A Proposed Framework of Audit Fees Determinants in Kurdistan Region

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Abstract

This paper examines the factors influencing the determinants of audit fees in the Kurdistan region/ Iraq. The major purpose is to develop a plausible proxy that can be beneficial in practical work. In order to do this, a prior related literature will be studied before the possible associated factors are analyzed and assessed. Furthermore, research questionnaire is distributed among experienced auditors, accountants and financial officers of client firms, and academics in the field. The hypotheses of this paper aim to investigate the significance of three major groups of factors which might considerably influence audit fees; audited firm attributes, auditor attributes, and market attributes. The results show that all three proposed categories of factors are significant and might be taken in consideration when audit fees are determined.

Keywords: Audit fees, Auditee attributes, Auditor attributes, Market attributes.

1.   Introduction

The total fees charged by the auditors for performing an audit service on the accounts of an audited company can be defined as audit fees (Chersan et al. 2012). It is further argued by Hamilton et al. (2005) that the amount of audit fees are total of all fees covered by audited company. According to the International Standards on Auditing, auditors ensure the accuracy and fair representation of financial statements. To remunerate their financial activities, they should be paid a fee, named audit fees, by the firm who require the service. However, the controversial issue is the independence of auditors that should not be effected by the fees they are paid. Hence, it is required by the International Standards on Auditing that audit fees must be calculated in an objective way to preserve the independence of auditors.

There is a controversial argument in recent years in accounting on the issue of audit fees. The important question that researchers seek for a conceivable answer is how auditors determine the amount of audit fees expected to collect from the audited firm. The determination of the audit fees can be based on the prior service agreement between the auditor and the audited firm in accordance with some factors which are locally studied in the globe. Audit size, risk, complexity, profitability, are the factors which can be related to the audited company while auditor size, experience, reputation, industry specialisation, and whether it is from the big-four group are the factors that can identify the characteristics of the auditors. These factors are the most common ones that examined by prior researches in order to develop a proxy for the determinants of audit fees. Numerous findings have been claimed by different studies from dissimilar countries which might experience different financial and economic circumstances as well.

Suseno (2013) defines three indicators contributing to the determinants of audit fees in Indonesia which are; size, risk and complexity of the financial statements of the audited company. Similarly, Lyon and Maher (2005) suggest the same three factors using data from Securities and Exchange Commission in USA. Additionally, Joshi & AL-Bastaki (2000) observe profitability as one another vital factor underlining audit fees. The factors which represent the attributes of auditor are also found to be significant by other researchers; such as, size (Firer and Swartz, 2006), industry expertise (Simon, 1995), experience (El-Gammal, 2012), and reputation (Craswell et al., 1995). Moreover, some other factors related to the market such as competition are considered by researchers like (Sanders et al., 1995).

This research aims to examine all three groups of factors, auditee, auditor and market characteristics, in order to propose a reasonable framework for the determinants of audit fees by audit companies in the Kurdistan region.

2.   Literature Review

The current study aims to propose a plausible framework for the determinants of audit fees in the Kurdistan Region-Iraq. There have been several investigations into the factors affecting the level of audit fees. Hobgood and Sciarrino (1972) listed a number of factors which may have impact on the determinants of audit fees. These factors were: size and experience of auditor firm, audit scope, size and location of audited firm, hourly rate paid to internal audit staff, fees paid to certified public accountants, industry expertise, and relation of audit fees to sales size.

Nonetheless, it is also believed that Simunic (1980) has developed one of the first theories concerning the determinants of the audit fees. He determines that the effort taken by auditor firm might affect the level of

audit fees. This connection should be taken seriously since any audit mission requires pursuing set of obligatory principles and rules prescribed by professional auditing organizations. Furthermore, Simunic (1980), and Pratt and Stice (1994) underline the risk bared by audited firm (client) as another considerable factor in the determinants of audit fees.

Chersan et al. (2012) examines the existence of a circular causality in the connection between audit fees and the financial performance. The analysis is based on a sample of the first 100 top fortune companies listed on The New York Stock Exchange, excluding the insurance and investment funds sector companies. The research proves the existence of the expected relationship. It is claimed that high level of financial leverage and decline in net margin, which can be signs of business failure, lead to bear a higher audit risk which is charged by the auditor.

The research of Firer and Swartz (2006) examines audit fee structure in South Africa over four year starting from 2000 to 2004. The paper examines several variables to develop a model for audit fees determinants. The variables are auditee size, risk, complexity, agency theory and size of auditor firm. The study strongly confirms that audit fees are significantly associated with all the proposed variables in the model. Moreover, a prior research carried out by Simon (1995) for examining the same issue in South Africa for the 1991 financial year. This research demonstrates the variable of industry expertise which is examined to have a negative impact on the level of audit fees. Furthermore, it is argued that service request during busy season and short time lag are likely to increase audit fees (Hay et al., 2006; Baldacchino et al., 2014).

Suseno (2013) claims that there are three major indicators contributing to the establishment of audit fees when conducts a research in the case of Indonesia. The factors are confirmed to be the size of an auditee, risk, and complexity. These three factors are also raised by other researchers such as Lyon and Maher (2005); Gonthier-Besacier & Schatt (2007); Quick et al. (2008); Choi et al. (2009); and Vu (2012) in different countries. Additionally, Joshi & AL-Bastaki (2000) suggest profitability as one another vital factor underlining audit fees. However, none of risk and profitability attributes found to be significantly correlated with audit fees in the case of United Arab Emirates (Hassan & Naser, 2013).

From the present literature, it might be stated that no research has been observed examining the determinants of audit fees in Iraq generally and in the Kurdistan region particularly. Therefore, this paper takes that opportunity and examines the factors influencing the level of audit fees in the Kurdistan region. In addition, it proposes a framework based on the International Standards on Audition aiming to be utilized by external auditors as a basement.

3. Theoretical Framework and Hypothesis Development

The current research studies the factors which may have influence on the determinants of audit fees in the Kurdistan region. It furthermore aims to raise a framework which is likely to provide a plausible insight for the auditors and auditee firms into that important issue, audit fees determinants. Depending on the prior studies, the factors influencing audit fees determinants might be commonly categorized into three groups: client (auditee) characteristics, auditor characteristics, and other factors which are related to the market and economy. It can be witnessed that the prior research has mostly concentrated on the characteristics of clients (auditee firms) while few research study the other factors separately. The client firm characteristics which have studied widely are size, complexity, risk, industry type, and profitability of the audited companies. It is proved that higher audit fees reflect the greater audited firm's size (Gonthier-Besacier & Schatt 2007; Chen & Hsu 2009), risk (Danielsen et al., 2007; Wong 2009), complexity (Weiner 2012; Kikhia 2014), industry type (Hassan & Naser 2013), and profitability (Joshi & AL-Bastaki, 2000; El-Gammal, 2012).

Despite the few research concerning the characteristics of auditor companies, it is not rational to abandonment the significance of the characteristics of the auditor companies in the determinants of audit fees. The audit firm characteristics which might influence audit fees are suggested in some prior studies, such as, size, experience, industry expertise, reputation, competition, and whether the audit company is one of the Big Four. It is claimed that audit fees vary depending on audit firm's size (Kikhia, 2014), experience (El-Gammal, 2012), reputation (Craswell et al., 1995), industry expertise (Simon, 1995; Hay et al., 2006), and competition (Maher et al., 1992; Sanders et al., 1995).

Next part illustrates the results and arguments of the prior studies regarding the factors in determining audit fees. Based on the findings of that literature and expectations concerning the determinants of audit fees in the Kurdistan region, hypotheses of the current research will be developed.

3.1 Auditee Characteristics
3.1.1 Auditee Size
It can be perceived that one of the most dominant factors across the literature is auditee size. Additionally, it might be counted as the most significant factor influencing audit fees. Size of auditee is basically measured by number of employees, total assets, sales and revenue of the client (auditee). Auditee size has a direct and

important impact on the effort taken and the time spent by auditor in the auditing process (Chaney et al., 2000). The larger the client is the more audit services would be required (El-Gammal, 2012). That means a greater effort and more time are needed for auditing larger clients in comparison with the smaller clients. Therefore, it is predicted that larger clients pay higher audit fees (Carson et al, 2004; Hassan et al., 2014; Baldacchino et al., 2014), controlling the other variables. Hence, it would be expected that:

H_{1a}: there is a positive association between audit fees and auditee size.

3.1.2 Auditee Complexity

Number of subsidiaries and branches of a company internationally and locally can be an appropriate measure of the complexity of the auditee (El-Gammal, 2012). Amba and Al-Hajeri (2013) further argue that scope of operations such as number of transactions, the sum of account receivable and inventory can similarly be observed as the factor of measuring the complexity of auditee firms. The balance sheet composition ratios are also concluded to be insignificant by Chan et al., (1993). It is contended that firms with more complexity would be charged higher fees for certifying its financial statements by auditors (Liu, 2007; Al-Harshani, 2008). Since, auditing a company that possess a diversified subsidiaries and operations require additional audit work, more time and extra audit testing. This consequently requires additional fees to be bared by auditee. Hence, it is expected that:

H_{1b}: there is a positive relationship between audit fees and auditee complexity.

3.1.3 Audit Risk

Audit risk is also considered as another important factor in audit fees determinants. According to AICPA (1983), audit risk illustrates the probabilities of issuing an unqualified opinion by auditors on materially misrepresented financial statements. Issuing wrong judgments will in turn cause the auditor to face audit failure and then litigations (Kreutzfeldt and Wallace, 1986; Graham and Messier, 2006). To avoid that, extra attention needs to be taken by auditors while auditing financial statements associated with high risks. Thus, auditors would charge additional fees in such circumstances to compensate for the extra risk (Wong, 2009). Chersan et al. (2012) employ financial leverage (gearing ratio) and net margin to measure risk of the auditee, claiming that the higher the financial leverage and the lower the net margin observed the higher the risk associated with that company would be. Hassan et al. (2014), moreover, found a positive relationship between financial leverage and audit fees. Additionally, Ho and Ng (1996) use liquidity ratio in addition to gearing ratio. Other factors and ratios such as inventory and return on total assets are used by Carson et al. (2004). Its claimed that gearing, liquidity, loss history and scope of inventories are generally accompanying with the potential for auditee financial distress (Baldacchino et al., 2014), which would in turn lead to more errors in financial statements and then possibility of audit failure and litigations. Thus, audit fees would increase with the rise of audit risk (Danielsen et al., 2007). Hence, it is assumed that:

H_{1c}: there is a positive correlation between audit fees and audit risk.

3.1.4 Industry Type

Corporate industry type factor is also pointed to have a potential influence upon audit fees. Some industries need less audit procedure whereas others require more. Hassan and Naser (2013) argue that manufacturing companies require higher level of audit quality than non-manufacturing companies because of high agency costs in that sector. Gonthier-Besacier and Schatt (2007) observed that companies in IT sector have charged greater audit fees than companies in the other sectors in France. Likewise, Anderson and Zeghal (1994) claimed that companies in communication, transportation and utilities are paid less audit fees compare to companies from the other sectors in Canada. A possible reason could be the public pressure on more palatable industries, manufacturing industries for instance, to disclose detailed voluntary information (Tagesson, et al., 2009). This is associated with high audit fees because it might require hiring high quality auditors. Hence, audit fees charged by auditors are subject to be effected by industry type. Thus, it is hypothesized that:

H_{1d}: there is a strong relationship between audit fees and industry type.

3.1.5 Auditee Profitability

One other commonly considered factors in the determinants of audit fees is the profitability of auditee. This factor is studied in prior literature by several researchers, such as, Firth, 1985; Joshi and AL-Bastaki (2000); El-Gammal (2012); Kikhia (2014). Auditee profitability are likely to be measured by many ratios such as Net Profit Margin, Earnings Before Interest After Taxes (EBIAT), return on investment (ROI), return on equity (ROE), return on assets (ROA), return on capital employed (ROCE), and several more measures. Joshi and Al-Bastaki (2000) argue that high levels of profit are subject to require accurate audit testing. It is also obvious that additional audit process is associated with higher audit fees. Therefore, it can be hypothesized that:

H_{1e}: audit fees is significantly influenced by auditee profitability

3.2 Auditor Characteristics

3.2.1 Auditor Size

The impact of audit firm size is another issue which is widely examined across the literature. Auditor Size are

possibly measured based on the company's assets, the number of employees and market share. Based on the perspective of both auditors and auditee, El-Gammal (2012) found that auditor size based on number of employees is the least important factor influencing audit fees. Nonetheless, Choi et al. (2010) determine a significantly positive relationship between audit fees and audit firm size based on office size. Interestingly, many prior studies observe that there is a premium fees paid to Big (Big Four) audit firms in comparison with that fees paid to non-Big audit firms; (Balachandran and Simon, 1993) in Canada and (Anderson and Zeghal, 1994) in USA. They claim that large audit firm are expected to provide high audit quality which is consequently associated with premium fees. Conversely, no relationship between audit fees and audit firm size ("Big" vs. "non-Big" audit firm) is found in both South Africa (Simon, 1995) and Kuwait (Al-Harshani, 2008). Therefore, it is worthwhile to examine the influence of audit firm size in the Kurdistan region. It is hypothesized that:

H_{2a}: audit fees are significantly influenced by audit firm size.

3.2.2 Auditor Experience

Another important factor which has a potential impact on audit fees determinates is the number of years of professional experience for audit firm. This factor is examined in the literature and accordingly claimed to have a positive influence of the level of audit fees charged by auditors. More professionally experienced audit firms would charge higher audit fees than those who possess less working years of experience in the market (Ferguson et al., 2003; El-Gammal, 2012). Based on that confirmation: the current research expects that:

H_{2b}: there is a positive association between audit fees and auditor experience.

3.2.3 Auditor Reputation

The reputation of audit firm in the market can also be a considerable factor in the determinants of audit fees. Firms with high and wide reputation are likely to require higher level of audit fees compare to the fees required by their competitors with less reputation (Craswell et al., 1995). Therefore, this study examines this potential effect on audit fees by hypothesizing that:

H_{2c}: there is a positive correlation between audit fees and auditor reputation.

3.2.4 Industry Expertise

Auditor specialisation is examined as another controversial factor influencing audit fees. It is normally measured as the percentage of an industry that is audited by a specific auditing firm (Hay et al., 2006). However, Jiang et al. (2012) claim that an auditor could be an industry specialist if it owns a substantial portion of the market shares in that industry. Contrary results are observed in the prior literature regarding the influence of industry expertise on audit fees. Some researchers have found that a higher audit fee is charged by auditors who   specialised in a particular industry. Simon (1995) implies that generalized industry expertise might influence audit fees. Similarly, El-Gammal (2012) suggests that industry specialization has a high potential to influence the level of audit fees. This is also consistent with the findings of Craswell et al. (1995) which demonstrated that the development of auditor industry expertise is perceived to be costly and therefore it would in turn generate audit fee premium. Reasonably, they also claim that industry specialization is a measurement of the request for higher audit quality. Conversely, researchers such as Hay et al. (2006); Jiang et al. (2012) confirmed that audit fees might not be always affected by industry specialist. Therefore, this study aims to examine the effect of industry expertise on audit fees. Hence, it hypothesized that:

H_{2d}: audit fees are significantly influenced by auditor industry expertise.

3.3 Market and other Characteristics
3.3.1 Competition

Although prior studies has considered completion factor within auditor characteristics (Lin and Lin, 2009; El-Gammal, 2012), the current study believe that it should be counted as a characteristic of the market, since it describes the market condition. In opposition to most of the prior illustrated factors, competition tends to have a negative effect on the audit fees paid by auditee. Auditors who operate in a high competitive market oblige to decrease audit fees or at least do not charge audit premium fees (Sanders et al., 1995). Otherwise, their market share would be in danger of decline. Consistent with Maher et al. (1992) which found that audit fees decrease with the increase of competition in the market. Therefore, it is predicted that:

H_{3a}: competition has a significantly negative impact on audit fees.

3.3.2 Economic instability

During the time when the market passes through instability circumstances particularly regarding finance and economics, it is more likely that the dependence on accounting information is becoming fewer. Since the possibility of misrepresentation are becoming high. Therefore, the companies might not be willing to pay high audit fee. According to this reason, it is expected that:

H_{3b}: Economic instability results in decrease audit fees.

3.3.3 Level of dependence on accounting information

This can be considered as one of the significant factors of audit fees determination in undeveloped and even developing countries. Since supposed users of accounting information cannot fully trust in the representation of

the firms. The reason could be instability situations or poor of regulations and legacy. Consequently, the firms might not be willing to pay high audit fees in order to be accurately audited. Thus, this paper hypothesizes that:
H_{3c}: the lower the level of dependence on accounting information is, the lower the audit fee will be.

3.3.4 Strict local regulations
If it would be mandatory for the whole companies to be audited by reliable audit firms, the level of audit fees is expected to be increased in a particular country. Additionally, if there is a strict regulation regarding financial representations, the companies would be more cautious about their financial statements' fair and true representations. Thus, they are expected to pay high audit fees accordingly. Nevertheless, this is very controversy in most undeveloped and developing countries. Therefore, this study expects that:
H_{3d}: more strict local regulations are likely to increase audit fees.

3.3.5 Busy season
Another variable which is claimed to be significant by Francis and Stokes (1986) is busy season. This refers to the quarter after the end of the common fiscal year in the country which audit firms are work-loaded. It is expected that during such periods, audit fees are becoming higher than the normal times.
H_{3e}: Audit fees tend to be high during busy seasons.

3.3.6 Audit report lag
Audit report lag refers to the period between the end of the financial year and the audit report date Baldacchino et al. (2014). A short time lag might be associated with costly audit fees.
H_{3f}: fast audit service could require high audit fees.

4.   Research Methodology and data collection
This research aims to propose a reasonable framework for the determination of audit fees in Kurdistan Region. To achieve this objective, a research questionnaire is applied for data collection. The sample of the research is divided between three sub-samples which are Client firms, Auditor firms, and Academics in the field. The paper aims to take in consideration the perspectives of all those three groups in proposing the proxy. It also purposes to compare their point of view regarding the different attributes.

Research model:

Audit Fees Determinants	=	Auditee Attributes	+	Auditor Attributes	+	Market Attributes
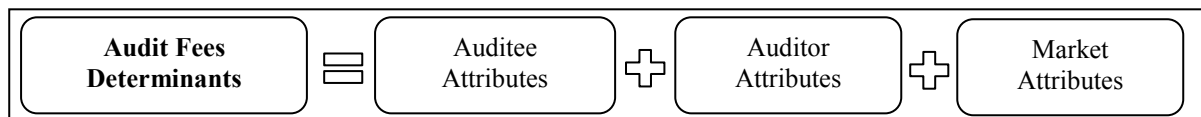
5.1 Descriptive Statistics
Sample was composed of 70 observations randomly. 58 questionnaires were returned, and the response rate was 82.8%. 79.3% of the respondents were male and the remainder were female. 58.6% were between 25-34 years old, 31.0% were 35-44 years old, and 10.04% were beyond 45 years old. The education level of the respondents varied: zero per cent were high school, 6.9% were diploma, 31.0% possess bachelor degree, and 62.1% hold postgraduate degree. The results of career title were as follows: 24.2% were accountant, 10.3% financial manager, 34.5% auditor, and 31.0% were academics in the field. The respondents' average years of work experience were as follow: 13.8% were less than 5 years, 41.4% were 5-10 years old, 17.2% were 11-15 years, and 27.6% were greater than 15 years.

5.2 Mean, Standard Deviation

Table (1): Auditee (Client) characteristics

Attributes	Questions	1 Fre. %	2 Fre. %	3 Fre. %	4 Fre. %	5 Fre. %	Mean	Std. dev.
Size	Number of employees	2 / 3.4	8 / 13.8	6 / 10.3	24 / 41.5	18 / 31.0	3.8	1.13
	Total assets	0 / 0.0	4 / 6.9	6 / 10.3	28 / 48.3	20 / 34.5	4.1	0.85
	Total sales and revenue	0 / 0.0	6 / 10.3	10 / 17.2	18 / 31.0	24 / 41.5	4.03	1.01
Complexity	No. of subsidiaries and branches	0 / 0.0	4 / 6.9	2 / 3.4	22 / 37.9	30 / 51.8	4.3	0.84
	Scope of operations	0 / 0.0	0 / 0.0	6 / 10.3	36 / 62.1	16 / 27.6	4.1	0.59
Audit Risk	Misrepresentation in Fin. Statements.	0 / 0.0	6 / 10.3	20 / 34.5	20 / 34.5	12 / 20.7	3.65	0.92
	Financial leverage	2 / 3.4	10 / 17.2	18 / 31.0	22 / 37.9	6 / 10.5	3.3	1.0
Industry	Industry category	0 / 0.0	10 / 17.2	14 / 24.1	26 / 44.8	8 / 13.8	3.5	0.93
Profitability	level of profitability as general	2 / 3.4	4 / 6.9	12 / 20.7	18 / 31.0	22 / 37.9	3.9	1.09
Total		6 / 1.1	52 / 9.9	94 / 18.0	214 / 40.9	156 / 30.1	**3.85**	**0.93**

The table (1) explains the responses of the whole observations regarding Auditee characteristics in which total arithmetic mean equals to (3.85) with a standard deviation of (0.93). Moreover, the mean of auditee characteristic is more than the general mean (3). This means that the auditee characteristics are agreed by the most of participations to be one of the main drivers in audit fees determination. Of the total respondents, 30.1% were strongly agree, 40.9% were agree, 18.0% were neutral, 9.9% were disagree and just 1.1% were strongly disagree on the auditee characteristics in general.

Specifically, number of subsidiaries and branches shows the higher arithmetic means (4.3) with a standard deviation of (0.84) compare to all the other arised factors. This means that the most of participation were strongly agree with this factor to be a reasonable factor influencing audit fees. According to the arithmetic means, the client attributes can be orderd regarding their influence on audit fees determinants as follows; Complexity, Size, Profitability, Industry type, and Audit risk. All are accepted as significant factors based on their respective result of means; 4.20, 3.98, 3.90, 3.50 and 3.47. This is consistent with the first five expectations (hypotheses H1s) of the research regarding client attributes.

Table (2): Auditor characteristics

Attributes	Questions	1 Fre. %	2 Fre. %	3 Fre. %	4 Fre. %	5 Fre. %	Mean	Std. dev.
Size	Number of employees	6 / 10.4	10 / 17.2	6 / 10.4	18 / 31.0	18 / 31.0	3.5	1.3
	Market share	2 / 3.4	10 / 17.2	8 / 13.8	26 / 44.9	12 / 20.7	3.6	1.1
	Big Four	0 / 0.0	2 / 3.4	14 / 24.1	28 / 48.4	14 / 24.1	3.9	0.79
Experience	No. of years working	0 / 0.0	4 / 6.9	2 / 3.4	30 / 51.8	22 / 37.9	4.2	0.81
Reputation	Reputation in market	0 / 0.0	1 / 1.7	2 / 3.4	21 / 36.2	34 / 58.7	4.5	0.65
Expertise	Industry expertise	0 / 0.0	6 / 10.3	8 / 13.8	30 / 51.7	14 / 24.2	3.8	0.89
Total		8 / 2.3	33 / 9.5	40 / 11.5	153 / 43.9	114 / 32.8	**3.9**	**0.92**

The table (2) explain the significance of auditor characteristics regarding audit fees determinants. The total arithmetic mean equals to (3.9) and standard deviation equals to (0.92). Moreover, the mean of auditor characteristic is more than the general mean (3), this means that the auditor characteristic are agreed by the most of participations to be significant. Of the total respondents, 32.8% were strongly agree, 43.9% were agree, 11.5% were neutral, 9.5% were disagree and just 2.3% were strongly disagree on the auditor attributes.

According to the arithmetic means, the auditor attributes can be ordered regarding their level of impact on audit fees determinants as follows; auditor reputation, auditor experience, industry expertise, and auditor size which their respective means are; 4.50, 4.20, 3.80, and 3.67. This suggests that the proposed attributes regarding auditors are agreed on to be significant factors. Therefore, the four hypotheses of H2s can be accepted.

Table (3): Market characteristics

Attributes	Questions	1 Fre. %	2 Fre. %	3 Fre. %	4 Fre. %	5 Fre. %	Mean	Std. dev.
Competition	Level of completion in the market	0 / 0.0	6 / 10.3	14 / 24.2	26 / 44.8	12 / 20.7	3.7	0.9
Instability	Financial and economic Instability	0 / 0.0	12 / 20.7	8 / 13.8	30 / 51.7	8 / 13.8	3.5	0.97
Acc. Info.	Level of dependence on Acc. Inf.	0 / 0.0	6 / 10.3	12 / 20.7	16 / 27.6	24 / 41.4	4.0	1.02
Regulation	Strict local regulations	2 / 3.5	12 / 20.7	12 / 20.7	26 / 44.8	6 / 10.3	3.37	1.04
Time	Busy seasons	2 / 3.5	10 / 17.2	12 / 20.7	26 / 44.8	8 / 13.8	3.48	1.04
Report lag	Short time lag	0 / 0.0	2 / 3.5	16 / 27.6	32 / 55.1	8 / 13.8	3.79	0.71
Total		**4 / 1.1**	**48 / 13.7**	**74 / 21.3**	**156 / 44.8**	**66 / 19.1**	**3.64**	**0.94**

The table (3) shows the significance of market characteristics which in the total arithmetic mean equals to (3.64) with a standard deviation of (0.94). This is higher than the general mean by 0.64 which indicated that the auditor characteristic are agreed on to be significant by the most of participations. Of the total respondents, 19.1% were strongly agree, 44.8% were agree, 21.3% were neutral, 13.7% were disagree and just 1.1% were strongly disagree on the market characteristics as important factors.

Based on the arithmetic means, the market characteristics can be ordered regarding their influence on audit fees determinants as follows; level of dependence on accounting information, short time lag request, level of competition in the market amongst auditors, market instability, busy seasons, and strict local regulations. Their respective arithmetic means are; 4.0, 3.79, 3.70, 3.50, 3.48, and 3.37. Meanwhile, their respective standard deviations are; 1.02, 0.71, 0.9, 0.97, 1.04, and 1.04. This proposes that the anticipated characteristics concerning market are agreed on to be significant factors and has significant impact in the determination of audit fees. Therefore, the hypotheses of H3s can be accepted.

Additionally, the predicted effects of the three proposed characteristics in the audit fees determination can be ordered. First is auditor attributes with a mean of 3.9 and standard deviation 0.92. Second is auditee attributes with a mean of 3.85 and standard deviation 0.93. Whereas third is market and other attributes with a mean of 3.64 and standard deviation 0.94. Since the three proposed groups of attributes' results are significant characteristics in audit fees determination, the research purposes to compare the point of view of sub-samples on the level of importance regarding every particular group of attributes. This is shown in table (4).

On the base of the results, this research proposes the following module for audit fees determination which could suit the market of Kurdistan region:

AUDITFEE = b0 + b1 AUDITOR ATT. + b2 AUDITEE ATT. + b3 MARKET ATT.

Where:

AUDITFEE = audit fee paid to the independent auditor

AUDITOR ATT. = characteristics of client firms; Size, Experience, Reputation, and Industry expertise.

AUDITEE ATT. = characteristics of client firms; Size, Complexity, Audit risk, Industry type, and Profitability

MARKET ATT. = Competition, Instability, reliance on accounting information, Strict regulations, busy seasons, Short time lag.

Table (4): Attribute groups from the Sub-Samples' point of view

Characteristics		Clients' point of view	Auditors' point of view	Academics' point of view
	No.	20	20	18
	%	34.5%	34.5%	31%
Auditee attributes	Mean	4.01	3.84	3.79
	Std. Dev.	0.82	0.84	0.92
Auditor attributes	Mean	4.03	4.01	3.66
	Std. Dev.	0.94	1.20	0.76
Market and Others	Mean	3.60	3.68	3.72
	Std. Dev.	0.95	0.86	1.14

Table (4) shows the distribution of the sample over three sub-samples almost equally which are auditee firms, auditor firms and academics in the field of accounting and auditing. The first two groups are dealt with as stakeholder in audit fees determination method while the third group is considered as a neutral sample and expertise in the field. From the viewpoints of both auditee and auditor firms, the factors are ordered based on their importance to have impact as such; auditor attributes (4.03 & 4.01 means) then auditee attributes (4.01 & 3.84 means) and then market and other attributes (3.6 & 3.68 means). However, academics in the field believe that auditee attributes (3.79 mean) should have the largest influence while auditor attributes (3.66 mean) should have the smallest impact in the process of audit fees determinants.

6. Statistical tests
In order to trust on the data and results of this paper, some statistical tests are applied as follows:

6.1 KMO and Bartlett's Test

Table (5) KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.689
Bartlett's Test of Sphericity	Approx. Chi-Square	852.998
	df	210
	Sig.	.000
Reliability Statistics	Cronbach's Alpha	80.0

Table (5) demonstrates some important parts of the output: the Bartlett's test measure of sphericity and the Kaiser-Meyer- olkin measure of sampling adequacy and it is between 0 and 1. The result was 0.689, which falls into the range of being great. Moreover, Bartlett's test of sphericity were statistically significance because the p-value were less than the common alpha (α =0.05). As a result, factor analysis is appropriate for these data. Moreover, the result of Cronbach's Alpha was 80.0.

6.2 Communalities
Both final and initial communalities have been extracted for each question asked in each group category of the attributes. This means, before and after extraction has been checked. The results of this test demonstrate that before extraction the communalities for all variables equal to one. Furthermore, after extraction the communalities for all variables were differently changed for example, the result of was 0.897 regarding "Auditors who have high reputation charge higher audit fees compare to the others in the market". This means that 89.7% of the variance associated with that proposed point is common. The lowest result shows 68.7%, which is for "Auditee firms who owns larger number of subsidiaries and branches are charged higher audit fees than the others who don't". Finally, the amount of variance in each variable that can be explained by the retained factors is represented by the communalities after extraction.

6.3 Eigenvalues and Squared Loadings (h2)
In the table (6), the eigenvalues associated with each linear factor (component) before and after extraction can be seen. Before extraction have 21 linear components within the data set and also displays the eigenvalue in terms of the percentage of variance explained. Thus, factor 1 explains 22.20% of the total variance which is the most importance factors in order to determine a good factor to have a more effectiveness. This means the first few factors explain relatively large amount of variance and the total explain of all factors were 80.3%.

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Table (6): Factor Analysis

Component	Initial Eigenvalues			Extraction Sums of h^2			Rotation Sums of h^2		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.662	22.200	22.200	4.662	22.200	22.200	2.784	13.257	13.257
2	2.792	13.295	35.495	2.792	13.295	35.495	2.539	12.089	25.345
3	2.137	10.178	45.673	2.137	10.178	45.673	2.216	10.553	35.899
4	2.001	9.531	55.203	2.001	9.531	55.203	2.204	10.496	46.394
5	1.761	8.385	63.589	1.761	8.385	63.589	1.934	9.209	55.603
6	1.286	6.125	69.714	1.286	6.125	69.714	1.909	9.091	64.694
7	1.189	5.663	75.377	1.189	5.663	75.377	1.843	8.778	73.472
8	1.034	4.925	80.302	1.034	4.925	80.302	1.434	6.830	80.302
9	.908	4.322	84.624						
10	.713	3.397	88.021						
11	.584	2.781	90.802						
12	.424	2.018	92.820						
13	.390	1.856	94.677						
14	.320	1.524	96.201						
15	.275	1.310	97.511						
16	.201	.959	98.470						
17	.134	.640	99.110						
18	.088	.421	99.531						
19	.069	.330	99.861						
20	.017	.082	99.943						
21	.012	.057	100.000						

6.4 Rotated Component Matrix

The component matrix before rotation was shown in the table (7). This matrix contains the loadings of each variable onto each factor. We requested that all loadings less than 0.4 be suppressed in the output and so there are blank spaces for many of loadings. This matrix is not particularly important for interpretation. The factor of auditor size regarding number of employees is an important factor from all participation's viewpoint and also it has more effect than others because it is in the first factor. Its loading is 0.842. Next, size of client firm based on number of employees is the second important factor because it is in the first factor and its loading is 0.778.

Table (7): Rotated Component Matrix

Factors	Component							
	1	2	3	4	5	6	7	8
X_1	.778	.070	.220	-.009	-.009	.149	.253	-.240
X_2	.610	-1.805	.505	.011	.055	.236	-.068	.258
X_3	.052	.237	.092	.807	.340	.074	.042	.038
X_4	.200	.170	.120	.159	.115	.739	.133	.051
X_5	.052	.014	.070	.240	.160	-.001	.806	-.064
X_6	-.097	.727	.350	-.087	.225	-.108	.291	.138
X_7	.317	.290	.144	-.043	-.028	-.738	.307	-.049
X_8	-.246	.354	.341	.005	.435	-.589	-.082	.060
X_9	.245	-.132	-.022	.825	-.045	.182	.269	.011
X_{10}	.842	.095	-.158	.121	.144	-.070	-.003	.275
X_{11}	.205	-.204	.171	.295	.755	.059	.103	-.145
X_{12}	.326	.687	-.166	-.092	.055	.160	.274	-.063
X_{13}	.692	-.123	.201	.488	.144	-.039	-.078	-.040
X_{14}	-.050	-.005	.799	.328	.170	.162	.298	.075
X_{15}	.219	.063	.836	-.070	-.089	-.155	-.078	.074
X_{16}	-.342	.616	.129	.475	-.140	.088	.181	.039
X_{17}	.066	.781	-.040	.117	-.115	-.134	-.362	.090
X_{18}	.094	.257	.296	.280	-.116	.471	.412	.200
X_{19}	.053	.003	.207	.021	-.124	.102	-.085	.863
X_{20}	.073	.109	-.097	.004	.892	-.006	.121	.023
X_{21}	.069	.291	-.087	.019	.162	-.032	.553	.607

7. discussion and conclusion

This paper studies the factors might influence the determination of audit fees in Kurdistan region. it aims to propose a framework scientifically which can be relied on practically. The study classifies the factors into three major characteristic categories which are the factors related to client (auditee) firms, factors related to audit firms, and other factors related to market, time and location. Using the foregoing analysis, this study reveals the significant factors which might have impact on audit fees determinants. This is consistent with the majority of previous studies that have been carried out in elsewhere and in different time. There are five auditee attributes that are proposed and found to be significant. Their respective order according to their significant levels is complexity, size, profitability, industry type, and audit risk respectively. However, the significant factors with regard to auditor attributes respectively are; reputation, experience, industry expertise, and firm size. Additionally, this current research found some other factors that could influence audit fee determination in Kurdistan. The factors related to the market are economic instability, level of dependence on accounting information, strict local regulation in addition to competition in the market, short time lag request and busy seasons factors.

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