The study of auditing quality effect on earnings management (emphasizing at interim financial statements) evidenced from Iran

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Abstract: This research is going to study the effect of auditing quality on earnings management in firms accepted in Tehran Stock Exchange. Three criteria of: audit firm size, industry specialization   and auditor's tenure were used to measure auditing quality. Also Jones's adjusted model has been used to calculate earnings management. 73 companies during the time period between 2008 and 2010 were investigated. To test the hypotheses we used linear regression model and difference test and the effects of variables were investigated separately because the overall model test created some co-linearity problems. The findings of the present research show that the results of the annual data and the interim data have been the same and this shows that auditing firm size does not affect earnings management meaningfully but industry specialization and auditor's tenure have had a negative effect on earnings management. Also earnings management in firms audited by big auditors, industry specialization and auditor's tenure of more than 4 years (quality auditors) is different (less than) from those firms which are not audited by these auditors.

Keywords: Audit quality, audit size, industry specialization, auditor's tenure, earnings management, interim financial statements

1. Introduction

Firms should prepare up to date and reliable data for investors and creditors to access organized capital markets (Chen and et al, 2005). Thus, earnings management is considered to be one of the important dimensions of financial reports' quality and since the amount of earnings is considered as one of the most important criteria in performance assessment, any type of interference can affect the type of decision makings by the users of financial reports (Zenginand Ozkan, 2010). Auditing plays a considerable role in validating the firms' earnings data following the current representation of firms' earnings and the bankruptcy of the big companies (Zhou and Elder, 2004). Thus, auditing quality is considered to be one of the principle foundations regarding the reliable data. Auditing is called an important element of strong corporate governance and it has been considerable noticed in Iran due to the trend towards privatization in Iran and the necessity of having higher quality financial statements (Namaziand et al, 2010). Thus, regarding the importance of earnings management in users' decision makings about financial data and also the role of auditors in reducing information asymmetry,

it is expected that users demand it to increase auditing quality (YeghanehHassasandPakizeh, 2007).

Regarding what stated above, it is expected that the independent auditing quality should be highly valued in performing the duties towards the users of financial reports. Thus, the present research is focused on investigating the effect of auditing quality on earnings management. We will try to answer this question: "Do high quality auditors affect earnings management or not? And if the answer is 'yes', how does the relation affect?"

2. Review of the research literature

Titman and Truema (1986found out in their research that more qualified auditing will improve the accuracy of the data presented and it will allow the investors to gain more accurate estimates of the firm value. In this research, it has been emphasized that bigger auditors have more controlling ability and thus they have a higher quality. (Reynolds and et el, 2000) state that high quality audits are able to discover earnings management because they have more knowledge compared to other audits and try to halt opportunistic management and preserve their fame. This research shows that the employers of 6 big auditing institutions had a lower level of optional discretionary accruals than other auditors. (Myers et

al, 2003) study 225 companies from 1999 to 2002. They prove that distribution of discretionary accruals might decrease with the length of the close auditor-owner of the firm relationship. In other words, long term relationship may result in auditor's empowerment and then, the management reduces manipulation of discretionary accruals. (Zhou and Elder, 2004) studied the relation between audit quality and earnings management through SEO companies (The companies offering the shares but their stock has already been offered) from 1991 to 1999. The sample size was 2453 companies. They find Big-5 audit firm having lower earnings management in last year, later and even current years, related to SEO. However, industry specialization related with lower level of earning management in SEO. (Chen et al, 2005) study the association between audit quality and earnings management in IPOs (the companies offering shares in stock market for the first time) from 1999 to 2002. The sample size was 367 companies in Taiwan. They find that the companies audited by Big 5 firm are related with lower level of earning management in IPOs.(Etemadi et al, 2009) in their studies, examined the relation between industry specialization and earnings quality. Their findings, having 117 observations through 2002-2007, confirm that discretionary accruals in companies audited by industry-specialist auditors are lower than relative non-specialists auditors. (Karami et al, 2010) test the relation between audit firm tenure and earnings management. They have 133 observations from 2000-2006, some of them indicate the length of relation between owner of the firm and auditor causes increasing flexibility in management of using discretionary accruals. Although the usage is more likely to constrain earning (conservative). (Zengin and Ozkan, 2010) study quality audit and earnings management throughout interim financial reports using 2152 firm-quarter observations from 2006 to 2009. They confirm Big-4 audit firm constrains industry specialization and audit firm tenure (as quality audit indexes) and discretionary accruals (an index refers to earning management). (Namazi et al, 2011) study the relation between quality audit and earnings management having 61 observations from 2001 to 2007. The results indicate there is no relationship between audit size and earnings management. Although a positive and significant association exist between audit firm tenure and earnings management.(Wuchun Chi et al , 2011) study the relation between advanced quality audit and real earning management in 1800 companies between the years 2002-2010. Their findings suggest that industry-specialist auditors and big auditors earning are higher relative non-specialists auditors. They also find out industry-

specialist auditors and big auditors constrain real earnings management. However, auditors with higher audit tenure positively associated with real earnings management and auditor replacement results in lower earnings management.

3. The theoretical framework and research hypotheses

The investors value the qualitative and quantitative dimensions of the earnings highly. We can consider optional discretionary accruals size as the quantitative element. Thus, the more amounts of optional discretionary accruals shows the more earnings management possibility (Bolo and Talebi, 2010). But it is important to note that using optional discretionary accruals (a criterion of earnings management) annually to discover earnings management will result in lack of earnings management discovery because the effects of high and low earnings management (to manage earnings) in interim periods will be balanced at the end of the year and this will reduce the average of discretionary accruals at the end of the year (Zenginand Ozkan, 2010). Also managers have more stimuli for earnings management in interims. Additionally, optional discretionary accruals are different in interims because management has a more positive outlook in interims and postpone bad news until the last interim to manage earnings (Gunny and et al, 2008). Also accounting standards require that some of the earnings and expenses (such as income tax) which are naturally calculated annually should be estimated for the whole year at first to recognize the interim's share appropriately accordingly. Thus, a manager can use these estimates opportunistically and reflect the performance of the interim periods wrongly by using an instrument called earnings management (Das and et al, 2009). The improvement of auditing quality will limit the management's stimuli to manipulate. Thus, it is expected that where there is only a low amount of opportunity for earnings management, auditing should be enhanced in quality (Ebrahim, 2010). Experimentally high quality audits have a limiting role in optional discretionary accruals to maintain the validity of the profession, professional fame and avoid criminal claims against themselves (Defondand et al, 2000). But it is not clear which factor determines the capability amount of the audits. (Balsam and et al (2003) described auditing quality as a "multi-dimensional and unobservable" topic and stated that: "we can not assign only one characteristic for auditing quality and should consider criteria such as auditing firm size, industryspecialization auditing, auditors' tenure and auditing fees". Theoretically, big audits have a higher quality in auditing due to reliability, experience and having opportunity cost in settling the litigations (Deangelo, 1981). Bekrand et

al (1998) found out that there is a negative relationship between auditing size and optional discretionary accruals. Also Wander and et al (2000) concluded that big audits have a tremendous role in deceasing earnings management carried out by the company. Francis and et al (1999) and Lin Howang (2009) believed that big audits (6 great ones) limited opportunistic behaviors and they found out that audits (6 great ones) have a low level of optional discretionary accruals. Thus, regarding the role of big audits in decreasing earnings management, the following hypothesis has been proposed:

H_1: Audit firm size effect earnings management.

H_2: Optional discretionary accruals are different in firms audited by big audits (auditing organization) from those firms not audited by the same audit.

The specialization level achieved by the audits in an industry increases their specialized knowledge and it is expected that they should be more careful in identifying the fraudulent reports in comparison to non-professional audits (Balsam and et al, 2003). Krishnan (2003) tested the relationship between the specialization of the audit in the industry and the level of optional discretionary accruals and found out that there is a negative relationship between these two variables. Thus, regarding the role of specialized audits in the industry in decreasing earnings management, the following hypothesis has been proposed:

H_3: audit industry Specialization effects earnings management.

H_4: Optional discretionary accruals are different in firms audited by audit specialized industry from those firms not audited by the same audits.

Audit's tenure is one of the other criteria which limit earnings management. There are two important issues about the tenure (the experience period) of auditing firm. First theory states that an audit firm's tenure causes the decrease of audit's independence gradually and this process can reduce auditing quality in long-term (Guland et al, 2007). On the other hand, those opposing the reduction of auditing independence regarding the long-term tenure of audits believe that audits are able to achieve better knowledge and experiences about their customers and thus this experience can increase auditing quality (Manryand et al, 2008). Generally, the present topic is related to information asymmetry and an audit needs a longer tenure period to supply the possibility of access to more information in the firm and after that recognize the wrong reports (Zenginand Ozkan, 2010).

Gijerand Ragonadan (2002), Meyers and et al (2003), Guland et al (2007), and Chen and et al (2008) emphasized in their researches that it is more probable in first years to fail in audits' reports. Thus, higher tenure period can limit the management in

earnings management. Thus, regarding the role of audits with higher tenure periods in decreasing earnings management, the following hypothesis has been proposed:

H_5: Tenure period of the audit affects earnings management.

H_6: Optional discretionary accruals are different in firms audited by audits with more tenure periods from those firms not audited by the same audits.

It should be noted that in this research, each of the hypotheses were tested separately both for annually audited data and interim audited data. Thus, regarding the importance of independent auditing in financial reporting quality and its relationship with interim financial reporting and also considering that the earnings' figures are considered to be an inseparable element of annual earnings (Gunny and et al, 2008), the present research is trying to study the effect of auditing quality on earnings management.

4. Statistics sample and population

In order to select statistics sample, the research is designed regarding some qualifications;

1- Considering comparative capability, financial year ended in March.

2- Giving audit financial and interim reports to Exchange during research period, the firms should have been listed since 3 years ago.

3- Having non stop activity during research period, the firms should not change financial period.

4- The firms should not be a member of banks and financial institutions (like investment companies, financial broker, Holding and Leasing companies).

Regarding such constrains, only 73 firms through research period between the years 2008-2010 are included.
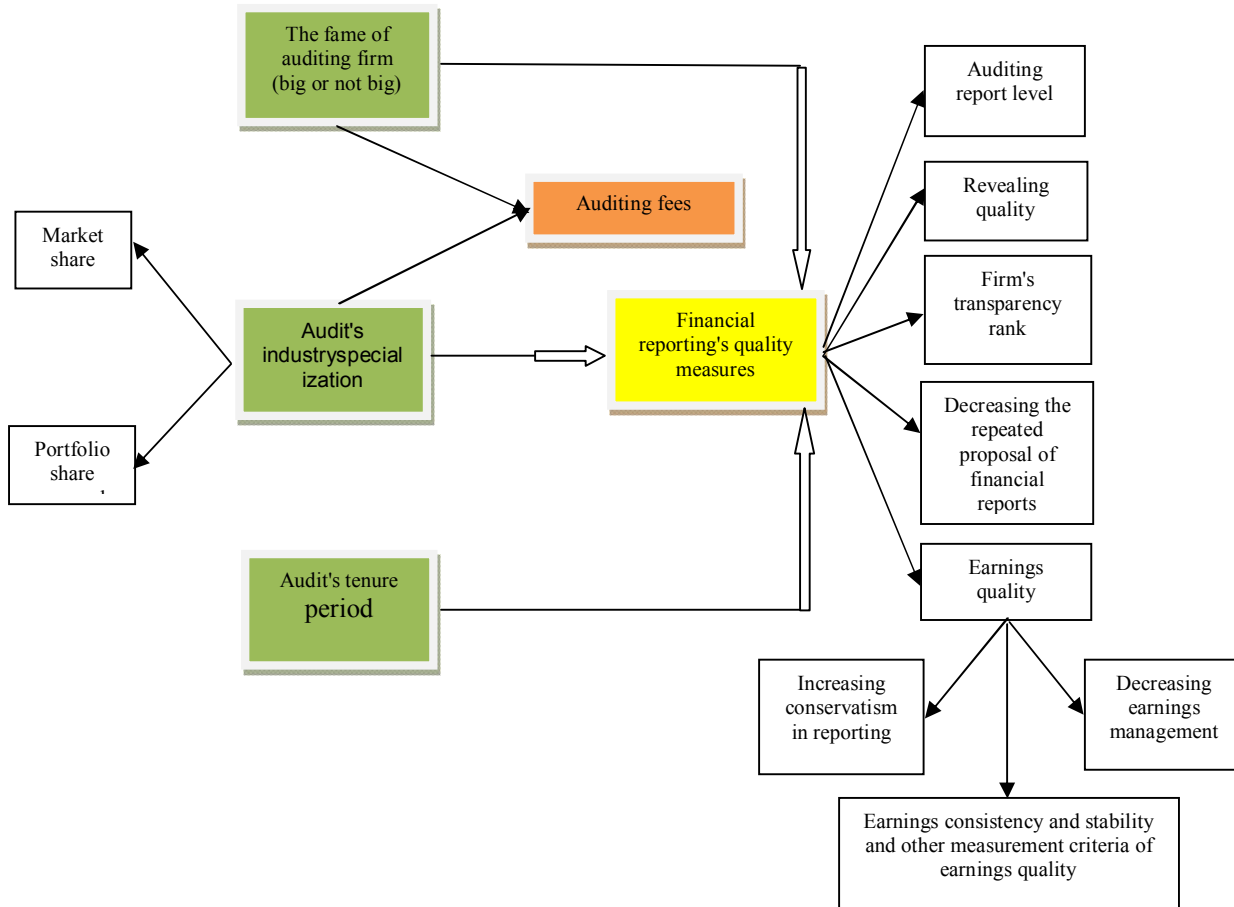
5. The models related to hypotheses' test

In the present research regarding the effect of audit quality on earnings management the research dependent variable is earnings management. To It is calculated using discretionary accruals through modified Jones Model (1991), (Dechow and Dichev, 2002). The Modified Jones Model is employed since Nikoomaram et al (2009) show that it provides several advantages over time series to discover earning management (Nikoomaram et al, 2009).

5.1 Earnings management Model

$$\left(\frac{TA_{it}}{A_{it-1}}\right) = \alpha_1 \left(\frac{1}{A_{it-1}}\right) + \alpha_2 \left(\frac{(\Delta REV - \Delta REC)}{A_{it-1}}\right) + \alpha_3 \left(\frac{PPE}{A_{it-1}}\right) + \varepsilon_{it} \quad (1)$$

In equation number 1, TA_{it}= is scaled by total discretionary accruals of I firm in (year) calculated from net earnings before unexpected accruals and the difference cash flows from operation where:

Ait-1=Total assets of I firm in the t-1 period

ΔREV= change in I firm income from period (t-1) to period (t)

ΔREC= change in accounts receivables for the I firm from period (t-1) to period (t)

PPE it= Gross property plant, machinery and equipment of I firm in the period (t)

In this model, calculated $\alpha_1, \alpha_2, \alpha_3$, the estimated parameters of firm through minimum squares estimation between the years 2007-2010 and then, it was tested during research time (2008-2010). Earnings management index in this model is (discretionary accruals)which refers to error sentence (ε_{it}). If the index is negative it shows that manager uses minimizing earnings. If the index is positive it shows that the manager uses maximizing earnings (Kothari et al. 2005). In this study the results indicate that increases in the level (value) of absolute discretionary accruals are more likely associated with a higher level of earnings management (Bolou and Talebi, 2010).

5.2 Audit firm size

to calculate it in regression model, if the audit organization is the audit of a company, we use the artificial variable (1) or else we use (0).

5.3 Industry specialization of audit firm

The independent variable in this hypothesis is industry specialization which uses stock market as an index to estimate auditor industry specialization. Most measures used in industry specialization are collected through questionnaire and interview that effect the validity of research results. The auditor industry specialization calculated audit firm tenure using market share and portfolio share. In this study, stock market approach has been used since in their researches Etemadi et al (2009) more emphasized on this approach. Moreover, collecting needed information to calculate auditor's industry specialization meets a lot of problems considering portfolio share in Iran audit firm. Auditor market share calculated as follows;

$$\left(\frac{1}{IF}\right) \times \left(\frac{1}{2}\right) < \left(\frac{EA}{SAT}\right) \quad \textbf{(2)}$$

In model 2 assets total of client of a specific audit firm (EA) are divided to client assets total (EAT). Obeying Palm Rose (1986), in this study such the firms considered as industry specialization that their market share (means the right side of equation) is more than 1-digit divided to the number of the current firms in industry firms (IF)multiply 1 divided to two (means the left side of equation), to compute an industry specialization.

5.4 Audit firm tenure
Audit firm tenure is one of the independent variables in this study, as proposed by Namazi et al. (2010), can be calculated through regression model. If the auditor tenure is four years or more than it, the dummy variable (1) is more likely to be used. Otherwise, zero digits should be adjusted in this model.

5.5 Control variables
In this study, some of the firm's specific features have been considered as control variables regarding Dechow and Dichow (2002) studies.
Abs (Acf) it= Absolute value logarithm (log) of cash flow changes in I firm in the period t
Size it= Total assets of I firm logarithm in the period t
OC it= operational cycle logarithm of I firm calculated as follows;

$$OC = \left(\frac{360}{(S_t / AAR_t)}\right) + \left(\frac{360}{(CGS_t / AI_t)}\right) \quad (3)$$

accounts receivable divided to two), CGS_t shows the cost of sold goods and AI_t refers to average goods (First period goods plus end of the period goods divided to two) (Dechow and Dichev, 2002).

6 Research findings
6.1 Explanatory findings
        One of the main points in data Descriptive is that mean year discretionary accruals (YDA), as a proxy of theoretical basis, might be more than mean interim discretionary accruals (IDA). It means that earning management is more likely higher in year-end financial report. Moreover, a number of industry specialist auditors are more than big and higher tenure auditors. It means that the firms are demanded more industry specialist auditors.

6.2 Empirical results
Kolmogorov and Smirnov tests have been used to study normality of variables and remaining. If the probability of the test is more than 0.95, with 95% confidence level one can be emphasized the distribution of variables, vice versa. Table 2 reports the test results that research quantitative variables expect interim operating cycle (IOC) have normal distribution. Normalized reparation distribution, IOC logarithm of this variable has been calculated. As it can be seen, the probability amount of each variable is more than 0.05 Therefore; data can be tested through parametric testing.

Table1: Descriptive Statistics

Variable	BIG	INDUSTRY	TENURE	YDA	DA	YOC	YSIZE	YABS	IABS	ISIZE	IOC
N	219	219	219	219	219	219	219	219	219	219	219
Mean	0.23	0.42	0.36	3.05	2.97	4.34	12.94	9.28	9.19	11.49	4.95
Std. Deviation	0.41	0.48	0.47	2.04	1.95	1.14	1.25	1.45	1.50	1.52	1.28
Skewness	1.28	0.32	0.56	0.81	0.93	-1.01	0.36	-0.22	0.56	-0.10	-1.20
Minimum	0.00	0.00	0.00	1.00	1.00	1.11	10.56	5.66	6.10	7.56	1.4
Maximum	1.00	1.00	1.00	8.19	8.21	6.16	16.09	13.08	13.63	14.73	6.9

Table 2: the outcomes of Kolmogorov-Smirnov test for testing the variables under investigation to be normal

Variables	YDA	YSIZE	YOC	YABS	IDA	ISIZE	IOC	IABS
Kolmogorov-Smirnov Z	1.340	0.606	1.209	0.524	1.342	0.763	1.397	0.779
Sig.	0.055	0.856	0.108	0.946	0.054	0.606	0.040	0.579

In model 3 *st* introduces the amount of firm sale, AAR_t indicates average accounts receivable (First period accounts receivable plus end of the period

Pearson correlation matrix is used to determine data correlation amount. For example, table 3 reports at 99% level of confidence, there is a significant positive relation between discretionary accruals

Table 3: Pearson correlationcoefficient

Variables	Symbol	YDA	IDA	IABS	ISIZE	IOC	YSIZE	YABS	YOC
Discretionary accruals (annual)	YDA	1							
discretionary accruals (interim)	IDA	0.956*	1						
cash flow changes (interim)	IABS	0.052	0.011	1					
Firm size(interim)	ISIZE	-0.017	-0.020	0.794*	1				
Operational cycle(interim)	IOC	-0.37*	-0.35*	-0.289*	-0.33*	1			
Firm size(annual)	YSIZE	-0.136	-0.159	0.779*	0.90*	-0.287*	1		
cash flow changes(annual)	YABS	0.086	0.047	0.830*	0.71*	-0.35*	0.722*	1	
operational cycle(annual)	YOC	-0.272*	-0.244*	-0.218	-0.152	0.787*	-0.276*	-0.263*	1

Confidenc %95*

coefficients (annual) and discretionary accruals coefficients (interim). This model is adapted from Pearson correlation testing using correlation coefficients (0.956) which indicates a positive relation between discretionary accruals coefficients (annual) and discretionary accruals coefficients (interim) at 96.5%. As before mentioned in research hypotheses, all the hypotheses have been tested separately both for year-end and interim quarters' financial reports but in order to have better realization and convenient results the data output (year-end and interim data) have been listened in a table and analyzed. Regarding the table (4), audit firm size does not have a meaningful effect on optional discretionary accruals because the amount of F statistics equals 1.642 and the meaningfulness level (P-Value) of it is more than %5. Thus, we can say that the regression model can not identify the relationship and also the meaningfulness level of audit firm size (the independent variable) is more than %5. Watson's binocular statistics also is between 1.5 and 2.5. Thus, we can conclude that there isn't any self correlation problem among the variables.

Table 5 indicates discretionary accruals size in such firms that audited by big auditors are lower than relative non-big auditors. Regarding mean inequality,

the significant level is studied. Since annual data of t statistics are adjusted of 2.282 and interim data estimated 2.125, and also the significant level is below 5%. Thus, it can be said with 95% confidence that the mean of two groups are not equal. The resulted output of hypothesis 3as follows; Referring to table 6, audit firm industry specialization has significant effect on discretionary accruals level. While F statistics for annual data are estimated 9.740 and interim data equal to 8.075 which its significant level of P-value is reported below 5%. Thus, it reveals the regression model has explanatory power and also, audit firm industry specialization significant level (independent level) is reported below 5%. Considering independent coefficient variable, it can be said audit firm industry specialization has a significant negative influence on discretionary accruals level. Durbin Watson statistics are estimated between 1.5 and 2.5. Therefore, there is no autocorrelation problem among variables. Furthermore, correlation coefficient amount indicates that the changes in independent and controlling variables are adjusted of 32.7% regarding annual data to measure dependent variables 28.2% referring to interim data based on dependent variables.

Table 4: The results of first hypothesis test from annual and interim data

R^2	R	D-W	P-value	F	Sig.	T	Coefficient of Regression	research variables	
0.034	0.297	1.855	0.174	1.642	0.699	-0.388	-0.228	BIG	Annual financial reports
					0.467	0.732	0.170	YABS	
					0.340	-0.960	-0.270	YSIZE	
					0.028	-2.241	-0.454*	YOC	
0.296	0.579	2.291	0.080	1.582	0.237	1.193	3.881	BIG	interim financial reports
					0.391	-0.864	-1.222	IABS	
					0.782	-0.278	-0.395	ISIZE	
					0.00	-5.783	-6.414*	IOC	

Table 5: The results of Second hypothesis test from annual andinterim data

Mean Difference	Sig.	df	t	Std. Deviation		Mean		N		Independent variable	
				1	0	1	0	1	0		BIG Audit
1.31	0.026	201	2.282	1.60	2.11	2.08	3.39	52	164	annual financial reports	
1.17	0.03	176	2.125	1.59	2.03	2.09	3.27	52	164	interim financial reports	

Table 6: The results of Thirdhypothesis test from annual and interim data

R^2	R	D-W	P-value	F	Sig.	T	Coefficient of Regression	research variables	
0.327	0.604	1.644	0.00	9.7	0.00	-4.468	-2.048*	INDUSTRY SPECIALIZATION	annual financial reports
					0.588	0.544	0.116	YABS	
					0.305	-1.033	-0.263	YSIZE	
					0.047	-2.021	-0.372*	YOC	
0.282	0.567	2.326	0.00	8.07	0.042	-2.201	-1.569*	INDUSTRY SPECIALIZATION	interim financial reports
					0.436	-0.784	-1.123	IABS	
					0.842	0.194	-0.281	ISIZE	
					0.00	-5.371	-6.138*	IOC	

Table 7: The results of Fourth hypothesis test from annual andinterim data

Mean Difference	Sig.	df	t	Std. Deviation		Mean		n		Independent variable	
				1	0	1	0	1	0		
2.21	0.00	204	5.015	1.35	1.99	1.66	3.88	153	63	annual financial reports	**BIG Audit**
2.20	0.00	204	5.469	1.34	1.88	1.70	3.91	153	63	interim financial reports	

Table 7 indicates discretionary accruals size in such firms that audited by industry-specialist auditors are lower than relative non-specialist auditors. Regarding mean inequality, the significant level is studied. Since annual data of t statistics are adjusted of 5.015 and interim data estimated 5.469, and also the significant level is below 5%. Thus, it can be said with 95% confidence that the mean of two groups are not equal Table 8 indicates that audit firm tenure has a significant effect on discretionary accruals. Since F statistics amount for annual data are reported 4.098 and interim data estimated 8.30, the significant level of P-value is below 5%. Thus, reveals the regression model has explanatory power and also, audit firm significant level (independent variable) is reported below 5% (regarding annual data equal to 0.032 and interim data 0.026). Considering independent coefficient

variable, it can be said audit firm tenure has significant negative effect on discretionary accruals. Durbin Watson statistics are reported between 1.5 and 2.5 Therefore, it is concluded that there is no autocorrelation among variables. Moreover, correlation coefficient amount shows that changes in independent and controlling variables are adjust of 14.7% changes in annual data dependent and 28.9% changes in interim data dependent variable. Table 9 shows that discretionary accruals size in firms with auditors tenure more than 4 years are lower than those that audited by other ones. Considering mean inequality, the significant level is studied. Since annual data of t statistics are adjusted of 5.023 and interim data estimated 4.811, and also the significant level is below 5%. Thus, it can be said with 95% confidence that two groups mean are not equal.

Table 8: The results of Fifth hypothesis test from annual and interim data

R^2	R	D-W	P-value	F	Sig.	T	Coefficient of Regression	research variables	
0.147	0.441	1.526	0.05	4.098	0.032	-4.468	-0.868*	TENURE	annual financial reports
					0.066	0.544	0.423	YABS	
					0.010	-1.033	-0.698*	YSIZE	
					0.011	-2.021	-0.530*	YOC	
0.289	0.573	2.303	0.00	8.30	0.026	-3.807	-2.278*	TENURE	interim financial reports
					0.415	-0.821	-1.167	IABS	
					0.859	-0.179	-0.255	ISIZE	
					0.00	-5.653	-6.298*	IOC	

Table 9: The results of Sixth hypothesis test from annual and interim data

Mean Difference	Sig.	df	t	Std. Deviation		Mean		n		independent variable	
				1	0	1	0	1	0		
2.21	0.00	187	5.023	1.35	1.99	1.66	3.88	143	73	annual financial reports	**Tenure of Audit firm**
2.06	0.00	109	4.811	1.35	1.92	1.67	3.73	143	73	interim financial reports	

6. Summary and Conclusions

The goal of the present research was to determine the effect of auditing quality on earnings management (emphasizing at interim financial statements) in firms accepted in Tehran Stock Exchange. The findings showed that generally auditing quality affects earnings management negatively. This is due to the existence of correlation between variables and thus the creation of co-linearity problem in overall model. The relationship between earnings management and independent variables of this research was investigated separately. The results show that audit firm size is not meaningful statistically on optional discretionary accruals (earnings management possibility criteria). The meaninglessness of this relationship is the reason for the effectiveness of different structures on optional discretionary accruals of the firms. Also the results and findings of this hypothesis contradict with those of Zhou and Elder (2004), Bawoodand Wilkins (2004), Piotand Jenin (2005), while they accord with the research results of Namaziand et al (2011).

Moreover,The study results show that specialization in auditor industry has a negative influence on discretionary accruals. It means discretionary accruals in firms audited by industry specialist auditor are less than those non- specialist in industry. Therefore, it is concluded that the earning management in such firms is more likely associated with a less level. the obtained results of the study are in accordance with Rinalds et al.(2009) and also Zengin and Ozkan (2010) interim data.

Audit firm tenure has a negative influence on discretionary accruals. It indicates that in an audit firm with several years auditing, the discretionary accruals are less than those firms having less than four years audit tenure. Regarding discretionary accruals as the firm earning, it is obvious that discretionary accruals are a part of firm earning. As it increases, the auditors become sensitive. Thus, audit firm tenure causes having a kind of agreement between management and auditor in the case of giving report. The study results are in line with annual data of Mayers et al. (2003), Nonanal et al. (2011) and also, Zengin and Ozkan (2010) interim data. However, the outcomes are opposed to Borgustaler et al. (2006) studies.

Considering the research results, some suggestions are given to following groups;1-Investors: Regarding the research results, it seems reasonable to suggest that the financial report users care about some variables such as the grass cost for shareholders like audit firm tenure and audit industry specialization when they analyze market to buy firm stocks.2-Managers: It is necessary for managers to establish firm owners trust. Therefore, it has been suggested to invite industry specialist auditors and audit firm tenure.3-Stock exchange organization: The evidence suggests that stock exchange organization should operate entirely within law to employ qualified auditors to audit financial reports. In this case, they distinguish the real status of firms and also, they make information more clear. Moreover, it is important for stock exchange organization to consider audit tenure and audit industry specialization pricing firm stocks.

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