



# The role of management changes in the auditor's report

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## Abstract

The purpose of this study was to identify the relationship between the company management and auditors have commented. This includes the period from 2002 to 2012. The study sample included 100 companies from a number of listed companies on the Stock Exchange in Tehran. This research is a correlation. Test hypotheses based on multivariate regression was performed. research findings indicate that the auditor's opinion the most affected factors such as change management, audit fees, auditor's term of office, firm size, debt ratio, the ratio of profit and loss is reported. The results emphasize that the management of change increases, the number of items before the said paragraph comments reduced.

**Keywords:** Report Auditing, Change Management, Company Size Semicolon.

## 1. Introduction

Formed society of certified public accountants and the audit market boom, the auditor of the public sector to the private sector increased. Although this can be from the perspective of economic theory, competition in the audit and audit quality increase. But also the independence of the audit will also be reduced. Evidence of past research shows an increase in the auditor change, a change in the auditor's opinion has also increased. This could be a threat to professional auditing and auditor independence to be considered. The audit opinion is influenced by several factors. These include factors such as the size of the deal, the auditor, reviewed the company's financial risk, it is profitable. The hypothesis to align the interests of management and the auditor, the auditor acknowledges the interest and address management entity provides comments and reports. This is in line with the interests of shareholders conflict between shareholders and management will increase. The term of office manager and also manage the direct relationship to the quality of financial reporting and the quality of the audit. The increase audit quality, the quality of accounting information also increases. Various studies have shown that companies that auditors are large and quality management in their profits than companies that have been audited by small audit firms. The role of audit in the control and manipulation of accruals as a result of reported earnings is managed by managers of special importance. The purpose of this study is to examine the effect of the change management audit opinion. Experimental as financial analysts, users of financial statements, the CPAs and Stock Exchange show that the changes in audit quality management is effective or not. This article scientific achievements and added value will be as follows. First, the study hypothesis of this study was to align the interests of directors and auditors presented to the audience, and this led to the development of the theoretical foundations of previous studies about the quality of the audit. Second, the study shows the extent to which audit opinion by the management.

This can be used in place of certified public accountants and the Stock Exchange. Third, the results of this study could provide new ideas for future research.

## 2. The theoretical basis and review of literature

Agency theory, the auditor as an independent candidate shareholders and other interested parties in control of the accuracy, reliability and relevance of the information provided is recognized by business unit managers. as well as to align the interests of management and the auditor acknowledges hypothesis because it involves audit work closely with the directors of an entity's auditor, auditors may carry out its duty, did not maintain their independence and their work is not done properly and in a sense, act in line with their interests and managers (Myers et al, 2003) & (walker, 2003). Loss of independence, auditor, and audit quality will be reduced. Quality audits to detect and report by the auditor refers misstatement. The auditor independence and non-alignment with business unit management is more, the audit quality further. Board monitoring audit institutions to reduce the alignment between management and the audit client, mandatory rotation of auditors has been developed. Stock Exchange act, auditors of listed companies in Tehran Stock Exchange after 4 years to change their auditor. Frankel et al (2002) demonstrated the correlation between the auditor and the client is, the greater audit quality is lower. It is one of the criteria for assessing the independence of non-audit fees to the auditing firm fees were introduced. Salivan (2002) show that the management and directors of non-interference must affect the quality of audit reports. He found that a non-responsible managers, auditors are encouraged to increase their transparency. Keim et al (2003) have shown that differences in the effectiveness of large audit firms audit institutions of conflict between the interests of corporate managers and auditors in reporting small stems. Maintain neutrality auditors, leading to conflict between manage-

ment and the auditors. They found that strong institutions in the prevention of earnings are more effective than small firms. Examines the role of legislators in audit quality and auditor also discussed the possibility of failure. Compliance and reform their institutions to reduce audit emphasized audit failure. Keristen sen & demesky (2004) study the effect of conservatism and audit quality on the market value of shares of the companies examined. They found that employers value determined by the choice of auditor vary. Henok (2005) in their study to examine the relationship between service quality and size of audit firms and audit firms realized that the big audit firms do not always provide better service to small enterprises Bir & sheedhar (2006) the relationship between the stock price in the market and the quality of audit reports were reviewed. The study found that the price of a stock and the quality of the audit report, there was a significant positive correlation. The audit report is the quality of a stock price increases. Meyer et al (2007) the effect of the relationship between the auditor and management on audit quality were investigated. They believe the increased term of office of the auditor, the auditor and the audited management with closer links to find and this reduces the quality of the audit. Jenkins & velury (2008) the relationship between the auditor's term of office and conservative earnings reports were reviewed. They found that the auditor's term of office in the first year compared to other years, the association stronger among conservative accounting profit and the auditor's term of office there. Chen et al (2010) in a study in China found that by combining a Chinese CPA firm with one of the institutions, large audit clients in 2002 changed its auditor and audit firm small and weak to receive unqualified audit reports from quality audits have chosen. Fafatas (2010) in their study investigates the conservatism auditor audit institutions pay after bankruptcy. He found the law Sarbanes - Oxley, a positive and significant relationship between the auditor and the audit report are conservative. Even auditors use these procedures to impose their employers. Chang et al (2010) investigated the effect of audit partners, features and comment on the judgment of the auditor and the audit found that work experience understanding the company's auditor with industry to address the main factors influencing the decline in the issuance of the audit opinion is wrong. The overall results showed that qualities such as independence of the auditor, the auditor's experience, the entity's auditor tenure and his familiarity with the company's industry investigation, the audit opinion is effective. Chen et al (2013) investigated the effect of audit partner rotation on audit quality in China listed companies showed that auditor rotation of audit quality in the first three years of law enforcement, improved. They also indicated that in the provinces where the audit market boom in the other study, Firth et al (2012) The auditor and audit quality scratch-au found after the rotation of audit legislation, audit quality has increased. Tsipouridou & Spathis (2013) examined the relationship between earnings management audit opinion. They showed that there is no relation between the audit opinion and earnings management. They also believe that profitability and size of the audit opinion is a decisive factor. Tu (2012) the relationship between the management and the auditors studied in China. he showed that there is a direct relationship between the management and the auditor. According to him, this negatively affected the quality of the audit. Chi and et al (2013) study of the change of auditor in China showed that the formulation of the law, audit quality has increased. According to Chinese law firms manage their auditors do not have the right to change their auditor in the first year of service. The terms of the directors to a maximum of 5 years can use the services of auditors.

### 3. Research hypotheses

The change of management and audit provisions of section audit opinion in private institutions audited, there was a significant relationship.

## 4. Method research

The population evaluated in this study listed companies in Tehran Stock Exchange during 2002 to 2012 the number 500 can be seen. The population total of 100 companies from various industries were chosen randomly. The research sample is extracted as follows. 1) companies are selected to be the end of March and end during the financial period Not. 2) Participate in the investigation does not stop long-term deal. 3) Information is available in all the years of the study period. 4) Auditor companies they audit is a private institution. 5) For the purpose of this research, applied research. The study of inductive and deductive approach in the investigation of the correlation and regression analysis is a combination of regression. Data and information related to this study will be divided into two categories. The first group about literature and research in the relevant fields, and the second is about theory and research variables. The research model is as follows:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 x_7 + \varepsilon$$

Variables, respectively Include: the number of audit clauses before paragraph audit opinion, change management, company size, ratio of debt to total assets, profitability, auditor's term of office, reporting losses, the natural log of audit fees.

## 5. Research results

Table 1. Descriptive statistics research, including mean, median, standard deviation is given. It should be mentioned that about 20% of the observations are companies that have reported losses of 33% of the observations made during the study changed management. The average audit fees of 12,256 million dollars, total assets of 299,807 million dollars, compared with profit of 14%, debt ratio of 86% and the average term of office of the auditor for 4 years. Hypothesis test: hypothesis can be expressed as follows: H0: the change of management and audit provisions of Section audit opinion in private institutions audited, there was a significant relationship. H1: the change of management and audit provisions of section audit opinion in private institutions audited, there was a significant relationship.

**Table 1:** Descriptive Statistics Research

Description	Auditor's fees	Total assets	Profitability ratios	Ratio Debt	The term of office of the auditor
Count	500	500	500	500	500
Observation					
Average	12256.35	299807.14	0.1389	0.864	3.95
Middle	250.00	46061	0.0958	0.7545	3
Standard deviation	72020.35	30635892	0.6183	0.3503	2.36

**Table 2:** Test Assumptions

Independent variables	Coefficients	T-statistics	Significant level	VIF
Constant	-1.22	-0.937	0.35	-
Change management	-0.406	-2.384	0.037	1.182
Auditor's fees	-0.085	-1.089	0.277	1.406
Term of office of the auditor	0.030	0.612	0.541	1.297
Company Size	0.271	3.095	0.002	1.355
Ratio Debt	0.268	5.146	0.000	1.392
Profitability ratios	0.018	0.098	0.922	1.289
Loss report	1.109	3.852	0.000	1.364
Adjusted coefficient	0.172			
F statistic	4.676		0.000	
Watson statistic	1.799			

In Table 2, the significant level of change management, 3% less than 5%. So at 95 percent, the independent variables that change management and audit provisions before Ward said the audit report audit institutions is a significant relationship. By rejecting the null hypothesis H0 and H1 confirmed the hypothesis that front. To assess the accuracy of the regression line analysis of variance test was used. It is a significant level statistics f. The results of this test are given in Table 2. F statistics and the significant value of 4.676 equals zero. The test, verify and confirm the regression line. The coefficient of determination adjusted regression model according to Table 2 to 17.2 percent. This indicates that 17.2 percent of change based on changes in the independent variables and the dependent variable is the control model. The rest is affected by other factors that were not considered in the study. For determining the presence or absence of Watson autocorrelation test used in amounts (Residuals) remains. In this way the test function on the basis of statistical null hypothesis is therefore as follows: H0: in the disruption of (residual values) are autocorrelation. H1: in the disruption of (residual values), there is no autocorrelation. If the value is between 1.5 to 2.5 to be estimated, then the hypothesis H0 that there is residual autocorrelation is rejected and H1 hypothesis is confirmed. Watson statistic amount is equal to 1.783.

**Table 3:** Test of Normality

Description	number of audit clauses of Clause comment	Remaining values
Count	500	500
Average	2.51	0.00
Standard deviation	2.71	1.919
Absolute value	0.161	0.096
Positive	0.161	0.096
Negative	-0.124	-0.05
Presumption of Kolmogorov	0.845	0.083
Significant level.	0.149	0.083

## 6. Conclusion

Evidence of the results of hypothesis testing and the results of Table 2 suggest that change management and auditing provisions of paragraph comment on the audit report of the audit of private institutions is negative and significant relationship. In other words, the change management increases the number of articles before commenting section is reduced. It emphasizes that the management can a reduction in the number of audit clauses before the comment section, reduce the quality of the audit report on the audit institutions. This is consistent with the theoretical basis to align the interests of management and the auditor's investigation of the hypothesis. Since it is possible to achieve auditors and management in line with her own goals the audit will lose its independence and reduces the quality and number of the clauses of the audit before the auditor stated Section. The results show that the larger size is the number of paragraphs Audit before paragraph commenting on the increase. The loss reported by the company to address the debt ratio and increase in the number of audit clauses before the comment section. Evidence shows that audit fees, audit firms and term of office correlation with the number of the clauses audit opinion in the audit report are not audited private institutions. Therefore, the present study indicates that align the interests of directors and auditors the increase auditor independence reduced. Auditor independence and audit quality reduction reduces the type of audit opinion is in line with the interests of management. Thus, companies that manage the increased number of the clauses of the audit before the audit opinion paragraph is decreased represent a reduction of auditor independence and audit quality.

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