman of the audit committee has a positive and significant effect on the audit fee. Also, in this study, no significant relationship was found between the change of the chairman of the audit committee and the type of auditor's comments.

**Conclusion:** Based on the findings, it can be concluded that the new heads of the audit committee are aware of their supervisory shortcomings, therefore they demand the use of more audit procedures from the independent auditor, which leads to an increase in the audit fee. However, it seems that the increase in audit procedures cannot compensate for the supervisory deficiencies associated with the change of audit committee chairpersons and, as a result, the reduction of audit quality.

**Contribution:** The findings of this research can be considered by regulatory bodies, company managers, independent auditors, shareholders and other stakeholders, when the chairman of the audit committee changes.

**Keywords:** Change of Audit Committee Chair, Audit Quality, Auditor's Opinion Type, Audit Fee.

### Research Article

**Cite this article:** Afsay, Kashanipour & Jamshidi (2025) The Effect of Changing the Audit Committee Chair on the Audit Quality, Auditor's Opinion Type, and Audit Fee, *Journal of Financial Accounting Knowledge*, Vol.11, NO.4, Winter: 123-144.

**DOI:** 10.30479/jfak.2024.20735.3226

**Received on** 5 August, 2024      **Accepted on** 20 September, 2024

© The Author(s). 

**Publisher:** Imam Khomeini International University.

**Corresponding Author:** Akram Afsay ([a.afsay@ut.ac.ir](mailto:a.afsay@ut.ac.ir))

## **Introduction**

The audit committee, as one of the oversight bodies within the company, is becoming an important mechanism in corporate governance. Therefore, efforts to identify what constitutes an effective audit committee continue unabated. Improving audit committee effectiveness requires further research on the specific characteristics of the audit committee. Studies investigating the effectiveness of the audit committee have mainly focused on the characteristics of the audit committee. These studies show that the composition of the audit committee members has a major impact on the audit and its results. However, no study has been conducted to date to examine the impact of changes in the composition of the audit committee. This is while changes in the composition of the audit committee may lead to changes in the characteristics of the audit committee and possibly affect the audit and its results. Since the audit committee chair, as a leader, is more responsible than other members for the proper performance of the committee's oversight duties and plays a critical role in the effectiveness of the audit committee, this study focuses on the change of audit committee chair. The audit committee chair acts as a link between the audit committee, management, internal auditors, and independent auditors. The purpose of this study is to reduce the research gap related to the impact of audit committee member change. Specifically, it examines the impact of audit committee chair change on audit quality, auditor opinion type, and audit fees.

## **Materials and Methods**

The present study is a descriptive correlational study in terms of its fundamental objective and the relationship between variables. The data and information used are historical and retrospective. The statistical population of this study includes all companies listed on the Tehran Stock Exchange from 2018 to 2023. Using the systematic exclusion method, the statistical sample of the study includes all companies that meet the following conditions: 1. they are not part of financial intermediary companies such as banks, insurance companies, leasing companies, and investment companies. 2. The information required for the study is available. 3. They do not have a change in the fiscal year. Given that discretionary accruals and the modified Jones model are used to measure audit quality, the condition of at least six companies in each industry was considered as another limitation. The final sample of the study consisted of 710 company-years in a 5-year format, 142 companies, and 13 industries. The research hypotheses were tested based on the combined data using multivariate regression.

## **Results and Discussion**

In order to assess audit quality, four important criteria were used: auditor tenure, auditor size, discretionary accruals, and type II error using the principal component analysis (PCA) method. In the PCA method, a principal component is formed equal to the number of variables under study. Each principal component is a normalized linear combination of the four variables under study. As you can see in Table 3, the first and second principal components have more eigenvalues and explain about 67 percent of the total variance in total. The first principal component, which has an eigenvalue greater than one, has the highest explanatory power and is considered as a criterion for audit quality in the present study. Before estimating the models, the Levine, Lin, and Cho test was used to detect the stationarity of the continuous research variables. A probability value below 5% confirmed the stationarity of the research variables. Since time and sections were controlled using year (5 years) and industry (13 industries) variables, there was no need to perform tests for selecting the appropriate estimation model. In order to estimate the research models, the variance inflation factor (VIF) test, which is one of the prerequisites in estimating the collinearity problem in multivariate models, was performed. The VIF statistic of all explanatory variables was found to be less than 5 and was identified as desirable. Since the third model is based on logit regression, there is no need to examine the classical assumptions. In order to examine the classical assumptions of the other two models, the Durbin-Watson statistic of the first and second models, 1.136 and 1.943, respectively, indicate the absence of autocorrelation between the error values in the research models. After estimating the first and second models, the Brush-Pagan test was performed to examine the heterogeneity of the error values. A significance level of less than 5% of this test showed the existence of variance heterogeneity of error values, which was resolved by the generalized least squares (GLS) method. In this way, when estimating, weight coefficients were assigned to the model and using the robust standard error, variance heterogeneity and autocorrelation of errors were resolved.

## **Conclusions**

The present study extends the literature on audit committee chairpersons by examining the impact of audit committee chairperson change on audit quality, auditor opinion type, and audit fees. Because few studies in this area have addressed the impact of audit committee chairperson characteristics, audit committee chairperson change, and especially the impact of this change on audit quality, auditor opinion type, and audit fees, has not been considered so far. The findings indicate that audit committee chairperson change can affect audit quality and audit pricing. Specifically, the results indicate that audit committee

chairperson changes are negatively and significantly associated with audit quality. This finding suggests that the new audit committee chairperson's low knowledge and experience of the company outweighs the potential positive impact that audit committee chairperson change may have on his or her independence. These findings are consistent with the results of studies by Braswell (2018), Hillebrandt and Ratziger (2021), and Kamran et al. (2016). According to the findings, the change of audit committee chair is positively and significantly related to audit fees, which indicates that new audit committee chairs request the independent auditor to apply more audit procedures to compensate for their lack of knowledge and awareness of the company. These findings are consistent with the results of studies by Hillebrandt and Ratziger (2021) and Azizkhani et al. (2023).

## References

- Abernathy, J.L., Beyer, B., Masli, A., & Stefaniak, C. (2014). The association between characteristics of audit committee accounting experts, audit committee. *Advances in Accounting*, 30(2), 283-297.
- Azizkhani, M., Hossain, S., & Nguyen, M. (2023). Effects of audit committee chair characteristics on auditor choice, audit fee and audit quality. *Accounting and Finance*, 63(3), 3675-3707.
- Afsay, A. (2024). The Effect of Financial Expertise and Experience of the Audit Committee Chair on Auditor Selection, Audit Fees, and Audit Quality. *Empirical Studies in Financial Accounting*, 21(81), 273-306. doi: 10.22054/qjma.2024.78707.2549 (in Persian)