

Evaluating influence of financial statements correspondence with national standards in auditors' performance and reliability of reports

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ABSTRACT

Standards of auditing has been attended as one of the influential components on auditing quality and as the only factor which has been formalized by professional associations and authorities. In this study, the influence of accounting national standards on independent auditor's remark was considered. Statistical population of study was technical and top managers of audit organization that their number was 50. According to investigations and testing hypotheses, it was determined that the use of accounting national standards by auditors, shows the extent of their professional judgment. Matching financial statements with accounting national standards, causes coordination of auditors in the way of countering difficulty cases. Matching financial statements of companies with accounting national standards, causes increase of reliability of auditing report.

Keywords: underlying accounting national standards by independent auditors; professional judgement extent; coordination of auditors in the way of their performance; increase of reliability of auditing report

Introduction

Changes during last three decades in large institutions of public sector like governments and municipalities, indicates this fact that evolution in accounting systems and financial reporting of mentioned institutions, has taken place under the influence of people's demand for receiving response. Especial sensitivity of tax payers and main suppliers of public sector financial resources about consumption and using economic and financial resources, has forced aforementioned institutions to select specific strategies to increase performance and efficiency level of these resources. Therefore, different approaches were propounded to achieve goal of this case that each of them in its own turn, has faced supports or disagreements of finance authorities in public sector. Some believe that public selection theory is one reason of evolution in accounting and financial reporting of public sector (Barton¹ 2003).

The main purpose of auditors is preserving stakeholders' profits against distortions and inaccuracies with significant importance in financial statements. Auditors seek to increase quality of auditing to keep their profession credit, professional fame and prevent judicial claims against themselves (Tevdello & Vanstralen², 2008).

Meanwhile, managers' motivations in line with their personal interests in profit quality, prevent auditors from attaining their goals.

Studies have indicated that structure of auditing institution also influences auditing quality. According to these studies, auditing quality in institutions with more powerful structure in using auditing methods, has differences with other institutions. Most scholars have proposed this theory that there is generally a direct relation between auditing quality and auditing fee, and if big institutions impose more fees on

¹ Barton

² Tevdello & Vanstralen

client, it means that quality of their auditing services is more desirable. Of course, studies have also propounded this theory that larger institutions can transfer a part of their economic profit to customers and take lower fee from client (Alavi Tabari et al., 2009).

Information quality depends on the extent to which financial statements information reflects real economic conditions of company. Financial statements audited by independent auditors, is a very appropriate tool in transferring reliable information. Independent auditor, is the most capable person for remarking on accuracy of preparing and presenting financial reports of economic units. Audit's qualification is due to this fact that he/she performs auditing according to auditing standards to ensure that inserted items in financial statements have been provided in accordance with accounting standards. Therefore, auditing gives credit to another person's claims which are provided in the form of financial statements and thereby increases the reliability of information used in economic decisions (Nik'Khah Azad, 2000).

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Accounting is a process that has continuously paved flourishing way during long history of business. Prophecy and purpose of accounting is providing a kind of information that is trustworthy for users. During last seventy years, the formal procedure of formulating accounting standards has been created. Many countries formulated their own accounting standards, although most of them have recently accepted international standards (Mojtahedzadeh & Madadi-e Nemati, 2005). There's a belief that the higher quality of financial report is and more standards and principles are used in preparing and presenting reports, information risk will decrease. Accounting standards are formulated desirably to increase accounting information quality and play the role of informing for accounting (Saqafi & Ebrahimi, 2009).

Since accounting text are continuously and frequently developing, need to keeping ourselves compatible with changes in business environment, standards of financial reports and rules and technology – that is naturally one of the elements of auditing and is always developing and changing, and evolves during time – is an essential issue because otherwise and with no-adaptability and no- homogenization with changes, there's no possibility to achieve accounting quality and it means that improvement in each element of accounting quality elements shouldn't prevent more endeavor for progress of other elements in the quality context (Hassas-e Yeganeh et al., 2006).

Statement of accounting fundamental concepts considers auditor's ability to control quality of produced information and ensure their compatibility with confirmed principles of accounting. According to D'Angelo' definition, this is related to auditor's capability or ability of detecting important distortion. Also, possibility of reporting mentioned distortion depends on auditor's independency. Since conflict of profits between users and providers of information results increase of demand for auditing, therefore, independency should be auditor's fundamental attitude.

Level of competence (capability) and independency of auditor depends on auditing quality components. The important point in D'Angelo' definition is that this definition is located in the context of evaluated possibilities of market. Therefore, this definition depends on market understanding of whether auditor performed auditing with capability and also the amount of perception of auditor's independency.

D'Angelo changes direction toward emphasis on components of auditing quality through introducing market understanding concept of competence (capability).

Auditing organization proceeded to formulate accounting and auditing national standards in accordance with doing its legal and specialized duty, and thus published its journals No. 96 and 106 with the title "accounting guidance" in 1994 and 1996, and rendered them to expert for polling. According to opinions and recommendation of career's members and other interested individuals, the collection of accounting guidance was implemented – after correction in the form of journal No. 122 and after approval of legal centers – as the first formal collection of guidance since beginning of 1999 for two years. In 2001, accounting standards became practical in the form of 18 standards and journal 145 according to act of general assembly of auditing organization and declaration of Ministry of Economic Affairs and Finance for financial statements that start of their financial periods was beginning of 2001 onwards. Journal 145 was published in 2002 with title No. 160 consisting 22 standards. Although there has been serious and continuous endeavor to receive viewpoints of professional community in formulating pre-mentioned principles and rules of accounting, but these principles and rules should practically show their efficiency. Questions and ambiguities have been propounded after formulating accounting national standards and a while after their implementation. One of these questions is the amount of influence of accounting national standards on quality of auditors' remark. Therefore, the main propounded question in this study is that do accounting national standards have significant influence on independent auditor's remark?

Research Method

In terms of type, current study is survey-descriptive research and in terms of purpose it is from type of applied researches that are used for effective and applicable recognition about solving problems. Also, in terms of collecting data, questionnaire and parametric tools and for testing hypotheses of this study, t-test have been used. In terms of relation among variables, the study is from causal type.

Statistical population of this study, are technical and top managers of auditing organization of Golestan province that are 50 individuals.

Due to small statistics population, whole population is selected as sample and questionnaire is distributed among them through enumeration sampling method.

Data Collection Method

In this study, data collection is done in two stages. In first stage, to formulate theoretical foundations of study, library method is used and in second stage, questionnaire is used to collect desired data. Since this study questionnaire is induced from Khozin and Dankoub (2011), so it is standard and also validity of this study was approved by using experts' questionnaire.

To calculate questionnaire reliability coefficient as a tool for measuring information, different methods are used, and this study has used Cronbach's alpha method.

Data Analysis Method

To analysis data in current research, descriptive statistical method is used to describe information related to characteristics of statistical population members. And for evaluation and relation between variables and hypotheses test, reasoning statistics method like Kolmogorov–Smirnov test, Cronbach's alpha coefficient test and t-value test is used through SPSS software.

Results and Findings

Descriptive Findings of Research:

As it is observable from figure and table 1, male and female participants were 84% and 16% of sample, respectively. Also, among 50 individuals who participated in this study, 15 individuals had bachelor of science degree (BS) and 35 individuals had master of science (MSc) and PhD degree.

Table 1. Density and density percent of survey sample gender

| Gender | Number | Percent | Density Percent |
|---------------------------|--------|---------|-----------------|
| Man | 42 | 84 | 100 |
| Woman | 8 | 16 | 100 |
| Total | 50 | 100 | -- |
| Education Degree | Number | Percent | Density Percent |
| Diploma and Under diploma | 0 | 0 | 0 |
| Associate | 0 | 0 | 0 |
| BS | 15 | 30 | 100 |
| MSc and PhD | 35 | 70 | 100 |
| Total | 50 | 100 | -- |

Descriptive Statistics of Research Variables:

In table 2, findings related to research variables have been demonstrated as average, standard deviation, minimum and maximum of score.

Table 2. Descriptive Findings

| Variables | Statistical indicators | | | | |
|--|------------------------|--------------------|---------|---------|--------|
| | Average | Standard deviation | Minimum | Maximum | Number |
| Underlying national standards of accounting | 3.57 | 0.64 | 1.72 | 5.00 | 50 |
| Professional judgement extent | 3.69 | 0.55 | 1.42 | 5.00 | 50 |
| Coordination of auditors' performance method | 3.66 | 0.69 | 1.75 | 5.00 | 50 |
| Increase of auditing report reliability | 3.88 | 0.64 | 1.29 | 5.00 | 50 |

Data Normality Test:

To test normality of data, Kolmogorov–Smirnov test has been used.

To receive description, we should look at the value of Z in Kolmogorov–Smirnov test. If it was smaller than +1.96 and bigger than -1.96, we conclude – with 95 percent of certainty – that there is no difference between expected and observed frequencies. In other words, population distribution, is normal. But, if its value is smaller than -1.96 and or bigger than +1.96, we conclude – with 95 percent of certainty – that there is difference between observed and expected frequencies. In other words, distribution isn't normal.

Table 3. Testing normality of research variables

| Variable | Kolmogorov–Smirnov Statistic | Significance Level |
|--|------------------------------|--------------------|
| Underlying national standards of accounting | 1.429 | 0.257 |
| Professional judgement extent | 1.119 | 0.247 |
| Coordination of auditors' performance method | 1.359 | 0.146 |
| Increase of auditing report reliability | 1.425 | 0.133 |

According to results of table 3 and obtained values for Kolmogorov–Smirnov Statistic, all variables are normal with probability of 95%.

Hypotheses Test:

Hypothesis 3: Auditors' use of accounting national standards, determines their professional judgement extent.

To test mentioned hypothesis, Pearson correlation test was performed between auditors' use of accounting national standards and professional judgement extent. In this test, value 0.014 was obtained for *sig* (*significance level*). Since the obtained value of *sig* was smaller than 0.05 ($sig < 0.05$), therefore hypothesis H0 – that said there's a significant relation between two variables – is rejected and hypothesis H1 will be accepted.

Table 4. Results of first hypothesis test

| Variable | Coefficient | Statistic t | Significance level | Correlation Coefficient |
|--|--------------------------------|-----------------------|--------------------|---|
| Intercept | 3.428 | 8.752 | 0.000 | 0.662 |
| Auditors' use of accounting national standards | 0.195 | 2.469 | 0.014 | |
| Determination coefficient | 0.438 | Statistic F | 3.518 | Significance level of correlation coefficient |
| Modified determination coefficient | 0.436 | Statistic (P-VALUE) F | 0.014 | |
| Durbin-Watson statistic | 1.924 | Times of observation | 50 | 0.014 |
| Statistical result | Hypothesis 1 (H1) is accepted. | | | |

- **Establishing preconditions of regression:**

Value of Durbin-Watson statistic equals 1.924, and this value is near to 2, therefore we can conclude that data doesn't have autocorrelation.

Modified determination of model equals 0.436 that means nearly 43% of variable changes depends on describable independent variables.

Value of Statistic F is lower than 5%, therefore, zero hypothesis of statistic about insufficiency of model (H0: all regression coefficients of model equal zero), will be rejected by certainty of 95% and sufficiency of model for hypothesis test, is approved.

According to approval of all mentioned preconditions, we can trust results of final fitted model.

Hypothesis 5: Matching financial statements with accounting national standards, causes coordination of auditors in the way of countering difficulty cases.

To test mentioned hypothesis, between matching financial statements with obtained accounting national standards and coordination of the way that auditors act, Pearson correlation test was done with potential inaccuracy of 0.05. In this test, the gained value of *sig* equaled 0.000. Since obtained value of *sig* was smaller than 0.05, so hypothesis H0 about no significant relation between two variables, is rejected and hypothesis H1 about existence of significant relation, is accepted.

Table 5. Results of second hypothesis test

| Variable | Coefficient | Statistic t | Significance level | Correlation Coefficient |
|--|--------------------------------|-----------------------|--------------------|---|
| Intercept | 3.752 | 9.423 | 0.000 | 0.711 |
| Matching financial statements with accounting national standards | 0.458 | 2.116 | 0.000 | |
| Determination coefficient | 0.505 | Statistic F | 4.654 | Significance level of correlation coefficient |
| Modified determination coefficient | 0.503 | Statistic (P-VALUE) F | 0.000 | |
| Durbin-Watson statistic | 1.957 | Times of observation | 50 | 0.000 |
| Statistical result | Hypothesis 1 (H1) is accepted. | | | |

- **Establishing preconditions of regression:**

Value of Durbin-Watson statistic equals 1.957, and this value is near to 2, therefore we can conclude that data doesn't have autocorrelation.

Modified determination of model equals 0.503 that means nearly 50% of variable changes depends on describable independent variables.

Value of Statistic F is lower than 5%, therefore, zero hypothesis of statistic about insufficiency of model (H0: all regression coefficients of model equal zero), will be rejected by certainty of 95% and sufficiency of model for hypothesis test, is approved.

According to approval of all mentioned preconditions, we can trust results of final fitted model.

Hypothesis 3: Matching financial statements of companies with accounting national standards, causes increase of reliability of auditing report.

To test mentioned hypothesis, between matching financial statements with obtained accounting national standards and increase of reliability of auditing report in organization, Pearson correlation test was done with potential accuracy of 0.05. In this test, the gained value of *sig* equaled 0.000. Since obtained value of *sig* was smaller than 0.05, so hypothesis H0 about no significant relation between two variables, is rejected and hypothesis H1 about existence of significant relation, is accepted.

Table 6. Results of third hypothesis test

| Variable | Coefficient | Statistic t | Significance level | Correlation Coefficient |
|--|--------------------------------|-----------------------|--------------------|---|
| Intercept | 3.756 | 9.758 | 0.000 | 0.588 |
| Matching financial statements with accounting national standards | 0.147 | 2.577 | 0.000 | |
| Determination coefficient | 0.345 | Statistic F | 7.118 | Significance level of correlation coefficient |
| Modified determination coefficient | 0.343 | Statistic (P-VALUE) F | 0.000 | |
| Durbin-Watson statistic | 1.952 | Times of observation | 50 | 0.000 |
| Statistical result | Hypothesis 1 (H1) is accepted. | | | |

• **Establishing preconditions of regression:**

Value of Durbin-Watson statistic equals 1.952, and this value is near to 2, therefore we can conclude that data doesn't have autocorrelation.

Modified determination of model equals 0.343 that means nearly 50% of variable changes depends on describable independent variables.

Value of Statistic F is lower than 5%, therefore, zero hypothesis of statistic about insufficiency of model (H0: all regression coefficients of model equal to zero), will be rejected by certainty of 95% and sufficiency of model for hypothesis test, is approved.

According to approval of all mentioned preconditions, we can trust results of final fitted model.

Discussion and Conclusion:

In this study, influence of accounting national standards on quality of independent auditor's remark has been considered. Results of Pearson correlation test, approved hypotheses of study, so that: auditors' use of accounting national standards, determines their professional judgement extent. And, matching companies' financial statements with accounting national standards, causes increase of auditing reliability, also, matching financial statements with accounting national standards, causes coordination of auditors in the way that encounter difficulty cases. Obtained results are in accordance with previous studies; Kordlar (2014), considered relation between components of auditing quality and capital expense in companies accepted in Tehran Stock Exchange. According to research background, auditor's worth, auditor's takeover period, auditor's expertise in industry and type of auditor's remark have been considered as auditing components. In terms of purpose, this study is from applied type and in terms of the method of attaining data, it is descriptive. Research method is from correlation type, and multi-regression method has been used to analyze data. Findings of study, indicates no significant relation among different components of auditing and capital expense.

Fakharmanesh (2014), considered influence of ownership structure on auditing fee and remark type of companies' independent auditors. By research separate hypotheses and through using multi-variable

regression by method of combined data for 69 companies in 2006 – 2011, it was determined that stocks ownership by institutional investors, has significant positive influence on companies auditing fee. Also, studies indicate that stocks ownership by institutional investors has significant negative relation with emission of auditing conditioned remark. And no significant relation was observed between auditing fee and auditors' conditioned remark. In a study, Mahdavi and Kazemnejad (2013) considered necessity and efficiency of formulating accounting standards for municipalities – based on theoretical framework. In this line, influence of formulating accounting standards on five factors; including increase of financial reporting quality, improvement of auditing processes and authenticating financial reports, financial management improvement, establishing a desirable accounting and auditing system based on performing responsibility of responding and creating necessary channel for evaluation of performance and responsibility of responding; was considered. Required data for statistical analysis of research hypotheses, was collected from 91 municipalities of Fars province and through using a questionnaire consisting 40 questions. To analyze research hypotheses statistically, "single sample t" and "middle" tests have been used. Research findings indicate positive and significant influence of formulating accounting standards for municipalities on all five above factors. Therefore, it is necessary to formulate accounting standards for municipalities, based on theoretical frameworks. Furthermore, from viewpoint of financial and office assistants, accounting managers and internal auditors in municipalities of Fars province, formulating accounting standards has the most influence on improving auditing process.

In a study, Poorzamani et al. (2012), considered relation of formulating accounting standards and accounting information transparency. Information risk, is one of the important elements in economic evaluations that is related to information and financial reports quality. There's a belief that the higher quality of financial report is and more standards and principles are used in preparing and presenting reports, information risk will decrease and will have positive influence on economic decisions and outcomes resulting from them. Accounting standards are formulated in line with the purpose of increasing accounting information quality and retaining role of informing in accounting through a desirable way. For transparency of accounting information, this study has used models of profit stability, profit response coefficient, quality of guaranteed items, and capability of formulating evaluations methods. Practicable standards in same date, was considered as a standard formulation event and models of accounting information transparency before and after them, were evaluated. In this study by using 283 samples from companies accepted in Tehran stock Exchange, during a five-year period (2 years before formulating first accounting standard of Iran, i.e. year 1999 and 3 years after it that was 2004) through using multi-variable regression, we concluded that implementing standards is associated with improvement of information transparency. Bellen and other (2014), performed a research – with title "auditing diversion and quality in companies in the ownership of government". Their study on 254 companies in 2003 – 2010 indicated that auditing diversion results decrease of auditing quality. Dulles and Pandit (2010), considered relation between auditing quality and investment efficiency with emphasis on company life-cycle. They studied combined risk of cash and keeping cash. Results of their studies indicated that moderate influence of auditing quality and life-cycle on investment, has higher importance for companies with high risk and rich cash that this causes excessive investment. Generally, results of their studies are compatible with this concept that, auditing quality decreases information conflict which prevents investment.

Karcello and Nagi (2008), concluded that there's negative relation between duration of client-auditor relation and auditing quality in small companies through long-term consideration of client-auditor relation and its influence on auditing quality in the system that compulsory replacement of auditor had been done.

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