Surveying the relationship between audit quality and investment opportunities, emphasizing the role of discretionary accruals

Esmail Panahi, Mohammad Nikandish, Soniya Panahi

INTRODUCTION

One of the qualitative characteristics of financial information is reliable. The financial information is reliable and reliance that Effect of financial transactions and other events are measured at fair way and The results of the measurements are valid and reconfirmed. Users of financial information reflected in the financial statements when they are able to rely that Someone independent, competent and impartial comparison of the validity of this information is presented in terms of professional. Commenting task to financial statements is entrusted to independent auditors. On the other hand, the company's investment opportunities, is an important measure of corporate performance evaluation. Managers of firms with high investment opportunities are more likely to manage earnings. In studies on earnings management, discretionary accruals to manipulate the items that management could have a significant role in this. One of the most effective ways are audited of earning management controls. It is observed that there is a relationship between audit quality and investment opportunities. This study examines the relationship between audit quality and investment opportunities with emphasis on the role of discretionary accruals. For this purpose financial statements and Auditing of the Institute of listed companies in Tehran Stock Exchange were examined for Four-year period from 2008 to 2012, and 75 companies were selected as an example, among these companies. Results, showed that a significant inverse relationship there is between audit quality and investment opportunities. There is no relationship between discretionary accruals and investment opportunity and discretionary accruals and audit quality.

A B S T R A C T

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Corresponding Author: Esmail Panahi, Esmail Panahi, Department of Accounting, Genaveh Branch, Islamic Azad University, Genaveh, Iran.
Tobin's Q ratio there was in macroeconomic analysis to predict future investment activities by Professor Jymz.tobin. When Tobin Q ratio greater than is one , this indicates that the investment in assets cause earnings creates that more value than have the capital expenditures. And when this ratio is smaller than one , That means investing in the asset passes and does not return.

Expression of research:
Managers of firms with high investment opportunities are more likely to manage earnings. Because, unlike firms with low investment opportunities, these companies have advantage of debt management or supervision of the capital markets less. Low capital market supervision due to the lack of dividends paid by the company in these companies. Because growth companies that have above-average investment opportunities should be to maintain a major part of their income to the funds needed of this extraordinary investment projects. It should the ratio of dividends to be paid less. “as discussed by Raily [9]”

Studies on earnings management indicates that items of discretionary accruals are important,such as items are that management can manipulate them. Items of accruals are causing the difference between profit and cash flow. Thus assuming that cash flows are not manipulated ,the only way to manipulate profits, increase or decrease is in discretionary accruals. “as discussed by ebrahimi,kordlar [2]” The purpose of discretionary accruals is prohibited that management can influence in the short-time to them. Such as : change in percent of the Cost for Doubtful Accounts, increasing the proportion of fixed manufacturing overhead, and changes in cost estimates to ensure products sold “as discussed by volk[23]” One of the most effective ways to control the manipulation of discretionary accruals is the audit that the same is earnings management by the management. According to the above is observed that there is a relationship between audit quality and investment opportunities and considering the relationship can may be useful for shareholders, investors ,managers and other stakeholders. So, the relationship between audit quality and investment opportunities with emphasis on the role discretionary accruals should be examined.

Literature:
Gul et al [26] in a research" The effect of investment opportunities and debt levels on the relationship between earnings - returns and pricing discretionary accruals” to tackle this issue : Whether the earnings quality and pricing of discretionary accruals is associated of set the investment opportunities by the markets ? The results showed that Related benefit – return Correlates positively of set the investment opportunities and are negatively correlated with debt levels. The results showed that the market of discretionary accruals is pricing for firms with high investment opportunities in the higher. The results were negative for the impact of debt levels on the weaker accruals.

Ke Li [27] in a research" Opportunities for investment and audit quality” examined the relationship between audit quality and investment opportunities. The results showed that firms with high investment opportunities are more likely, to have a lot of discretionary accruals. Krishnan [25] in an article entitled” Audit quality and the pricing of discretionary accruals” examined the relationship between audit quality and the pricing of discretionary accruals. The results showed that relationship between stock returns and discretionary accruals for firms audited by the Big Five audit firms is greater than audit firms audited by other audit institutions. Discretionary accruals customers of five auditors more relationship have to future profitability.

Cahan, Steven et al [24] in a research” Auditor expertise: The effect of investment opportunities” they examine this article why is auditor’s expertise varies from industry to industry? They argue that when there is a high industrial investment opportunities, auditors High concentration do for the industry. Which allows them to offer a differentiated service for this particular industry..

Ming [31] in a research” Corporate governance, selection of auditor and change of auditor in China” he found that ten large auditing firms is increasingly Decreasing earnings management in China. Also found that the smaller audit firms (than before) may be a sign of low quality earnings.

Ke li et al [27] in a research found : companies that have been audited by large accounting firms, Accruals represent less than other companies. Because, brand of firm is known and authentic.

Kowin ki li [28] in a research” Earnings quality and Future capital investment: Evidence of discretionary accruals” to examine the issue of how one aspect of earnings quality (discretionary accruals) affects the design and performance of secondary capital investment. The results of this study showed investment in fixed assets in period t for firms with high levels of positive accruals in period t-1, less sensitive to internal cash flow in the level of investment opportunities. Also, a certain level of investment in fixed assets in period t, the return on assets in period t +1 is lower for firms with high levels of positive accruals in period t-1. This study demonstrated that companies with high levels of positive discretionary accruals are allocated resources inappropriately, so, the efficiencies are reduced.

Kin chen in a research” Set of investment opportunities and earnings management: Evidence of the role of shareholder control” Incentive and the effect of controlling shareholders examined on the relationship between
the set of investment opportunity and Earnings Management in Taiwan. The results show that firms with high investment opportunities are more likely to attempt earnings management.

Mojtahedzade and aghay [19] in research "Factors affecting on independent audit quality from the perspective of the independent auditors and users" Thirteen factors were identified in audit quality by using literature auditing, accepted auditing standards, terms and conditions of environmental in Iran.

The thirteen factors include: 1- Visit independent audit partner and senior manager of the audit process 2- Having enough information about client industry 3- Importance of audit fees for audit institutions 4- Contact Controller and Finance to the extent necessary 5- Client reputation as a positive factor in the acceptance of audit 6- Experienced senior manager in this position for at least 3 years 7- Audit completed in accordance with a predetermined time budget 8- Independent auditor experienced partner in this position for at least 3 years 9- There is a written policy concerning maximum working hours in a day or week 10- Perform the audit client by the firm audited for at least the last 3 years 11- Having another client in audit firm industry 12- Costs as a major factor in choosing an auditing method 13- Work performed based on the flexible budget by the audit team members.

Mashayekhi et al [19] in research" The role of discretionary accruals in earnings management of listed companies in Tehran Stock Exchange" examined the relationship between accruals and cash flow from operations. The results of this study indicate that earnings management is applied in the firms studied in this research. The company's management attempt has to increase profits by increasing discretionary accruals, when the decrease in cash from operations has been indicate the poor performance of the business.

Sadjadi and ebrahim zand [12] in research" Increasing the independence of the independent auditor" Increasing the independence of the independent auditor examined From the perspective of Society of members, auditors, CPAs Iran. The results showed that The independent auditors, The Audit Committee's work, the size and extent of audit firm and the size of companies are as independent multiplicative factors, and competition in the auditing profession are as reducing factor auditor independence.

Ebrahimi kordlar and seidi [2] in research" Independent auditor's role in the reduction of discretionary accruals" studied relationships between the independent auditors and the audit opinion of earnings management. The results showed that the type of audit institutions has an inverse relationship with discretionary accruals.

Rasaeian and hoseini [10] in research" Relation between discretionary accruals quality and cost of capital in Iran" To Addressing these issues, which: 1) Has discretionary accruals quality the most significant effect on the cost of capital (Cost of debt and equity)? 2) Whether firms cost of capital have significantly different with different levels of accruals quality. The results showed that the cost of capital is not affected by the quality of discretionary accruals and components of related. In other words, There are not significant differences, Among the firms cost of capital with poor and lower accruals quality in Compared to firms with good accruals quality.

Purkarim in research" The relationship between audit quality and reliability of discretionary accruals" studied relationship between audit quality and reliability of discretionary accruals. In this research, he used to determine the quality of auditor of the two measures of auditor size and auditor tenure and in order to calculate the reliability of accruals following the Richardson model, by the stability of accruals. The results of this study showed audited companies by auditor with Higher quality in Compared to audited companies by auditor with lower quality, stability coefficient was higher accruals and Consequently, the reliability of accruals have higher.

Hassas yegane and azinfar [7] in research" The relationship between audit quality and audit firm size" studied relationship between audit quality and audit firm size. For this purpose, Audit Institutions (small audit firms) and Audit Organization because many employees and antiquity more (large auditors) were in this research. To check the quality, criterion is Compared distortions of discovered and reported in audit reports by comparing the current year's audit report and Income accumulated in next year. There is an inverse relationship between audit quality and audit firm size.

Namazi [22] in research" The relationship between audit quality and earnings management of listed companies in Tehran Stock Exchange" studied. In this research, he used to determine the quality of auditor of the two measures of auditor size and auditor tenure and in order to calculate earnings management used of the modified Jones model. The results of this study showed that, there is a weak positive relationship between auditor size(Auditor reputation) and auditor tenure and earnings management, but this relationship is not statistically significant. Also, a positive but non-significant positive relationship exists between earnings management and auditor size. There is a significant positive relationship between earnings management and auditor tenure.

Research Methodology:
1- Explaining the research hypotheses:

The study is based on literature and theoretical foundations raised about the relationship between audit quality and investment opportunities with emphasis on the role discretionary accruals; The following hypotheses are designed:
The first hypothesis) Audit quality related with investment opportunities.
The second hypothesis) Discretionary accruals related with investment opportunities.
The third hypothesis) Audit quality related with discretionary accruals.

Sample was selected according to the following conditions:
1) Before 2008 and up 2012 were working in Accepted in Tehran Stock Exchange.
2) Companies listed in Exchange(banks, financial institutions, investment companies,financial intermediation, holding companies, there are separate reporting structure,) are removed of the samples.
3) Financial year end be 29 Esfand solar year.
4) Auditor,for audit organization did not change to other auditing or conversely during the years 2008 to 2012.
5) Stop icon do not have for more than four months in the period under review.

After the above restrictions, 75 were selected for survey.

3- Definition of variables
In this research, investment opportunities is independent variable and( audit quality and discretionary accruals)are dependent variables.

Investment opportunities: Ratio is that the ability of a company show for profitable deployment of capital invested. One of the most important metrics is to evaluate of Performance. In this study,is used of the ratio of market value to book value of assets(MBA) for to calculate the investment opportunities which is calculated by the following formula:

\[ \frac{\text{The market value of the Company's common stock issued+ Book value of long-term debt}}{\text{Total assets}} \]

Audit quality: Market assessment of the probability that the auditor A) Material misstatement to deciphe in financial statements or accounting system B) To report material misstatement discovered . In this study, due to the size and antiquity, If the audit institutions was Audit Organization of the number 1 and o therwise used of the number zero.

Discretionary Accruals:the iteme is that management can manipulate in order to achieve personal interests in the short term. In this study, the modified Jones model is used to calculate discretionary accruals. Which is calculated by the following formula:

\[ \text{TA} = \text{IBEI} - \text{OCF} \]

In which:
\[ \text{IBEI} : \text{Profit before extraordinary items and discontinued operations} \]
\[ \text{OCF: Operating cash flow} \]

Then a1, a2 and a3 are specific parameters of firm.It is calculated by the following formula and Software MATLAB7.

\[ \text{AT} = a1(1/\text{At-1}) + a2(\Delta \text{REVt}/\text{At-1}) + a3(\text{PPEt}/\text{At-1}) \]

\[ \Delta \text{REVt} : \text{Change in net operating revenues in year t} \]
\[ \text{PPEt: Tangible fixed assets} \]

Then, Discretionary Accruals is calculated by the following formula:

\[ \text{NDA} = a1(1/\text{At-1}) + a2(\Delta \text{REVt} - \Delta \text{RECT } /\text{At-1}) + a3(\text{PPEt}/\text{At-1}) \]

\[ \Delta \text{RECT}: \text{Change in accounts receivable in year t} \]

Discretionary accruals is obtained by subtracting nondiscretionary accruals of total accruals

\[ \text{DA} = \text{TA} - \text{NDA} \]

Evaluating the results of hypothesis testing:
Model 1: This model examines the relationship between audit quality and investment opportunities. According to the predicted, results shows relationship between these two variables in the overall test of the model (with using logistic regression) (Table 1).

The coefficient of audit quality is (-1/095).It Represents that there is an an inverse relationship between these two variables.

<table>
<thead>
<tr>
<th>description</th>
<th>Chi-squared test $\chi^2$</th>
<th>Coefficient of Determination $R^2$</th>
<th>Beta distribution</th>
<th>Wald test</th>
<th>P-value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative</td>
<td>59/300</td>
<td>0/281</td>
<td>-1/095</td>
<td>18/673</td>
<td>0/000</td>
<td>Confirm the hypothesis</td>
</tr>
</tbody>
</table>
Model 2: This model shows impact on audit quality and investment opportunities on discretionary accruals (the second and third hypotheses). Unlike predictions, there was not a relationship between investment opportunities and discretionary accruals on the overall test of model and per year (Tables 2 and 3). This result is contrary to the findings of Ke Li [29] and Purkarim [3]. But it is agreed with the cross sectional findings of Ebrahimi kordlar and seidi [2]. It is contrary to with the Cumulative results of their. Positive and significant relationship was observed between discretionary accruals and audit quality in the cumulative final model. But, this relationship was not significant in the final model per year.

<table>
<thead>
<tr>
<th>Table 2: The second hypothesis test (The relationship between discretionary accruals and investment opportunities)</th>
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<tr>
<td>description</td>
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<td>Cumulative</td>
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<th>Table 3: The third hypothesis tests (The relationship between audit quality and discretionary accruals)</th>
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<td>Cumulative</td>
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**Limitations of the study:**

Basis of any of the study, the information is that, their hypothesis is tested by using their. According to the restrictions listed in the sample, the generalizability of the results will be discussed to the whole society. The major limitation of this study, Lack of access is to financial information and failure to provide profit forecasts for Companies.

**Conclusions:**

In the present study, the relationship between audit quality and investment opportunities with emphasis on the role discretionary accruals were tested. Results, represents relationship (inverse) is between audit quality and investment opportunities and the lack of existence relationship between investment opportunities and discretionary accruals. Also, the lack of existence relationship between audit quality and discretionary accruals. Results is based only on the statistical analysis of the models. there is no absolute relationship between the variables. But also, following reasons were effective in achieving these results in the models.

1- One important things that could explain the poor correlation between the variables, (audit quality and investment opportunities) is Volatility in the stock market and the inefficiency of stock market.
2- Limited in society and sample will impact on the coefficient of determination obtained.
3- Different methods there are to calculate the investment opportunity and discretionary accruals.
4- Influence of the control variables in the models such as the ratio of long-term debt to book value of equity, the size of the company's sales, during the period of operation. The ratio of tangible fixed assets to sales, etc.

**REFERENCES**
