Studying the Reasons of Auditor Change in Accepted Companies in Tehran Stock Exchange

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Abstract: The phenomenon of auditor change in recent years has been an important area of university researches and professional circles. In this paper the reasons of auditors change in accepted companies in Tehran stock exchange is studied and its aim is identifying effective factors an auditor’s change. This research has been designed and accomplished accompanied by market condition perception, audit services presentation and testing the by pother is pounced about the effective factors on auditors change, for this aim, sample companies have been chosen randomly among the companies which have had auditor change and have been compared to the companies which have not experienced auditor change. This was done for sampling.

Keywords: Auditors change • Auditors Independence • Tehran stock exchange organization • Audit services • Auditors fee • Quality of auditors work

INTRODUCTION

Considering the effect that auditors change has in their independence, this phenomenon has been propounded as an important subject in university researches.

Independence is the foundation stone of audit and it is clear that if the foundation stone of a profession be destroyed it causes stagnation of the profession and it is destroyed.

So acquaintance with the concept and literature of auditor’s independence and the effective factors on it has lots of importance.

Related to auditors change, different factors can be considered and the most important factors can be classified as following:

- Auditors fee
- Kind of auditors idea expression
- The size and quality of and it institute
- Management change of the client company
- The amount of client companies capital
- The size of client company
- Capital return rate of the client company.

In this paper we are trying to find out whether the mentioned factors are effective on auditor change in Iran economic environment and are there other factors to affect auditor change?

Theoretical Bases and Research Back Ground: Auditor change phenomenon study is important fee to the effect it has on auditor’s independence. According to Hassas Yeganed [4], Auditors change in companies often causes the investors to reduce their trust to financial bill reliance capability especially.

If auditor change event accompanies with negative meaning load, unpleasant news and threat related to substitute auditor. Financial bill users reduced trusk, no only leads to failure for obtaining the audit goals but also it will cause audit process fall in treat dimensions.

Services voluntarily in 1880s and 1890s and it spontaneously refers the fact that in audit service user’s attitude, the value of this services and supposed benefits on their performance is much more than its expenses.

Researchers has introduced three demand resources including supervision or agency hypothesis, data hypothesis and insurance hypothesis for audit services [5]. Related to researches which have been accomplished about audit change factors we can point to audit fees factor that has been done has been proved too [3].

Another research has also been done about kind of audit idea expression factor on the test auditor change and has been proved [7].

And finally the research has shown a positive relation between company’s management change and their auditor change [2].

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Audit: Audit is a regular and ordered process for impartial collection and assessment of evidences about the claims related to economic activities and events to determine conformity degree of the claims with pre-determined factors and to report the results to beneficiary people.

Audit is also an impartial investigation process for documents, deeds and other financial bill support evidences, in order to make sure that sound or implicit items of management are accurate and to obtain rational bases for professional idea-expression about ideal presentation of financial bills and conformed with all important aspects with accepted audit principles.

Complexity: The more complex economic subjects and their transformation process into information is, the more problems related to information quality distinguish, the information user faces. Subject or information process systems complexity makes mistakes existence possible. In these cases, audit and be a tool for being sure of reported information quality for information user Nikkhah Azad [6] the importance of auditor's independence subject has caused stock exchange committee to publish a new collection of rules controlling auditor independence, in 21 November. According to these rules, the companies have to classify paid fees to auditors in three separated groups in their power of attorney request paper.

This classification is not limited to scientific articles and idea expressions.

Professional Behavior Rules: Collected by different countries, each does their best to define the scientific evidences of independence in the frame of transactions, financial benefits and forbidden economic and non-economic relationships.

In addition to above mentioned cases and due to the sensitivity of the subject in most of the countries, the approved rules and laws in stock exchange committee have recognized more severe obligations necessary that are related to professional services presentation for accepted companies in stock exchange.

Auditors Change Phenomenon: Auditors change phenomenon in recent years has attracted lot of attention from academic circles and professional active group’s side.

This phenomenon has a special importance in audit profession from market condition perception of audit services point of view, the necessities of market reaction disclosure have bee created alongside of auditors change with the aim of discouraging client management for getting ideal audit reports or permit of using especial accounting methods.

There fore the companies that their audit idea expression have been conditional, may take action to change their their auditors De Angelo [1].

Considering previous researches about the reasons of auditors change, we can state that the following conditions existence potentially provides meditation basis related to auditor change for the companies:

- Disagreement about the concepts of financial reports or accounting procedure used by client.
- Disagreement about the concepts of audit reports.
- Client management change or client stockholders change.
- The lack of agreement about audit fee.
- Audit institutes size and reputation and new audit search in order to increase public trust.
- Request for more professional services (The Variety of services).
- Financial problems appearance in investigated unit.
- Dissatisfaction of auditors due to low quality of audit services that is mainly due to lack of internal control structure weaknesses by auditors.
- Conventional periodical change.

Generally and from professional point of view, the existence of such conditions in audit services presentation market has caused the Companies to think of changing their auditors to reach to their goals and motives.

MATERIALS AND METHODS

The cortical bases related to the research subject have been first extracted and compiled from internal and external resources for doing the present research.

Then using data banks, Tehran stock exchange organization has taken action toe collect the required dates related to selected samples to test propounded hypothesis at present research.

Considering used method for testing the hypothesis at the present research, regression analysis using logistic regression. Statistical community companies have been chosen randomly much auditor change companies and studied and compared to non-auditor change companies.

Testing me that which has been analyzed via SPSS software is a correlation analysis and a significant test that is an indicator of a relationship between two variables. At the research, due to the
existence of two state variables (0.1) and the existence of two groups of variables, qualitative and quantities, logistic regression for determining correlation among independent and dependent variables or response have been used spontaneously. Considering the number of economic units and their distribution all over the country and also the lack of access to their audited financial bills, statistical community of this study, accepted companies in Tehran stock exchange have been determined.

The number of accepted companies in Tehran stock exchange was 338. With due attention to research limitations and among them the lack of access to the dates for 19 companies of accepted companies in Tehran stock exchange, the number of accepted universities in Tehran stock exchange was considered 319. And it was used for determining the number of samples and also for sample selection.

"Sample Size Assessment and Sampling Method": Sample size determination must be done with due attention to statistical method used for testing hypothesis. And dependent on the used method, the method and formula of sample assessment varies too. Considering the mentioned cases if failure or success ratio, i.e. the lack of change and audit change for the companies which are members of research community, be considered 50 per cent and reliance level for testing the hypothesis be considered 95 percent, the number of sample can be calculated by means of the following formula:

\[ n = \frac{Nz^2a^2/2pq}{E^2(N-1)+Z^2a/2pq} \]

**Sampling Method:** During 1382 which is the time realm of the present research, 59 companies have changed their auditors compared to 1381. Paying attention to used method for testing the hypothesis in the present research, which is regression analysis using logistic regression method, 37 companies have been chosen randomly among the companies which have had auditor change and 37 companies have been selected among the companies which have not had auditor change.

**Data Collecting Method:** In this research, library method has been used for declaring theoretical discussions and field methods for collecting the dates related to selected samples. For this aim they have referred to the existent dates in Tehran stock exchange and in audit organization.

**Research Statistical Methods:** After determining the number of samples and their randomly selection and collecting the dates related to them, logistic model has been used to test the research statistical hypothesis.

**The Model Is as Follows:**

\[ \ln \left( \frac{\theta_i}{1-\theta_i} \right) = B_0 + B_1X_{1i} + B_2X_{2i} + \ldots + B_nX_{ni} \]

In which \( \ln \left( \frac{\theta_i}{1-\theta_i} \right) \) equals to accurate – show amount of the model, \( \frac{\theta_i}{1-\theta_i} \) equals to variable.

**Logistic Regression:** While response variable or dependent variable are in the shop of two state qualitative and independent Variables are quantities or qualitative logistics regression can be used in order to study the relationship or independent variables effectiveness on dependent response variables.

**Dates Analysis**

**Dates Descriptive Statistics:** Tables 1, 2, 3 and 4 are about collected in formation descriptive statistics.

Standard deviation and dates mean for the companies which have had auditor change and the companies which have not had auditor change have been calculated and presented. In the second part of the table, the frequencies related to two (0.1) state dates has been presented.

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Without auditor (N=73)</th>
<th>With auditor change (N=73)</th>
<th>Grand total (N=74)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Standard deviation</td>
<td>Mean</td>
</tr>
<tr>
<td>Aud fee</td>
<td>1.330</td>
<td>0.360</td>
<td>0.82</td>
</tr>
<tr>
<td>Firm size</td>
<td>669.350</td>
<td>575.590</td>
<td>387.78</td>
</tr>
<tr>
<td>ROI</td>
<td>0.180</td>
<td>0.120</td>
<td>0.05</td>
</tr>
<tr>
<td>Fin Act</td>
<td>0.007</td>
<td>0.029</td>
<td>0.01</td>
</tr>
</tbody>
</table>
Testing Research Hypothesis

Testing the First Hypothesis:

H₀: Audit fee amount change does not have any effect on auditor changes of companies.

H₁: Audit fee amount in crease is effective on auditor changes of companies.

The amount of significant level -2λ²=0.000 because this amount is less than α=0.05, 50 fee independent variable will be significant and Zero hypothesis will be rejected. Considering obtained results, the major hypothesis based on audit fee positive effect on companies auditors change is confirmed.

That means that the companies change their auditors to pay fewer fees.

The choose the auditors who request less fees for doing companies considered audit services.

Testing the Second Hypothesis

H₀: Conditional or rejected report by auditors does not any effect on their change

H₁: Conditional or rejected report by auditors is effective on their change.

Significant level amount -2λ²= 0.304 and since this amount is more than α= %5 so the model will not be significant and zero hypothesis is not rejected. Considering the obtained results of the second hypothesis based on positive effect of auditors rejected or conditional report issue on their change by the client is rejected and its opposite hypothesis i.e. Ho hypothesis is accepted. That means that the kind of audit idea expression doesnot has any effect on auditors change by the client companies.

Testing the Third Hypothesis

H₀: Audit institutes smallness and low quality work does not have any effect on their change by the clients.

H₁: Audit institutes smallness and low quality work is effective on their change by the clients.

Significant level amount -2λ²= 0.007 and since this amount is less than α= %5 so the model is significant and zero hypothesis is rejected. With due attention to the obtained results of the third hypothesis of the research based on the fact that the less the work quality of audit institute, the more the positive effect it will have on auditors change.
It means that the companies choose the institutes which have high level of quality and their validity is more than other institutes to reach to higher quality in auditing.

**Testing the Fourth Hypothesis**

**H₀:** A change in Client Company's management structure does not have an effect on auditors change.

**H₁:** The client companies management change is effective an auditors change.

Significant level amount \( 2\lambda^2 = 0.000 \) and since this amount is less than \( \alpha = 1\% \) so Zero hypothesis is rejected and the model is significant.

Therefore the fourth hypothesis of the research based on the positive effect of the client management change on auditors change is confirmed. Consequently a change in companies management structure is effective on auditors change. Of course let it not remain unsaid that the company's management change is due to stockholders change and companies main owners and their decisions.

**Testing the Fifth Hypothesis**

**H₀:** The client's capital increase does not have any effect on auditors change.

**H₁:** The client company's capital increase is effective on auditors change.

Significant level amount \( 2\lambda^2 = 0.545 \) and since it is more than \( \alpha = 1\% \), so Zero hypothesis is not rejected and the model is not significant. Therefore research fifth hypothesis based on the positive effect of the client company's capital increase on auditors change is rejected and its opposite hypothesis, Zero hypothesis, is confirmed. Consequently the companies do not want to change their auditors as increasing the amount of their capital.

**Testing the Sixth Hypothesis**

**H₀:** The amount of the client company's possessions does not have any effect on auditors change.

**H₁:** Possessions increase or their amount is effective on auditors change.

Significant level amount \( 2\lambda^2 = 0.007 \) and since this amount is less than \( \alpha = 1\% \), so Zero hypothesis is rejected and the model is significant.

Considering the obtained results of the sixth hypothesis of the research based on the positive effect of the client company's possessions size on auditors change is confirmed. To sum up, the big companies search more Valid audit institutes as their possessions increase to investigate this great volume of possessions with high quality.

**Testing the Seventh Hypothesis**

**H₀:** A change in Capital return rate of the client companies does not have any effect on auditors change.

**H₁:** A change in capital return rate of the client companies is effective on auditors change.

Significant level amount \( 2\lambda^2 = 0.000 \) and since this amount is less than \( \alpha = 1\% \), so zero hypothesis is rejected and the model is significant.

Considering the obtained results, the seventh hypothesis of the research, based on the positive effect of company's capital return rate on auditors change, is confirmed. That means low level of companies capital return rate is effective on companies auditors change. Therefore the companies which have financial problems use accounting procedures more that shows the benefit more. And they look for the auditors who confirm their financial bills.

**DISCUSSION AND CONCLUSION**

In this paper we tried to identify the effective factors on auditors change in Iran. The obtained results of one-variable logistic regression analysis demonstrates that audit fee, auditors work quality, companies managers change, firm size and companies capital return rate, in 95 percent certainty level, have effects on auditors change by the firms. The obtained results show that auditor change is a result of specific factors. So Financial bills users must be aware that auditor change can be the result of variables except those specific ones too, like extra services request by the client companies. Therefore the responsible organizations should develop auditor change policies in away that illegal factor and not lead to auditors change.

The policies must be in a way that prevents auditor's independence weakening. And auditor's resignation issue must be investigated, as a result of their commitments in crease, so that the client companies do not look for the auditing institutes which supply low quality audit services. It should be mentioned that the lack of limitation and a specific legal framework about easy change of auditors by the client companies, reinforces inaccurate and non-professional probable relations existence between the client companies and the auditors. Therefore compiling and structure about the manner of auditor change by the client companies looks necessary.
REFERENCES