



The effect of some auditing properties with transparency of financial reporting in governmental companies

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Abstract: Economic decision making requires information that we can allocate properly existing and available resources. One of the most important decisions is related to proper information with topic which If not properly prepared and processed, the negative impact of the decision will be followed for decision maker. According to the importance of topic, the research tries to survey the effect of some factors (size of auditing firm, auditor turnover and Type of audit's opinion) on transparency of financial information. The results indicate that there is significant positive relationship between type of audit' opinion and transparency of financial information. But there is a negative significant relationship between auditor turnover and transparency of financial information. Finally, there is not significant relationship between size of auditing firm and financial restatement .

Keyword: Size of Auditing Firm, Auditor Turnover, Type of Auditor' Opinion, Financial Information Transparency

INTRODUCTION

Increasing expansion of economic units, development of communications technology and the existence of conflict of interest create supervisory requirements. The issue of information revolution and globalization economy even is out of control of governments, This condition has caused the audit profession attempt gradually to don't fall behind and consistent with technology changes move along with society needs. In this environment, users need to different information for making decision such as financial information about firms. But the important issue is the uncertainty about the reliability of aforementioned information and it comes from a conflict of interest. Indeed, the role of auditing is data quality assessment for users¹. In terms of history, the role of auditor in reporting of financial statements is restricted to presentation assessment or fair display of financial status and operation results. Management is responsible for financial reporting status and operation results of the business unit, While the role of the auditor is assessment assertions or management representation and impartial expenditure report on fairness of financial statements degree with predetermined criteria that type of auditor's opinion is very important in approval or disapproval of these reports in decision making, decision makers and transparency of information. Current and future investors

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decide based on prospect of the company survival that arise from financial statements and other available information. Brian and et al. express audited financial statements are basis of companies that is set for public use, because non-audited financial statements influence users by fraud and scandal of firm. Followed by corporative financial scandals and financial crises over the past two decades, finger has been pointed towards auditors and auditing quality. On the other hand, policymakers again concentrated on the importance of effective and efficient auditing as one of the key components of efficient capital markets and attempted to identify the key drivers of auditing quality. One of the key drivers for improving auditing quality is auditor independence. Auditor independence, It is an essential in providing suitable accounting and auditing quality. In today's world also the importance of auditor independence such as real independence and external independence has been well understood. Issue of mandatory rotation of auditors and auditing firms got noticed in order to enhance independence of auditors and is been important. The process of mandatory rotation of auditors and auditing firms, It means change of auditor or audit firm after several periods auditing of examination units that is done based on regulations or general authorization. Since the auditor's report in the decision-making process of users of financial statements is considered as one of the useful information, therefore, in this research we examine the relation of some of the most important factors affecting on the auditing work such as the type of auditor's opinion and auditor's size and displacement with restatement in the firm's profit and less figures and we are looking for how these variables can be contributed in presenting transparent and reliable reports to decision-makers².

Theoretical Framework and Research Background

Theoretical Framework

Information Transparency

Transparency is calculated by some indexes in the extant literatures. One of the important indexes is (Standard and Poor's) which three reporting criteria are as follows:

- Ownership structure and owners' rights (28 indicators)
- Financial transparency and information disclosure (35 indicators)
- Structure of boards of directors and management (35 indicators).

Some of indicators in first cluster consist of disclosure of stockholders based on their nature including legal and factual, number of stock and their nominal value, stock number of 5 and 10 major stockholders, calendar of meetings of shareholders, their agenda and the manner of manager introduction.

Some of indicators in second cluster consist of strategic plans and trend of industry and business in company, production details, profitability and sale details, market share, prediction of profitability, production and departments, profit and loss report, balance sheet, statement of cash flows, transactions with related parties, auditing reports.

Some of indicators in third cluster consist of information on board members including work tenure and previous experiences, cooperation duration with firm, decisions of the Board, auditing committee, promotion committee of employees, selection committee of managers, stock number of top management, salary of top management and board of directors, training programs of managers.

If there is any of the above information in company reports, it equals 1, otherwise 0. Final score of TDS for any company is calculated by following equation³:

$$TDS = \sum \sum S_{jk} / TOTS$$

TDS: final score of transparency and disclosure

J= transparency measurement domain

K= number of indicator

TOTS: maximum assignable score

Sjk= allocated score of for any indicator

Properties of Auditor

One of the qualitative characteristics of financial information is being reliable. The information is reliable that be lack of error and important tendentious orientations and honestly represent what that is claimed it or in a manner reasonably expected to express (Section 12 of Chapter 2 Theoretical concepts of financial reporting in Iran). Audited financial statements are always worthy. Because report the results of depending reliability of the content of financial statements⁴. One of the objectives of financial reporting is showing information that be beneficial for investors, creditors and other current and potential users in investment and attest decisions-making and other decisions. One of the important criteria that mentioned groups use to estimate the profitability power of company, Predicting future profits and risks related to it and also evaluating management performance, is current and past profits.

Auditing can be one of the prevention ways and reducing deviations in the financial reports and prevent reducing the profit, because reporting profit in the audited financial statements has information content and high quality⁵. One of the today challenges is earnings management. Earnings management is one of the upsetter factors of financial reporting quality and all firm beneficiaries notice to it, because any intervention that distort the accuracy of reported profit has an effect on users' decision making⁶. On the other hand, according to the agency theory, Auditor plays an important role in reducing information asymmetry between shareholders and managers. With the formation of agency relationship, agency costs resulting from conflict of interest is created between the parties that has a reverse effect on the firm value, that is, if the market expect to have such costs, firm value will decrease. Therefore, the company seeks to control and reduce such costs that the firm strategic planning mechanisms can help to reducing and controlling agency costs and its negative effects on firm value⁷.

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Incomplete information about the quality and economic value of the company lead to more incurring the risk to shareholder. Logical investors request the stock premium to tolerate agency risk which effectively increases the cost of stockholder's equity of firm^{8,9}.

Research Background

Alastair et al.¹⁰ in Canada investigated this issue that "does the differences in audit quality indicators in the big audit firms against not big audit firms is related to the characteristic of test unit". They found, the effects of the big audit firms on unusual accruals of test units in comparison with the effects of not big audit firms on unusual accruals of test unit, has no significant difference.

Boone et al.¹¹ In the United States, found, tendency of four big firms to issue a report of going concern for employers who have financial gravity is not different from second class auditors. There is no difference between level of earnings management by employers of four big firms and employers of second class firms; while risk premium of predicted equity employers of four big firms and employers of second class auditing firms is different.

In a study entitled "determinant factors of transparency: a meta-analysis, Khlif and Souissi¹² considered the relationship between disclosure and 7 properties of big firms including ownership distribution , future – oriented analyses, company auditing, leverage, company size, profitability and internationality. They found that there is a significant relationship between disclosure and auditing.

Al Arussi et al.¹³ considered determinant factors of environmental and financial disclosure by internet among Malaysian companies. Specially, the research surveys the relationship of environmental and financial disclosure on internet and six variables (the existence of indigenous managers, technology level, and the existence of influential figures, profitability and company size). In fact, 6 hypotheses were test using obtained data from 201 Malaysian companies. The results indicate that technology level, indigenous managers and company size are determinant factors. In environmental and financial disclosure by internet, there is a negative relationship between influential figure and financial disclosure, but it is not true for environmental disclosure. There is not significant relationship between other variables and environmental or financial disclosure¹⁴.

MATERIAL AND METHODS

This research in terms of purpose is an applied research. Given that this research was applied in terms of purpose, from aspect of the data collection method is a correlation research. Methods of descriptive statistics including mean and Variance and Standard Deviation and quartiles will be used to explain variables. Further tests of T, F and regression also are used for testing hypotheses. However, the default regression tests such as data normality and lack of autocorrelation of variables and so on also will be used. For hypotheses testing the method of "synthetic data" was used. For investigating the

relationship between the characteristics of the auditors and the type of Independent Auditors' Report, the independent and dependent variables are examined from two different aspects. On the one hand, these variables are tested among the various companies and during the period of 2007 to 2012.

Research Hypotheses

1. There is a significant relationship between auditor turnover and level of financial transparency
2. There is a significant relationship between size of auditing firm and level of financial transparency
3. There is a significant relationship between type of auditor's opinion and level of financial transparency.

RESULTS

Testing Hypotheses

First Hypothesis

1. There is a significant relationship between auditor turnover and level of financial transparency.

$H_0: r = 0$

$H_1: r \neq 0$

To survey the determination coefficient of first hypothesis indicates that auditor's turnover in companies has explained 6.5 financial information of companies. On the other hand, the results of regression model show that significance level of F-statistics amount (9.146 and 11.590) is smaller than 5 and significant. It implies there is a significant negative relationship between auditor's turnover and transparency of financial information above the 95% confidence level. Then H_0 is rejected and H_1 is supported. If an increase or change unit occurs in auditor's turnover variable, transparency of financial information will be decreased or changed - 0.907. It means that whatever auditor's turnover of companies increase, the transparency of financial information will decrease.

Table 1. Test of third hypothesis

Independent variable	Restatement of loss and profit figures		
	Slope of line (B)	t-statistics	Significant level
Intercept	10.685	54.629	0.000
Auditor' turnover	-0.907	-3.024	0.003
Determination coefficient		0.068	
Adjusted determination coefficient		0.061	
F		9.146 (0.003)	
Durbin - Watson		1.647	

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Second Hypothesis

There is a significant relationship between size of auditing firm and transparency of financial information

$r = 0$ H_0 :

$r \neq 0$ H_1 :

As can be seen, table 4-3 shows the results of second research hypothesis. To survey significance results of fitted model shows that F-statistic is not bigger than 5% and significant. It means that there is not a significant relationship between size of auditing firm and the transparency of financial information. Then H_0 is supported and H_1 is rejected with confidence higher than 95% ($\text{sig} > 0.05$). To survey determination coefficients of regression models indicates that the size of the audit firm failed to explain the percentage of transparency of corporate financial information. On the other hand, because significance level of t-statistics in regression coefficient of size of audit firm variable is bigger than 5%, then there is not a significant relationship between size of audit firm and transparency of financial information at the 5% error level.

Table 2. Test of second hypothesis

Independent variable	Transparency of financial information		
	Slope of line (B)	t-statistics	Significant level
Intercept	10.235	24.380	0.000
Auditor' turnover	0.074	0.164	0.870
Determination coefficient		0.000	
Adjusted determination coefficient		-0.008	
F-statistics		0.027 (0.87)	
Durbin – Watson		1.694	

Third Hypothesis

There is a significant relationship between independent auditor's opinion and transparency of financial information

$r = 0$ H_0 :

$r \neq 0$ H_1 :

Table 4-4 shows the results of first research hypothesis. To survey the significance of fitted models indicates that there is a significant relationship between type of auditor's opinion and transparency of financial information. Hence it can be stated that H_0 is rejected and H_1 is supported ($\text{sig} < 0.05$). The results indicate that the type of audit opinion on the company to find more plausible, transparency of financial information will increase. To survey determination coefficients of fitted regression models shows that type of auditor's opinion can explain 3.5 percent of changes in transparency of financial information. On the other hand, because significance level of t-statistics in regression coefficient of type of auditor's opinion is smaller than 5% in fitted model, then there is a significant positive relationship between type of auditor's

opinion and transparency of financial information at the 5% error level. So if type of auditor's opinion changes 1 unit, transparency of financial information of companies will increase 0.775 units.

Table 3. Test of second hypothesis

Independent variable	Transparency of financial information		
	Slope of line (B)	t-statistics	Significant level
Intercept	10.067	56.07	0.000
Auditor' turnover	0.775	2.36	0.02
Determination coefficient		0.043	
Adjusted determination coefficient		0.035	
F-statistics		5.570 (0.02)	
Durbin – Watson		1.7	

DISCUSSION

Auditing is considered as one of the main components of accountability process to users of accounting information, because accountability requires reliable and valid data and reliability data for many reasons, require investigation by an independent person from the producer of the information. In accountability process, auditing makes added value through data validation. On the other hand, economic decision making and allocation of resources is not possible without reliable and valid data. When capital flows towards greater economic activities which owners' decisions are based on timely, relevant and reliable data? In this process, auditing plays critical role in determining data validation level. The research tries to survey the effect of some auditing properties and restatement loss and profit figures in listed companies in stock exchange.

According to above explanations, the results of research hypotheses are provided as follows:

1. There is a significant relationship between auditor's turnover and transparency of financial information.

According to statistical results, to survey regression coefficient of auditor's turnover variable in fitted models shows that if auditor's turnover changes one unit, transparency of financial information will change -0.907. It means that whatever auditor's turnover increases in companies, transparency of financial information will decrease of change. The analysis of this hypothesis should be expressed that there are criticisms. For example, increasing auditor's turnover is damaged to auditor's capabilities for validating financial statements in recent years. On the other hand, regulatory authorities concern that increased frequency of auditor changes will decrease users' trust to all financial statements and not only the financial statements of companies are changing auditor. In summary, auditor' turnover consists of changing auditor from a private audit firm to another firm which is a member of auditors society. On the other hand, the

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transparency of financial information is one of the most important ways to attract investors and make trust among them. Transparency of financial information refers to real and accurate information disclosure. Generally, according to above explanations, whatever level of auditor' turnover is more, the transparency of financial information is less. This states that whatever companies use auditor rotation, the power of auditor decreases to validate financial statements. On the other hand, users' trust reduce to all financial statements and not only are the financial statements of companies changing auditors, because the transparency of financial information will decrease. This result is compatible with Khalif and Souisi' research ¹². They found that there is a significant relationship between disclosure and auditing.

2. There is a significant relationship between size of audit firm and transparency of financial information.

In statistical analysis of the hypothesis should be noted that the results of significance of fitted models indicate that significance level of F-statistics is bigger than 5% and not significant. It means that there is not a significant relationship between size of audit firm and the transparency of financial information. So H_0 is supported and H_1 is rejected with confidence of higher than 95%.

In statistical analysis of the hypothesis should be noted while accounting regulatory bodies emphasize on this point that the audit quality does not depend on the size of firm, many claim that big firms create high quality audit than small firms. Previous researches found the results which were a combination of the two hypotheses, because the measurement of audit quality was difficult. For this reason, income amount of audit firm was selected as base. In others words, we classified audit firms in terms of their income amounts. It is clear why there is not a significant relationship between transparency of financial information and size of firm, because firm size cannot be a factor for measuring the quality of auditing work and the transparency of financial information. This result is compatible with Alastair et al., research. They found that there is not a significant relationship between firm size and quality of audit. The result of this research is compatible with Bauwhede and Willekens' research. They found that there is not a significant relationship between firm size and quality of audit.

3. There is a significant relationship between type of auditor's opinion and the transparency of financial information.

In statistical analysis of this hypothesis should be noted that an auditing report must be free of any bias and it takes neutrally decision and makes an efficient market. Main role of independent auditor is to make trust and validate to financial statement. It is natural that high quality financial information has positive effects on making decision and allocating optimally resources, in turn, it leads to development, growth and social welfare. Whatever independent auditor provides an acceptable opinion about information statements, the transparency of financial information will be validated, because an independent auditor considers precisely financial statements in terms of legal tasks. Statistically, we used virtual data to measure type of auditor's opinion. Accordingly, whatever

auditor's opinion is higher, it will be more acceptable and finally, the transparency of financial information will be more.

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