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The effect of corporate governance mechanisms on auditing quality of firms accepted in Tehran Stock Exchange

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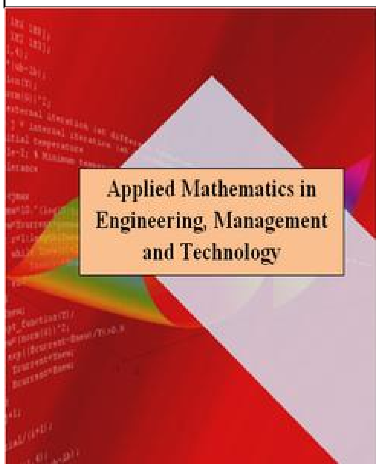

Abstract

According to agency theory literature, by increasing agency contradictions, the tendency of economic units to choose independent auditing entities will increase. Inappropriate and insufficient revealing in financial reports and lack of transparency in companies will result in increasing the problems caused by ownership isolation from the management. Therefore, in the present research paper we have practically studied the effect of corporate governance on the quality of auditing of firms accepted in Tehran Stock Exchange. The experimental findings of us by sing the information about 94 companies from among firms accepted in Tehran Stock Exchange during the time period between 2008 and 2012 and the regression analysis of the data by using SPSS16 software showed that the effect of the existence of main institutional stockholders in the composition of stockholders is meaningful and positive over the quality of accounting among the firms under investigations.

Keywords: institutional stockholders, ownership concentration, auditing quality, specialization in auditing entity industry

1. Introduction

For the past several years, economists would assume that all groups working for a common goal of a corporation. But in the past 30 years, many companies are faced with a conflict of interest between the group and how these conflicts have been proposed by economists .These cases generally expressed as agency theory in management accounting. Different aspects of a company's ownership structure is significant in terms of the first two variables include internal stakeholders or shareholders' equity available to internal and external shareholders is defined as. Accordingly, the major part of the ownership of shares owned by institutional shareholders is considered an outside firm. The composition can be inside or outside the company's ownership in many aspects such as the centralization or decentralization of ownership, agency, or real or non-managerial and managerial (Kafash, 2008).

Theoretical and empirical evidence suggests that these compounds ownership of the means of controlling shareholders and potential impact on various aspects of nonprofit entities (for example, Kothari and fair investigation, 2009; Nvrvsh and Abrahymi krdlr, 2005).

One of the most important regulatory roles in the financial statements and the owners can be crystallized in the environmental quality of financial reporting. According to this hypothesis, the efficient monitoring, major shareholders than the shareholders lacking, due to the resources, expertise and experience can be much less expensive to monitor managers' performance and By applying the monitoring agency conflicts are resolved and improved quality of information provided by the company, shareholders and all stakeholders' rights are considered (Azyby et al, 2010).

However, the literature on agency theory, agency conflicts increasing tendency of economic entities selected by an independent auditing increases. Poor disclosure of information and lack of transparency in corporate financial that causes problems due to the separation of ownership that increase.

Failure to provide relevant and reliable financial information, irreparable economic losses for shareholders and other stakeholders outside the organization to follow In this regard, an independent audit of the financial statements, attestation, and certification to ensure reliability of financial information, thereby protecting the rights of all interested parties can participate and improve corporate accountability.

The more information provided by the company to be more transparent, as well as companies fulfill their responsibilities towards stakeholders and users to respond better to be. Information from the users' point of view, the audit report is very valuable. This is due to the increased probability of detection of errors and Of protective coatings for individuals and groups involved in the corporations. Reliability of audit quality by reducing errors, intentional and unintentional reporting on historical dividend increases. .Audit's role in validating the information presented in profits following the recent revision of corporate profits and corporate bankruptcy, has gained considerable importance. Differences in audit quality due to differences in the quality of credit provided by the auditors and their employer prove its profits. Since the dimensions of audit quality is different and is inherently invisible, there is no audit feature that it can be considered as an indicator. Most previous studies of auditor reputation as an indicator for the use of audit quality and Of variables such as the size of the audit firm and audit expertise in the industry, have been used to measure (Tndlv and Vanstraln, 2008).

In the present study, it is argued that different combinations of ownership, the existence of regulatory instruments with different performance levels demanded by the companies that make essential range of business owners. It seems that the owners claim to have more or less oversight of the Company Reputation transparency on companies and auditors as well as the selection procedure and audit process impact on society. Thus the interior or exterior of the property and also concentrated or dispersed ownership, different levels of influence on the choice of auditors in order to provide managers and Proprietary compounds may also affect communication between auditors and managers and the degree to which auditors may be influenced by managers; influential. However, the creditors as well as suppliers of capital potentially benefit from the company's existing regulatory mechanisms and Care for it, and it seems that the group on modern approaches for selecting auditors has been involved. In this regard, the combination of three factors, including the concentration of property ownership, institutional ownership, of shares of the largest considered and assessed their association with audit quality. Therefore, the main research question, explaining the importance of ownership structure on firms' audit quality and the main research question is stated as follows.

- **Does ownership structure affect audit quality?**

3. Literature Review

Baowdo & Yelkins (2004), two researchers from Belgium, tested the effects of the size of auditing institutions on auditing quality in Belgium's market and they considered some other minor factors in auditing size such as the share of auditor's market, the number of auditing institution beneficiaries and … . Finally the results of their researches showed that there isn't any meaningful relationship between the auditor's size and auditing quality. Fuerman (2006) found out in his research that bigger auditing companies have less faults in their auditing tasks. Chan Tao & et al (2007) studied the analysis of cognition about stock market regarding the auditing quality among a number of small auditing institutions in China's auditing market. These researchers found out that there is a positive relationship between the size of an auditing entity and the understanding of the investor of the profitability quality.

Adim and Fgbmy (2010), examining the relationship between corporate governance mechanisms and firms' audit quality in Nigeria, did not observe a significant relationship between institutional ownership and audit quality. Efficient capital market theory and research examining the role of information, types of information in the stock market, Common types of fraud in the stock market using descriptive research method and questionnaire and Using t - test the hypothesis whereby all hypotheses are rejected. Hassas-e-yeghaneh (2010) studied the relationship between auditing quality and an auditing entity size. In this research the member auditing entities of the Official Accountants' Association were categorized as small auditors (small auditing entities) and the Auditing Organization was considered as the big auditing entity due to its staffs and history. It was found that there is a meaningful and adverse relationship between auditing quality and auditor's size (auditing entity size).

Rahmanian and colleagues (2010) examined the role of institutional ownership on audit quality of listed companies in Tehran Stock Exchange began. In this study, three standard sizes audit institution, auditor industry specialization and the audit report is used as an indicator of audit quality. The findings suggest that firms with higher levels of institutional ownership, higher audit quality are, however, the concentration of institutional ownership on audit quality is reduced. Zvrygat (2011), in a study research examining the relationship between ownership structure and quality of auditing in Jordan received 198 listed companies in the securities market, institutional investors; audit quality has a significant positive relationship.

4. Research Hypotheses

To examine the impact of corporate governance mechanisms Quality audit hypothesis is formulated as follows:

H_1: Ownership structure of the firm's audit quality.

$H_{1.1}$: There is significant relationship between institutional ownership and audit quality
$H_{1.2}$: There is significant relationship between Concentration of ownership and audit quality
$H_{1.3}$: There is significant relationship between Largest shareholder ownership and audit quality

5. Variable definition

5.1. Independent variables:

*** Institutional ownership**

Only equity shares of the Company's shares by institutional shareholders. To determine the definition of institutional investors Rezaei (2008) are used in accordance with its institutional shareholders are: Investment companies, pension funds, banks and insurance companies (the sensitive one and others, 2008).

Io= $\sum$ (Ultimate owners)

*** Concentration of ownership**

Ownership concentration in the distribution of ownership among stakeholders the major stakeholders (the majority) must belong and show the percentage of the company in the hands of a small number of people.

n this study, the total stock Tuesday shareholders, ownership concentration is considered as the condition that not less than 5% of their shares.

*** Largest shareholder ownership rate**

Percentage of shares owned by the largest shareholder of the company, which has been used as a measure of ownership structure.

5.2. Dependent variables:

***Quality Audit**

Audit quality, auditor's ability to exercise control over the quality of data is the process of reconciling the financial statements with generally accepted accounting principles (Tndlv and Vanstraln, 2008). Auditor industry specialization has been chosen as indicators of audit quality. And the auditor's market

share has been used to measure auditor industry specialization. Auditors' market share is calculated as follows:
Following Palmrz (1986), institutions are regarded as industry experts who share their (the right side of the equation) over equation $(1/ (FN))*(1/2)$ is:

$$(1/ (FN))*(1/2) < (SR/ (SRT))$$

(SR): Assets of all employers in a particular industry in a particular audit firm
(SRT): Total assets of all employers in the industry
(FN): the number of firms in an industry

5.3. Control variables

***Firm size:** *Ln (size assets)*

***Financial leverage:** leverage ratio as a criterion for determining the capital structure of the company used. It is calculated by dividing total debts to total assets of a firm.

6. Research method

The research is capital market research type regarding accounting researches and regarding the goal it is considered to be applied. The methodology regarding the research title is descriptive and correlation type. It is descriptive because the goal is to define the conditions or phenomena under investigation and it is used to know more about the current situation and it is correlation because our aim is to investigate the relationships between the variables.

7. Statistics sample and population

In order to select statistics sample, the research is designed regarding some qualifications:
1- Considering comparative capability, financial year ended in March.
2- Companies that their stop symbol do not have more than six month abeyance in the research period.
3- The firms should not be a member of banks and financial institutions (like investment companies, financial broker, Holding and leasing companies).

With the application of above limitations, 94 companies listed in Tehran Stock Exchange from industries (pharmaceuticals, electrical machinery, automobiles and parts, machinery and equipment, basic metals, food except sugar, other non-metallic minerals, chemicals, wood products, metal products, computers, cement, ceramic Hg) has been chosen.

8. Research findings

8.1. Descriptive statistics and correlation coefficient tables of the variables are shown in Table1.

Table (1) Descriptive Statistics Research Variables

variable	AQ	IO	OLS	CO	SIZE	Lev
Number of observation	470	470	470	470	470	470
min	0	0	0	0	4.009	0.076
max	1	1	1	1	7.659	1.391
average	0.47	0.67	0.04	0.69	5.62	0.64
Standard deviation	0.024	0.022	0.009	0.022	0.026	0.01

8.2. Hypotheses test results

Table (2): The results of first hypothesis

$\mathbf{AQ = \alpha + \beta_1\ OC + \beta_2\ IO + \beta_3 OLS + \beta_4 POD + \beta_5 SI + \beta_6 LEV + e}$						
Sig	(Wald) Statistic	Stdev(β)	β	symbol	Variables	Type of variable
0.000	16.18	1.38	-5.58	α		
0.082	3.018	0.29	-0.51	OC	Concentration of ownership	Independent variables:
0.000	83.08	0.42	3.091	IO	Institutional ownership	
0.919	0.01	0.619	-0.064	OLS	Largest shareholder ownership rate	
0.02	4.92	0.214	0.047	SI	size	Control variables
0.69	0.153	0.53	0.21	Lev	leverage	
)Pseudo r-square=(76.4)	(Log-Likelihood)		P-Value	χ^2	Overall regression model	
Cox&Snell =0.34 NagelKerke=0.46	429.24		0.000	192.59		

Logistic regression was used to test the first hypothesis of the original. χ^2 Statistic to determine the effect of independent variables on the dependent variable and the overall fit of the model. χ^2 Value equal to 192.59 and a significance level of χ^2 to 0.000. The significance level of less than 0.05 indicates that the regression model is significant. Nigel Kirk R^2 of R^2 (coefficient of determination) of the linear regression and represents the percentage change in the dependent variable that is explained by the independent variables. Wald test of significant variables in the regression checks (If a significance level of less than 0.05, showed significant ranges) and compared with conventional regression t-statistics. The results indicate that the estimated coefficient on institutional ownership and firm size are significant (significance level of less than 0.05 Parent).

6. Discussion and Conclusion

Results of hypothesis testing shows that institutional ownership has an impact on audit quality. Many researchers have been done on the informational role of institutional owners. There is evidence that the shareholders are institutional investors and major companies are located outside Compared to the shareholders lacking, due to the facilities, expertise and experience can be much less expensive to monitor managers' performance. Also, due to the high proportion of shareholders who participate in the performance, Compared to the other shareholders have greater incentives to monitor managers.

1- Majority of institutional investors, government agencies, and also the benefit of government support, there are political and financial influence. Thus the effects of these stakeholders, this aspect should also be considered. In the control, regardless of the level of voting is probably more effective than other shareholders, institutional shareholders act. Because, their connection to political power and social and financial resources, which may lead to their tendencies toward implementing audit institutions are of high quality and high reputation.
2- Institutional investors, their investments are mostly long-term perspective. Retail shareholders because, unlike them, have more financial resources needed cash fast and do not need. Consequently, it appears that shareholders are more concerned about the waste of company resources are motivated by profit-seeking executives And try to identify the issues that lead to abuse of managers is a must.

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