

Research on the Relationship between Auditor's Gender and Audit Fees

Jinfeng Zhang*

School of Accounting, Guangzhou College of Commerce, Guangzhou, Guangdong, China

**Corresponding Author.*

Abstract: This thesis aims at how the auditors' gender affects audit fees. Due to the economic system's ongoing innovation in recent years, auditing has become a sophisticated and professional activities with rising hazards. Auditors are to blame for failing to identify these issues in a timely manner, as there has been a substantial rise in the number of investors and lenders who have lost money because of business bankruptcies or financial fraud in recent years. Auditors would increase audit fees when they consider the auditees are at high risk. Moreover, more and more academics then started to focus their research on the micro level, looking at the connection between an auditor's personality traits and their response to audit risk. Studies on behavioral auditing have shown that auditor characteristics have a big impact on how well auditors perform. Based on the agency theory of audit demand, the hypotheses development is put forward between audit fees and auditors' gender in this study. The study collects secondary data and analyze it completely. Besides, all the data processing and calculation process of the empirical study were completed by excel and stata15 which is elaborated. The CSMAR database is the sole source of information for this study. At last, 2,098 China listed companies in Shenzhen and Shanghai Stock Exchange whose accounting deadline is from 2013 to 2022 are selected as the research samples. It is concluded that Audit fees charged by female auditors are much higher, therefore auditors' gender has a significantly positive effect on the audit fees. Strategists, regulators, and users of financial information can all profit from the findings. This study can offer a useful foundation for the development of an industry team and the training of auditor talent.

Keywords: Gender; Audit Fees; Financial Information; Personality Traits

1. Introduction

The likelihood of auditors issuing non-standard audit opinions and audit fees rising relative to companies with lower audit risk levels are positively correlated with the risk level of listed corporations. The audit fee is fixed at the start of the audit but may be changed later if certain conditions lead to an unanticipated rise in the audit effort ^[1]. A number of actions must be completed by auditors in order to create an overall assurance, or attestation opinion. To do this, the auditor's personality and skill set, among other things, affect the results. Numerous authors have expressed the value of individual heterogeneity in the audit process. Therefore, it would appear possible that the auditor's personal qualities could have an impact on the caliber of the audit being conducted. The value of an audit service, which is a type of labor service good, is determined by the socially necessary labor time required to publish audit opinions. All users are well aware of the impact of decision-making in today's world, where auditing is a well-established career. Many academics then started to focus their research on the micro level, looking at the connection between an auditor's personality traits and their response to audit risk. In order to develop new techniques and viewpoints, it is therefore possible to incorporate elements of social psychology into the research, such as a person's own emotions, thinking processes, mindset. Studies on behavioral auditing have shown that auditor characteristics have a big impact on how well auditors perform, which is in accordance with findings from psychological literature ^[2]. Hence, this study aims to explore the relationship between auditors' gender and audit fees.

1.1 Problem Statement

All of the auditor's efforts to confirm the

information, including verification, inventory management, and internal control testing, are included in the audit input. Auditors will inevitably adopt more careful working practices to assure audit quality and will expand substantive auditing processes to prevent audit failures in order to protect their own interests [3]. Meanwhile, Utary also thought that putting forth little effort would lead to failure [4]. Besides, exploring the influences of numerous factors on audit risk at the macro level, some researchers have gradually changed the focus of their audit risk research to the micro level and have begun to investigate the impact of auditors' individual qualities on audit risk. This is due to the fact that the audit process as a whole, which is highly subjective, involves an excessive amount of professional judgement. Thus, an auditor's personality traits will slightly influence their judgement and the audit risks they are exposed to. People are easily influenced by their surroundings and emotions at the micro level, such as in the case of auditors' personal traits. Cameran et al. look at demographic factors that have been used in previous research on audit partners, such as gender, degree type, years of experience, which can also be a proxy for age, and the busyness of the auditor, number of clients, as well as variables that have not been looked at before, like the quality of the university attended [5]. Auditors must have strong language communication and written expression skills in addition to having a thorough understanding of the financial and accounting management systems used in various areas and having mastered auditing under various management styles [6].

1.2 Research Questions & Research Objectives

The following research questions are put forward according to the above research background and the gaps existed in the current studies.

RQ: How do the auditors' gender affect their risk response behavior?

The objectives of this study are as follows:

RO: To explore the relations between auditors' gender and audit fees and to further enrich the research literature on individual characteristics of auditors, by grouping the data according to the unique traits of each person of auditors.

1.3 Significance of Study

In the first place, this paper outlines the important concepts of auditor risk response behavior and explores the behavior changes that auditors may make when faced with different gender. In the second place, the findings suggest that identifying specific auditors may give investors and regulators access to additional information. Users of financial information, regulators, and policymakers can all benefit from the findings. It's like some research says that in terms of their potential for influencing policy, their findings imply that regulators who are worried about auditors' inclination to assume audit risk ought to pay more attention to each auditor's individual background [7]. At last, the findings of this study can improve the theoretical underpinnings of prior research on behavioral accounting in developing nations. We should concentrate on the auditors' subjective aspects, such as their personal qualities like gender, in order to obtain a good audit report or to make the auditing environment more fairly and orderly.

2 Definition of Terms

2.1 Auditing Fees

Auditing Fees are also the primary source of income for accounting firms' auditors. The first portion of an audit charge is often the audit cost, which includes the salaries of the auditor, audit assistant, and other audit professionals as well as costs for printing data, transportation, and lodging. The second element of an audit fee is the risk premium. Auditors may run the danger of an audit failing when performing audit services, and if this happens, they may be subject to administrative sanctions and legal action. Auditors will demand monetary reparation for the anticipated loss. Lastly, it has the regular operational profit of the accounting firm.

2.2 Auditors' Gender

Auditors' Gender is about that there are more female auditors than male auditors, *ceteris paribus*, in order to issue GCOs and female auditors provide higher-quality audits as a whole especially when the clients are significant or high-risk [8].

2.3 Previous Related Studies

Garcia-Blandon et al. examined the relationship between the gender of the auditor and the quality of the financial reports of clients employing a

sample of Swedish and Finnish enterprises, and they have found a correlation between the quality of the financial reports of clients and the gender of the auditor often produce financial reports of a higher level ^[9]. Haynes raw a connection between the continuous fight to increase the proportion of women working in accounting and the necessity for critical and reflective gender study ^[10]. The primary estimation findings indicate a negative or positive relationship between auditor busyness and auditor education level and audit quality. The detrimental impact of auditor workload on auditor quality is reduced by auditor formal education level. According to Gul, Wu, and Yang, there was a significant correlation between the variation in audit quality and the rank, experience, education, and political affiliation of each individual auditor ^[11]. They discover that social ties reduce audit quality using the comprehensive measures of audit quality. This is evidenced by the fact that auditors who are socially connected to the engagement are more likely to have lower earnings quality, receive positive audit opinions, and report modest profits than those who are not. Furthermore, Qi et al. discovered that personal features of individual auditors, such as audit partner's status, gender, accounting major, and auditing experience, might reduce the social-tie effect on audit quality ^[12]. A risk-averse auditor will err on the side of caution by being more inclined to resign when faced with higher estimation risk. Finally, the researcher anticipate that a risk-averse auditor will work harder and demand a higher risk premium when the estimation risk is higher. As a result, the study forecast a positive correlation between estimation risk and audit fees. This presumption, however, might not always be accurate given that audit companies can get professional indemnity insurance to cover legal damages ^[13].

2.4 Theories Related to Study

This study is based on the following seven theories including the higher order theory, the agency theory of audit demand. The audit demand is created by social forces, not external pressures, in line with agency theory of audit demand, which is the shared demand of principals and agents. After improving the standard of internal control, Ni et al. discovered that audit costs might be decreased by implementing equitable incentives to suppress

agency issues ^[14]. Due to the asymmetry of information in the current securities market, it is challenging for investors to effectively evaluate the management quality of listed companies. As a result, independent third-party auditors are needed to audit the financial reports released by listed companies and issue audit opinions. The audit demand is created by social forces, not external pressures, according to the agency theory of audit demand, which is the shared demand of principals and agents. The auditor's job in the audit agency relationship is to execute implicit social oversight by reducing the information asymmetry between the owner and the operator, assessing the operator's business performance, and issuing the audit report. The complexity and ambiguity of social and economic life have heightened both the audit's difficulty and risk. Maintaining the order of the market economy depends increasingly on raising awareness of audit risk and preventing audit risk, which calls on auditors to possess a particular level of independence and professional competence. Personal traits like education level and professional skill will have an impact on the auditor's judgement ^[15]. The owner and agent as the major actors are represented in the agency theory as a relationship based on contracts that take place between members of the company. In contrast to the agent, who is tasked by the owner with managing the business, the owner is the one who directs the agent to act on his or her behalf.

2.5 Hypothesis Development

The gender gap has also been extensively researched in the auditing industry. The study's conclusion is that both male and female auditors must have a high level of ethical awareness, independence, and experience in order to maintain objectivity in all aspects of auditing ^[16]. Garcia-Blandon et al. offered solid and dependable evidence in favor of a female auditor's beneficial influence on the quality of audit services ^[9]. The results were not influenced by the fact that men and women typically audited various customer kinds, notwithstanding what their data indicated. In addition, the gender effect starts to show up the first year a female spouse replaces a male auditor.

Hardies, Breesch, and Branson noted that Belgian businesses paid female auditors a higher audit, and this data could be analyzed to determine the audit quality ^[17]. Compared to male auditors, female auditors produce audits of

greater quality. The probability of a decline in the stock price of the audited company decreases with audit quality.

The gender inequalities have an impact on auditing efforts. This shows that female auditors or audit partners are more devoted and take their work seriously. It can be suggested, based on earlier research, that ethical behavior, degrees of preparedness, levels of confidence, and risk tolerance differ noticeably between male and female. They tend to be more cautious and decrease the importance level while also gathering more audit samples.

According to psychological studies, women are more risk-averse and cautious while handling the hazards associated with audits than men are. In terms of gender, sociological and psychological research demonstrates that men and women have very different views regarding risk. Numerous studies have found that, in many circumstances, women are more circumspect than men. The audit quality is therefore better. Women are anticipated to devote more time to obtaining and analyzing data, which will eventually increase the veracity and value relevance of accounting data ^[18]. Existing research demonstrates that women are less risk-taking and more committed to their jobs, have higher moral standards and a greater sense of social responsibility ^[19].

Hence, the hypothesis development is put forward: Female auditors charge more auditing fees significantly.

3. Methodology

3.1 Data Collection Procedures

2,098 China listed companies in Shenzhen and Shanghai Stock Exchange whose accounting deadline is from 2013 to 2022 are selected as the research samples.

The CSMAR database is the sole source of information for this study. All of the financial information gathered for the independent variables and dependent variable calculations come from CSMAR, a popular database, named as the "China Security Markets & Accounting Research" from where we are able to identify certain auditors.

3.2 Measurement

3.2.1 Audit Fees

In this study, Audit Fees, is an indicator of auditors' risk response behavior, which is the

natural logarithm of audit fees as Hu et al. did ^[20]. In our samples, the audit fees are not only the domestic audit fees, but also the overseas audit fees. The data is collected from the total audit fees. To make the data more stable, the natural logarithm of audit fees is applied in this study.

Audit fees are almost universally used in existing research to gauge auditor risk response. The natural logarithm of the audit charge is used to calculate it ^[21]. Audit fees, is measured in this way in this study.

3.2.2 Gender

According to Cao, et al., they set the variable Gender_order. Gender_order is an orderly multinomial variable ^[22]. If both of a listed customer's CPAs are female, Gender_order is 2; if one is female and the other is male, it is 1; if both are male, it is 0. A larger value of Gender_order indicates a larger role for women in the CPA mix. To avoid the effect of mixed gender combinations, they further eliminated such samples and set the variable Gender_dummy. Gender_dummy is a dummy variable, with a value of 1 if both CPAs of a listing client are female and 0 if both CPAs are male. In this study, some companies have three sign auditors, so if three of a listed customer's CPAs are female, gender is given the value of 3; if both of a listed customer's CPAs are female, gender is given the value of 2, if one is female and the other is male, it is 1; if all are male, it is 0.

3.2.3 The Control Variables

Inv is inventory balance/ending total assets; Rec equals accounts receivable balance/ending total assets; Lev is total liabilities/total assets; Liq equals current assets/current liabilities; Roa is (total profit + finance expenses)/average balance of total assets. The data is all from CSMAR.

4. Data Analysis

4.1 Variables and Model Design

In this essay, empirical research methods are combined to explore the issue. All of the variables in this study have been explained above including the dependent variable, the independent variables and the control variables. Specially, the dependent variable is the audit fees. The independent variables are the auditors' gender. To facilitate demonstration, every variable is transformed into an acronym by the researchers. To put it another way, AF stands for audit fees. Auditors' gender are referred to as

GD. The control variables include Inv, Rec, Lev, Liq and Roa.

In this study, the following model is built to evaluate each hypothesis:

$$AF = \beta_0 + \beta_1 GD + \beta_2 Inv + \beta_3 Rec + \beta_4 Lev + \beta_5 Liq + \beta_6 Roa + \varepsilon$$

4.2 Descriptive Analysis

The outcomes of this paper's descriptive statistics are displayed in Table 1. Each data is reserved to two decimal places.

Table 1. Descriptive Statistics of Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
AF	20,980	13.91	0.75	11.85	21.42
GD	20,980	0.61	0.66	0	3
Inv	20,980	0.15	0.14	0	0.94
Rec	20,980	0.11	0.10	0	0.81
Lev	20,980	0.37	1.07	-0.19	148.63
Liq	20,980	2.34	3.47	-5.13	144
Roa	20,980	0.04	0.84	-29.02	108.35

It can be obtained from the Table 1 that there are 20,980 observations for each variable. For audit fees, the minimum value is 11.85, while the maximum value is 21.42. As shown in the Table 1, the gender's maximum value is 3, which shows that there are 3 female auditors. The minimum value is 0, which shows that all the auditors are male. While the mean value is 0.61 and the median value is 1 so that it shows more and more auditors are female. Exactly, the number for only male auditors is 10,159.

4.3 Multiple Linear Regression Analysis

The multiple regression analysis using fixed effect model is also shown in the Table 2.

Table 2. Analysis of Regression

Variables	GD	Inv	Rec
AF	0.0128* (1.83)	-0.4740*** (-5.25)	0.0291 (0.26)
	Lev	Liq	Roa
	0.0036 (1.39)	-0.0182*** (-5.91)	-0.0131*** (-9.43)

Note: ***, ** and * are significant at 1%, 5% and 10% levels respectively.

As can be seen from the above Table 2, except for the two control variables, namely Rec and Lev, the relationship between the other independent variables, and the control variables with the dependent variables is significant. It's just that each variable has a different level of significance.

From the Table 2, the coefficient of association between gender and audit fees is 0.0128, which is greater than 0. At the same time, the relationship is significant at 10% level. Therefore, female auditors charge more auditing fees significantly so that hypothesis is correct. If the auditors' gender is female, the audit fees will be charged more.

5. Conclusion and Recommendations

5.1 Conclusion

The main inquiry in this research is whether the gender of the auditors' influence audit fees. And the researcher wants to find out what effect do the unique traits of auditors have on audit fees. In conclusion, how the auditors react to risk is influenced by their individual characteristics. Each characteristic has a different influence on audit fees. The audit fee will increase in proportion to the number of female auditors on the audit team in order to offset the audit risk. In light of this, companies should raise audit fees when there are female auditors in order to lower audit risks.

5.2 Theoretical and Practical Implications

Policymakers, regulators, and users of financial information can all profit from the findings. According to some study, regulators who are concerned about auditors' propensity to take on audit risk should focus more on the individual backgrounds of auditors because of their power to influence policy (Amir et al., 2014).

Besides, this study can offer a useful foundation for the development of an industry team and the training of auditor talent. In China's audit market, audit quality has always been a sensitive subject. Then, the results of this investigation help strengthen the theoretical foundations of earlier studies on behavioral accounting in developing countries. In order to obtain a good audit report or to make the auditing environment more fairly and orderly, we should focus on the subjective aspects of the auditors, such as their personal qualities like gender, educational background, professional experience, position, political affiliation, big four status or not, major, and graduate school.

5.3 Limitations

According to the research item, because of our nation's listed firms' audits. Most of the chosen auditees have reasonably easy access to the

necessary information. The audited units are non-listed corporations, and all are listed companies. Consequently, there aren't many personal traits shared by auditors for unlisted companies. The effect on the caliber of audits is less evident.

5.4 Recommendation for Future Research

Our study covers only ten years period (2013–2022) due to time constraints. Future research may use longitudinal data to examine the trend of and explore how the auditors' individual characteristics and risk response is influenced by audit risk level. Additionally, this paper is based on secondary data, and the measurement method of each variable is somewhat monotonous. Future research can use other measurement methods to further focus on the personality characteristics of auditors. Besides, since we only observe Chinese listed firms, the question of whether our results are applicable to other settings with different environment is unknown. Therefore, future studies may test the relationship between audit partners' gender, auditor quality and clients' value relevance in our article in different countries and use other characteristics of audit engagement partner.

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