

THE RELATIONSHIP BETWEEN AUDIT QUALITY, AGENCY PROBLEMS AND QUALITY OF THE FINANCIAL INFORMATION

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***Abstract:** A historical appraisal, the role of the auditor in the reporting of financial statements to evaluate the financial condition and results of operations are fairly presented or displayed is limited. Management is responsible for reporting the financial condition and results of operations of the business unit, while the role of the auditor's assessment of a claim or statements and management report on the fairness of the forms of financial fair by the standards a pre-determined is the auditor's statement of approval or disapproval of the reports in decision-making, decision-makers and the transparency of information is very important. The aim of this study was to investigate the relationship between audit quality, agency problems and quality of the financial information in the period 2008 to 2012 is. Using descriptive statistics test results mean and variance and standard deviation, skewness and analyzed each variable was analyzed separately. To test the hypothesis of simple and multivariate statistical tests and regression methods were used and the method step in this direction and Eviews SPSS software was used. The results showed that the agency problems (3.338) and there was a significant positive correlation with Audit Quality. As well as audit quality (3.015) and a significant positive impact on the quality of financial information and the quality of audits, this time in the role of moderator variable could represent the link between the problems and the quality of financial information in order to make positive adjustments.*

***Key word:** Audit quality, agency problems the client, the quality of financial information*

1. INTRODUCTION

Increasing expansion of economic entities, development of information technology and conflict of interest, creates regulatory requirements. The issue of economic globalization and the information revolution, the government has even lost control. This situation makes auditing profession and gradually try to keep pace with technological changes in order to remain behind the needs of society to move. In this environment, the use of information for decision-making, including the financial information about businesses need. Financial statements as the financial information is set. But the important thing doubts about the reliability of the information that a

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conflict of interest arises. In addition to the conflict of interest issues, including the lack of direct access to information users has resulted in demands for independent audit services. In fact, the role of audit is to evaluate and rank the quality of information to users. (Yaghubnejad and Amiri, 1388). In Iran, the stock market to ranking is based on timely information disclosure. Disclosed in the accounting term is inclusive and encompasses virtually all financial reporting process. One of the basic principles of accounting principles and disclosure of all important facts about events and activities related to financial entities. Principle requires that financial statements prepared and presented in such a way that the objectives of the first reporting timely, relevant and reliable and, second, comparable and understandable. Namely to users of financial statements to help make informed decisions. (Alipour, 1990: 25). Bushman and *et al.* (2004), the transparency of the financial information to be widespread access to relevant and reliable information about the financial performance, financial condition, investment opportunities, governance, value and risk-taking in the economy, companies have defined. Transparency of financial information to shareholders on the one hand wisdom has always been to ensure that reliable information about the value of the company's major shareholders and managers will not violate their rights and the other managers to try to increase the company's value instead encourages short-term self-interest. (Nobakht, 2003).

2. BACKGROUND RESEARCH

Sung C. & Bae. (2009) examines the relationship between financial leverage and investment opportunities in companies Industry China. The results showed that the tendency of firms with more growth opportunities, to borrow less. Also, large companies will use more debt, but small companies for investment, the company will use more of their funds.

Alastair, L. & Miguel Minutti, M. & Ping, Z. (2011) in Canada, to examine the issue of "whether the difference in the quality of large audit firms auditing against other major institutions, the profile of the entity concerned." One of the indicators of audit quality that they considered the entity's abnormal accruals. They found that the effects of large audit firms on abnormal accruals entities other than large firms accounting effects on abnormal accruals entity difference does not matter.

Chuntao Li *et al.* (2007) in their study to analyze knowledge (understanding) the stock market of audit quality across a number of small audit firms in China's audit market. The researchers found a positive correlation between the size of an auditing firm and investor perception of quality is profitability. The results Chantayv and colleagues showed that the size of audit firms on audit quality is impressive and enhances the quality of financial information.

3. RESEARCH METHODOLOGY

This research has the purpose and the type of descriptive research is based on relationships between variables, the use of multivariate regression is based on panel

data. Panel data, a method for combining time series and cross-sectional data.. The population of this research includes all companies listed on the Tehran Stock Exchange, during the period 2008 to 2012 (the period of 5 years).

1.3. Hypotheses

1. There is a significant relationship between audit quality agency problems
2. There is a significant relationship between audit quality and the quality of financial information.
3. The quality audit can represent the relationship between problems and quality amend financial information

2.3. Variables

1-2-3- moderating variable

1-1-2-3- quality auditor

Quality audit the auditor’s reputation and professional care. As a result, the reputation of the auditor on the financial statements adds credibility and surveillance of his career, increases the quality of financial information. (Nonahalnahr et al., 2009: 55-70).

How to measure: If the audit firm Audit component in at least one of the years examined in this study is the number 1 and number 0 can be otherwise.

2-2-3- dependent variable

1-2-2-3- quality financial information

If we define the qualitative characteristics of financial information summarizes Perhaps the best definition is the definition offered by Vickrey(1985)which states that “qualitative characteristics, characteristics of useful information that will be it.” In this study, the model Dechow el at (1995) we use.

$$\frac{TAC_{it}}{TA_{it-1}} = a_{0j} \left(\frac{1}{A_{it-1}} \right) + a_{1j} \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) + a_{2j} \left(\frac{PPE_{it}}{TA_{it-1}} \right) + e_{it}$$

where in:

TAC_{it} = Total accruals (profit before extraordinary items minus operating cash flow) in year t for the studied j

TA_(it-1) = total assets in year t-1 for the studied j

ΔREV_{it} = income changes during the year t-1 to t for the studied j

ΔREC_{it} = Change of accounts and documents received in the year t-1 to t for the studied j

PPE_{it} = gross amount of property, plant and equipment in year t for the studied j
 e_{it} = total regression error. In this study, the absolute value of the difference e_{it} with a number as a measure of the quality of financial information has been used.

3.2.3. Independent variable

1-3-2-3- auditee agency problems

Following Miettinen (2012) agencies problems leverage measured by three variables. Thus, according to research Miettinen(2007) on the problems of represent and its relation to the quality of financial information, can be said that the concept of the use of debt leverage in the capital structure of the company. This variable is measured as follows:

$$\text{Leverage} = \frac{TL_{i,t}}{TA_{i,t}}$$

where in:

$TL_{i,t}$ = Total Debts

$TA_{i,t}$ = Total Assets

4. EMPIRICAL RESULTS

1.4. Hypotheses

1-1-4- first hypothesis - there is a significant relationship between the agency problems with audit quality.

Survey results show a significant regression model predicted value and F (11.098) is significantly less than 1% (0.01 < sig), can be confident of the above 99% H0 is rejected and H1 hypothesis was accepted research, the relationship between the client agency problems with the audit quality of listed companies in Tehran Stock Exchange there. As you can see the t-statistic significant level variable representing the client's problems (3.338) is less than 1% at the level of 1% tolerance and a significant positive impact on audit quality. The regression coefficient of variable client as well as agency problems (0.013) also shows a change or increase in the variable for a single employer, agency problems, the quality of audit companies to 0.013 single change or increase.

Table 1
First hypothesis test results

Sign	Statistic-t	Standard Error	Regression Coefficient	Variable
0.793	0.263	0.0004	0.0001	C
0.0009	3.338	0.0004	0.013	Agency problems
11.098 (0.0009)	Statistic-F	0.022	R	
	1.871	Durbin-Watson statistic	0.020	R ²

2-1-4- second hypothesis there is a significant relationship between audit quality and the quality of financial information.

Survey results show a significant regression hypothesis test of F (9.035) is significantly less than 1% (0.01 <sig), can be confident of the above 99% H0 is rejected and H1 hypothesis was accepted research, the significant correlation between the quality audit quality financial information is listed in the Tehran Stock Exchange. As you can see the significant level of audit quality t-statistic variable (3.015) is less than 1% at the level of 1% tolerance and a significant positive impact on the quality of the information. The variable regression coefficient audit quality (0.012) also shows that for a change or increase in the variable unit audit quality, the quality of financial information to change or increase unit size 0.012.

Table 2
Summarizes the results of the second hypothesis

Sign	Statistic-t	Standard Error	Regression Coefficient	Variable
0.823	0.211	0.0004	0.001	C
0.003	3.015	0.0004	0.012	audit quality
(9.035 (0.003		Statistic-F	0.018	R
1.897		Durbin-Watson statistic	0.016	R ²

3-1-4- Third hypothesis audit quality can represent the relationship between problems and quality amend the financial information.

Table 3
The third hypothesis test results quality financial information

Sign	Statistic-t	Standard Error	Regression Coefficient	Variable
0.000	3.623	0.032	0.12	C
0.0005	3.533	0.012	0.016	Agency problems
0.000	6.652	0.016	0.18	audit quality
8.652(0.000)	Statistic-F	0.018		R
1.894	Durbin-Watson statistic	0.016		R ²

Survey results show a significant regression model predicted value and F (8.652) is significantly less than 1% (0.01 <sig), can be confident of the above 99% H0 is rejected and H1 hypothesis was accepted research that audit quality would be the relationship between the problems of representation and quality amend the financial information. As you can see significant variable t test for agency problems (3.533) is less than 1% at the level of 1% tolerance and a significant positive impact on the quality of the information. It was also found a positive relationship between audit quality and quality problems, the client's financial information to amend the positive side. Adjusted

coefficient shows, 0.016 of the dependent variable, namely, the quality of financial information, according to the role of audit quality, the client representation can be explained by problems.

5. CONCLUSION

Disclosed in the accounting term is inclusive and encompasses virtually all financial reporting process. One of the basic principles of accounting principles and disclosure of all important facts about events and activities related to financial entities. Principle requires that financial statements prepared and presented in such a way that the objectives of the first reporting timely, relevant and reliable and, second, comparable and understandable. Namely to users of financial statements to help make informed decisions. (Alipour, 1990: 25).

According to the description given, a summary of the results is as follows:

The first hypothesis there is a significant relationship between audit quality agency problems

In analyzing this hypothesis should be expressed when the conflict between the interests of shareholders and managers, auditors tend to see greater financial planner to review and identify the deviations. The agency theory states, the directors of the different ways to maximize shareholder wealth, to strengthen their position. In the meantime, they are trying to create a more attractive company, but there is always a conflict between the interests of managers and shareholders and that, under these circumstances working with their auditors, audit quality above them and the ways that managers are looking for charm suspended for shareholders to identify and distortions of the financial statements to better identify. As a result of this hypothesis with research, AlaviTabraet al (2011) which states, they represent a significant positive relationship between audit quality problems exist, correspond.

Second hypothesis - there is a significant relationship between audit quality and the quality of financial information

This hypothesis should be stated in the analysis, increase audit quality, the detailed review of financial statements, financial statements and detect deviations from the auditors, the quality and reliability of financial statements increases. In other words, with a closer look at the financial statement auditors and increase the accuracy, quality and financial statements and in the Company will increase under these circumstances, they are empowered to make decisions about the future. What is remarkable is that the increase audit quality and greater transparency of information and financial statements, can be organizations seeking to benefit more from good Result and with increasing confidence, the more investment.

The result of this research, Jeff *et al.* (2010) increase audit quality contributes to enhance the quality of financial information. As well as with research, Chuntao *et al.* (2007) is consistent.

Third hypothesis audit quality can represent the relationship between problems and quality amend the financial information.

Based on the statistical analysis should be expressed, significant variable t test for agency problems (533/3) is less than 1% at the level of 1% tolerance and a significant positive impact on the quality of the information. Adjusted coefficient shows, 0.016 of the dependent variable, namely, the quality of financial information, according to the role of audit quality, auditee represent can be explained by problems.

As a result of the assumption that increasing audit quality relationship between quality agency problems and financial information in order to amend positive. This reflects the fact that any deviation from the financial statement audit quality and improve their shows. The financial statements give greater accuracy and this can, to some extent, solve agency problems. Because, as described, there is always conflict resolution between brokers and employers. As the lawyers are always trying their managers, in order to maximize shareholder wealth move in this way trying to create more attractive for shareholders, even in alternative ways that may not necessarily long-term corporate profitability and the maximization of wealth Holders may not, however, increase audit quality can be any deviation in their financial statements more transparent, and thus the quality of corporate information possible.

Under these conditions shareholders can trust the information more companies decide. In this way, companies can take advantage of a trust created for the long term benefit of shareholders. The result of this research, with all the AlaviTabari et al (2011), Jeff et al (2010) and Chuntao et al (2007), confirming that the result of this hypothesis are matched.

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