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Investigating the Relationship between Auditor Characteristics and Its Influence on the Type of Auditor's Opinion

Maryam Asghari*, Mohammad Reza Abdoli, Ali Asghar Mahmoodzadeh
Department of Accounting, Science and Research Branch, Islamic Azad University, Shahrood, Iran.

A B S T R A C T

Proper flow of information in the market causes participants to make correct and logical decisions, and finally, gives rise to economic development and improves social relations. Financial reporting and disclosure of information is one of the important sources of information. Providing auditor's opinion about the reports can play an important role in making financial decisions by users inside and outside the organization. In this study, given the importance of this issue, we are trying to investigate the relationship between auditor characteristics and its influence on the type of auditor's opinion. The influence of some factors such as auditor reputation, audit quality, audit firm size, and auditor tenure on the type of auditor's opinion was examined in this research. We studied 101 companies among companies listed in Tehran Stock Exchange in a 4 year period from 2007 to 2011. The results of this study indicate that there is a significant inverse relationship between audit quality and auditor's opinion, but there is no significant relationship between the type of opinion and auditor's opinion. However, the main hypothesis of this study was approved which states that there is a significant relationship between auditor characteristics and its influence on the type of auditor's opinion.

Keywords: Auditor's Opinion, Audit Quality, Audit Tenure, Auditor Change, Auditor Reputation.

INTRODUCTION

Capital market as an engine of growth for economy is based on information(Thompson, 2018). Proper flow of information in the market causes participants to make correct and logical decisions, and finally, gives rise to economic development and improves social relations(Gilpin, 2016; Root, 2016). Financial reporting and disclosure of information is one of the important sources of information which its purpose is to provide information required for economic decisions and to supply most of the capital market's informational needs. But what is more important is to provide auditor's opinion about these reports, which can play a significant role in making financial decisions by users inside and outside the organization(Flower & Ebbers, 2018; Sunder, 2016).

Despite identical monitoring mechanisms for auditor's opinion, it seems monitoring mechanisms should be made for these opinions. In this study we are looking for the influence of

* . Corresponding Author: m_asghari_2008@yahoo.com

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important variables on auditor's opinion. In this case, it should be mentioned that higher audit quality can increase the reliability of financial statements, which results in reducing information asymmetry and thereby reducing the cost of new investments attraction. Given the above, the study of audit quality is important. Another intended variable is auditor tenure. In this case, it should be mentioned that business monitoring organizations consider long-term tenure as a threat to audit quality, because of its negative effects on auditor independence. Accordingly, they seek to limit the length of tenure (at the level of audit firm or audit partners). The main concern in this regard is that increasing the length of auditor tenure results in a decrease in auditor independence; therefore, auditors will be more willing to deal with companies' reporting practices and to accept them. This means that increasing the length of tenure leads to a decrease in audit quality. In general, with regard to the above items and other variables in this study, it is essential to identify the quality of audit opinions and effective characteristics of auditors in Iran's capital market.

This may result in users' true understanding of financial statements, actual quality of reports audited by the auditors, and finally creating a common language for audit quality. According to the internal report of the chairman of the trusted auditors' committee of the Stock Exchange in recent years, it is important to know whether files existed in trusted auditors' committee of the Stock Exchange and primal staff of chartered accountant community indicates that audit opinions should be reviewed based on the characteristics of auditors in Iran. It should be noted that the dissemination of information among different groups provides a minimum level of knowledge and awareness about the financial situation, performance, and flexibility. Therefore, the auditor's opinion has an important role in transparency of financial statements for decision makers. Improving the quality of financial reporting information leads to decreasing the information asymmetry, agency costs, and capital costs.

However, it should be noted that besides professional auditing and observing ethics in this field, there are other factors which are somehow effective in providing audit opinion, such as auditor tenure, auditor earnings, auditor reputation, audit firm size, and auditor change. These factors led us to a detailed examination of the variables and research history in order to take an effective step in the field of audit researches and to present practical suggestions. One of the main reasons for doing this research is that financial audit information is an important and useful resource for decision making of the contracting parties and also is the main source of evaluation of the manager's administration task.

Audit firm quality

The quality of audit report implies that auditors must detect and report misstatements in the financial statements. This may be related to the quality of the audit firm, which can play an important role in this regard.

Audit firm size

Audit firm size refers to how large or small these firms are and to what extent the size influence on audit quality. It was determined in the study of Louis (2004), that larger audit firms usually provide better services than smaller firms. However there are some smaller audit firms which offer better advice for their audits. On the other hand Tally estimated the risk of 4 large audit firms which have paid the actual losses of over a billion dollars to large companies within 5 years and he indicated that large audit firms as well as small firms suffer an audit failure .

Auditor tenure

Auditor tenure is the number of years that an independent auditor works for an audited. Companies select their auditor according to General Assemblies' approval. Continuation of cooperation of independent auditor and legal inspector is based on interaction between parties. In some cases, it can be seen that continuation of cooperation for several years is different for various firms and industries. It is argued that long term relationship between auditor and audited may

cause auditor's carelessness and negligence in performing the role of attestation(Lenard & Yu, 2012).

Auditor's opinion

Auditing is an organized and regular process (systematic) for impartial collection and evaluation of evidences about the claims related to economic activities and resources in order to determine the degree of compliance of these claims with predetermined criteria and reporting results to the beneficiaries(Zengin & Ozkan, 2010).

History

Bae and Choi (2012), studied the relationship between auditor industry specialization and investment efficiency among service companies. Using a large sample of Korean firms during the period of 1976 – 2005, they showed that there is a positive relationship between auditor industry specialization and investment efficiency.

Lenard and Yu (2012), investigated the relationship between audit quality and investment decisions among Chinese companies audited by The Big Four audit firms. Their results indicate that the ratio of over-capitalization for companies that have longer tenure is low and for companies that have shorter tenure is about 70%. Therefore, investment efficiency is significantly high in firms with longer tenure.

Barzegarnezhad and Jamshidinavid (2017), found that there is no significant difference between the effects of large audit firms and non-large audit firms on abnormal accruals of the audited units.

Boynton, Kell, Johnson, and Wheeler (2001), studied market demand for audit services and they found that the market has undergone many changes in recent years; So that many of audited units have focused their demands for audit services on small audit firms. They argue that no significant changes occurred in abnormal accruals of those audited units who changed their auditor in a same level, large to large or non-large to non-large; but those audited units that changed their auditors at different levels, large to small, a significant increase occurred in their accruals.

METHODOLOGY

Descriptive statistics, including mean, variance, standard deviation, and quartiles were used to define variables. Furthermore, T-test, F-test, and regression were used to test the hypotheses. The default regression tests, such as normality of data and lack of autocorrelation between variables, etc. also were used. We first performed descriptive data analysis to analyze the given data and then accomplished hypotheses testing. Excel software was used in order to analyze the collected data. Method of "panel data" was used for hypotheses testing, because dependent and independent variables are evaluated from two different aspects in order to investigate the relationship between auditors' characteristics and the type of independent auditors' reports. These variables were tested among different companies during the period of 2007 to 2011.

RESULT

First Hypothesis: There is a significant relationship between the type of auditor's opinion and the quality rating of the audit firm.

Table 1. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	46.034	1	0.000
	Block	46.034	1	0.000
	Model	46.034	1	0.000

Table 2. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	91.746(a)	0.366	0.492

A: Estimation terminated at iteration number 5 because parameter estimates changed by less than0.001

Table 3. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	quality	-3.163	0.547	33.484	1	0.000	0.042
	Constant	1.126	0.332	11.489	1	0.001	3.083

A Variable(s) entered on step 1: quality.

A logistic regression analysis was performed to examine the hypothesis and 101 companies were totally included in the analysis. The full model was significantly reliable (p = 0.000, df = 1, $\chi 2$ = 46.034). This model explains 6.36 to 2.49% of the variance in the position of auditor's opinion type. The above table contains the coefficients, Wald statistic, the respective degrees of freedom, and the possibility related to the predictive variable. This table shows that the quality of audit firm predicts the type of auditor's opinion in a reliable manner which is significant. (wald=33.484, df=1, p=0.000), coefficient values indicate that increasing one unit in the quality change of a company causes a 2.4% reduction in the chance of qualified auditor's opinion. The equation can be written as follows:

OPIN= -3.163(A Quality rating) +1.126*

In other words, there is a significant negative relationship between the type of auditor's opinion and the quality rating of the audit firm.

Second Hypothesis: There is a significant relationship between the type of auditor's opinion and the audit firm size.

Table 4. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	0.010	1	0.920
	Block	0.010	1	0.920
	Model	0.010	1	0.920

Table 5. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	137.770(a)	0.000	0.000

An Estimation terminated at iteration number 3 because parameter estimates changed by less than 0.001.

Table 6. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	size	0.044	0.440	0.010	1	0.920	1.045
	Constant	0-.312	0.240	1.690	1	0.194	0.732

A Variable(s) entered on step 1: size.

A logistic regression analysis was performed to examine the hypothesis and 101 companies were totally included in the analysis. The full model was not reliable (p = 0.920, df = 1, $\chi 2$ = 0.010). This model does not explain any percent of the variance in the position of auditor's opinion type. The above table contains the coefficients, Wald statistic, the respective degrees of freedom, and the possibility related to the predictive variable. This table shows that the quality of audit firm does not predict the type of auditor's opinion and it is not significant. (wald =0.010, df=1, p=0.920). In other words, there is no significant relationship between the type of auditor's opinion and the quality rating of the audit firm.

Third Hypothesis: There is a significant relationship between the type of auditor's opinion and audit firm reputation.

Table 7. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	2.217	1	0.136
	Block	2.217	1	0.136
	Model	2.217	1	0.136

Table 8. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	135.563(a)	0.022	0.029

An Estimation terminated at iteration number 3 because parameter estimates changed by less than 0.001.

Table 9. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	afr	-.965	.663	2.121	1	.145	.381
	Constant	.560	.627	.797	1	.372	1.750

A Variable(s) entered on step 1: afr.

A logistic regression analysis was performed to examine the hypothesis and 101 companies were totally included in the analysis. The full model was not significantly reliable (p = 0.136, df = 1, $\chi 2$ = 2.217). This model explains 2.2% to 2.9% of the variance in the position of auditor's opinion type. The above table contains the coefficients, Wald statistic, the respective degrees of freedom, and the possibility related to the predictive variable. This table shows that the audit firm reputation does not predict the type of auditor's opinion in a reliable manner which is not significant. (wald=2.12, df=1, p=0.145), but the equation can be written as follows:

OPIN= -0.965(A Firm reputation) +0.56*

In other words, there is an inverse relationship between the type of auditor's opinion and the audit firm reputation, but it is not significant.

Forth Hypothesis:. There is a significant relationship between the type of auditor's opinion and auditor tenure.

Table 10. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	0.014	1	0.906
	Block	0.014	1	0.906
	Model	0.014	1	0.906

Table 11. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	137.766(a)	0.000	0.000

An Estimation terminated at iteration number 3 because parameter estimates changed by less than 0.001.

Table 12. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	experience	-.084	0.703	0.014	1	O.905	0.920
	Constant	-0.223	0.671	0.111	1	0.739	0.800

A Variable(s) entered on step 1: experience.

A logistic regression analysis was performed to examine the hypothesis and 101 companies were totally included in the analysis. The full model was not significantly reliable (p = 0.906, df = 1, $\chi 2$ = 2.014). This model does not explain any percent of the variance in the position of auditor's opinion type. The above table contains the coefficients, Wald statistic, the respective degrees of

freedom, and the possibility related to the predictive variable. This table shows that auditor tenure does not predict the type of auditor's opinion in a reliable manner which is not significant. (wald=0.014, df=1, p=0.905). The equation can be written as follows:

OPIN= -0.084(F experience)-0.223*

In other words, there is a positive significant relationship between the type of auditor's opinion and the auditor tenure.

The main hypothesis. There is a significant relationship between auditor's characteristics and the type of auditor's opinion.

Table 13. Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	49.742	6	0.000
	Block	49.742	6	0.000
	Model	49.742	6	0.000

Table 14. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	88.038(a)	0.389	0.522

An Estimation terminated at iteration number 5 because parameter estimates changed by less than 0.001.

Table 15. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	quality	-3.388	0.602	31.625	1	0.000	0.034
	change	-.384	0.903	0.181	1	0.671	0.681
	size	0.875	0.638	1.881	1	0.170	2.399
	experience	.677	0.879	0.594	1	0.441	1.969
	afr	-1.225	0.986	1.544	1	0.214	0.294
	atv	-.239	1.472	0.026	1	0.871	0.787
	Constant	1.494	1.207	1.533	1	0.216	4.456

A Variable(s) entered on step 1: quality, change, size, experience, afr, atv.

A logistic regression analysis was performed to examine the hypothesis in which the auditor's opinion was selected as the dependent variable and quality ranking of the audit firm, audit firm size, firm reputation, and auditor tenure were selected as predictor or independent variables. Also, 101 companies were totally included in the analysis. The full model was significantly reliable ($p = 0.000$, $df = 1$, $\chi 2 = 49.742$). This model explains 38.9% to 52.2% of the variance in the position of auditor's opinion type. The above table contains the coefficients, Wald statistic, the respective degrees of freedom, and the possibility related to the predictive variable. This table shows that only audit firm quality predict the type of auditor's opinion in a reliable manner and it is significant. (wald=31.625, df=1, p=0.000) and the equation can be written as follows:

Prob (OPIN=1) =F) -3.388(A Quality rating)-0.384*(A change) +0.875*(A size) +0.677* (Experience) -1.225* (A firm reputation) -0.239*(A Tenure variety of client) +1.494)*

In other words, there is a significant relationship between the type of auditor's opinion and the auditor characteristics.

CONCLUSION

According to statistical analysis of hypotheses, it was found that there is a significant relationship between the type of auditor's opinion and audit quality, but there is no significant relationship between the quality, size, and auditor tenure(Myers, Myers, & Omer, 2003). Based on the overall analysis of hypotheses results of the research, it should be stated that financial

disclosure decisions of companies do not usually accomplished in vacuity. Financial reporting is one of the methods by which information is transmitted. The combination of communication resources and the quantity and quality of disclosed information are affected by many factors, which need to be studied in order to achieve a general understanding about disclosure practices. Theorizing and empirical evaluation studied the audit variables' effects such as size, reputation, and quality, diversity of audited, auditor change, and audit tenure on the type of auditor's opinion. The purpose of this research is to create space and range for improving the quality of financial statements disclosure. It should be noted that descriptive and control variables such as motivation, ethics in the auditing profession, and etc. could help to advance the clearer objectives. It is recommended to consider them be in future researches(Dong & Su, 2010).

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