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THE IMPACT OF AUDITING STANDARD NO. 700 OF IRAN ON AUDIT QUALITY

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Abstract: *Audit quality is very important for stakeholders and other beneficiaries. In this regards, auditing standard No. 700 of Iran tries to provide instructions about the form and content of audit reports aiming for enhancing audit quality. This study investigates the impact of auditing standard No. 700 on the quality of Iranian auditors work. The research population was managers, supervisor and senior auditors of Iranian audit organization and Iranian private audit organizations. The research period was fall 2014 and the research data was gathered through a questionnaire. In order to test validity and reliability of questionnaire, factor analysis and cornbach's alpha were used respectively. Multiple regressions were used to test hypothesis. According to the research findings, there is no meaningful relationship between auditing standard No.700 with quality and understandability of audit reports.*

Keywords: *Auditing Standard No. 700, Quality, Understandability, Audit Report and Iran.*

1. INTRODUCTION

The increasing expansion of economic units and its complexity, the increasing of company's stock of stockholders and following that conflict of interests, regulatory more necessary than before, in this environment usersmake theNeed different information such as financial information about economic agencies for planning. In this respect the most important set of financial information are financial statements of the company and represent the results of their activity. But the important point is about the dependability of these information (Yaghoubnejhad & Amiri, 2009). From user's perspective, the information are assumed as dependable that an independent organization supervise the companies reporting process and this process gravity centeris the same financial statements. A sample of these independent organizations is auditor ship institutions. (Hassas Yeganeh & Jafari, 2010).

The auditor must evaluate that if the financial statements have been provided according to all important aspects, according to accounting standards and ideally. In this evaluation the qualitative accounting approaches of commercial unit

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including possible signs of self-protecting in management judgments, should be considered. (Auditing Standard No. 700 of Iran) For maintaining and regulating these evaluations, the auditor should follow the standards specialized to the profession under the nominal of auditory standards that are formulated by auditory organization.

Auditor ship standards formulating process, is a continuous and dynamic process that compels changes and renewing in existing standards or formulating new standards in reaction to internal and international changing situations. In this process, one of the main policies of auditor ship organization is acceptance of international auditor ship standards as the base of auditor ship standards formulation and if necessary, adjusting it for internal country situation consistency and adaption. (Independent auditory auditor ship standards report about financial statements 2005).

1- Standard 700 under the nominal of reporting for financial statements (renewed in 2010) that is replaced of standard 70 under the nominal of independent auditory report about financial statements, is a sample of these change and renewing that is irrevocable since 11/04/2011 and after that.

2- In this standard, instead of standard 70 that includes 3 articles: preface, inquest limit and pronouncement articles. The auditor ship report should include 5 articles: preface, board of directors' responsibility alongside of financial statements, auditor responsibility, auditor pronouncement and other reporting duties.

1.1. This Standard's Changes and Additions Includes

Board of directors' responsibility alongside financial statements: In this part of auditor report, the responsibilities of people who are responsible for providing financial statements are described. Generally this responsibility is in hand of commercial unit or similar skeleton.

Auditor responsibility: In auditor's report it should be mention that auditor's responsibility, is pronouncement about financial statements on the basis of performed auditor ship according to the auditory standards. In auditor ship report also there should be notify that these standards compel the auditor to observe professional behavior rule and perform the auditor ship in a way that make sure there is no serious distortion in financial statements.

Rest of reporting responsibilities: If the auditor propound his other reporting responsibilities in auditor's report alongside the responsibilities specified in auditor ship standards for financial statements, these responsibilities should be mentioned in a separate part such as the report about the rest of ruling and regulatory necessities.

And it is mentioned that this standard, defines and describes the auditor's responsibility toward announcement about financial statements and also the auditor's report form and content as the financial statements auditor ship product and amends the auditor ship reports uniformity. Uniformity in auditor ship report, increase its validity and helps users understanding and unusual situations' realization.

In this study, it has been attempted to go through the evaluation the replacement effect of this standard as one of the practical strategies for problem solving the responsibility of auditor and the auditor ship report monotony and as a result more reliability of auditing and financial reports acceptedon the Tehran stock exchange.

1.2. Background

Unfortunately regarding standard 700 and because of subject novelty, there are not much existing researches but some researches have been conducted about the auditor ship quality that includes:

1- A description has been delivered by De Angelo of auditory ship quality.
   She has described auditor ship quality as market evaluation if:
   - Discovers the important distortion points in employer's financial statement or accounting system.
   - Reports the discovered important distortion.-
     The probability of discovering important distortions by the auditor, depends on the auditor's capability and the probability of reporting important distortion points by auditor depends on auditor's independency. (De Angelo, 1981)

2- Palmeros defines the auditor ship quality as the descent of auditor ship credibility amount. As the target of auditor ship is making sure of financial statements, the auditor ship quality is described as: when the auditor shipped financial statements are free from important distortions. In fact this definition emphasizes on auditor ship results. It means that the auditor shipped financial statements reliability, reflects the auditor ship quality.

3- Titman and Trueman [1]have described the auditor ship quality as the truthfulness and reality of the information which is delivered to the investor after auditing.(Titman & Trueman, 1986)

4- Davidson and new[2]have defined the auditor ship quality as the auditor ability in finding and deleting the important distortions and also finding alteration in net profit. (Davidson & Neu, 1993)

5- Jafari (2006) defines the measurement scale for real quality of auditor ship as the total qualification of auditors'independency (founded distortions report).

6- Field findings and professional experiences show that the auditor ship quality is affected by these two key factors. In other word, auditor ship quality means, finding important distortions (qualification) and reflecting them in auditor ship report (independency) (Hssas Yeganeh, 2006).

1.3. Objective

Now in the world, annually huge sums are paid for the cost of financial statements auditor ship by companies and financial institutions that is a result of report work which contains auditor's comments about the financial decisions that is considered as an important paramount for users decisions and therefore auditor ship quality is an important point for consumers.

In this evaluation, the following points are of consideration:

1. Answering to the question that if standard 700 replacement has made an increase in auditor ship quality?
2. Collecting information about if there is an impact, how much has been the extent of this impact?
3. Collecting information and answering to the question that to what extent the new report has effected on consumers' decision making?
4. Personal satisfaction and motivation

In case of having a functional target, stating nominal of interest estate

- Auditor ship organization
- Ministry of Economic Affairs and finance
- Researches

What is the novelty aspect of the research? (This part should be filled by the supervisor).

Regarding that the auditor ship reports in recent standard has been increased to 5 parts, study of this increase on work result has been the target of present research which can be valuable.

2. RESEARCH HYPOTHESES

Main Theory

1. It seems that replacing auditor ship standard 700 instead of standard 70 has increased the auditor ship quality.

Subsidiary Theory

1. There is a significant relationship between the implementation of auditing standard 700 and the quality of the audit reports.

2. There is a significant relationship between the implementation of auditing standard 700 and understandability of auditing reports.

2.1. Research Hypotheses

Theory is a smart and scientific guess that is anticipated for the research result and evaluated by scientific test. In any scientific research, the researcher usually assumes one or some theories so he can lead and improve his research in a specified manner and way.

This research includes 1 main and two incidental theories as follow:

The main Hypotheses:

(1) There is a significant relationship between auditory standard 700 replacements and auditor ship quality increase.

Incidental theories are as follow:

(1) There is a significant relationship between auditory standard 700 replacements and the amount of auditors' finding of present distortions in financial.

(2) There is a significant relationship between standard 700 replacements and the amount of founded distortion reports by the auditor (independency).

According to mentioned issues, research statistical theories are specified as follow:

Main theory:

$H_{0:}$ There is a significant relationship between auditory standard 700 replacements and increase in auditory quality.

H_1: There is no significant relationship between auditory standard 700 and increase in auditory quality.

First incidental theory:

H_0: There is a significant relationship between auditory standard 700 performances and the auditory reports quality.

H_1: There is no significant relationship between auditory standard 700 performances and the auditory reports quality.

Second incidental theory:

H_0: There is a significant relationship between auditory standard 700 performances and auditory reports understandability.

H_1: There is no significant relationship between auditory standard 700 performances and auditory reports understandability.

3. METHODS

This research type is of applied research component and the research method in terms of the nature and content is of solidarity. The research has been conducted in the comparative-inductive forum. The theoretical basics and the history of the research from library studies, articles and sites in the comparative format and data collection to confirm and reject the theories has been done inductively.

3.1. Sampling

*3.2. Geographical territory:*Statistical community in this study includes formal accountants' community.

3.3. Time territory: Time period in performing the research is choosing mentioned companies between years 2011 to 2012.

3.2. Instruments

In order to collect information regarding the role of the research literature, documentary studies and library method has been used and to achieve the desired information for processing research assumptions the method of face to face interviews and questionnaires with a number of independent accountants' auditory companies that are members of accountant community has been used.

The tool for collecting information in this research is informative banks, information derived from auditory companies and formal accountants' community members, thesis, internal and foreign articles and valid internet resources.

3.2.1. Researchvariables and Variables' Measurement Methods

In order to evaluate the relationship between standard change and auditor ship quality, Regression model has been used. Existing variables in Regression model are as follow:

3.2.2. Descriptive Statistics

The first step of data analysis, is describing data using descriptive statistics. In descriptive analysis, data are used just to evaluate a group'sconfiguration or position. For example, age, career, education description and job satisfaction. But the analysis of the relations and the variables changes and analyzing variables for finding the reason, is out of descriptive statistics ' capability.

Descriptive statistical indicators used in this research, are alteration scope, average, standard distortion and alteration index.

3.2.3. Inferential Statistic

Inferential statistics relate to the relations clearing. The statistical community behavioris predicted by the sample group behavior and position. Inferential statistics are divided in to two groups:

A) Parametric statistics: It needs the theories such as scales closeness, normal division of the grades and communities variance uniformity.

B) Non parametric statistics: This group does not need the mentioned theories and their theories are based on the measurement parameters of lower levels such as nominal scales and rating scales.

When we have more than one explanatory variable (the independent and control) and want to evaluate their relationship rate with the dependent variable or assume them in one model, we use multiple linear regression. But the basic problem in this research is that of 6 explanatory variables, 4 of them are nominal and two other are quantitative and in fact multiple linear regression and Pearson coordination methods cannot be used.When there are nominal variables in the model, one of the ways that generally is offered, is LogIt-Binary method that this method is not possible in this study also because the LogIt-Binary method is applicable when the time-response variable (dependent) is a two State nominal (for example zero and one codes) and not independent variables and control. The solution offered and applied to this problem is factor analysis method.

Factor analysis is basically used to reduce data or identify the structure. The aim of reducing data is deleting additional variables from data file and the purpose of identifying the structure is evaluating the hidden relationships between variables. Our goal in using factor analysis isnot just to reduce the variables or recognizing the structure but the main purpose is to produce two quantitative variables of 4 nominal variables. In fact, the purpose of the main components is gaining some linear compounds (principal component) from the collection of the raw variables contained in a collection of data related to the study. The principal components are used when with a number of these components; a relatively suitable amount (typically over 80%) of the information contained in all initial variables can be achieved.(Jamalzadeh, 1999, p. 268).

It means that we, on the basis of factor analysis method, make a linear combination of two nominal variables of auditory size and the tenure and a linear combination of two nominal variables of income and losses index that are quantitative and have a normal distribution. Now easily by using the usual methods, the relationship between the variables can be evaluated and tested and also a multi linear regression model can be made.

3.3. Procedure

The research for the offered subject will be done by following methods according to the subject's nurture:

1. Libraryreviews of the issue specially review of economicunits' review that is issued by auditory institutions or auditory organization.
2. Access to the audit unit managers feedback in order to know their opinions about this topic through face-to-face interviews or questionnaires.
3. Conclusions and generalizing the issues to provide solutions in order to optimize thread.

So according to the above issues,method of research in this thesis is comparative and inductivetype.

3.4. Data Analyzing Method

In this section, using a two-sentences test in standard level of 95 per cent and 5 per cent error in the impact or lack of impact of the revised auditing standard commenting and reporting than for financial statements and auditors understanding are determined. So for testing the theories which its effect on two sentences test is confirmed, t test is used. The statistic theory test of research theories is two sided. Also for testing test effect level, 5 levels Likert test will be used. To define the significant relation between common questionnaire questions and research theories, Keroskal Valin, F Fisher statistic, t test with two independent sample and Man Vinti test will be used and for defining the significant relation between questionnaire questions and research theory, the coordination test has been used.

3.5. Territory of Research

Geographical territory: Statistical community in this study includes formal accountants' community.

Time territory: Time period in performing the research is choosing mentioned companies between years 2011 to 2014.

4. RESULTS

Data reviewing method is cross-sectional form and year to year. In this study,to test the hypothesis the linear multivariate Regression method has been used. In present researchdescriptive statistical methods such as average, median, variance and standard deviation as well as Excel and SPSS software have been used for data analyzing and mentioned test.

Descriptive Statistic

Factor Analysis

In human and behavioral sciences, most of researches are conducted on the basis of questionnaire. A good questionnaire should has favorable characteristics such as objectivity, ease of performance, practicality, , reliability, ease of defining and describing, validity and reliability in order to get to correct results. Of these characteristics, validity and reliability are related to each other(Mirzadeh, 2007).

For evaluating the validity, factor analyzing methods are used. This method is based on the variables relations and the scales which are measurement tools. Factor analysis tries to find basic variables or factors in order to get a suit pattern for the variables. The created factors are mathematical phenomena that can be used as axes of variables 'classification variables.

A factor is a new variable that can is derived from the linear combination of the original values of the linear combination of original values as the following relationship:

$$F_j = \Sigma\, w_{ji} x_i = w_{j1} + \ldots\, w_{jp} x_p$$

In this respect, x_i represents the I variable, W_{ji} is the factor score coefficient I variable and from j factor point of view, P is the number of variables and F_j is j factor.

Factor analysis is usually done in 3 steps:

1- We form a Matrix of correlation for all variables.

2- We extract the main components that are the same factors from correlative matrix.

3- The factors are turned to maximize the correlative relation between the variables.

As the factor analysis aims to link multiple variables to create a factor in the solidarity matrix, these variables should have the correlation coefficient of more than 0/3.

Tip 1: If a variable in solidarity matrix has no correlation with the others, we put it aside of variables group.

Tip 2: In some experts' point of view, the number of samples should be ten times of variables' number.

The adequacy of sampling:

Before factor analysis, at first the adequacy of sampling should be assured. For this purpose KMO indicator and Bart let test can be used.

KMO Indicators

This indicator is used to determine the adequacy of sampling in a way that reviews the partial correlation being small between the variables and defines if the research's variables variance are effected by the common variance of some hidden and basic factors or not. This indicator is situated between 0 to 1. If the variable is near 1 (minimum 0/6), the data are suitable for the factor analysis otherwise are not valid.In this formula, r^2ij is the variables correlation coefficient between I and j variables and rij is the correlation coefficient between them.

Bartlet Test

Correlation matrix may come ahead of two modes, first mode is when the correlation matrix between the variables is the same as a single matrix, in this case, there is no significant relationship between variables therefore there is no possibility of defining new factors on the basis of variables correlation with each other. Defined matrix or single matrix is as follow:

$$R = \begin{bmatrix} 1 & \cdots & 1 \\ \vdots & \ddots & \vdots \\ 1 & \cdots & 1 \end{bmatrix}$$

Second case is when the correlation matrix between variables, is not a single and same matrix it means that out of the original diameter show at least 0.3, of correlation that in this case, there will be a significant correlation between the variables. In Bartlet test, zero assumption indicates that correlation matrix is a unified and single that if it exists, is not suitable for defining the structure. If the sig of Bartlet test is less than %5 (zero assumption denying) factor analysis is suitable for structure identification (factor model). Because the assumption of correlation matrix definability is denied.

In table 1 the Bartlet test result that is an approximate of Kaydo statistic, is showed and the Bartlet test sig amount is less than 5 percent (0.000) which shows factor analysis is suitable for identifying the structure of factor model and the assumption of correlation matrix definability is denied and also Kmo identifier amount, 0.793 at the beginning of the table shows the number of samples adequacy.

Table 1
Bartlet test result

Bartlet significant level	*Inaccuracy amount*	*Kmo indicative*	*Result*
0.000	0.05	0.793	The definability assumption is denied and samples are adequate

The nest output shows Initial collaboration and Extraction collaboration.A variable correlation equals second multiple correlations R^2 for the related variables with the use of the data is as a Predictor.

The first column shows the similarities before factor extracting and because of these factors are 1.

In second column, as the extracting similarity amount is bigger, show the variables' extracting factor better that as all similar amounts of this test are upper than 0.5, there is no need for other factor deletion or extraction.

Table 2
Subscriptions

	Primary	*extracting*
Uniformity improvement	1.000	0.709
Report validity improvement	1.000	0.502
being sure of reasonable accounting estimates	1.000	0.686
Being sure of numbers relation	1.000	0.818
reliability	1.000	0.729
comparability	1.000	0.802
Defining producers responsibility	1.000	0.514
users better understanding	1.000	0.603
Being more understandable	1.000	0.720
being sure of understanding unusual situations	1.000	0.705
Being sure of uncorrected distortions	1.000	0.734
Being sure of corrections	1.000	0.763
Ensure the adequacy of disclosure accounting procedures	1.000	0.712
Description of overall audit process	1.000	0.753

In the third part the next output as special values of extractive factors after rotation of the factors 1, 2, 3, and 4 have special values larger than 1 and remain in analysis thatIf you pay attention to the column of cumulative variances, these three factors can explain 69.659% of the changeability (variance) of the variables.

Table 3
Defines variances table

	special amounts			*Special values of extractive factors before turning*			*Special values of extractive factors after turning*		
Component	*special amounts*	*percentage of variance*	*relative cumulative variance*	*special amounts*	*percentage of variance*	*relative cumulative variance*	*special amounts*	*percentage of variance*	*relative cumulative variance*
1	5.491	39.222	39.222	5.491	39.222	39.222	4.671	33.362	33.362
2	2.062	14.730	53.952	2.062	14.730	53.952	1.945	13.894	47.256
3	1.186	8.469	62.421	1.186	8.469	62.421	1.616	11.544	58.800
4	1.013	7.238	69.659	1.013	7.238	69.659	1.520	10.860	69.659
5	0.856	6.113	75.773						
6	0.759	5.418	81.191						
7	0.639	4.562	85.753						
8	0.433	3.092	88.844						
9	0.394	2.817	91.662						
10	0.357	2.550	94.212						
11	0.250	1.783	95.995						
12	0.237	1.690	97.685						
13	0.183	1.304	98.989						
14	0.142	1.011	100.000						

Chart 1: The chart of graphical picture special amount in each extracted factors

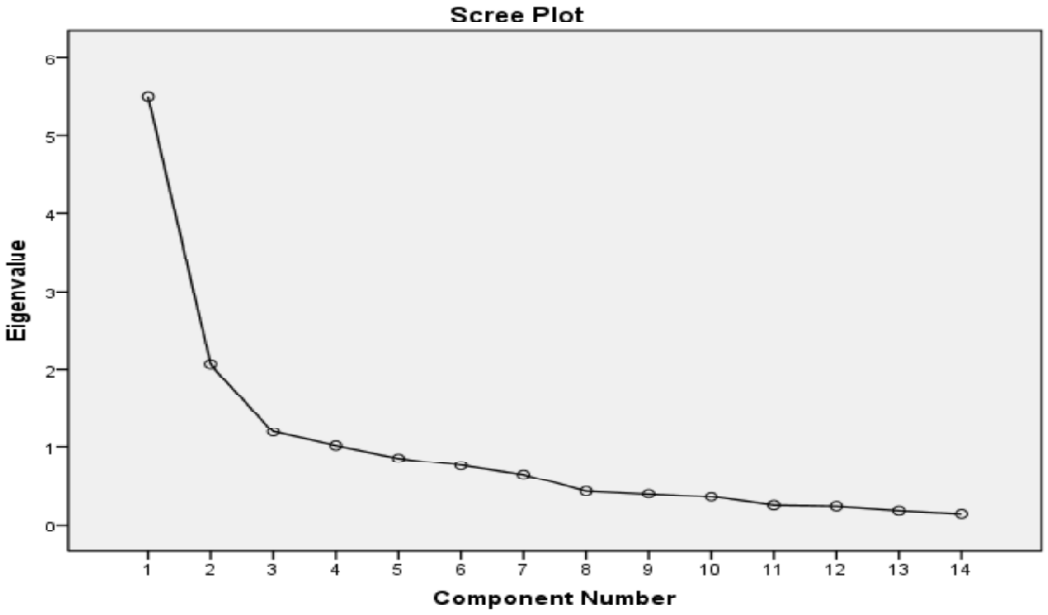

Table 4. Includes non-rotational contents or factors matrix that include factor loads of each variables in 4 remained factors.

Table 4
of components matrix

	1	*2*	*3*	*4*
Improvement of uniformity	-0.224	0.751	0.243	-0.191
Upgrade credit report	0.463	0.348	-0.408	0.015
Ensure that reasonable accounting estimates	0.739	-0.020	-0.199	-0.316
Ensure of numbers correlation	0.828	-0.048	-0.050	-0.357
Ensure of reliability	0.764	0.197	0.312	-0.092
Ensure of comparability	0.791	0.017	0.370	-0.200
Determination of the responsibility of producers	0.031	0.652	0.208	-0.210
A better understanding of the users	-0.171	0.678	0.236	0.239
Become more understandable	0.838	-0.094	-0.095	-0.018
Ensure the detection of abnormal conditions	0.832	-0.037	0.108	0.011
Ensure of correct distortions not detection	0.450	0.407	-0.148	0.586
Ensure of methods adequacy	0.728	-0.104	0.256	0.396
Ensure the adequacy of disclosure accounting procedures	0.776	-0.107	-0.113	0.293
Overall description of auditory process	0.157	0.501	-0.681	-0.114

Interpretation of factor loads without rotation is not simple, table 6-1 shows the rotated matrix of components that include factor loads of each variables in 4 remained after spin. The more the absolute value of these coefficients is, the relevant factor role is greater in the total changes (variances) of desired variable.1-6 Components' turned matrix

	1	*2*	*3*	*4*
Improvement of uniformity	-0.108	0.824	-0.110	0.082
Upgrade credit report	0.292	0.078	0.240	0.595
Ensure that reasonable accounting estimates	0.725	-0.151	-0.032	0.369
Ensure of numbers correlation	0.859	-0.120	-0.042	0.253
Ensure of reliability	0.792	0.221	0.228	-0.016
Ensure of comparability	0.876	0.097	0.105	-0.118
Determination of the responsibility of producers	0.125	0.692	-0.056	0.128
A better understanding of the users	-0.206	0.691	0.288	0.001
Become more understandable	0.742	-0.227	0.263	0.222
Ensure the detection of abnormal conditions	0.776	-0.095	0.300	0.063
Ensure of correct distortions not detection	0.148	0.163	0.772	0.300
Ensure of methods adequacy	0.591	-0.133	0.604	-0.176
Ensure the adequacy of disclosure accounting procedures	0.575	-0.281	0.523	0.171
Overall description of auditory process	-0.017	0.158	0.039	0.852

The Kolmogorov Smirnoff test has been used to review the normality of research variables and according that both variables have sig higher than 0.05 so research variables are normal.

variable	*Significant level*	*error*	*Zero assumption*	*conclusion*
Auditor ship reports quality	0.415	0.05	Is not rejected	Data are normal
auditor ship reports understandability	0.661	0.05	Is not rejected	Data are normal

According to variables normality, parametric repeated measure test for reviewing significant difference between modifiers and in case of significant difference, two modifiers will be compared using parametric pair t test.

indicators	*Indicators average*
Auditor ship reports quality	3/2121
Auditor ship report understandability	3/0379

$h_0 : \mu_1 = \mu_2$
$h_1 : \mu_i \neq \mu_j$

Given that the level of significant (p value) 0.00 is smaller than the error value 0.05 the assumption is rejected, i.e. for at least one index i, j-con the indicators are not equal.

Significant level	*error*	*Zero assumption*	*conclusion*
0.00	0.05	Is rejected	$\mu_i \neq \mu_j$ For at least

So paired t test should be used for reviewing paired equality of these indicators.
$h_0 : \mu_i = \mu_j$
$h_1 : \mu_i \neq \mu_j$

Regarding to the significant level resulted from the test is smaller than error of 0.05, so according to the paired t-test indicators are equal it means they do not have significant differences with each other.

variables	*Significant level*	*T statistic*	*Zero assumption*	*conclusion*
Auditory reports' quality-auditory report understandability	0.004	3.015	Is rejected	$h_1 : \mu_i \neq \mu_j$

5. DISCUSSION

To perform the main theory of the research test and to indicate the effect of control variables on the relations between the independent and dependent variables, at

first factor analysis method and then t and repeated measure tests have been used for data analysis. Regarding to mentioned points, the results of research theories' tests are as follow:

5.1. First Theory Conclusions

According to the results obtained from the above analysis, it is determined that in the first hypothesis that goes to correlation between the implementation of auditing standard 700 and the auditory quality, there is a weak relation between them and their correlation is little.

According to these findings it is concluded that the performance of standard 700 and the auditory quality are two independent variables that means standard 700 performances or not, does not have a significant effect on the auditory quality.

5.2. Second Theory Conclusions

In case of second hypothesis that reviews the correlation between the implementation of the standard 700 and auditory reports understandability also showed that this relationship is weak and also their correlation is low.

It is concluded that the complementation standard 700 specifications and auditory reports understandability also are two independent variables.

6. CONCLUSION

The study target is to investigate the relationship between the implementation of auditing standard 700 and the quality of the auditory in the Member auditory companies. The findings of this research show that there is no significant relationship between the implementation of auditing standard 700 and auditory quality.

This can be because change and replacement has been more in terms of report's text and has literal aspect and has not much effect on report nature.

Suggestions

Suggestions are delivered in two parts as follow:

Suggestion based on the first hypothesis:

- Reviewing financial managers and accountants about the auditory standard 700
- Reviewing the effect of using standard 700 on cheatings decrease in companies
- Reviewing standard 700 role on users plans

Suggestions for Future Researches

Regarding to the importance of auditing standard 700 implementation and auditory quality it seems that doing more researches and taking into account the other aspects of the issue will help to clarify it. This research can be used as a pattern for other researches. Study on the influence of the individual factors on this standard and auditory quality, can provide important means for further understanding of the concept and two categories. The suggestions are as follow:

1- Regarding that any change has positive and negative point, it is suggested that a research be conducted on the comparative review of auditory standard 700 with the previous research.

2- Regarding that in standard alteration the individual responsibility has been more exhausted, a research on the effect of this standard from judicial rules point of view is recommended.

6.1. Research limitations

Usually in all researches statistic community does not have enough motive for coordination. Thereforestatistical community non-coordination can limit the results generalization and on the other hand respondents typically do not provide the answers they attributed to the real conditions in the test conditions.

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