



Corporate Governance and the Auditor Selection in the Initial Offering of Shares in Companies Listed on Tehran Stock Exchange

Khadijeh Lashkari*, Hamidreza Vakili Fard and Afshin Armin

Department of Accounting, Bandar Abbas Branch, Islamic Azad University, Bandar Abbas, Iran

*Corresponding Author: k_lashkari@yahoo.com

Abstract: The aim of this study is to investigate the relationship between the mechanisms of corporate governance and the auditor selection in the initial offering of shares. In order to achieve the research objectives, three hypotheses have been developed which examine the significance of the relationship between corporate governance mechanisms and auditor selection by the companies. The research hypothesis are analyzed through the application of the statistic z and statistic LR tests, as well as calculating the Spearman univariate correlation coefficient and balanced panel in logistic regression, according to the statistics such as: Jack Berra, Mac Fadden and Schweiz, Henan Queen and AKaik. The sample of the research consisted of 108 firms during a six-year period from 2007 to 2012. As a general conclusion, there is no significant difference between the presence or absence of these factors and the auditor selection. The hypothesis concerning the relationship between the ratio of the board non-required members and the auditor selection in the comparative test of two samples mean was adopted. Based on the results of the hypotheses and the comparison of them with previous researches, it seems that other factors are involved in the selection of auditors. To identify these factors, more research work is needed. Therefore, this issue can be addressed in future studies.

KEYWORDS: Initial Offering of Shares, the Auditor Selection, Ownership Structure, Corporate Governance

INTRODUCTION

Corporations, as economic units, are always looking for profitability and achieving greater wealth. For various reasons, which the most important is the separation of ownership from management; the companies not only do business duty, but also are responsible for responding to people outside the company. Based on empirical evidence, the most effective form of accountability is financial reporting. With the recent scandals and bankruptcies of large firms such as Enron, WorldCom and etc., the credibility of accounting numbers and figures, which constitute the most important part of financial reporting, has been called into

question seriously, so that investors do not trust the financial statements prepared by management¹. These recent scandals have questioned about the board's role in the company and other reassuring factors with regard to transparency and completeness of financial reporting. Providing deceptive financial reporting, such as confirmation of different accounting abuses, in these companies has led to the reaction of market and law to improve corporate governance environment in America and other parts of the world. For example, the United States passed legislation the Sarbanes Oxley act which provides for the governance of the U.S. companies. Provisions of this Act include the companies which distribute the Securities as well as auditing profession². In our country as Tehran Stock Exchange formed, Corporate Governance Regulations has been adopted and implemented in 2009.

Effective corporate governance is related to the adaptation of the interdependent organizational and environmental characteristics. In monitoring the management, Shareholders rely on different mechanisms of corporate governance which involved in overseeing the management, such as monitoring board of directors and external auditors. In auditing process, in order to certify the financial reporting corporate governance factors are important for the auditor. Empirical evidence suggests that poor corporate governance often will lead to quality decline of financial reporting, manipulation and overstating of earnings, and fraud in the financial statement. Auditor is an important part of monitoring the quality and completeness of the financial reporting process; therefore, the auditor is a key element of corporate governance mechanisms.

Auditors should work with management and the board; and should ensure beneficiaries (shareholders, potential investors, creditors, customers and the general public) about high quality and transparency of financial reporting². On the other hand audit is an economic activity that would be expected of reasonable earnings. The issue of how and how much the audit work can be performed in order to provide a reasonable assurance to beneficiaries as well as obtaining the required efficiency is the challenge which has occupied the researchers' mind³.

A REVIEW ON RESEARCH LITERATURE

Countries all over the world are trying to develop their economies and improve their livelihoods. To reach this goal they attempt to create institutions and firms with strong organizational structures that can be productive, competitive and durable. The achievement of this goal requires a safe and secure environment for the activities of these institutions. Companies' active role in the economic development process in addition to appropriate earnings distribution requires a set of initial conditions, including transparency, accountability and ensuring in the business environment. These are the basic essence of corporate governance⁴.

Corporate governance is not created only for providing a way to solve the problems of companies and financial markets, and the lack of trust in them. But, it is developed as a means to change financial markets from gambling and the risks

associated with them to the concept of actual investing and sense of confidence to them. Since the audit is a profession that is in direct contact with the world of business and operating as an ensuring factor for the financial information⁵, hence, this study intends to investigate the impact of mechanism of corporate governance on auditor selection in Iran.

Some studies related to the research subject are as follows:

In the 1990s, the issue of corporate governance was brought forth for discussion in the advanced industrial countries of the world such as the UK, Australia and some European countries. Introduction of this issue is related to a well-known report, called Cadbury report which was published in 1992. In this report, the existence of institutional shareholders and maintaining internal control system was being emphasized.

Sullivan (1983) studied the impact of the board and ownership structure combination on audit quality in the UK using a sample of 402 firms operating in the UK market with non-executive directors on their board structure. The results indicated that corporate governance is important in planning the audit, and designing permanent system of corporate governance is effective on the efficiency and effectiveness of auditing practices. Also, companies with good governance have been able to minimize agency costs⁶.

Ali Saeed (2009), examined an article entitled the impact of corporate governance on the audit profession in Syria, in which 75 people were selected at random among the independent jobs auditors in that country. He analyzed the information using T-Student test and reached the following results: the existence of an audit committee in the company of the audit location is effective on better communication of independent auditor to the company of the audit location. Corporate governance rules influence on decisions and operations of the independent auditor. Presentation of non-audit services is efficient as well as having family ties with board members of the company of the audit location is impressive on auditor quality.

Hosseini (2008) examined the relationship between corporate governance and shareholders returns. In this study, by examining institutional shareholders and investigating its effect on shareholders returns, shareholders excess returns in firms that have good governance were calculated. The results indicate that there is no relationship between institutional shareholders and shareholders returns in Iran⁷.

Ghanbari (2008) investigated the effect of the existence of non-duty members, information transparency, internal audit, and the presence of institutional shareholders as standards of corporate governance on firm performance. The results show that only institutional shareholders and internal audit affect corporate performance⁸.

Rahbari Kharrazi (2006) studied the amount of respect of shareholders rights by investigating the state of corporate governance in listed companies in

Tehran Stock Exchange and its comparison with other countries. The results indicate that shareholder rights are not respected in Iran⁹.

Dadashi (2010) examined the effect of corporate governance on auditors' decisions about risk and planning. In this study, the effect of some corporate governance mechanisms on the decisions of the independent auditors has been studied. The aim of this study was to determine the effect of governmental mechanisms, such as the structure of the company board, internal audit (internal regulatory mechanisms of corporate governance), the major shareholder and institutional investors (external regulatory mechanisms of corporate governance), on the policies and decisions of independent auditors, such as inherent risk assess, control risk, the amount and timing of substantive procedures¹⁰.

MATERIALS AND METHODS

Design Necessity:

The role of corporate governance in economic development can be searched in other sections. For example, the amount of financing importance, ownership and competition are the issues based on which the role of corporate governance in economic development can be seen. Corporate governance can be effective on economic growth and development by following ways:

١. Corporate governance reduces investment costs and as a result increases the value of the company. It also leads to attraction of investment and bring more jobs.
٢. The existence of corporate governance is associated with the risk reduction which is resulted from financial crisis. This issue is important when such a risk would lead to higher costs.

Problem Statement:

In recent years among important issues which are brought forth for discussion of researchers because of the massive financial scandals in great corporations, is corporate governance issue which has been raised as one of the most significant topics for investors. Corporate governance deals the necessity of monitoring the management and the separation of economic unit from its ownership and ultimately preservation of investors and beneficiaries rights. Undoubtedly, the advent of the companies in the industrial world that began in the 18th century is one of the greatest economic developments and perhaps the most important factor in industrial progressions. This phenomenon has led to some results including the separation of ownership from management, the existence of natural differences in their utility function, and as a result the formation of conflict of interest and consequently causing the owner - representative relationship and the agency theory.

Due to the natural different conflicts of institutions, there are abnormal demands for independent audit to provide services as function observation that is defined by the different stages of audit quality. Audit quality refers to two issues:

the ability to detect false statements and tend to report false statements that are covered in the audit management.

There are issues here that show why firms engage auditors with higher-quality to oversee the companies and their controversial role, which are conducted dependent on the related earnings expense in controlling the owners. These advantages and benefits will be able to raise the budget in the markets, and are equal to the less cost to sell shares in the market prices.

Goals:

The purpose of this study was to investigate the relationship between corporate governance mechanisms and decisions related to auditor selection in the initial offering of shares.

Research hypotheses

۱. There is a negative and significant relationship between the concentrated ownership structure in the board of directors and auditors selected in terms of quality in the initial offering of shares.

۲. There is a positive and significant relationship between the non-responsible managers and auditors selected in terms of quality in the initial offering of shares.

۳. There is a negative and significant relationship between the duality of the CEO and the auditors selected in terms of quality in the initial offering of shares.

METHODOLOGY

Research Method

The methodology of this study is deductive – inductive, including:

۱. Library procedure: Iran National Library of non-book resources storage and CIVILICA ® database are used to collect theoretical bases and fundamental concepts of the issue and the evaluation of information related to the financial statements of listed companies in Tehran Stock Exchange.

۲. Field procedures: for the approval or rejection of hypotheses, using statistical recorded data, in the present research three methods were utilized, including: case study research, descriptive research, and applied research. Each of the three methods is used in forming the part or parts of this research .

The population involved listed companies in Tehran Stock Exchange with respect to the following features:

- Not being the financial intermediary companies, including banks, investment companies and holding.
- During the period 2007-2012 the company name has been included in listed companies in Tehran Stock Exchange .
- End of the company financial year is mid-March.

Independent variable of the research is corporate governance mechanisms including ownership concentration on the Board of Directors, the

ratio of the non-responsible members in the Board of Directors, and the duality of the CEO.

Control variables including size, firm's age, rate of asset turnover, return on assets, the ratio of total debt to total assets and systemic risk.

To test the three hypotheses the Spearman univariate regression model and Legit Binary multivariate regression model in balanced panel estimation method is applied as follows:

AFS: If the IPO Company chooses high quality audit institution, including audits organization or institutions which are members of certified public accountants, it is equal to 1 and otherwise it is equal to 0 (Audit Organization as the great auditor in Iran provides high quality audit. In the case of the member firms of certified public accountants with respect to the quality control tables 8 and 9, institutions are classified in this study as: institutions that are in group an are considered to be high-quality auditor and other institutions are considered to be Low quality auditors).

BDOWN: a percentage of shares held by the Board of Directors

BIND: the ratio of the non-responsible executives in the Board of Directors is obtained through dividing the number of non-responsible members by the total number of board members.

COEDUAL: If a person holds the position of CEO and Chairman or Vice Chairman, dummy variable is equal to one and otherwise it is equal to zero.

OHIST: operation background of the firm (Firm Age) is measured through using the natural logarithm of the number of years the company began its activity.

SIZE: natural logarithm of total assets (Firm Size) is measured by using the natural logarithm of total assets.

GRNFELD: the company in the initial offering of shares period is 1 and otherwise it is zero.

MINSHOLD: Percentage of minority shareholders in the combination of the company share

ROA: return on assets (ratio of net income to total assets) is a control variable.

DA: Total debt to total assets ratio that indicates a company's financial leverage. Financial leverage is applied for calculating differences between the financing methods and is considered as capital structure standard.

Table 1.Example Consider the following data

AFS	BDOWN	BIND	CEODUAL	OHIST	SIZE	GRNFELD	MINSHOLD	ROA	DA
4.7	0.87	5.12	-0.07	3860	3160	10100	6200	0.7	0.85
4.65	0.8	5.01	0.06	3820	3110	10020	6120	0.65	0.79
⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮

$b_0, b_1, b_2, b_3, b_4, b_5, b_6, b_7, b_8, b_9 = ?$

The above data is put up in the model.

$$b_0 + 4.7 b_1 + 0.87 b_2 + \dots + 6200 b_8 + 0.7 b_9 = 0.85$$

$$b_0 + 4.65 b_1 + 0.83 b_2 + \dots + 6120 b_8 + 0.65 b_9 = 0.79$$

Afterwards, the values of the unknown parameters are obtained by using methods such as Probit or Legit Binary and as a result the model is calculated.

Descriptive Statistics

Descriptive statistics including mean, median, variance, skewness and elongation, is calculated for all variables. These indicators show the statistical distribution of variables.

Analytical statistics and Data Test

Using logistic regression models were estimated. Logistic regression is similar to ordinary regression, but coefficient estimation method is not the same. In logistic regression, instead of minimizing the squared errors (as is done in ordinary regression), likelihood that an event will occur is maximized.

Furthermore, to evaluate the significance relations in ordinary regression analysis the F and t standard statistics are applied, while in logistic regression the "X" and "Wald" statistics are used.

Inference about hypothesis testing is based on the significance level of the test. That's to say; when the significance level is less than 0.05, the null hypothesis is at 0/95 level, and if the significance level is less than 0.1, at the level of 0/90 it is rejected, otherwise the null hypothesis is accepted.

The main hypothesis

There is a significant relationship between percentage of share by the Board of Directors, the ratio of non-responsible members on the board, the CEO duality and audit quality.

Statistical Population

The statistical population of this research includes the companies listed in Tehran Stock Exchange which are adjusted according to the following limitations:

- Due to different nature, they should not be included among the financial investment and brokering companies
- They should be listed in stock exchange during the period of 2007-2012
- The end of their fiscal year is mid of March

RESULTS

Results of Descriptive Statistics

Elongation coefficient of variables indicates that the dependent variable and auditors' rotation have negative coefficients that are lower than the normal curve. But, the other variables of the research have positive elongation coefficients that are higher than the normal curve.

Table 2. Statistics

		Audit Quality	Percentage of Share	Ratio of non-responsible members	The CEO Duality
N	Valid	108	108	108	108
	Missing	0	0	0	0
Mean		.8519	67.3668	.6952	.3704
Median		1.0000	70.2350	.7360	.0000
Std. Deviation		.35690	2.18004E1	.16951	.48516
Variance		.127	475.259	.029	.235
Skewness		-2.009	-.790	-.964	.544
Std. Error of Skewness		.233	.233	.233	.233
Kurtosis		2.074	.171	1.080	-1.736
Std. Error of Kurtosis		.461	.461	.461	.461
Range		1.00	99.32	.90	1.00
Minimum		.00	.68	.10	.00
Maximum		1.00	100.00	1.00	1.00
Percentiles	25	1.0000	55.9390	.6000	.0000
	50	1.0000	70.2350	.7360	.0000

Descriptive evaluation of the research variables shows that 108 companies are participating in the study .

Among these, 92 companies have high audit quality, and 16 companies have low audit quality .

According to the obtained average (0.851) of variables as well it can be guessed that the number of firms that have high audit quality is greater. The examination of the independent variables shows that the shares percentage is 67.37, the ratio of non-responsible members on the board of directors is 0.69 and the CEO duality is 0.37. The results show that in most corporations CEO has less dual role and about 67 percentages of the shares in the companies are with the board of directors. Also, in the examined companies the ratio of non-responsible members to responsible members is equal to 69 percent. That's to say; the majority of companies have non-responsible members on their board of directors.

Analytical statistics:

Hypothesis 1: There is a negative and significant relationship between the concentrated ownership structure in the board of directors and auditors selected in terms of quality in the initial offering of shares.

Compliance or fitness test:

Independent variable of concentrated ownership in the board of directors is not affective on the dependent variable of selected auditors in terms of quality in the initial offering of shares $H_0: 2\chi = 0$

Independent variable of concentrated ownership in the board of directors is affective on the dependent variable of selected auditors in terms of quality in the initial offering of shares $H_1: 2\chi \neq 0$

In this section, the research model tests the impact of the predictor variable. Generally, in addition to the obtained results, the Omnibus Test Table provides performance quality of the model. In the second column of the below table chi-square values are given which shows whether the independent variable impacts on the dependent variable or not. Note that the chi-square values in Table is 2/942 and its sig is obtained more than %5 (sig=0/086). As a result the independent variable of concentrated ownership structure in the Board of Directors does not affect the dependent variable of auditors selected in terms of quality in the initial offering of shares, and is not a good fitness indicator of the model. In other words, there is no significant pattern between these variables and audit quality cannot be predicted using the mentioned variables.

Table3. Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	2.942	1	.086
	Block	2.942	1	.086
	Model	2.942	1	.086

Summary table of the model (R2):

Negelkerke R Square and Cox & Snell R Square coefficient values represent the amount of change in the dependent variable. It is explained by the model, which is equivalent to R2 in linear regression. However, the exact R2 in the logistic regression is not possible. But, this statistics is a useful approximation that their amounts in this study is equal to at least $cox = 0/027$ and maximum $R^2 = 0/047$.

This suggests that at least 2/7 and maximum 4/7 percent (roughly the lower limit of high petroleum origin) of the variable variations of selected auditors in terms of quality in the initial offering of shares are explained by the variable of concentrated ownership in the board of directors in logistic regression.

Table4. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	87.666 ^a	.027	.047

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

The table below describes the significance of the regression coefficients. Therefore, the following hypotheses are formulated:

There is no negative and significant relationship between the concentrated ownership structure in the board of directors and auditors selected in terms of quality in the initial offering of shares. H0: $b = 0$

There is a negative and significant relationship between the concentrated ownership structure in the board of directors and auditors selected in terms of quality in the initial offering of shares. H1: $b \neq 0$

Hypothesis 2: There is a positive and significant relationship between non-responsible managers and auditors selected in terms of quality in the initial offering of shares.

Compliance or fitness test:

Independent variable of non-responsible managers is not affective on the dependent variable of selected auditors in terms of quality in the initial offering of shares H0: $2\chi = 0$

Independent variable of non-responsible managers is affective on the dependent variable of selected auditors in terms of quality in the initial offering of shares H1: $2\chi \neq 0$

According to the results of Omnibus Test Table, chi-square value of 6/409 at error level of 5 percent (sig = 0.011) is significant. Thus, independent variable of non-responsible managers of the company affects the dependent variable of auditor’s quality, and is a good fitness indicator of the model.

Table5. Omnibus Tests of Model Coefficients

		Chi-square	DF	sig.
Step 1	Step	6.409	1	.011
	Block	6.409	1	.011
	Model	6.409	1	.011

Summary table of the model (R2):

Summary table of statistics shows Nagelkerke R Square and Cox & Snell R Square coefficient values .

These values are respectively, equal to at least $cox = 0.058$ and maximum $R^2 = 0.101$. This suggests that at least 0.058 and maximum 0/101 percent (roughly the lower limit and higher limit) of the variable variations of selected auditors in terms of quality in the initial offering of shares are explained by the variable of non-responsible managers of independent variables in logistic regression.

Table6. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	84.199 ^a	.058	.101

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

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The table below describes the significance of the regression coefficients. Therefore, the following hypotheses are formulated:

There is no positive and significant relationship between non-responsible managers and auditors selected in terms of quality in the initial offering of shares.
H0: $b = 0$

There is a positive and significant relationship between non-responsible managers and auditors selected in terms of quality in the initial offering of shares.
H1: $b \neq 0$

Table7.Variables in the Equation

		B	S.E.	Wald	df	Sig.
Step 1^a	Ratio of non-responsible members	3.795	1.515	6.272	1	.012
	Constant	-.747	.986	.573	1	.449
a. Variable(s) entered on step 1: Ratio of non-responsible members						

The review of the coefficients table results shows that as the value of Wald statistics (6/272) and sig = 0.012 are obtained less than %5, so there is a significant relationship between non-responsible managers and auditor quality. On the other hand, as the B value coefficient is obtained positive, so H1 hypothesis that implies there is a positive significant relationship between non-responsible managers and auditor's quality, is accepted and H0 hypothesis is rejected.

The B positive value (slope of the line= 3.795) which is shown in the second column, indicates that there is a positive relationship between non-responsible managers variable and auditor's quality variable of the companies.

Hypothesis 3: There is a negative and significant relationship between the duality of the CEO and auditors selected in terms of quality in the initial offering of shares.

Compliance or fitness test:

Independent variable of CEO duality is not affective on the dependent variable of selected auditors in terms of quality in the initial offering of shares H0: $2\chi = 0$

Independent variable of CEO duality is affective on the dependent variable of selected auditors in terms of quality in the initial offering of shares H1: $2\chi \neq 0$

According to the results of Omnibus Test Table, chi-square value is 0.002 and its sig=0.967 is achieved more than %5. Thus, independent variable of CEO duality does not affect the dependent variable of auditors' quality, and is not a good fitness indicator of the model.

Table8.Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	.002	1	.967

Block	.002	1	.967
Model	.002	1	.967

Summary table of the model (R2):

Negelkerke R Square and Cox & Snell R Square coefficient values are respectively, equal to at least cox = 0/000 and maximum R2=0.000. This suggests that under any circumstances (roughly the lower limit and higher limit) the variable variations of selected auditors in terms of quality in the initial offering of shares are not explained by the CEO duality variable in logistic regression.

Table9. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	90.607 ^a	.000	.000

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

The table below describes the significance of the regression coefficients. Therefore, **the following hypotheses are formulated:**

There is no negative and significant relationship between the CEO duality and auditors selected in terms of quality in the initial offering of shares. H0: $b = 0$

There is a negative and significant relationship between the CEO duality and auditors selected in terms of quality in the initial offering of shares. H1: $b \neq 0$

Table 10. Variables in the Equation

		B	S.E.	Wald	df	Sig.
Step 1 ^a	the CEO duality	-.023	.560	.002	1	.967
	Constant	1.758	.342	26.356	1	.000

a) Variable(s) entered on step 1: the CEO duality

The review of the coefficients table results shows that as the value of Wald statistics (0/002) and sig = 0/967 are obtained greater than %5, so there is no significant relationship between the CEO duality and auditors selection in terms of quality in the initial offering of shares. So H1 is rejected and H0 is accepted. But, regard to the negativeness of coefficient B it can be noted that the CEO duality has a negative impact on audit quality, but has no significant influence on it.

Coefficients table:

Formulation of significance coefficients hypothesis

Variables Coefficient is not significant (slope of the line is zero) H0: $\beta_1 = \beta_2 = \dots = 0$

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Variables Coefficient is significant (slope of the line is not zero) $H1: \beta_1 \neq \beta_2 \neq \dots \neq 0$

Table11. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I. for EXP(B)	
								Lower	Upper
Step 1^a	Ratio of non-responsible members	3.643	1.830	3.963	1	.047	38.193	1.058	1.379E3
	Percentage of Share	-.025	.020	1.591	1	.207	.975	.938	1.014
	The CEO Duality	.306	.677	.204	1	.652	1.357	.360	5.116
	Firm Size	-.542	.275	3.893	1	.048	.582	.340	.996
	Financial Leverage	-.696	.782	.791	1	.374	.499	.108	2.310
	return on assets	-.009	.248	.001	1	.972	.991	.609	1.613
	offering of shares	-.317	.687	.213	1	.645	.728	.189	2.800
	Firm Age	-.849	.776	1.198	1	.274	.428	.093	1.957
	Percentage of minority shareholders	.069	.043	2.594	1	.107	1.071	.985	1.165
	Constant	11.502	6.438	3.192	1	.074	9.895E4		

. A Variable(s) entered on step 1: Ratio of non-responsible members, Percentage of Share, The CEO Duality, Firm Size, Financial Leverage, return on assets, offering of shares, Firm Age, Percentage of minority shareholders.

CONCLUSION

The review of the coefficients table shows that by the entrance of the control variables into the model, there can be seen a little change in the coefficients significance. Among the examined variables of Wald statistics, the variables of the ratio of the non-responsible members in the Board of Directors and firm size have the significance level less than %5. This indicates that these two variables have a significant influence on audit quality. Other variables which remain in the model, as have significance level greater than %5, have no significant influence on audit quality. An important factor in the coefficients table is the B value, which shows the direction of each variable influence on the dependent variable. As it can be seen in the table, the ratio of the non-responsible members in the Board of Directors has a positive impact and firm size has a negative impact on the dependent variable. Also, among the variables, the highest coefficients refer to the variables of the ratio of the non-responsible members in the Board of Directors and firm age.

Recommendations

Based on the results of the research hypotheses, the following suggestions are offered:

1. With regard to the first hypothesis results, stating that "There is a negative and significant relationship between the concentrated ownership

structure in the board of directors and auditors selected in terms of quality in the initial offering of shares “, which was not accepted, it is suggested investors as making investment decisions, examine ownership structure and corporate governance systems, and consider its impact on the reliability of the information provided by the companies.

2. With regard to the second hypothesis results, stating that “There is a positive and significant relationship between non-responsible managers and auditors selected in terms of quality in the initial offering of shares “, which was accepted, it is suggested that Exchange Organization announce guidelines to the companies for the selection of the auditor by the company, based on the firm size and complexity of its operations, in order to avoid the possibility of audit quality reduction by the companies for the financial abuse purposes.

3. With regard to the third hypothesis results, stating that “There is a negative and significant relationship between the duality of the CEO and auditors selected in terms of quality in the initial offering of shares “, which was not accepted, and with the expansion of business activities and the need for skilled managers to promote a culture of accountability and transparency of information in the corporations and business units which all or part of their capital is provided by a large number of shareholders, it is suggested that in the corporate governance, the CEO be segregated from the board members, to avoid any kind of ambiguity in the functions of these two major entities.

Suggestions for Future Research

Naturally, the results of the present research are obtained on the basis of available data and the limitations of time and place. Therefore, to evolve this study it is proposed that the following research be undertaken:

1. A study on the effects of corporate governance factors such as the CEO influence, board size, board independence on auditor selection in listed companies in Tehran Stock Exchange

First hypothesis: there is a positive significant relationship between the CEO influence and auditor selection in terms of quality.

Second hypothesis: there is a positive significant relationship between the board size and auditor selection in terms of quality.

Third hypothesis: there is a positive significant relationship between board independence and auditor selection in terms of quality.

2. A study on the effect of corporate governance mechanisms (concentrated ownership in the board of directors, the CEO duality, and the non-responsible managers) on the independent auditors' remuneration in listed companies in Tehran Stock Exchange.

First hypothesis: there is a positive significant relationship between the concentrated ownership in the board of directors and the independent auditors' remuneration.

Second hypothesis: there is a positive significant relationship between the CE
Third hypotheses: there is a positive significant relationship between the non-responsible managers and the independent auditors' remuneration.

3. A study on the relationship between corporate governance factors such as ownership concentration and ownership of institutional shareholders and financial reports quality in companies listed on the Tehran Stock Exchange.

First hypothesis: there is a positive significant relationship between the concentration of ownership and the quality of financial reporting.

Second hypothesis: there is a positive significant relationship between the ownership of institutional shareholders and the quality of financial reporting.

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