ISSN: 2288-2766
doi: http://dx.doi.org/10.13106/jemm.2015.vol3.no3.1

Capital Market Development: Evidence from the Role of Audit

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Received: May 29, 2015. Revised: June 22, 2015. Accepted: June 26, 2015.

Abstract

Quality auditor and auditors of larger firms have a positive effect on profit is unusual. The auditors smaller negative effect on profit companies profit is unusual. Change to larger audit shows the quality of earnings and to respond more investors positive changes in income and increased costs and reduced profitability is less negative price changes. Similarly, switching to a smaller auditor confirms the low quality of earnings, resulting in a negative response to the market. In this article market reaction (response investors) the quality of the audit and the auditor were studied in the Tehran Stock Exchange. in general, information about companies in capital market accounting to investors and the capital market is considered to be valuable.

Keywords: Capital Market, Investors, Profit, Quality Audit, Auditor Change.

1. Introduction

Disclosure of financial information companies such as Enron financial scandal after it was used. Improve the quality of disclosure of financial information transparency and help investors to better assess the company's performance. Auditors served to validate the financial statements to investors contribute to the fairness of the information contained in the financial statements and ensure their reliability. therefore, auditor independence and audit quality as key factors in the preparation of the audit report will be considered, attention will be investors several studies show that the quality of decisions, investors and other capital market participants audit is associated. One of the strategies recommended by professional bodies and securities exchanges, most countries solving the problem of the independence of auditors and the quality of audit services, audit firms are rotated. Rotation of audit firms after a period of audit means the auditor is a company based on the provisions of a decision by the general meetings of the company. In studies of capital market information, company information variables assessed in relation to stock returns. researchers such as Dopuch and colleagues (1986), Theo (1992) Pittman and Fortin (2004), Felix et al. (2005), officials and colleagues (2009), based on the results of their experimental research showed, the quality of the audit and the auditor valuable information explaining the changes in stock returns in financial markets are developing. Capital market in developing countries is not high performance, information environment and climate legislation is at a low level and most investors do not have sufficient knowledge to analyze financial information. The environment is the main focus of investor audited financial statements. This article aims to answer the question whether auditors could have added value for the capital market. The final value of the audit function to help users to identify the quality of information received is, therefore, data users must accept the competence of the auditors to express his opinion and trust while the purpose of the audit is to gain the confidence of users is not fully realized.

2. Foundations theoretical research

Incentives that earnings management, the accounting literature are a lot of rewards including management, reduce costs, increase corporate value and investment policy named. if the non-profit management for the company's operating performance using artificial accounting records or changes in estimates of reasonable level, therefore, undesirable. Sometimes good earnings management occurs in which management measures in an effort to create a stable financial performance (using acceptable voluntary decision) does. Some people believe that such a decision will not undermine the quality and reduce profits. One of the major mechanisms of management and explore the interest in the capital market independent auditors. Audit added value consists of two dimensions. After control and accreditation from the perspective of accreditation, audit data adds credibility because users can be assured that the controlling factors governing the reporting process and improve the quality of information and a result, users and their use of accounting information accounting information leads to full development potential value. Investors given the complexity of accounting information and awareness of the managers manipulation accruals, in order to achieve their own interests in earning management, the audited financial statements and auditor's Report on the desirability of the financial statements of all the important aspects of their dependence. Experimental studies have shown that the ability of the auditor in detecting earnings management techniques, awareness of the obligations in the industry and your company addressed the company is aware of the audit process. the audit quality is higher, lower level of earnings management, earnings quality and reliability of financial statements will be higher Becker et al.

(1998), Chan and Wong (2002), Johnson (2004). Audit quality from the perspective of various researchers has been identified on the basis of various criteria. For example, the findings Hyde (1981) and Linux (1999) showed that audit quality is positively related to the size of audit firm. Large audit firms have more resources and better audit services to audit small companies offer. Johnson et al (2002) auditor tenure is considered a measure of the quality of the audit. He believes that, auditors with high tenure in the company, more than knowledge of the environment, internal controls and accounting systems involved. The advantage of the information, the auditor in detecting earnings management and other illicit activities will help the company. Others, such as the ears and the Moon (2005) believe that long-term engagement of the auditor and the client auditor independence and audit quality is reduced. Others frequently failed qualified auditor's report to be considered as a measure of the quality of the audit. auditors who provide high-quality services, the number of published reports and provided more unacceptable because they are concerned about the loss of opportunities for audit clients, while companies with low quality audits, frequency of publication and rejected reports is provided below. However, most researchers believe that the audit firm or trade name can be considered suitable criteria for audit quality.

3. Change auditors, earnings management, audit quality and market reaction

Audit quality is to prevent the manipulation of accruals by management. Company management to achieve the desired profit by manipulating accounting figures may be an audit of the lower quality of more powers to manipulate accruals and adjustments have reported profit. Moreover, when the auditor reports are rejected and conditional release, which is likely to change the management of the auditor, the change of auditor to audit the quality of low quality. Because it failed to receive feedback or negative impact on the company's stock price had provided funding for activities that may affect the company. Thus, the auditor or the audit quality has affected the views of investors about the reliability of financial statements are affected. the auditors of the companies decreases, the reliability of the financial statements will be less and less information content of accounting numbers reported. The auditors are more likely to manage earnings in financial reports and the quality of reported earnings below shows. Cheney (2002) found that, when the five largest audit to other / 4 audit firms auditing companies to the capital market, market prices and stock market returns shows because investors expect the information content of reported earnings decrease. Change auditors after the audit opinion is considered to be bad news for the market because the principal motivation for the appointment of a new auditor received the unqualified opinion of the audit indicate lower quality. Chen and colleagues (2001) found a negative correlation between market return is conditional comment. Earnings quality based on test market reaction to the company's reported earnings. Some reaction of the capital market interest rate used to test market reaction to the audit and the auditor's reported earnings or the quality of their work. the relationship between market returns and changes in interest earnings response coefficient shows the regression coefficients return as changes in estimated profit. Earnings response coefficient measure of the rate of profit is the stock price reaction to the news showed a positive relationship between stock price reaction and the quality of accounting information that the accounting information quality is positively related to audit quality. Nelson et al (2002) and the ear and the Moon (2005). Theo and Wang (1993) and Balsam et al (2003) reported that investors responded to the news of interest to the quality and reliability of reported earnings dependence. Theo Wong (1993) assumed, investors, financial statement audit firms with large 8 (high quality audit firms) have been considered more quality and reliability. as a result, the stock price reaction to unexpected profits by 8 big audit firms will be more than others. in connection with this hypothesis, they found that the reaction rate by 8 large audit firms considerably higher than any other company. similar results in studies Chen (2002), Felix et al. (2005) and waves (2006) showed by audit firms auditing companies have more value in terms of investment and higher earnings response coefficient. Bülow et al (1389) showed that the independent auditor of the annual adjustment does not affect the level of transparency and corporate information. The role of auditors to reassure investors and capital market participants is to provide information by managers. Audited financial statements audited by the companies high quality of higher reliability and better reflect the company's true value. One of the most important measures of the quality of the audit, the audit firm is. The results of empirical research shows, the big audit companies, high-quality audit services and more reassuring investors about the company's financial statements provide audit. Theo and Wang (1993) and Balsam et al (2003) found that audit quality has an inverse relation with the level of earnings management. The reaction of stock prices will lead to higher earnings news, investors when it reported earnings of quality and reliability to know more. in companies with positive earnings surprise by the big auditing firms have been audited, reported earnings more conservative investors to evaluate and respond to the higher profit will these companies. as a result, the reaction rate is higher profits for companies audited by auditing companies. The impact of unexpected earnings ratio will be negative reactions of small firms audited by the auditors. Unexpected profit in the companies a positive (negative), companies change auditor larger earnings response coefficient greater (less) enjoy. unexpected profit in the companies a positive (negative) change in auditors of smaller companies that have lower earnings response coefficient (more) enjoy. The audit opinion is negative stock price reaction. The report provided a negative relationship between the auditor and the reaction in the stock market there. Companies that have received the auditor's opinion on the subject tend to change in terms of dimensions. For companies growing earnings response rate significantly higher than that of companies without growth. Investors are growing more important for the firms hold. Discount assumes dividends, share price risk and the negative correlation with each other, because the rate is higher than the risk of company stock prices will be lower. The stock market value to book value that is used to control the growth of the company risks associated with the company's earnings response coefficient is negative. The company's risk is higher, the reaction rate will be less profitable.

4. Conclusion

Audit partner rotation phenomenon institutions and in recent years an important field of research and discussion most developed countries has become professional, one of the practical solutions and recommendations for solving the problem of the independence of auditors and reliability of the financial reports of companies. experience professional bodies and securities exchanges, most countries indicate that makes the process of turning new look in mind for the user to follow the status of the audit and the long-term disconnection of the auditor - client, to safeguard the independence of auditors provided brings. In this study, the quality of the audit and the auditor's response to investors in the capital market were studied. Unexpected profit companies positive (negative) audit by the auditors have been great and they change have, earnings response coefficient higher (lower) are. Companies with good news (bad) benefit to smaller auditors have altered the earnings response coefficient less (greater) are present. The results of empirical research shows, investors and capital market to the benefit of an information contents are important. It also indicates the suitability of the auditor as a proxy for audit quality and auditor and the auditor's attention to the type of investors in the process of decision-making shows. Therefore, the quality of the audit and the auditor in ensuring the reliability of financial information reported to investors and their decision is significant signaling effect.

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