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Audit Opinion Improvement and Firm Ownership: Evidence from Iranian Private Audit Market

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ABSTRACT

This study aimed to identify the role of ownership type and concentration on decreasing of qualification paragraphs in audit report of the private sector audit firms. Research period is from 2006 to 2012 and research sample consists of 73 firms that are listed at Tehran Stock Exchange. These firms were audited by 48 private audit firms that are member of the Iranian Association of Certified Public Accountants. Hypotheses were tested by binary Logistic regression method. The results indicate that for the firm with the larger major stockholder, the more likely to receive less qualification paragraphs. Also for the firm that the major stockholder is an individual, the likelihood of receiving an audit report with more qualification paragraphs before opinion paragraph will increase.

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INTRODUCTION

This study examines how ownership structure (individual or legal ownership and ownership concentration) affects on the opinion of the auditor of companies listed in Tehran Stock Exchange (TSE). Review of audit literature in the field of auditor's opinion show that a large body of research has investigated the role of ownership structure on auditor selection and audit quality (e.g. Wang *et al*., 2008; Guedhami *et al*., 2009; Lin and Liu, 2009) and achieved to results that are presented in the next sections in more detail. But all these researches have been done in developed countries with intense competition and big audit firms. Distinction and contribution of this study is that effects of ownership structure on audit quality will be investigated in Iran audit market, where is a different and particular market. Special characteristics of the Iranian audit market in the research period are: removing to supply audit services from monopole state audit firm (Iranian Audit Organization) and starting competition, changes in the qualifications for licensing private audit firms and significant increase in private audit firms, absence of international and even big audit firm in this market, absence of litigation risks for auditors and mandatory auditing according to the Iranian laws.

This study aimed at to investigate whether the auditor's opinion is affected by the ownership structure (natural or legal ownership and ownership concentration) in private audit firms. In other words, we investigate the effects of ownership type and concentration on the auditor's opinion and audit quality in the emerging audit market of Iranian. The most important characteristic of an emerging market is incomplete privatization (Guedhami *et al* 2009). In the incomplete privatization, new groups of shareholders are added to the prior shareholders- government is usually the largest. After this, ownership percentage of government is usually reduced but significant influence of government will be remind like past. Thus, transferring company's shares from government to private sector or incomplete privatization creates a gap or diversification between shareholders and also leads to intensify agency problem between managers and shareholders. As a result, auditors as a means of reducing conflicts of interest, play a very important role in the emerging markets. Accordingly, identifying the impact of ownership structure on auditor's opinion and audit quality can be an important issue in the emerging markets.

On the other hand, in the privatization process, organizations or institutions are sometimes entered into the prior shareholder combinations which are known as institutional owners. Examples of institutional owners are: banks, insurance companies, Social Security Organization fund, business insurance companies, Pension funds and mutual funds. Institutional owners are differenced from other investors because of noticeable Independence and competence in doing professional analyzing. The presence of institutional investors in the company's

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Journal of Applied Science and Agriculture, 9(16) October 2014, Pages: 40-48

ownership structure has an impact on the firm's operations control and monitoring. Due to the characteristics and needs, institutional investors are concerned about the quality of information than other investors. In other words, they monitor and force managers to provide qualitative financial statements or reports and have demand for qualitative auditing (Azibi *et al* 2010). This is known as "effective monitoring hypothesis" which introduced in the late 1990s.

The results of this study can expand the previous literature related to audit quality. In addition, research results will show whether ownership structure has effects on the improvement of auditor's opinion. Scientific outputs of this study can provide useful information for audit standard setters, Security Exchange legislators and users of audit report. This study can offer ideas for new research in the field of audit opinion. The next sections are research theoretical structure, method of testing hypothesis and research results.

2. Research Methodology:

2.1. Hypothesis development:

Determinants of auditor's opinion have attracted the attention of researchers recently (e.g., Wang *et al*., 2008; Knechel *et al*., 2008; Broye and Weill, 2008; Hope *et al*., 2008; Guedhami *et al*., 2009; Lin and Liu, 2009; Banimahd and Vafaei, 2011; Houqe *et al*., 2012). Prior archival audit research identified and listed some factors affecting on auditor opinion such as client ownership structure, audit fees, auditor opinion in last year audit report, client financial structure and profitability status. Among these variables, we believe that the effect of ownership structure-especially the ownership type and concentration- on auditor's opinion has attracted less attention in Iran audit market. Hence, in this study we investigate the effect of these two variables on auditor's opinion, although we control the effects of other variables.

2.1.1. Achieving Auditing Objectives with Audit Quality:

Agency theory suggests that separation management from ownership may lead to a problem named conflict of interests. Because of conflict of interest, management may potentially manipulate the financial statements- which are the base of performance evaluation and compensation plans. This dilemma justifies the need for hiring auditors in order to verifying financial statements and to increase credibility of them. As a consequence, the external auditors have a key role in decreasing accounting manipulation, conflicts of interest and then information asymmetry between managers and stockholders (Choi, 1982; Jensen and Meckling, 1976, Watts and Zimmerman, 1983).

According to agency theory, external auditor is an independent agent of stockholders and stakeholders for controlling reliability and relevancy of information prepared by management. On the other hand, because of the nature of auditing, a close work relationship between auditor and management will formed automatically. Therefore, it is supposed that auditors don’t keep requisite independency in doing their tasks. In other words, they may adjust their opinion in audit report for serving managers and their interest (Walker, 2003). Thus, it can be stated that close work relationship can be one of the factors affecting audit quality. In order to overcome this problem, researchers have proposed auditor rotation. Copley and Doucet 1993 claimed that the longer relationship period with client, the more likelihood for discovering and reporting misstatements.

2.1.2. Institutional Investors and Audit Quality:

This research is based on the institutional theory and efficient monitoring hypothesis. According to institutional theory, Institutional shareholders can play important role in setting corporate governance through their special capabilities and attributes, facilities, high Influence or dominance on management and environmental factors. In other words, presence of Institutional shareholders resulted in more efficient monitoring. Furthermore Institutional shareholders can play role in decreasing agency costs and information asymmetry.

Because of good and high power in gathering data and analyzing them, evaluating management decisions and offering solutions for executing firm, institutional shareholders can help and even motivate managers for making optimized decisions and improving performance (Bushee 1998). They also can help management in preparing transparence financial information because of having professional knowledge and rich human resources. In addition to prepare transparence information, institutional shareholders can help and even monitor independent auditor for doing qualified auditing. They also can prevent management-auditor alignment and then increase audit quality. Ting *et al* (2010) based on institutional theory, believed that auditing will have qualification when there are Qualified Foreign Institutional Owners (QFIO) in ownership structure. They continue that in mature market, audit reports have more quality because of the presence of QFIO. Also they underline that monitoring mechanism is important in auditing process and audit quality. In the other words, QFIO force the auditors to provide higher audit quality.

Azibi *et al* (2010) argued that institutional investors have effects on corporate monitoring process. In the other words, for increasing efficiency and investment return, institutional investors participate in corporation operational process. Furthermore, for controlling the investment and improving their portfolio, institutional investors demand credible and assured accounting information. In this line, they force management to prepare relevance and reliable financial statements and then assured by famous, qualified or big audit firm. Finally, they resulted that after Enron scandal in 2002, the relationship between the "choices of one of Big 4 audit firms" and internal institutional investors and foreign institutional investor are negative and positive respectively.

Lin and Liu (2009) documented that firms with weaker corporate governance (CG) mechanism are more likely to choose a low quality auditor because they have more opaqueness gains to protect. Choosing low quality auditor will worsen the situation of corporate governance

Guedhami *et al* (2009) indicated that after privatization, the demand for big audit firm or high quality audit services will decrease relative to past. Furthermore, decreasing demand of qualified auditing is acute when there is a weak corporate governance system. In short, they reason that after privatization, if the corporate governance mechanism is weak too, the demand for high quality audit services will decrease with higher intensity. Based on these views, our first hypothesis is:

H1: there is a significant relationship between reduction in audit report qualification paragraphs and type of major stockholder.

2.1.3. Ownership Concenteration or Dispersion and Audit Quality:

Another objective of this study is to investigate the effects of ownership concentration on auditor's opinion. Ownership concentration is defined as a condition in which considerable amount or percent of firm stock belong to major stockholder. In the other words, ownership concentration means that how many number or percent of firm stock are owned by a limited number of stockholders. Some researchers believed that ownership concentration or dispersion can affect on the firm performance, financial reporting and the process of monitoring and controlling of the economic resources and financial reporting.

Efficient monitoring hypothesis stated that blockholders are virtually forced to maintain firm stock for a long-term because of holding high volume of company's stock and experiencing a decline in stock price during sale. Therefore blockholders are interested to monitor managers actively (Herrmann 2006). Furthermore, due to having big organization and professional human resources, blockholders have a high capacity for precise monitoring and evaluating. Shipper 1989 argued that blockholders as a concentrated group with significant interest and strong financial expertise prevent the manager to manipulate earnings or they are groups for returning manipulated earnings (Velury and Jenkins 2006). In contrast, self-interest hypothesis suggests that major stockholders may abuse from their control and access to secretary information or may use their control right to obtain personal benefits-colonize other stockholders (Shleifer 1986, Barclay and Holderness 1989, Bergström and Rydqvist 1990, Zingales 1994). Polsiri (2006) pointed that ownership concentration may create financial health problem. He concluded that for the firms whose there are the most of their stocks in the ownership of one group, it is more possible to have problem in the case of financial health.

Ding, Hua and Junxi (2004) showed that ownership concentration didn't affect on earnings management. Ball and Shivakumar 2005 argued that firms with dispersed stockholders disclose financial information more timely relative to firms with concentrated owners. In this line, McLuaghlin (2006) stated: first, concentrated ownership structure increase agency conflicts between owners with control power and minor stockholders, second, whatever divergence between minor stockholder and stockholder with control power is greater, the firm will release more optimistic information, third, firms in which conflict of interest is acute repeatedly revise their estimated information to reduce error level of estimations till estimated items don't differ with actual numbers more than 20%.

Guedhami and Pittman (2006) resulted that ownership concentration will decrease the likelihood of hiring qualified auditors. Lin and Liu (2009) argued that firms with larger controlling shareholders are less likely to hire a Top 10 or high-quality auditor (they assumed the large auditors can provide higher quality audit services). Ashbaugh and Warfield 2003 pointed out a positive relationship between dispersed ownership and audit quality. In other words, they believed that choosing auditor from famous, big and qualified audit firms or other audit firms depends on ownership concentration and structure. According to these views, our second hypothesis is:

H2: there is a significant relationship between reduction in audit report qualification paragraphs and ownership percentage of major stockholder.

2.2. Sample Design:

Statistical population of this research includes all firms listed at Tehran Stock Exchange during 2006 till 2012. We used systematic elimination method for sampling. In this line, our criteria were as follows:

- Accepted at Tehran Stock Exchange till December of 2006.
- Be active in all these years and don't change their fiscal year in research period.
- Their required information such as audit report, underlying financial statements and explanatory notes should be available.
- For homogenizing, don't be in insurance, credit or bank industries-because the natures of their activities are different and then, their financial statements items have different classification.

Journal of Applied Science and Agriculture, 9(16) October 2014, Pages: 40-48

- Their financial statements should be audited by private sector audit firm.

After considering above criteria, 73 firms resided that all of them entered to research sample. Notice that these 73 firms that are included in the research sample were audited by 48 private sector audit firms.

According to research purpose, this research is a kind of empirical research, but it is descriptive based on research methodology. Field method is used for preparing research literature. For testing research hypotheses, financial statements, accompanied notes and other needed information obtained from the site of Security and Exchange Organization (www.codal.ir) and Rahavard Novin software.

2.3. Model Specification:

In this research, binary logistic regression is used for testing hypothesis. This regression model is as follows:

$$CLUSE-DEC = \beta_1 + \beta_2 * OWN-PERCENT + \beta_3 * OWN-TYPE + \beta_4 * LnFEE + \beta_5 * LAG-CLUSE + \beta_6 * ROA + \beta_7 * LEV + \beta_8 * AUD-LIFE + \beta_9 * AUD-CHANG + \beta_{10} * LOS-REP + \varepsilon_i$$

Where:

CLUSE-DEC: probability of reduction in qualification paragraphs of audit report, which its maximum amount is 1 and its minimum amount is 0. If qualification paragraphs in audit report are reduced, it will be 1 and otherwise is 0.

OWN-PERCENT: ownership percentage of major stockholder: this is continuous variable that can vary from 0 to 100. Ownership percentage means the amount of stock- relative to total issued stock that is concentrated on side of largest stockholder.

OWN-TYPE: type of major stockholder: this is a dummy variable. It equals to 1, if major stockholder is an individual and it is 0 if the major stockholder is an institution or a firm.

LnFEE: natural logarithm of auditor fee in each audit work.

LAG-CLUSE: number of qualification paragraphs in last year audit report: number of paragraphs before opinion paragraph in audit report for last year.

ROA: profitability ratio: this is an index for evaluating performance of firm management. This variable is obtained by dividing net income to total assets.

LEV: leverage ratio: this is an index for measuring client financial risk. This variable is obtained by dividing total debts to total assets.

AUD-LIFE: Audit firm lifetime: this is a dummy variable that equal to 1 if institute is established before formation of Iranian Association of Certified Public Accountants (CPA) and otherwise is 0.

AUD-CHANG: Auditor change: this will equal 1 if firm auditor changes from one private (or CPA) audit firm to another private audit firm. Otherwise is 0.

LOS-REP: Client loss report: this is a dummy variable. This variable equals to 1, if audit client reports loss in the income statement and otherwise 0.

2.4. Method of analyzing data:

When dependent variable is a binary-state variable, normal linear regression cannot be used. In such situation, it is suggested to use binary logistic regression. Relative to other multivariate statistical techniques such as multivariate linear regression or discriminant analysis, the advantage of logistic regression is that the dependent variable can have only two values- 1 for success or occurrence and zero for failure.

In this study, dependent variable is a kind of binary variable- 1 for audit report with reduced qualification paragraphs and 0 for otherwise. Therefore, we used binary logistic regression for analyzing research data.

In binary logistic regression, the dependent variable is expressed using the following equation:

$$y = Logit(p) = Ln\left(\frac{p}{1-p}\right) = c_0 + c_1x_1 + c_2x_2 + \cdots + c_nx_n$$

Logit (p) is a natural logarithm of the odds or success. P is probability of the dependent variable occurrence and $\frac{p}{1-p}$ is odds ratio. C_0 is constant value and c_1 to c_n are coefficients that show the effect of independent variables on the probability of the dependent variable.

Like any other statistical models, logistic regression has its own qualifications, outputs and fitness indexes. For achieving stable and meaningful results, high volume of data is needed in logistic regression. Furthermore, multi colinearity must not exist between independent variables in logistic regression. In the other words, standard error of each coefficient (c_1 to c_n) should be low.

But, two important issues must be considered about model validity. First, is there a significant model or not? Second, if there is a significant model, how is the degree of relationship between independent and dependent variables?

For testing the existence of significant model, the following test will be done:

H_0: model isn't significant

H_1: model is significant.

Journal of Applied Science and Agriculture, 9(16) October 2014, Pages: 40-48

For testing above hypothesis, Chi-square statistics will be used. If χ^2 significant level will be less than 5%, null hypothesis is rejected with %95 confidence level. In other word, there is significant model and independent variables influence on dependent variable.

The next issue about model validity is that: how much the dependent variable is affected by the independent variables. In multivariable linear regression method, adjusted R^2 shows the amount of dependent variable changes that is created by changes in independent variables. In this research, because of logistic regression, we used Cox – Snell determinant coefficient. In logistic regression method, Cox – Snell determinant coefficient play the role same as R^2 in multivariable linear regression. Therefore, Cox – Snell R^2 will show that: how much of the dependent variable variances can be expressed by independent variables variances. Note that in logistic regression models, prediction power from 20% to 30% is appropriate power (Momeni and Fa'al Ghaiyomi, 2008).

3. Results:

3.1. Descriptive Statistics:

Descriptive statistics of research quantitative variables such as mean, median, standard deviation, minimum and maximum amount is reported at table 1.

Table 1: Descriptive statistics of research quantitative variables.

variable	minimum	maximum	mean	median	STD.
Ownership percentage of major stockholder	0/05	0/95	0/499	0/48	0/178
audit fees-in million Rials	35	916	303/8	247/5	173
Last year qualification paragraphs	0	13	1/67	1	2/08
ROA	-0/317	3/673	0/133	0/098	0/221
LEV	0/0003	2/663	0/634	0/622	0/267

Descriptive statistics related to binary ordinal variable such as: qualification paragraphs reduction, firm lifetime, ownership type, auditor change and loss report is presented at table 2.

Table 2: Descriptive statistics of research dummy variables.

year	Number of reports that have reduction in qualification paragraphs	Number of auditing by previous audit firm	Number of auditor change	Number of firms have loss report	Number of firms have individual stockholder
2006	11	25	5	1	6
2007	16	25	12	2	6
2008	18	28	11	3	6
2009	16	30	8	8	6
2010	24	33	15	8	6
2011	11	34	15	5	6
2012	14	35	9	6	6
sum	110	210	75	33	42

According to table 2, number of firms that are experienced reduction in qualification paragraph rather than last year, increase from 2006 to 2010, but it has sharp drop in 2011 which was a kind of temporary drop, because after this year, again we observe an increasing trend in number of firms that are experienced reduction in qualification paragraph.

Referring to table 2, during 2006 till 2012, number of firms which invited their last year audit firms has been increased. Finally, variables such as number of firms that had auditor change and loss report, at first face with rising trend and then face with relatively small falling trend.

3.2. Colinearrity Test:

Often there is collinearity between considered independent variables. But when this collinearity is high, regressed model isn't appropriate or reliable. There is some way for testing collinearity that correlation matrix is one of them. In correlation matrix, correlation coefficient between each pair of independent variables is calculated. Lack of correlation between independent variables mean that correlation coefficient between each pair of independent variables is 0. But we can't obtain zero correlation coefficient in fact. Therefore, we usually accept correlation coefficient less than half. In this research, all estimated coefficients are significant and separable. So, we can approximately state that collinearity between independent variables isn't acute. Amount of collinearity volatility between independent variables of this research is presented at table 3.

Journal of Applied Science and Agriculture, 9(16) October 2014, Pages: 40-48

Table 3: Correlation between independent variables.

description	Loss report	Rate of assets return	Audit fees	Leverage ratio	Number of last year paragraph	Auditor change	Ownership type	Percentage of major stockholder	Institute lifetime
Loss report	1	-0/327	-0/23	0/472	0/228	-0/016	-0/006	0/021	-0/035
Return of assets rate		1	0/088	-0/483	-0/174	-0/05	-0/068	0/005	0/016
Audit fees			1	-0/169	0/193	-0/042	-0/077	-0/171	0/245
Leverage ratio				1	0/254	0/018	-0/015	0/246	-0/114
Number of last year paragraphs					1	-0/009	0/151	-0/081	0/159
Auditor change						1	-0/006	0/009	-0/078
Ownership type							1	-0/191	-0/068
Percentage of major stockholder								1	-0/068
Institute lifetime									1

As it seen in table 3, correlation coefficient of each pair of independent variables is less than %50, so there isn't acute correlation between independent variables. Maximum amount of collinearity is between ROA and LEV which is equal to %48 and then, it is between loss report and leverage ratio that is equal to %47.

3.3. Research Findings:

Results of testing research hypotheses are briefly shown in table 3.

Table 4: Results of testing hypotheses.

variables	coefficients	statistics	Sig.
Constant	3/82	0/973	0/324
Ownership type	-4/42	9/58	0/002
Ownership percentage of major stockholders	5/68	7/44	0/006
Audit fees	-1/05	4/08	0/043
Auditor change	-1/01	1/7	0/192
Number of last year paragraphs	1/24	27/02	0/000
Profitability ratio	-9/27	2/92	0/087
Leverage ratio	-8/47	16/07	0/000
Audit firm lifetime	-4/38	0/487	0/485
Loss report	0/894	0/474	0/491
Chi 2	83/569		0/000
Cox – Snell R^2	0/037		

According to table 4, significant level of ownership type and ownership percentage of major stockholder are less than %5. Therefore, research hypotheses are accepted in %95 confidence level. Furthermore, audit fees, leverage ratio and last year qualification paragraphs have significant level less than 5% too. Then, we can state that: audit fees, leverage ratio and last year qualification paragraphs influence on "reduction in qualification paragraphs of current year audit report". On the other hand, significant level of profitability ratio, auditor change, firm lifetime and loss report equal to %8.7, %19.2, %48.5 and %49.1 respectively. As you can see, significance level of these variables are more than %5, so it means that these variables haven't significant impact on reduction of qualification paragraphs at %95 confidence level.

The last two rows of table 4 are about findings validity. Content of these rows are Chi square and Cox-Snell determinant coefficient. According to penultimate row, Chi-square statistics equal to 83.569 which its significant level is 0.000. Because of significant level is less than %5, we can say there is a significant model and independent variables influence on dependent variables.

But the last row of table 4 is about the Cox – Snell determinant coefficient (R^2). Cox – Snell R^2 shows dependence between dependent and independent variables. Cox – Snell R^2 of this research is %37. It means that about the %37 of determinants of the reduction in qualification paragraphs are stated by considered independent variables in this research. Note that in logistic regression models, prediction power from 20% to 30% is appropriate power (Momeni and Fa'al Ghaiyomi, 2008). Thus, obtained determinant coefficient (37%) is in appropriate level.

Finally, based on the results of testing hypotheses and according to coefficients of independent variables in table 4, research final model is as follow:

$$CLUSE-DEC = 3.82 - 9.27 * ROA - 1.05 * LnFEE - 8.47 * LEV + 1.24 * LAG - CLUSE + 5.68 * OWN - PERCENT - 4.42 * OWN - TYPE$$

4. Discussion and Conclusion:

According to regressed model, variables such as ownership percentage of major stockholder and last year qualification paragraphs have direct effect on decreasing the current year qualification paragraphs before opinion paragraph. It means that:

1. by the increasing of the amount of shares owned by major stockholder, or the larger major shareholder, the more likely to receive less qualification paragraphs. It may be for the influence or impact of large shareholders on auditor that resulted in low quality audit services. This finding corresponds with Guedhami and Pittman (2006), Lin and Liu (2009) and Ashbaugh and Warfield 2003. Consequently, this study does not provide evidence that supported efficient monitoring hypothesis.
2. For the firm that has received more qualification paragraphs in last year audit report; it is more possible to receive less qualification paragraphs in current year audit report-relative to other sample firm.
3. Relative to last year qualification paragraphs, ownership percentage of major stockholder-by the coefficient of 5/68- is more effective on decreasing current year qualification paragraphs.

In contrast of the 2 above variables, major stockholder type, audit fees and leverage ratio have indirect effects on decreasing the qualification paragraphs in current year audit report. It means that:

1- If the major stockholder is an individual person, the firm will receive an audit report with more qualification paragraphs before opinion paragraph. Inversely, if the major stockholder is a legal person or is a kind of institutional stockholder, the firm will receive an audit report with less qualification paragraphs and there will be low audit quality. This could be due to the high influence of legal or institutional stockholder-especially when it is a national company, political firm, public organization or corporation. This findings is the same as Azibi *et al* (2010) that resulted the relationship between the “choices of one of Big audit firms” or demand for qualified audit services and internal institutional investors is negative. In contrast, our study finding about type of major stockholders and the demand for qualified audit services is at the opposite of Lin and Liu (2009), Guedhami *et al* (2009) and Ting *et al* (2010) that implied institutional stockholders force auditors to provide higher audit quality.

2- With increasing the level of fees paid to auditors, the number of firms that are faced with decreasing in qualification paragraphs has increased. In this line, we can conclude that: the more audit fees, the less qualification paragraphs and then the less audit quality. Notice that above conclusion cannot be true necessarily. Any decline in qualification paragraphs cannot conclude as decreasing in audit quality. In other words, audit quality is defined as discovering material misstatements in financial statements and reporting them (DeAngelo, 1981). Hence, in the next years when the financial statements are really free from misstatements, so it is obvious that we will have a decreasing in qualification paragraphs and it cannot mean a reduction in audit quality is happened-not at all.

3- With increasing leverage ratio and consequently increasing firm credit risk, qualification paragraphs don’t decrease in audit report. In justification of this event, we can say: with increasing leverage ratio, firm risk increases and therefore, it is clear that qualification paragraphs in the audit report don't decrease. Another important point about this variable is that: comparisons to auditor fees and major shareholder type, leverage ratio has the greatest impact on increasing the qualification paragraphs in audit report.

In addition to the above points, our findings also show that profitability ratio, loss reporting, auditor change and audit firm lifetime have no effects on decreasing "qualification paragraphs" in the audit report issued by CPA audit firms. This finding is important too. In this line, we find out audit change doesn't effect on decreasing "qualification paragraphs". While Chena *et al* (2009) concluded that auditor change has a direct relationship with unqualified audit report. But we can interpret our research finding from another angel. In the other words, we can put our research result together with the results of Chena *et al* (2009), not in the opposite of that. In this regard, we can say that: auditor change has effect on opinion type or changing opinion, but has not effect on number of qualification paragraphs or decreasing it.

Another significant point about the collection of four variables none effective on decreasing the qualification paragraphs is audit firm lifetime. In this context, it should be mentioned that is consistent with our expectations. Change and Choy (2010) suggested that: auditor work experience is the main factor affecting on the reduction of error in issuing an audit opinion. Accordingly, it is in expectations that: the older audit institutions offer higher audit quality. With this interpretation, audit firm lifetime should not have relationship with decreasing "qualification paragraphs" significantly. In other words, supplying high quality audit service means issuance audit report in accordance with the actual situation of the client. Therefore, if in the financial statements of a firm (or of a year) there aren't misstatements, qualification paragraphs will decrease in a qualified auditing. Also, if in the financial statements of a firm (or of a year) there are some misstatements, qualification paragraphs should increase in a qualified auditing. Consequently, it is obvious that audit quality isn't related with decreasing or increasing in qualification paragraphs.

Journal of Applied Science and Agriculture, 9(16) October 2014, Pages: 40-48

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