

The relationship between auditor change and auditor tenure on the auditor's opinion in listed companies in Tehran Stock Exchange

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Abstract.

The purpose of this paper is to examine the relationship between auditor change and auditor tenure on the auditor's opinion in listed companies in Tehran Stock Exchange. On the one hand auditor change affect modified audit report on the performance audit profession and its reliability, on the other hand effect on capital flows in the financial markets research shows that many factors effect on change in auditor's report one of the most important factors is change of auditor. In this study used a sample of 235 companies in the years 2010 until 2014. The results show that there is a significant relationship between the change auditor and the auditor's opinion. Also, there isn't a significant relationship between the auditor tenure and auditor's report.

Keywords: auditor change, auditor tenure, auditor's report.

1. Introduction.

In recent years, the audit profession to be private. Change of auditor following that change report was common in stock exchange. This issue affects the power and independent of the auditor and can effect undesirable. Furthermore, can prevent proper flow, effective and efficient investment in the securities market and increase the cost of financing. Thus, On the one hand auditor change affect modified audit report on the performance audit profession and its reliability, on the other hand effect on capital flows in the financial markets research shows that many factors effect on change in auditor's report one of the most important factors is change of auditor.

The audit report is the document where the auditor issues his/her opinion on the financial demonstrations of the enterprise audited, such that this opinion is regarded by society as having a public character. The audit report is often regarded as a "barometer" for the enterprise's financial situation and not only as a document that reveals reliability on the financial demonstrations (Arens and Loebbecke, 1996), such that the audit report is the climax of the audit process through which the auditor issues his/her opinion on the audited financial demonstrations or the reasons not to issue them.

Furthermore, Auditor changes (or auditor switches) and opinion shopping have been the subject of considerable concern from investors, regulators and researchers. The extant research has identified several reasons for companies to change auditors, including the desire to decrease audit fees, improve the credibility of annual reports, improve audit quality, lower agency costs, obtain a more favorable audit opinion, etc. (Firth, 1999).

Recent research shows that auditors with shorter tenure are associated with lower earnings quality than auditors with longer tenure (e.g. Johnson et al. 2002; Myers et al. 2003; Ghosh and Moon 2005). Auditor tenure is defined as the number of years an auditor is retained by the firm (Myers et al. 2003). Three different explanations have been provided for this relationship. The first is based on the argument that short-tenured auditors lack client-specific knowledge that is necessary to conduct a high quality audit. In addition, the accounting profession argues that short tenure may involve higher risk for audit failures, because incoming auditors with insufficient client-specific knowledge will have to rely more heavily on the estimates and representations made by client firms (e.g. Pricewaterhouse Coopers 2002; Gul et al. 2007). So, this research is trying to answer the following question: Is there a significant relationship between auditor change and effects on the auditor's opinion and the role of reporting quality?

2. Development of hypotheses and methodology.

According to high content, we consider two hypotheses:

H1. There is a significant relationship between the change auditor and the auditor's opinion.

H2. There is a significant relationship between the auditor tenure and auditor's report.

In this study auditor's opinion (AOC) is dependent variable. Also, change auditor and Auditor tenure are independent variables. Furthermore, control variables are: size, leverage, WNER and ROA. SIZE variable is defined as the natural logarithm of sales revenue and LEVERAGE variable is total debt divided by the total assets, and ROA is Net profit divided by total assets. Also, Statistical population this review is all listed in companies in Tehran (IRAN) stock exchange during the period of 5 years (2010-2014). We use the method to

remove systematic for sample selection. In this research to collect data of Tehran Securities Exchange Technology Management Company website and the Tehran Stock Exchange website. However, study sample shall be made with respect to following limitations: (Table 1 shows these limitations)

Table 1
Limitations and Sample selection

Sample selection	number
The total number of listed companies in Tehran Stock Exchange at the end of 2008 (Firm)	478
Limitations:	
The companies that aren't leading to the end of the year	(57)
Companies that have been interruptions in the check period	(52)
Enterprise that changed the financial year	(81)
Companies that have losses	(53)
Final Sample	235

After restrictions remaining 235 companies. Also, the following model is used to test the hypotheses.

$$AOC_{it} = \beta_0 + \beta_1 AUDITOR\ CHANGE_{it} + \beta_2 TENURE_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \beta_5 AGE_{it} + \beta_6 OWNER_{it} + \beta_7 ROA_{it} + e_{it}$$
 (1)

The method of measuring the variables of this model includes:

AOC_{it} : Auditor's opinion firm i in year t,

$AUDITOR\ CHANGE_{it}$: Auditor change firm i in year t,

$TENURE_{it}$: Tenure firm i in year t,

$SIZE_{it}$: Natural logarithm of sales revenue firm i in year t-1,

LEV_{it} : Total debt to total assets in firm i in year t,

ROA_{it} : Net profit in firm i divided by total assets in firm i in year t,

$\varepsilon_{i,t}$: Error regression model.

3. Empirical results.

Table 2 shows the descriptive statistics data 235 Firm. The results show that average AOC is 0.0587 and median is 0.000 and average auditor change is 0.2621 and median is 0.000. Also, average Tenure is 6.9821 and median is 3. Average firm size is 6.05 and median is 5.660 and average leverage is 0.6401 and median is 0.6500 and average ROA is 0.142 and median is 0.110.

Table 2
Descriptive Statistics

<i>N</i>	<i>Std</i>	<i>Min</i>	<i>Max</i>	<i>Median</i>	<i>Average</i>	<i>Varabel</i>
1175	0.2352	0.0000	1.0000	0.0000	0.0587)AOC(
1175	0.4400	0.0000	1.0000	0.0000	0.2621)AUDITOR CHANGE(
1175	9.3026	1.0000	27.0000	3.0000	6.9821)TENURE(
1175	0.1625	0.0500	1.7800	0.6500	0.6401)LEV(
1175	2.7196	4.4300	30.8200	5.6600	6.0530)SIZE(
1175	0.4824	0.0000	1.0000	0.0000	0.3677)OWNER(
1175	0.1244	-0.1800	0.6200	0.1100	0.1423)ROA(

Chow test applied to panel data set or combination. The results show that (Table 3) in model 1 F-statistic is 3.7071 and probe is 0.000, then, the null hypothesis is rejected and data is pooled.

Table 3
Chow- Test

H_0	Model	F-statistic	Prob	Result
Pooled data	Model 1	3.7071	0.000	<i>Rejected</i>

Hausman test will determine use of the fixed effects model or random effect. According to the probability of less than 5%. So the hypothesis H₀ (fixed effects model) is rejected. Table 4 shows model 1 p-value is 0.000 and χ^2 is 98.986. So, the null hypothesis is rejected.

Table 4
Husmuns Test

H ₀	Model	p-value	X ²	Result
Random effects model	Model 1	0.000	98.986	<i>Rejected</i>

Results Table 5 shows results model. R² represents the explanatory power of the model. This coefficient shows how many percent of the dependent variable explained by the independent variable. F statistic shows the significance of the regression model used.

Table 5
Results model

variable	Coefficient	Standard deviation	F-statistic	Sig
C	-4.1660	0.8780	-4.7449	0.0000
Reporting quality	-0.2078	2.3836	-0.0872	0.9305
(AUDITOR CHANGE× REPORTING CHANGE)	-0.6569	3.9428	-0.1666	0.8677
TENURE×REPORTING CHANGE)	-0.0140	0.1577	-0.0889	0.9292
LEV	0.3461	0.7434	0.4656	0.6415
SIZE	0.0773	0.0283	2.7341	0.0063
OWNER	0.1735	0.2614	0.6640	0.5067
ROA	1.7132	0.9766	1.7543	0.0794
R-squared	0.2174			
F-statistic	9.128			
Sig	0.0200			

The estimated coefficient for Auditor change variable is positive. So, there is a significant positive correlation with AOC. Also, table 5 shows R² in model is 0.2174 and F-statistic is 9.128. So, 21 percent of the dependent variable depends on the following variables and hypothetically accepted. Thus, there is a significant relationship between the change auditor and the auditor's opinion. Also, there isn't a significant relationship between the auditor tenure and auditor's report.

4. Conclusion.

In this study mentioned relationship between auditor change and auditor tenure on the auditor's opinion in listed companies in Tehran Stock Exchange during the years 2010- 2014. The results show that there is a significant relationship between the change auditor and the auditor's opinion. Also, there isn't a significant relationship between the auditor tenure and auditor's report. According to the results, it is argued that change the auditor of the company without pay attention to the type of auditor. Furthermore, the privatization of the audit profession can increase competition. But, this problem can be the reason for choose report. Choose report is case in which the client according to ability changes auditor. One of the important limitations in this study lack of access to audit fees. At the last the following suggestions are addressed for the future studies:

Repeat this research with other quality criteria.

Check the determining factors in the auditor's opinion

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