An Examination of the Relationship between Weakness in Internal Control and Audit Fees with an Emphasis on the Moderating Role of Managerial Stock Ownership

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Abstract
Internal control is not an event or a specific state of affairs, but a set of accountable and comprehensive actions that penetrate and expand into all activities of the organization. There is an essential fact that the auditor should have full information about internal controls and their weaknesses in general in order to report to the unit as soon as they are observed and dealt with. Also, the weakness in internal controls of the company leads to increased uncertainty and the risk of falsehood in financial reporting. Companies approach higher audit quality to reduce the risk of reporting, which is right in companies with less managerial ownership and motivated by coherent shareholders, in which managers are probably due to the wrong choice of an accounting policy that occurs in the form of opportunistic behavior to serve their interests. Therefore, based on this argument, the purpose of this study was to investigate the effect of managerial ownership on the relationship between the weaknesses of internal controls and audit fees. The statistical sample consists of 86 listed companies of the Tehran Stock Exchange during 2012-2016. The results show that there is a significant relationship between the weaknesses of internal controls and audit fees. Also, low managerial ownership leads to the intensification of the relationship between the weaknesses of internal controls and audit fees. On the other hand, the results show that high managerial ownership leads to a weakening of the relationship between weaknesses of internal controls and audit fees.

Keywords: Weakness in Internal Controls; Managerial Ownership; Audit Fees

How to cite the article:

Introduction
Economic units need an effective internal control system in order to achieve short-term and long-term goals and accomplish missions and prospects, maintain financial power and profitability, deal with unexpected events and respond to respondents (capital owners, government, etc.). Internal control is not an event or a specific state of affairs, but a set of accountable and comprehensive actions that penetrate and expand into all activities of the organization. These actions occur in the scope of an organization’s operations continuously. They exist in an inclusive and integral way in the direction that governs and manages the organization (Sheri, 2007) [1]. The Securities and Exchange Commission requires the implementation of Section 404 of the Sarbanes-Oxley Act, which requires an internal control framework, usually the responsibility of the board.
of directors, and must have five components. Managers of institutions and organizations pay great attention to internal control systems because they know to a great extent that in the absence of an effective internal control system, satisfying the company’s primary mission, preserving profitability, and minimizing unexpected events is very difficult and a control system is a tool that makes them more confident about accounting figures and information (Arjmandnejad, 2006) [2]. Capital owners and other stakeholders in economic units think that internal controls are the means of achieving economic goals (Hassas Yeganeh and Natayej Malekshah, 2006) [3].

Internal controls have long been a subject of interest, especially after the 2002 scandals and the passage of the Sarbanes–Oxley section 404, addressing internal controls and management duties in establishing and maintaining an effective internal control system. Section 404 requires the management of companies to submit and maintain a report on internal control, along with the annual report [4]. The U.S. Securities and Exchange Commission’s regulations, in the form of Section 404, obligate the management of the company to disclose noteworthy changes to internal controls governing financial reporting during the last three months of the year. Under section 302 of this law, management must disclose all weaknesses in internal control in the quarterly and annual report (Sarbanes–Oxley Act). The explicit goal of Sections 302 and 404 of the Sarbanes–Oxley Act is that it notifies investors on revealing weaknesses of the internal control system that may raise financial errors and decrease managers’ ability to manage profits (Lambert et al., 1987) [5].

What is essential is that the auditor should have full information about internal controls and its weaknesses in general, so that as soon as they are seen and dealt with, he will find out the weaknesses in internal controls and report them to the unit under investigation. Some of the weaknesses of internal controls exist in most of the units under investigation, and some of the weaknesses are specific to private units, and therefore are not very general. They can only be exposed by watchful inspection of internal control systems (Nemat pajouh, 2002) [6]. Therefore, taking into account various studies, the more weaknesses the internal controls of the company have, the higher and the audit fees. Because a weakness in internal control systems leads to financial distortions and consequently increase the audit penalties and the company's business risk, in such a situation, in order to minimize audit risk, auditors increase audit fees [7,8,9].

On the other hand, the managers’ ownership literature shows that managers' interests are related to the company's financial reporting methods [10,11]. Distortion of financial and false reports is caused by agency problems and more significant information asymmetry between managers and shareholders at a time when there is a more significant conflict of interest between them [12]. Also, the weakness in internal controls of the company leads to increased uncertainty and the risk of distortion in financial reporting. Companies approach higher audit quality to reduce the risk of reporting, which is right in companies with less managerial ownership and motivated coherent shareholders in which managers are probably due to the wrong choice of an accounting policy that happens as opportunistic behavior to serve their interests [13]. When companies have a weakness in internal controls, the adverse effect of managers' incentives on reported misinformation will be more substantial, but when managers have more stocks in the company, the problems of agency in financial reports between managers and owners will be reduced. In this situation, managers minimize the risk of incorrect financial reports and improve changes in the company's profits due to higher ownership interest rates during the financial period. Therefore, according to a risk-based approach, the high stocks ownership of managers has expectedly a positive and significant effect on the relationship between internal control weaknesses and audit fees. Cheng and Warfield (2005) examined the relationship between managerial ownership and audit fees and found that high stocks ownership of managers' was related to auditors’ fees. Managers who own high stocks have long-term economic benefits in companies because the high ratio of managers' stocks depends on the value of the company overall [14].

Consequently, managers are more interested in reducing the risk of financial reports and improving the quality of information so that capital markets can assess their companies from an appropriate viewpoint. They more reliably reflect earnings-related information, so, by increasing ownership interests, they reduce corporate executives from the risks associated with the weaknesses of internal controls and demand higher quality audits to reduce the likelihood of distortion of financial statements and uncertainty to financial information, which in turn leads to a positive signal to investors about the quality of financial information in the report. Therefore, from the perspective of demand, companies with weaknesses of internal control and high managerial ownership are more likely to demand an audit that will be conducted with higher quality and this, in turn, will lead to an increase in audit fees, so managerial ownership positively has a significant relationship with the weakness in internal controls and audit fees. Accordingly, the
central question of the research is whether there is a significant relationship between the weaknesses of internal controls and audit fees. Also, will ownership of managers weaken the relationship between the weaknesses of internal controls and audit fees? If yes, what is the type of relationship?

It is expected that the results of this study can have the following scientific achievements and value-added:

First, the results of this study can expand the theoretical foundations of previous researches. Second, the research evidence will show how much managerial ownership in companies can affect the weaknesses of internal controls and reduce their audit fees, which as a scientific achievement, can provide useful information to investors, capital market legislators, and other users of accounting information. Finally, introducing a new research area for financial and accounting researchers, especially those who are active in the field of capital market studies.

**Research Theoretical Foundations and Empirical Background**

According to previous research on audit fees, there are two factors affecting the structure of audit fees [15]. The first factor is the client’s specific risk, which affects the auditor’s trading risk assessment (e.g., the risk of litigation or loss of credit due to ambiguous distortions); Both factors affect audit fees and premium risk estimation in the mentioned costs. Reynolds and Francis (2001) argue that the risk of reputation protection and litigation dominates auditor reporting behavior, and Johnson Bidard (2004) showed that when corporate governance in the company is weak, and the risk of profit manipulation in the company is relatively high, auditors seek to increase audit fees by estimating the extent of their proceedings [33]. Besides, previous studies provide evidence that corporate governance affects the audit fees process [16]. In 2002, Carso et al. stated that there is a positive relationship between independence, efficiency, and expertise of the company’s board of directors and audit fees [36]. Abbott et al. (2003) stated that the independence of the audit committee and the committee’s financial expertise had a positive relationship with audit fees [17].

According to the Sarbanes-Oxley Act (sections 302 and 404), internal controls have more focus on financial reports. Following these provisions of the law, management requires the evaluation of effective internal control and an independent auditor to audit internal controls and to verify the accuracy of the implementation of internal controls for management. Although adequate internal controls cannot eliminate all mistakes and probabilities of unimaginable accounting errors, it can reduce or limit managers’ ability to manage profits and the possibility of financial distortions. According to Hogan and Vince (2008), Hoytash et al. (2008) showed that audit fees are higher for companies with higher internal control weaknesses [18]. Ineffective internal controls increase the risk of unintentional financial reports caused by unintentional errors and unintentional accounting adjustments [19,32]. This may increase the risk of auditing, which encourages auditors to minimize the risk of auditing or to insure themselves to cover any liability issued by the audit and the losses incurred. Humersley et al. (2012) believe that companies with weaknesses of internal controls will significantly increase audit fees [20]. Therefore, according to the theoretical foundations, the research hypotheses have been formulated as follows:

First hypothesis: There is a significant relationship between internal control weaknesses and audit fees.

Second hypothesis: Low managerial ownership intensifies the relationship between internal control weaknesses and audit fees.

Third hypothesis: High managerial ownership weakens the relationship between internal control weaknesses and audit fees.

**Research Empirical Background**

In Mitra et al. (2017), a sample of 1578 companies-years from 2004 to 2010 was used to examine the effect of managerial ownership on the relationship between weaknesses of internal controls and audit fees. The results of their research showed that managers’ motivation to increase their stocks leads to the influence of the relationship between the weaknesses of internal controls and audit fees. In this way, managers, due to the increased motivation to increase their stocks for transparency of financial information, demand high-quality auditors to inform investors about the accuracy of the reported information, and this increases the audit fees, and on the other hand, whatever is weak in the internal controls of the company, leads to the audit risk of auditing, which in turn leads to an increase in audit fees. Accordingly, the results showed that managerial ownership has a significant effect on the relationship between the weaknesses of internal control of the company and audit fees. In a 2017 study, Jay et al. (2017) examined discretionary disclosure of information about the weakness in internal controls and profit quality in Chinese companies using a sample of 1,059 companies-years conducted during the period 2010-2011. The results of their research showed that the quality of profit, which has been measured using the criteria of Optional accrual items, has a significant relationship with voluntary disclosure of the weakness in internal controls of the company. In
their study, Amuha et al. (2017) investigated the weakness in internal controls and real earnings management using a sample of 1824 companies-year during the period 2004-2011 [35]. They investigated the weakness in internal controls under Section 404 of the Sarbanes–Oxley Supervision Act on companies with real profit management, and the results of their research showed that discretionary costs and abnormal production costs have a significant relationship with the independent Variable of internal control weakness. Their results argued that the higher the supervision of companies following section 404, on the other hand, the lower the real profit management. Salehi and Bahrami (2017) investigated the effect of internal controls on profit quality using a sample of 560 companies during the period 2009-2014 in a study conducted in Tehran Stock Exchange [21]. Their results show that real profit management reduces the ratio of profit to book value by making short-term and long-term commitments. Pulliam et al. (2017) investigated the effect of internal monitoring (internal controls) using audit data analysis on auditors' perception of audit quality, reassuring, and reasoning [22]. Their results showed that when the auditor uses audit data analysis, the auditor receives the minimum expected of the test techniques. In general, the results show that the use of advanced technology tools in auditing will increase the quality of internal control of companies, which affects the perception of auditors' quality and their reassuring. Tang Tan and Yu (2017) investigated the acceptance of management responsibility, local violations, and investors' reactions to internal control reports [23]. They investigated the common effects of two aspects in managers' explanations for the defects in internal financial reporting controls, and the results showed that when investors face external defects, they accept less responsibility than management and are more willing to invest in the company. When management accepts more responsibility than less responsibility, the impact of accepting management responsibility in the presence of internal defects is negligible. In his research, Li (2016) examined the weakness in internal controls and audit pricing in initial public offering companies [24]. The results of their research showed that the initial public offering with the weakness in internal controls in the company leads to an increase in audit fees. This means that auditors estimate audit fees according to the increased risk in internal controls, and these costs have a positive and significant relationship with the severity of the type of weakness in the internal controls of the company. Huang et al. (2014) investigated CEO turnover and audit pricing [25]. This study investigates the relationship between CEO turnover and audit fees. The results of their research show that companies with the forced initial public offering (such as the dismissal of managers) increase audit fees for audit institutions. The results also show that companies with the mandatory initial public offering of managers have significantly higher audit fees than companies that willingly submit their financial reports. Heichm and Khalid (2013), using a sample of 344 companies-year from 2007 to 2010, examined the effect of internal control quality on audit report delay [26]. Their findings showed that the quality of internal control reduces the audit report delay. In 2012, Jiang and Liu conducted a study entitled "Equity Incentives and Internal Control Weaknesses". They examined how the financial incentive effect of equity ownership encourages managers to maintain strong internal control at the company. The results of this study show that the motivations of shareholders strongly constrain most of the weaknesses of internal control at the company, but these weaknesses are more related to the motivations of the managers. Mansyf et al. (2011) studied the weaknesses of internal controls with audit fees. The results of their research show that companies that obey the regulatory rules of Section 404 of the Sarbanes–Oxley Act and have a high quality of internal control pay fewer audit fees. Biglar and Shah Mohammadi (2017) investigated the impact of internal control system weakness and internal auditor on investment efficiency and audit fees using a sample of 150 companies listed in Tehran Stock Exchange during 2011-2015 [34]. The results show that the existence of an internal auditor unit has a positive effect on investment efficiency and has a negative and significant effect on audit fees. However, the effect of internal control system weakness on investment efficiency and audit fees was not significant. Rezaei and Amiri Nik (2017) investigated the effect of ownership structure on the relationship between the quality of internal controls and earnings management using a sample of 112 companies listed in Tehran Stock Exchange during 2011-2015 [27]. The results show that there is a significant relationship between the quality of internal controls and earnings management. The results also showed that institutional ownership and managerial ownership affect the relationship between internal control quality and earnings management. With a sample of 104 companies listed in Tehran Stock Exchange during 2009-2015, Saedí and Dastgîr (2017) investigated the impact of internal control weakness and controlling shareholder gap on investment efficiency [28]. The results show that there is a significant relationship between controlling shareholder gap and investment efficiency. In other words, the more the controlling
shareholder gap, the more inefficiency of investment. Also, the results show that there is a significant relationship between the weakness in internal controls and investment efficiency, which means that if there is a weakness in internal controls or an increase in its number, the inefficiency of investment increases. Zakalvandi and Paydar (2016) investigated the relationship between corporate governance and audit fees. The results showed that low corporate governance structure is associated with low financial reporting quality and internal control problems. Weak corporate governance probably increases the level of inherent risk assessment and control risk. Increasing these risks affects the audit budget, which increases the independent audit fees. In this research, the mechanisms of corporate governance are investigated, and its relationship with audit fees is discussed. Mashayekhi et al. (2016) investigated the effect of internal audit quality on independent audit fees [29]. The results show that internal audit competency, i.e., duration of the job and its presence in the company, has a negative relationship with audit fees, and there is no relationship between computational and IT skills, professional and scientific certifications and training hours, and audit fees. In general, the results indicate the fact that there is no relationship between internal audit quality and independent audit fees. They are taking into account 97 companies listed in Tehran Stock Exchange. Hajiha and Mohammad Hosseinnejad (2015) examined the factors influencing the weaknesses of internal control [30]. Using combined regression analysis, it was indicated that there is a positive and significant relationship between stock price logarithm in the number of stocks, the ratio of inventory to total assets and losses with weaknesses of internal control, and exchange rate fluctuations, income growth, the market value on book value, Altman z-score and total debt on assets have no relationship with internal control weaknesses. Consequently, it can be said that the critical weaknesses in the auditor’s report are affected by some financial metrics.

Research Methodology

This research is applied research in terms of purpose. In terms of data collection method, it is a quasi-empirical retrospective study in the field of positive accounting research using multivariate regression and econometric models. The statistical population of this study consisted of companies listed in Tehran Stock Exchange during 2012-2016, and the selected sample of the study is companies that have the following conditions:

1- Companies that have the date of listing in the Stock Exchange Organization before 2012 and are also on the list of stock exchange companies until the end of 2016.
2- In order to increase being comparable, their fiscal year will be ending in March.
3- They have not changed the activity or fiscal year during the declared years.
4- Not part of investment companies and financial intermediaries (investment companies were not considered in the statistical population due to the different nature of the activity and financial structure with other companies).
5- The interruption of transactions in these companies during the mentioned period is not more than three months.

After examining the companies regarding the mentioned characteristics, a total of 86 companies were selected as the sample of this study. In data collection, Rahavard Novin software and database of Securities Exchange Organization (Codal) and web site related to exchange organizations were used. After collecting the required data, the hypotheses were tested using EViews software version 10.

Variables and Model

The variables under study, including dependent, independent, moderating, and control variables, were measured as follows:

Dependent Variable: Audit Fees

Audit fees are handled using the natural logarithm of the total costs received by auditors from the company [13]. In order to measure this variable in the present study, notes attached to financial statements in the field of administrative, public, and sales costs under the heading of audit fees have been used.

Independent Variable: Weaknesses of Internal Controls

The critical weaknesses of internal controls, which are obtained from the report of independent auditors, are used. In order to measure the weakness in internal controls as an independent variable. According to the internal controls in financial reporting approved by Tehran Stock Exchange since 2012, the auditor of the company has been obliged to review the internal controls of the company and disclose the cases indicating that the internal controls are not respected or not implemented appropriately in the audit report. Therefore, the focus of the present study is the following sections of the legal responsibilities of the corporate audit report. Hence, like Mansyf et al. (2012), Mitra et al. (2017), and Hajiha et al. (2017), if the company has at least one weakness in the internal control system, it is one and otherwise zero [13,31].
Moderating Variable: managerial stock ownership

Low managerial stock ownership = it is 1 If the managerial stock ownership is between 0 and 0.05, managers will have low managerial stock ownership in companies that number one and otherwise zero (Mitra et al., 2017).

High managerial stock ownership = it is 1 If the managerial stock ownership is between 0.25 and 1.00, managers will have high managerial stock ownership and otherwise zero (Mitra et al., 2017) [13].

Control variables: The control variables of the present study were based on Mitra et al. (2017). Company Size: the total assets of the company estimated by natural logarithm.

Leverage: the ratio of total liability to total assets of the company.

Rate of Return on Assets: the ratio of net profit to total assets of the company.

Auditor’s acceptable comment: it is 1 If the auditor’s comment is acceptable, otherwise zero.

Auditor’s Conditional comment: it is 1 If the auditor’s statement is conditional, otherwise zero.

Auditor duration: it is 1 If the auditor has the first year of the investigation in the company, otherwise zero.

Delay in auditor report: The delay in the audit report is calculated using the number of days of the economic unit’s investigation, are reduced. Therefore, the results obtained from descriptive statistics in companies indicate this claim. Middle, the audit fee, which has been measured as a dependent variable in the present study, means that half of the companies in the sample have received more than 684 million Rials from the employer company, and the other half have received less than that. Some of the companies that have received this amount of fees are Electric Khodro Shargh, Alumrad, Behmaram, Toos Wool Weaving, Saipa Azin, West Cement, Indamine Shock Absorber, etc. The maximum and minimum are indicators of

Table 1. Descriptive statistics of research variables

<table>
<thead>
<tr>
<th>Type</th>
<th>Dependent Variable</th>
<th>Independent Variable</th>
<th>Moderating Variable</th>
<th>Research control variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Audit fee</td>
<td>Weakness in internal control</td>
<td>Managerial stock ownership</td>
<td>Rate of return on assets</td>
</tr>
<tr>
<td>Symbol</td>
<td>Audit Fee</td>
<td>ICW</td>
<td>MGR</td>
<td>ROA</td>
</tr>
<tr>
<td>Average</td>
<td>9131.6</td>
<td>4413.0</td>
<td>3993.0</td>
<td>1142.0</td>
</tr>
<tr>
<td>Middle</td>
<td>844.6</td>
<td>0.0000</td>
<td>3300.0</td>
<td>1012.0</td>
</tr>
<tr>
<td>Maximum</td>
<td>5083.9</td>
<td>0.0001</td>
<td>9880.0</td>
<td>5533.0</td>
</tr>
<tr>
<td>Minimum</td>
<td>6051.4</td>
<td>0.0000</td>
<td>0.0000</td>
<td>7973.0</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>8958.0</td>
<td>4965.0</td>
<td>3157.0</td>
<td>1458.0</td>
</tr>
<tr>
<td>observations</td>
<td>430</td>
<td>430</td>
<td>430</td>
<td>430</td>
</tr>
</tbody>
</table>
central tendency and show that the maximum fee received by the auditor from the company are 9.508 and the minimum fee is 4.605, for pipe and machine manufacturing companies and behshahr industries development, respectively.

### Statistical Tests

Analysis of heteroscedasticity: Wald test was used to investigate the heteroscedasticity. The results of the Wald test heteroscedasticity for the companies listed in Tehran Stock Exchange are detailed in Figure (2). Based on the results presented in Figure 2, all incorrect sentences in the research models have variance dissimilarity. To solve this problem, the generalized least squares regression (EGLS) method has been used.

#### Table 2. Pagan-Cook and Weisberg test results for heteroscedasticity

<table>
<thead>
<tr>
<th>Model</th>
<th>(Ho) Null hypothesis</th>
<th>χ² in Pagan-Cook and Weisberg test</th>
<th>p-Value</th>
<th>Test result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>homoscedasticity</td>
<td>89578/3</td>
<td>0.0000</td>
<td>H₀ is rejected (heteroscedasticity)</td>
</tr>
<tr>
<td>2</td>
<td>homoscedasticity</td>
<td>74687/3</td>
<td>0.0000</td>
<td>H₀ is rejected (heteroscedasticity)</td>
</tr>
</tbody>
</table>

The results of the autocorrelation test: Durbin-Watson statistic is used to test the lack of autocorrelation in the model. Since this statistic is based on the findings of Figure (4 - 6), it is between 1.5 and 2.5. If this statistic ranges from 1.5 to 2.5 (H₀), the lack of correlation between the remainder is accepted and otherwise (H₀) is rejected. That is, it can be accepted that there is a correlation between the remainder. According to the obtained statistics, it can be accepted that there is no positive or negative correlation in this model.

F-Limer test: F-Limer test has been used to select one of these methods: panel data or integrated data. The statistics of this test determine whether there is a separate intercept for each company. If there is heterogeneity or individual differences in observations, the panel data method is used, and otherwise, an integrated data method (combined regression) is used. The F-Limer test statistic is as follows.

\[
F = \frac{(R_{FE}^2 - R_{POL}^2)/(n - 1)}{1 - R_{FE}^2/(nt - n - k)}
\]

Where:
- \(R_{FE}^2\) = The determination coefficient of regression with constant effects;
- \(R_{POL}^2\) = The determination coefficient of the combined regression model (common intercept);
- \(N\) = The number of cross-sectional observations;
- \(T\) = the number of research periods (number of years);
- \(N_t\) = total number of observations;
- \(k\) = the number of independent (explanatory) variables of the model.

#### Table 3. F-Limer Test Results

<table>
<thead>
<tr>
<th>Test type</th>
<th>Model No.</th>
<th>Model type</th>
<th>P-Value</th>
<th>DOF</th>
<th>Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-limer</td>
<td>1</td>
<td>Panel</td>
<td>0.0000</td>
<td>85/334</td>
<td>F= 06736/18</td>
</tr>
<tr>
<td>F-limer</td>
<td>2</td>
<td>Panel</td>
<td>0.0000</td>
<td>85/334</td>
<td>F= 72004/0/17</td>
</tr>
</tbody>
</table>

The calculated F is compared with F in the table, and if the null hypothesis (H₀) is rejected, the fixed effects method will be accepted. The results of the above test show that the significance level is greater than the test level, which indicates that intercept varies of different sections, and estimating the statistical results without the method, and based on the results obtained from the heteroscedasticity, each model will be used based on the generalized least squares method.

Hausman Test

After choosing the panel method by the F-limer test, the Hausman test was used to select one of the two methods: fixed or random effects. Hausman test has chi-squared asymptotic distribution, and its degree of freedom is equal to the number of explanatory variables (number of regressions). The H₁ hypothesis of this test indicates a significant difference in the estimated coefficients of two methods of fixed effects and random effects. If the H₁ hypothesis is accepted, the fixed effects method is used. Hausman test statistic is as follows:

\[
\chi^2 = (b - B)^T [(VAR(b) - VAR(B))^{-1}] (b - B)
\]

b= Estimated coefficients by fixed effects method;
B= Estimation coefficients by random-effects method.
According to the results of The Hausman test for research hypotheses, considering that the P-value <0.05, therefore, the null hypothesis is rejected. Rejection of the null hypothesis (H0) shows that the random effects method is unsuited, and the fixed effects method should be used.

Testing Research Hypotheses

<table>
<thead>
<tr>
<th>Table 4. Hausman Test Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test type</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Hausman 1</td>
</tr>
<tr>
<td>Hausman 2</td>
</tr>
</tbody>
</table>

Dependent Variable: Audit Fees
The accuracy of the results should be ensured before testing the research hypothesis, according to the obtained results. For this purpose, F-test was used to assess the significance of the model. Considering the probability of the calculated F statistic (0.0000), it can be claimed that the appropriate regression model is significant. According to the coefficient of determination, it can be claimed that about 76% of the changes in the dependent Variable of the model (audit fee) are explained by the independent and control Variable of the model. Also, considering the significance level less than (0.05), it can be stated that there is a significant relationship between the weaknesses of internal control of the company and the audit fees, and the calculated estimated coefficient (0.0220) indicates a positive relationship between them. Therefore, the first hypothesis of the study is confirmed. The control variables of the research, other than financial leverage and conditional statement, have a significant relationship with audit fees.

Testing Second Model of Research
Dependent Variable: Audit Fees
Since the significance level of the F-Fisher statistic in the table (6) is less than (0.05), it can be claimed that the fitted regression model is significant and the coefficient of determination (0.78502) shows the changes in the dependent Variable of the model by independent and control variables of the research. According to the second and third hypothesis of the research, which indicates the moderating role of managerial ownership on the relationship between the weaknesses of internal controls and audit fees in two levels of low managerial stock ownership and high managerial stock, the result indicates that low managerial stock has an impact on the relationship between the weaknesses of internal controls and audit fees. Therefore, the second hypothesis of the study was confirmed. On the other hand, according to the results of the third hypothesis of the research in the above table, it can be stated that high managerial stock affects the relationship between the weaknesses of internal controls and audit fees.
Table 6. Summary of statistical results of research model test

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>Variable</th>
<th>Std.</th>
<th>T</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>C</td>
<td>0.6734</td>
<td>0.0673</td>
<td>9.9971</td>
<td>0.0000</td>
</tr>
<tr>
<td>Weakness in internal control</td>
<td>ICW</td>
<td>0.0347</td>
<td>0.0106</td>
<td>3.2549</td>
<td>0.0013</td>
</tr>
<tr>
<td>Low managerial stock ownership</td>
<td>MGR_L</td>
<td>0.2230</td>
<td>0.0173</td>
<td>12.8338</td>
<td>0.0000</td>
</tr>
<tr>
<td>High managerial stock ownership</td>
<td>MGR_H</td>
<td>-0.3374</td>
<td>0.1288</td>
<td>-2.6195</td>
<td>0.0091</td>
</tr>
<tr>
<td>Moderating role of low managerial ownership</td>
<td>ICW * MGR_L</td>
<td>3.0229</td>
<td>0.5634</td>
<td>5.3654</td>
<td>0.0000</td>
</tr>
<tr>
<td>Moderating role of high managerial ownership</td>
<td>ICW * MGR_H</td>
<td>-2.4008</td>
<td>0.4435</td>
<td>-5.4129</td>
<td>0.0000</td>
</tr>
<tr>
<td>Company size</td>
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<td>-5.3025</td>
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<td>2.8080</td>
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Research Conclusions and Suggestions
The purpose of this study was to investigate the effect of managerial ownership on the relationship between internal control weaknesses and audit fees in companies listed in Tehran Stock Exchange. In this study, 86 companies were used during 2012-2016 and were tested using multivariate linear regression. It should also be noted that managerial ownership has a moderating role in this research, and weaknesses in internal controls of the company have been measured through audit reports. Therefore, the research hypotheses were developed in two ways, and the results of each hypothesis indicate that:

The first hypothesis indicates a significant relationship between the weakness in internal controls of the company and audit fees. Therefore, the result indicates this claim. It is argued that the more weaknesses in internal controls for employer companies, the more time auditors should spend to identify important weaknesses in the employer’s internal control system. Therefore, the higher the auditor’s report, the higher the audit fees. Therefore, weaknesses in internal controls will lead to an increase in the company’s audit fees.

The second hypothesis investigates that low managerial ownership leads to an intensification of the relationship between internal control weaknesses and audit fees. According to the hypothesis test, the estimated coefficient of this hypothesis indicates that low managerial stock ownership has a moderating role on the relationship between internal control weaknesses and audit fees. Since its significance level is less than 0.05, it can be stated that there is a significant effect between the above two variables. The results of the hypothesis test can be argued that the lower the managerial stock ownership, the lower the quality of corporate governance, and on the other hand, the lower the corporate governance mechanisms, the more weaknesses in the internal controls of the company and on the other hand, the more the audit fees. The results can be in line with Mitra et al. (2017), mansyf et al. (2011), and Rezaei and Amiri nik (2017).

The third hypothesis investigates that high managerial ownership leads to weakening the relationship between internal control weaknesses and audit fees. According to the hypothesis test, the estimated coefficient of this hypothesis indicates that high managerial stock ownership has a moderating role on the relationship between internal control weaknesses and audit fee. Since its significance level is less than 0.05, it can be stated that there is a significant effect between the above two variables. The results of the hypothesis testing can be argued that the high concentration of managers’ finance on the company’s stocks leads to a decrease in the relationship between internal control weaknesses and audit fees, as managers, according to the theory of motivation, are more interested in stabilizing their position and increasing their stocks in the company. Therefore, high managerial stock ownership undermines the relationship between the weaknesses of internal controls and audit fees.

Hence, the results are in line with Mitra et al. (2017) and Zakalvandi and Paydar (2016). Therefore, this research can be considered in line with the results of this study. According to the results of the research, some suggestions are presented as follows:

Since the amount of fees of many companies is not in the context of financial statements attachments,
it is recommended to Tehran Stock Exchange that by requiring more laws and regulations to companies, this case is mandatory for all companies to disclose it forcibly. Considering the effect of ownership focus (high managerial stock ownership) on weakening the relationship between weaknesses in internal controls and audit fees, it is suggested to Tehran Stock Exchange organization and other relevant authorities to provide necessary supervision in implementing the mechanisms of the corporate governance system on the concentration of managerial ownership. According to the results of the first hypothesis, it is suggested that companies use stronger mechanisms to supervise the internal controls of the company. Because the companies have weaknesses in internal controls, the audit fees increase, and weak corporate governance mechanisms such as low stock ownership lead to increased weakness in internal controls; therefore, increasing more regulatory mechanisms will lead to lower fees. Also, investors and other interest groups are suggested to pay attention to the ownership of investors as observers of management activities in investment decisions and financing of companies.

References
34. Biggar, Kiumaragh, and Shah Mohammadi, Giti. (2017). The effect of internal control system weakness and existence of an internal audit unit on investment efficiency and audit fees in listed companies in Tehran Securities. 8th International Conference on Accounting and Management and 5th Conference on Entrepreneurship and Open Innovations