

Analysis of relation between corporate governance and auditing quality in reduction of earning management in initial release of share in Tehran stock exchange market

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Abstract: In this research relation between corporate governance and auditing quality on the earning quality in initial release of share in Tehran exchange market will be analyzed. Corporate governance is effective parameters in reduction of earning management. On one side auditing quality also can be effective in the earning management process. In this analysis all companies that had initial release in the country in the year 2002 to 2011 were analyzed. Results of the analysis with the use of regression models show that there isn't a negative relation between auditing quality and earning management. Considering corporate governance hypothesis the results show that there isn't a negative relation between auditing committee and non-responsible members of board of directors with earning management.

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Introduction

Present gap between ownership and management and information asymmetry cause the expenses of inspection on the agent's functioning be important. In an organization where the managements are following the governance thoughts, reduction of shareholders rights is in ambiguity that the managements are following the rules or not? Emergence of governance system of the company also is for answering the mentioned question. Doing the above qualitative auditing is a key point for all the companies' professional auditing.

Quality of auditing is the base for company's programming and business and for general profitability and authority of professional auditing answering, and according to "Jensing and McIning" hypothesis theory of representative obtained from information gap and personal interests, present hypothesis of shareholders' personal interests cause trust in reporters and searching for a way to solve the their worry with the use of mechanisms such as auditing to balance interest among work makers and shareholders. Therefore auditing services, as the main aim cause trust and confidence in financial information while it is natural that this matter cause some questions about auditing role for accountants out of the company that directly contact with the controlling committee functioning and become a hot discussion.

Company's governance does not have a single definition. There are noticeable differences in

definitions according to the considered country. Even in America or England also it is not easy to reach a single definition and definitions existing in company's governance are in an extensive and wide range. In one hand, Limited views and wide spectrum on the other hand. In the company's governance from the limited views is limited to the relationship of the company and shareholders. This is an old pattern which is mentioned in the agencies views. On the other side of spectrum, the corporate governance can be as a network of the relation which is not only between company and their share holders, but also between company and many of the beneficiaries such as workers, customers, sellers, bondholders ... Etc.

Such view has been useful. Different definitions have been presented for corporate governance which some of them are As follows:

These definitions are limited on one hand and also they are explaining the main roles of corporate governance(3), that on one part it emphasizes on the finance and the shareholders relationship and finally a wider definition will end it which is company's answer for all shareholders and society and beneficiary(9).

Accordingly the main question which is considered in this analysis, is a strong and qualitative auditing of corporate governance effective in the Tehran exchange market?

Research importance:

It is necessary to give the company's information to the users and beneficiaries in the financial markets. Now a day the information has high values in the new business environment which is because of asymmetry of the information, but according to agents theory how can these users reach such confidence that the companies' managements work for their benefits and issued financial reports show the stewardship of the agents.

Researches show that the market's waiting is according to independent accountants who provide their ideas regarding the company' finance professionally. According to users' points of view quality of care can be through determination of independent and good accountants. The aim of these research recognition of the effects of corporate governance and auditing quality in reduction of management profitability in initial release of shares in Tehran stock exchange market.

Research hypothesis:

Hypothesis in this research is according to 3 main elements which are:

Corporate governance, quality of auditing and profitability management in initial release of shares and according to research, De Anjello,(4) and Gor Pop and Sine (5) Mahd Saleh and Esmail (7) have presented it as follows:

1. There is a negative relation between auditing quality and management of the profitability in initial release of the shares.
2. There is a negative relation between auditing committee independence and profitability management in initial release of shares.
3. There is a negative relation between non responsible members of board of directors and profitability managements in initial release of shares.

Research back ground:

Mahd Saleh and Esmail have conducted a research on the

“analysis of role of auditing quality and procedures of corporate governance for reduction of managements profitability in initial release of shares in stock exchange in Malaysia”. In their research they used the measuring elements of Mosse for auditing quality measurements and also for corporate governance measurement they used auditing committee and board of directors. Jones adjusted model is also a base for determination of profitability management. Results of their analysis show that the index of auditing quality according to Mosse measuring element doesn't have a meaningful relation with management profitability for initial

release of shares. On one side the auditing committee independence and the total number of non responsible managers have a positive relation with profitability management in Malaysian companies which shows the effectiveness of corporate governance elements. Results of Gor, Pope and Sian (5) research show that there is a negative relation between auditing quality and profitability management in initial release of shares process.

Zho and Elder (10) in a research in the year 2003 “analyzed the relation between auditing quality and profitability management in the companies that release seasonal share”. Auditing quality has been weighed with measuring element and industry allocation and profitability management and with current optional discretionary. Results of research show that in comparison with 3 years after companies shares publication they received their profit through manipulation of current optional accrual. Results show that auditing quality will reduce the measuring elements of management profitability and elements of auditing or audit expertise will be effective in limiting the management profitability.

Piot and Janin (8) in an analysis of the auditing quality and profitability management in France analyzed some samples from 225 companies from the year 1999 to 2001. Abnormal accruals were used with the help of Jones adjusted method for office processes. Results of the analysis show that: 1. Presence of big accountant does not have any effect on the abnormal accruals reduction. 2- Presence of auditing committee has relation with abnormal accruals which shows the conservative methods of auditing.

Anis Metif (1) in analysis of corporate governance quality in profitability management in France with respect to board of managers construction traits and auditing quality and fame and subscription programming and management profitability quality, analyzed 1170 French companies which entered the exchange market for the first time and found out that profitability management quality is important in corporate governance traits.

Statistical society and research sample:

Statistical society in this research are 147 companies accepted in Tehran exchange market that released shares initially during 10 years from 1380 to 1389. To collect data from the mentioned society considering limitations the following have been obtained:

1. The sample companies have been accepted in Tehran exchange market from the beginning of 1380.

2. In the years mentioned these companies have been participating in the exchange market for the first time.
3. Companies with no change in their financial year for increase in the research results comparison.
4. Presentation of financial information needed and list of financial auditing for the years 1380 to 1389.
5. Total companies participated were 147 companies and after decrease of limits these companies reduced to 109.
6. In choosing sample processes the companies were deleted according to their different governance system and risks.

Results of analysis:

Table 1: indexes explaining under variations, central indexes, sparse indexes and distribution method indexes (statistics)

Variables:

Big indexes regarding independent auditing committee members in relation to non responsible members of board of director in relation to responsible members are discretionary accruals:

Average:	20/40	11/53	0/26	0/27	0/38
Middle	20/22	11/38	0/00	0/00	0/00
Criterion error	1.70	0/79	0/64	0/65	0/49
Variance	2/90	0/62	0/41	0/42	0/24
Cholkey(skewness)	0/49	0/79	6/80	6/75	0/51
Standard error of Cholkey coefficient	0/23	0/23	0/23	0/27	0/27
Elongation	-0/08	0/47	59/22	58/44	1/79
Standard error of elongation coefficient	0/46	0/46	0/46	0/53	0/53
Variation dimension	8/12	4/20	6	6	1
Least	16/38	9/66	0	0	0
Highest	24/50	13/85	6	6	1

Considering the above table all the variables can be analyzed with regard to corresponding indexes from the statistical point of view.

The above table show that the research variables have special traits, the first line of the table is a collection of variables averages separately Which as an example average of DACC is 40/20. Second line shows the index deviation and the third line show the variation and dispersion of variables around average with

variation of DACC equal to 2/90. Forth and sixth show the amount of Cholkey and data elongation in relation to normal ur ceolate curve which showed among the research variables (NEXBOD) with 6/80 with the highest Cholkey on the right and also has the most elongation. Eighth line shows the biggest and smallest number in the next two lines as variation domain among them “Big” has the least variation domain. In the last two lines the highest and the lowest observations regarding the data has been reported. The highest and the lowest amount (DA) are 16/38 and 24/05 respectively.

According to the test results of Kolmogroph – Esmirnof and considering the meaningful level compare to α (0/000>0/05) the zero hypothesis is rejected and therefore this data (DACC) is not normal. After analyzing the data with the help from mathematical function, the abnormality of the data will be eliminated and again will test the normality of the data which according to Kolmogroph – Esmirnof test results and according to meaningful level amount comparing to α (0/531>0/05) zero hypothesis is rejected and therefore DACC data is normal.

In table 2, estimation of β coefficient, test of these coefficients have been used with the help of “t” tests as it has been presented. Table 2: regression analysis model (4):

“Variables non standard coefficient β standard coefficient meaningful t statistics β coefficients criterion deviation”					
Stable coefficient	11/479	-2/120	-0/698	-	0/488
Big					
Auditing quality	-0/247	-0/186	-0/099	-1/323	-
Ratio of independent auditing committee members with other members	2/458	3/980	1/484	0/618	0/539
Ratio of non responsible members of board of managers with responsible members	-2/484	3/990	-1/473	-0/614	-0/541
Size	1/902	0/187	0/756	10/185	0/00

As can be seen in the above table the amount of meaningful level is more than 0/05 for all variables except for (size) variable and for size variable it is less than 0/05 and therefore since the meaningful amount of all variables coefficients are not meaningful according to statistics, variable are being removed from the model one by one and the model will be valued that with regard to removal of any variables the initial result means non meaningfulness of coefficient will be resulted statistically.

First hypothesis: Auditing quality and profit management in initial release of share has negative relation. According to Pearson correlation test and

according to meaningful level amount compare to α (0/065>0.05) causes rejection of zero hypothesis which shows that there isn't a negative relation between independent auditing committee and profitability management.

Third hypothesis: there is a negative relation between non responsible board of director and profitability management in initial release of shares. According to Pearson correlation test and according to meaningful level amount compare to α (0/47>0/05) zero hypothesis is rejected which shows that there isn't a meaningful relation between non responsible board of director members and profitability management.

In the present research relation between corporate governance and auditing quality in reduction of profitability management in companies accepted in Tehran exchange market have been analyzed for Corporate governance mechanisms is for governance quality increase and decrease in opportunistic behavior of managements. Naturally, the governance quality can have a reducing effect on the profitability management. Governance mechanisms such as the number of managers and number of board of management and on the one hand auditing quality shows that it what components can be effective in the reduction of opportunistic behaviors of managements. Total result show conformation of analyzed hypothesis. It seems that in the initial release of the shares process, it is expected that that existence of corporate governance mechanisms and auditing quality will not be effective on the profitability management reduction. May be one of the main reason for confirmation of analysis hypothesis, non existence of suitable mechanisms of corporation governance in the Iranian companies, since the corporate governance regulations have not been executed and there is no specific construction of the corporate governance in the companies.

More suggestions for analysis:

Considering that the present research topic is the first analysis which is consisting of 3 variables of corporate governance, auditing quality and profitability management, it has been suggested that other researchers use the following topics for future analysis:

1. Use of replaced factors of auditing quality such as size of the corporate, report nature Etc.....

2. Considering other elements of corporate governance in the research such as main shareholders, institutional ownership, number of board of director members, shareholder's right index Etc.....
3. Analysis of the results separately with regard to different industries.

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