

## Effectiveness of Manager's Performance on Independent Auditor's Opinion in Listed Companies of Tehran Stock Exchange

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**Abstract:** The auditor's report is considered as an invaluable resource in decision making process of financial statements users. Moreover, performed studies indicate that independent auditor's opinion is somehow affected by management performance. Therefore, the purpose of this study is to investigate the effectiveness of management performance such as profitability, dividend per share, return rate of owner's equity, assets return rate, ..., on both independent auditor's report and clauses of qualified report. Subjects of this research are 112 listed companies of "Tehran Stock Exchange" between 2009 and 2013 (560 annual report) and the hypothesis is tested by logistic regression. Results show the effect of dividend per share on accepted report of independent auditor and profitability on the clauses of investment entry by flat cost technique. The standards of dividend per share, assets return rate and the rate of return on owner's equity altogether, affect the clause of taking verification of qualified report of independent auditor. According to research findings, it is noteworthy that management performance improvement leads to the reduced issue of qualified report. Consequently, accounting measures of management performance will affect the independent auditor's opinion. In conclusion, among standards of accounting management performance, only standard dividend per share has impact on independent auditor's report and other investigated standards have no effect on independent auditor's report.

**Key words:** Management performance index, qualified independent auditor's opinion, logistic regression, acceptance independent auditor's opinion, improvement

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### INTRODUCTION

One of the main factors that auditors can apply to accurate and timely planning is available data in financial statements and other data resources. Indeed, aforesaid data are utilized by different groups such as investors, brokers, managers, financial advisors, analysts, creditors and government. Furthermore, auditors can take advantage of these data in analytical method, studying of the continuity of operations, fraud discovery and so on. According to the informative content of items in financial statements, auditors can also apply these data in some situations such as audit planning and determination of the quality control index.

Brokering theory believes auditor as an independent agent of stockholders and other beneficiaries in control of accuracy, reliability and relating data prepared by managers of entity. In other hand, since auditing requires close relationship between auditor and managers of entity it is possible that auditors lose their independency in doing their task, i.e, they act for themselves and their managers. And/or considering standards of evaluating

manager's performance, auditor's point of view is affected by managers' performance and will affect the type of auditor's report.

Among effective factors on audit report preparation, present study tries to pay attention to effectiveness of management performance and look after how this performance can influence decision making process of independent auditor. Since, there are different approaches to measure manager's performance and independent auditors who validate financial statement to evaluate manager's performance in this study accounting approach of management performance is emphasize such as profitability, dividend per share, the rate of return on owner's equity, assets return rate.

**Research background:** Bani Mahd has investigated the impact of some factors such as management performance, alternation of ownership, privatization, size of company, auditing and auditor's choices, ..., on accepted opinion and found out that all variables, except size of company are directly related to the possibility of issue of accepted audit report.

In another research, Sajedi and Dastgir realized that the current ratio and receivable accounts ratio to assets are effective on qualified audit report. Furthermore, they found there is a significant relationship between audit report of previous year and the type of auditing agency to audit report of current year.

Setayesh studied the relationship between both of financial ratios and nonfinancial variables and auditor's opinion and found that the type of entity's performance, stock turn ratio, debit ratio, gross profit on sales and net profit on sales have related most statistically to auditor's opinion.

Lai (2009), through studying the type of auditor's opinion and disclosure of audit fee, discovered that there is no relationship between disclosure of audit fee and type of auditor's report. On the other hand, the size of company, profitability, unacceptable audit report in previous year, cash flow, bankruptcy index and sale growth are effective factors on issue of unacceptable audit report about continuity of company's activity.

Geiger *et al.* (2005) have shown issue of acceptable audit report about continuity of working is affected by some factors such as the size of company, profitability, the period of auditing, the type of industry, the type of auditor and audit report in previous year. Hudaib and Cooke(2005) through investigation of the impact of alternating management on the type of auditor's opinion and alternating auditor found that companies performing improperly in which alternating management have received qualified report more than others, results in alternating auditor within those companies.

Spathis (2003) have concluded the items of financial statement have ability to forecast qualified opinion. Sundgren (2003) found that the number of unacceptable audit report among companies having high debit ratio and low profitability is high. Furthermore, he found that there is no relationship between the type of audit report and the size of company.

Beasley believed that companies reporting less profit have received qualified opinion more. Laitinen and Laitinen (1998) suggested that the reduction of growth rate, the ratio of owner's equity to assets and the size of company would increase the possibility of qualified report reception. In addition, Levitan and Knoblett (1985) through analyzing the financial ratios, revealed that due to continuity of company's working, issue of unacceptable report is possible.

Monroe and The (1993) have concluded financial and market variables have ability to forecast qualified opinion. Bell and Tabor (1991) have shown that the rate of return, stock turn ratio, receivable turnover ratio, current ratio and leverage ratio can forecast the qualified audit report.

**Research hypothesis:** Hypothesis of research, according to effective factors on auditor's report and measuring factors of management performance are explained as follows:

- Hypothesis 1: there is a significant relationship between management performance and acceptable opinion of independent auditor
- Hypothesis 1-1: there is a significant relationship between company's profitability and acceptable opinion of independent auditor
- Hypothesis 1-2: there is a significant relationship between dividend per share and acceptable opinion of independent auditor
- Hypothesis 1-3: there is a significant relationship between return on owner's equity and acceptable opinion of independent auditor
- Hypothesis 1-4: there is a significant relationship between assets return and acceptable opinion of independent auditor
- Hypothesis 2: there is a significant relationship between management performance and qualified opinion of independent auditor
- Hypothesis 2-1: there is a significant relationship between company's profitability and tax clause
- Hypothesis 2-2: there is a significant relationship between profitability and taking verification
- Hypothesis 2-3: there is a significant relationship between profitability and lack of installation of codified industrial accounting
- Hypothesis 2-4: there is a significant relationship between profitability and investment entry by flat cost technique, instead of net cost technique
- Hypothesis 2-5: there is a significant relationship between dividend per share and tax clause
- Hypothesis 2-6: there is a significant relationship between dividend per share and taking verification
- Hypothesis 2-7: there is a significant relationship between dividend per share and lack of installation of codified industrial accounting
- Hypothesis 2-8: there is a significant relationship between dividend per share and investment entry by flat cost technique, instead of net cost technique
- Hypothesis 2-9: there is a significant relationship between the rates of return on owner's equity and tax clause
- Hypothesis 2-10: there is a significant relationship between the rates of return on owner's equity and taking verification
- Hypothesis 2-11: there is a significant relationship between the rates of return on owner's equity and lack of installation of codified industrial accounting

Table 1: The approach of selecting investigated companies of research

Description	Number	Number
The member of statistical universe at the end of 2006	-	427
Filter 1: the companies that are out of quotation board before 2013/12/29	115	
Filter 2: the companies that the end of their financial year is not before March or during the investigated period have had fiscal year variation	92	
Filter 3: the companies that their transaction on the stocks are faced to transaction stoppage >6 month	80	
Filter 4: the companies that their data are not available	11	
Filter 5: the companies that are categorized as investment industry	17	
The sum of omitted companies of statistical universe	-	315
The sum of investigated companies	-	112

- Hypothesis 2-12: there is a significant relationship between the rates of return on owner’s equity and investment entry by flat cost technique, instead of net cost technique
- Hypothesis 2-13: there is a significant relationship between assets return rate and tax clause
- Hypothesis 2-14: there is a significant relationship between assets return rate and taking verification
- Hypothesis 2-15: there is a significant relationship between assets return rate and lack of installation of codified industrial accounting
- Hypothesis 2-16: there is a significant relationship between assets return rate and investment entry by flat cost technique, instead of net cost technique

**Statistical universe of research:** Statistical universe of this research includes all listed manufacturing and industrial companies of Tehran Stock Exchange (Table 1).

**MATERIALS AND METHODS**

**Research method, conceptual model and investigated variables of research:** To test research hypothesis, logistic regression is used as a result of the type of dependent variable and in some cases, dependent variable is binomial. In general, to estimate the models having such dependent variables three methods are utilized, “Linear Probability Model”, “Logic Model” and “Probit Model”. According to present data research and to access the actual results, inhibit of result bias, present the possible results, access the computer programs and similar researches, Logic Model is used to analyze and determine the method of effectiveness quantitative variables of dividend per share, profitability, assets return rate and the rate of return on owner’s equity on audit report. Primitive model of proposed logistic regression in this research is (Model (6-1)):

$$\text{Log} \left( \frac{P}{1-p} \right) = \alpha_0 + \alpha_1 \text{Prof} + \alpha_2 \text{EPS} + \alpha_3 \text{ROE} + \alpha_4 \text{ROA} + \alpha_5 \text{Size} + \alpha_6 \text{Chm} + \alpha_7 \text{Lev} + \alpha_8 \text{Conv} + e_0$$

Where:

- P = The type of auditor’s report
- Prof = Profitability that is equal to operating profit divided, by assets’ book value of company
- EPS = Dividend per share
- ROE = The rate of return on owner’s equity
- ROA = Assets return rate
- Size = The size of company that is equal to assets’ book value of company
- Chm = Alternating management of company which is an artificial variable and by alternating the management it is 1 and unless is 0
- Lev = The company’s leverage ratio that is equal to long term taking financial facilities plus company’s current liability divided by its assets’ book value
- Conv = Company’s conservatism that is equal to operational obligating items on sums of assets at the beginning of period and multiply by (-1)

In this research, P is the type of auditor’s report that is an artificial variable, if auditor’s report is acceptable, it is 1 and if it is qualified, it is 0.

In present research to study the manager’s performance on qualified opinion, four factors play important role including: non-performance of clause 104, in direct tax law, taking verification, lack of codified industrial accounting system and investment entry, through flat cost technique, instead of net cost.

**RESULTS AND DISCUSSION**

**Result of first hypothesis test:** First main hypothesis tries to study the effectiveness of manager’s performance on auditor’s accepted opinion. It includes four sub-hypothesis as follows (Table 2).

According to performed researches about effect of variables of management performance on auditor’s report and through utilized statistical methods and logistic regression it can be shown that company’s profitability, the rate of return on owner’s equity and assets return rate

Table 2: The coefficients of variables of accepted report model

Independent variables of model	$\beta$	Standard error	Wald statics	Degree of freedom	Level of significant	Standardized coefficient
Fixed value	-0.637	0.308	4.283	1	0.039	0.529
Profitability	-0.172	1.225	0.020	1	0.888	0.842
Dividend per share	0.001	0.000	15.511	1	0.000	1.001
The rate of return on owner's equity	0.377	0.217	3.011	1	0.083	1.458
Assets return rate	1.426	2.036	0.491	1	0.484	4.163
Size	0.000	0.000	0.606	1	0.170	0.573
Leverage ratio	0.557	0.407	1.879	1	0.170	0.573
Conservatism	1.292	0.659	3.842	1	0.050	3.640
Alternating management	-0.567	0.212	7.131	1	0.008	0.567

Table 3: The coefficients of variables of tax clause model

Independent variables of model	$\beta$	Standard error	Wald statics	Degree of freedom	Level of significant	Standardized coefficient
Fixed value	-3.829	2.354	2.646	1	0.104	0.022
Profitability	-7.727	13.375	0.334	1	0.563	0.000
Dividend per share	0.000	0.001	0.001	1	0.977	1.000
The rate of return on owner's equity	-0.140	1.001	0.02	1	0.888	0.869
Assets return rate	-2.577	15.038	0.029	1	0.864	0.076
Size	0.000	0.000	0.005	1	0.944	1.000
Leverage ratio	-2.792	3.444	0.657	1	0.417	0.061
Conservatism	7.248	5.589	1.682	1	0.195	1405.488
Alternating management	0.735	1.463	0.252	1	0.615	2.085

Table 4: The coefficients of variables in clause of taking verification model

Independent variables of model	$\beta$	Standard error	Wald statics	Degree of freedom	Level of significant	Standardized coefficient
Fixed value	0.027	0.282	0.009	1	0.923	1.028
Profitability	1.506	1.183	1.619	1	0.203	4.507
Dividend per share	-0.001	0.000	6.131	1	0.013	0.999
The rate of return on owner's equity	-0.631	0.214	8.722	1	0.003	0.532
Assets return rate	-5.055	2.131	5.624	1	0.018	0.006
Size	0.000	0.000	0.605	1	0.437	1.000
Leverage ratio	-0.066	0.363	0.037	1	0.847	0.936
Conservatism	-0.519	0.710	0.535	1	0.465	0.595
Alternating management	0.234	0.210	1.238	1	0.266	1.263

have no important effect on auditor's report; in contrast, the second subtest indicates that there is main effect on auditor's report, because of significant effect of company's dividend per share on audit report in listed companies of Tehran Stock Exchange.

**The result of second hypothesis test:** Second main hypothesis tries to study the effect of manager's performance of auditor's qualified opinion. It includes 16 sub-hypothesis investigating the effect of manager's operational measures on being qualified opinion reports (Table 3).

According to performed researches about the role of company's profitability in auditor's qualified opinion by applied statistical methods, the results of logistic regression method indicates that company's profitability has no impact on tax clauses of audit's qualified report, clauses of taking verification on qualified report and the clause of lack of installation in codified industrial accounting system in audit's qualified report in listed companies of Tehran Stock Exchange. Furthermore, the result of fourth sub-hypothesis test shows that there is a

significant relationship between company's profitability and the clause of investment entry through flat cost technique, instead of net cost of audit's qualified report in listed companies of Tehran Stock Exchange (Table 4).

Because of the effect of variables of companies' dividend per share on condition of being auditor's qualified report and results of logistic regression, there is a principal effect between company's dividend per share and tax clause audit's qualified report and the clause of taking verification in listed companies of Tehran Stock Exchange. In other hand, the consequences of logistic regression method points out that there is not important effect between company's dividend per share and lack of installation of codified industrial accounting system in audits qualified report and the clause of investment entry through flat cost technique, instead of net cost in listed companies of Tehran Stock Exchange (Table 5). Obtained results of logistic regression signify that there is not meaningful effect between company's rate of return on owner's equity and tax clause, clause of lack of installation of codified industrial accounting system and the clause of investment entry through flat cost

**Table 5: The coefficients of variables in clause of lack of installation of codified industrial accounting system**

Independent variables of model	$\beta$	Standard error	Wald statics	Degree of freedom	Level of significant	Standardized coefficient
Fixed value	-0.576	0.737	0.611	1	0.435	0.562
Profitability	-4.027	3.405	1.399	1	0.237	0.018
Dividend per share	0.000	0.000	0.081	1	0.766	1.000
The rate of return on owner's equity	-0.448	0.354	1.598	1	0.206	0.639
Assets return rate	-6.473	3.987	2.635	1	0.105	0.002
Size	0.000	0.000	0.743	1	0.389	1.000
Leverage ratio	-2.132	1.053	4.103	1	0.043	0.119
Conservatism	-1.883	1.043	3.257	1	0.071	0.152
Alternating management	0.164	0.410	0.160	1	0.689	1.179

**Table 6: The coefficients of variables in clause of investment entry through flat cost technique, instead of net cost technique**

Independent variables of model	$\beta$	Standard error	Wald statics	Degree of freedom	Level of significant	Standardized coefficient
Fixed value	0.691	0.683	1.022	1	0.312	0.501
Profitability	-5.428	2.610	4.327	1	0.038	0.004
Dividend per shar	0.000	0.000	0.721	1	0.396	1.000
The rate of return on owner's equity	0.148	0.248	0.358	1	0.550	1.160
Assets return rate	1.111	3.447	0.104	1	0.747	3.038
Size	0.000	0.000	4.690	1	0.030	1.000
Leverage ratio	-2.256	0.965	5.465	1	0.019	0.105
Conservatism	-1.050	0.934	1.263	1	0.261	0.350
Alternating management	0.431	0.340	1.614	1	0.204	1.539

technique, instead of net cost technique of audit's qualified report in listed companies of Tehran Stock Exchange. Obtained results of logistic regression method proves that there is remarkable effect between company's rate of return on owner's equity and the clause of taking verification of audit's qualified report in listed companies of Tehran Stock Exchange.

Moreover, there is not exceptional effect between company's assets return rate and tax clause, clause of lack of installation of codified industrial accounting system and the clause of investment entry through flat cost technique, instead of net cost technique of audit's qualified report in listed companies of Tehran Stock Exchange but there is noteworthy effect between company's assets return rate and the clause of taking verification of audit's qualified report in listed companies of Tehran Stock Exchange (Table 6).

**CONCLUSION**

In conclusion, among standards of accounting management performance, only standard dividend per share has impact on independent auditor's report and other investigated standards have no effect on independent auditor's report. The results reveal that profitability standard is effective on clause of investment entry through flat cost technique, instead of net cost and the effectiveness of other standards has influence on clause of taking verification.

The effect of dividend per share on auditors' accepted report is minimal. By the way, profitability has

reverse effect on independent auditor's accepted report; in addition, the rate of return on owner's equity and assets return rate have direct effect on auditors' accepted report, however their effect on confidence level of 95 is insignificant. It is considerable that the variables of conservatism and alteration of management have notable effect on audit report. The effect of conservatism on auditors' accepted report is direct and significant, in contrast, alteration of management have reverse effect on independent auditor's accepted report; as a result, management's alteration will reduce the issue of the independent auditor's accepted report.

Results indicate dividend per share, assets return rate and the rate of return on owner's equity were effective on clause of taking verification of independent auditor's qualified report. None of management performance standards were effective on clause of lack of codified industrial accounting system on clause of investment entry through flat cost technique, instead of net cost profitability which effect was reverse and significant. It can be concluded that increasing profitability will reduce the issue of the clause of investment. Moreover, the effect of variable of size is zero; in addition, increasing leverage rate will reduce the issue of the clause of investment entry.

According to the direct effect of dividend per share on independent auditor's accepted report, increasing dividend per share will increase the issue of independent auditor's accepted report. Other effective factors on the clause of qualified report have reversed relationship; therefore, the management performance in

listed companies of Tehran Stock Exchange has significant effect on independent auditor's report and opinion.

This study showed that profitability had significant effect on the issue of the clause of investment entry through flat cost technique, instead of net cost and other standards of evaluating performance have significant effect on the clause of taking verification of independent auditor's qualified report. Therefore, management performance standards have effect on independent auditor's opinion.

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