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The Study of the Relationship between Auditors' Opinion and Earnings Management in the Listed Corporations in Tehran Stock Exchange

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ABSTRACT

Audit report is the final result of audit process of a corporation and it is considered as the credit of financial statements and quality of financial reporting. The purpose of this study is evaluating the effect of earnings management on the auditors' opinion in the listed corporations in Tehran Stock Exchange. The listed corporations in Tehran Stock Exchange are local area of research and after doing the systematic removal method, 90 corporations were selected as the samples of the study. The study was conducted from 2010 to 2015. Combined data regression (Logistic regression) was used in the study. Besides that, Hosmer and Lemeshow statistics and Z-statistics were used to evaluate the research hypotheses. Results and findings of the study show that there is a positive relationship between the auditors' qualified opinion and earnings management. Also, results and findings show that there is a positive relationship between the qualified opinion related to the auditor's going-concern and earnings management.

Keywords: Earnings management, qualified audit opinion, Going-concern.

1. INTRODUCTION

The main goal of financial statements is providing useful information about the financial and operating situation of corporation in order to help the investors and creditors make the right decision. When the financial statements answer this goal, they are benefitted from good quality (Aboody & Hughes, 2005). But two contradiction factors, namely, interests and information asymmetry between the managers and owners make the managers distort the information contained in the financial statements (Rajgopal & Venkatachalam, 2011). This is because the manager himself is not the owner of the corporation and does not experience the economic effects of his decisions (Artram, *et al*., 2009). When the managers and owners' interests are not consistent, some managers' decisions are made against the owners' interests. In addition, the existence of information asymmetry causes

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the shareholders not to able to identify the managers' performance and cannot determine their bonuses based on their real performance (Wallace, 2002).

Scott (2009) defines the earnings management as the selection of accounting procedures by the manager. According to him, the goal of the manager about this selection is to achieve specific goals such as getting more bonuses, reducing debt ratio, reducing tax and political costs, and so on. The main reason for the existence of audit profession relates to the interests contradiction between the employer and broker. In fact, the broker is considered as the agent of the employers. The employers have assigned the corporation management to the brokers and they pay wages, benefits, and bonuses in exchange for the corporation management. In fact, audit has been presented after the separation of ownership from management in order to overcome the problems and costs of agency (Watts & Zimmerman, 1986).

Several studies have shown that the earnings management in the corporations with famous and efficient auditors had been less than by the corporations audited by small audit firms (Banimahd, *et al*., 2014). Based on the hypothesis of the quality of information, the auditor's task is improving the quality of accounting information. According to this hypothesis, it can be argued that the more the audit process reduces the earnings management, the higher the audit quality; and it is expected that if earnings management is increased, the number of the auditors' opinion articles will also increases (Banimahd, *et al*., 2014). Based on the above issues, this study will deal with the subject "Is there any significant relationship between the auditors' qualified opinion and earnings management?". Also, in this study, the qualified opinion is studied in two parts, i.e. without the article of going-concern and with the article of going concern.

2. THEORETICAL PRINCIPLES AND REVIEW OF LITERATURE

The main role of financial reporting is the effective transfer of information to people who are external to the organization by using a valid and timely method. To do this, managers have had some opportunities to exercise judgment in financial reporting; the managers can use their knowledge about the business activities to improve the effectiveness of the financial statements as a tool to convey information to the investors and creditors. Then, the theoretical principles of research in the field of earnings management, audit quality and agency theory will be discussed.

2.1. Accruals and Earnings Management

Accruals have been defined as difference between accounting earnings and cash flows, also from the perspective of the investors, the quality of accruals can be defined as the degree of proximity of corporation earnings with the amount of the generated cash flows (Francis, *et al*., 2005). However, understanding the process of identifying those accruals that affect the quality of earnings is difficult for the investors and prevents them in determining the quality of corporation earnings. Hence, they probably make decisions on the basis of the reported earnings that does not have high quality and lead to lose their resources (Xie, 2001). In other words, it can be said that the information content of accruals components is what leads the attention of the authorities to accruals quality as a measure to assess the quality of earnings (Sloan & Richard, 1996). In accounting literature, accruals have been divided into two categories i.e. discretionary and nondiscretionary accruals. Nondiscretionary accruals are items affecting the earnings reporting process but they are out of the authorities or out of the power to be controlled by the management of the business unit. Discretionary accruals are items that management can impose some controls on them in order to be used as a tool for managers to apply earnings management and to generate information asymmetry; i.e. items that are under some selective processes and methods of management are used as a tool to answer the opportunistic desires of managers. Since accrual accounting gives the managers a considerable choice right to determine earnings in different time periods, using accruals is considered as a manipulation method in corporation earnings.

In fact, in accrual accounting system, the managers are being faced with different options about the time to identify incomes and costs such as identifying income quickly through the sale of credit (Teo, *et al*., 1998). This type of function from the managers is called earnings management. Degeorge, *et al*. (1999) defines earnings management as an artificial manipulation of earnings by management to achieve the expected level of earnings in some particular decisions (including analysts or estimating the process of previous earnings for predicting future earnings). According to him, managing the investors' view about the business unit is the main motivation of earnings management.

2.2. Agency Theory and Auditing

The underlying theory of this study is agency theory presented by Jensen and Meckling (1976). According to this theory, the managers are the shareholders' agents and must act in their favour. But sometimes managers are put in situations that their decisions are not in the favour of shareholders and cause the distortion of the financial reports such that this is known as agency problems. The mutual effect of relative risk aversion between the managers and owners causes the agency theory to make the most attractive problem for the accountants. Information is one of the tools or methods that can reduce the phenomenon of uncertainty and accountants can thereby play an important role in risk sharing between managers and owners (Belkaoui, 2002). Over recent decades, the stewardship role of audit has been discussed as the issue of agency problem. Agency relationship is a contract by which different individuals and groups select an individual or a group as their steward or agent and put him in the liable position to present a set of specific services. Contract ratification requires the delegation of decision-making authority to the agent, following the delegation of authority, the necessity to monitor is represented through auditing.

2.3. Audit Quality

There are different definitions about audit quality. In professional literatures, audit quality is defined in relation to considering the relevant audit standards.

The most common definitions of audit quality encompass the following elements:

- The possibility of significant errors in the financial statements that the auditor can detect and report them.
- The possibility that the auditor will not provide the qualified report for the financial statements containing the significant errors.
- A measure to the auditor ability in reducing errors and biased distortions and improving the quality of accounting data.
- The information accuracy that the auditor has issued a report about them.

The mentioned definitions include different levels of competence and independence of the auditors in auditing (real independence) as well as the definitions consist of the manner of users' understanding of their independency (Alavi Tabari, *et al.*, 2009). An independent auditor is a monitoring tool to improve information about the financial status and performance of corporation and to increase information symmetry. If the agent contradiction between the managers and the owners of capital is major, agent costs will be more and the need to have an independent auditor with high quality will increased (Alavi Tabari, *et al.*, 2009).

2.4. Earnings Management and Audit Opinion

Based on the assumption of the quality of information, improving the quality of accounting information is the responsibility of the auditor. This is a task that finally increases the usefulness of information for the investors, creditors, and other beneficiaries' decisions.

Based on this theory, if the quality of information is increased through audit process, capital cost, information asymmetry, and agent cost will be reduced. According to this theory, the investors want the audited financial statements because they believe that the audited financial statements provide some useful information for their decision-making models. This means that the audit process causes to increase the value of financial statements to the investors and this finally leads to improving the dignity and worth of audit profession to the investors (Wallace, 2004). According to this theory, it can be argued that the more the audit process reduces the earnings management, the higher the quality of auditing. It is expected that if the earnings management increased, the number of the auditors' opinion articles will also increase (Banimahd, *et al*., 2014).

2.5. Literature of Foreign Studies

In a study named "The auditors' opinion and earnings management: some evidences from Greece", Tsipouridou and Spathis (2014) have dealt with the relationship between the auditors' opinion and earnings management. Their findings show that there is no significant relationship between the auditors' opinion and earnings management. In another study, Lenard & Yu (2012) have studied the effect of audit quality and earnings management on investment decisions. They have concluded that corporations with higher audit quality have more optimal investment and those corporations that use earnings management will have more investment. Bhattacharya, *et al*. (2012) found that corporations with poor earnings quality experience a higher information asymmetry when the earnings are announced.

Krishnan, *et al*. (2011) examined the effect of legal experience of audit committee members on the quality of financial reporting. Audit committee members have legal experience. Their results and findings show that the existence of the members of board directors with legal experience leads to improving the quality of financial reporting. Biddle and Hilary (2006) found that the quality of higher accounting enhances the investment efficiency with the reduction of information asymmetry between the managers and foreign capital providers. Mohammadian & Mehtari (2013) have examined the effect of the auditor's relationship with audit committee and board of directors on the quality of financial reporting. The results and findings of their study indicate that the audit committee has a positive impact on the quality of financial reporting.

Khedamipour, *et al*. (2012) have examined the impact of necessities to expose the transactions with dependent persons in terms of selling goods and assets. Their results show that the value coefficient of earnings for corporations that sell goods to dependent persons after the approval of new requirements of disclosure has been reduced. Rahimian & Tavakolnia (2012) have studied the role of internal auditor in the quality of internal control system. Their results and findings show that the internal auditor leads to improving the internal control system through presenting necessary suggestions. Also in other studies, Rahimian, *et al*. (2012) examined the relationship between earnings quality and information asymmetry. The findings showed that there is a relationship between information asymmetry and earnings quality. Foroughi & Ahmadinejad (2012) found that the environmental uncertainty will adversely affect the performance and profitability of the corporations that is represented through increasing volatility of unmanaged earnings. Moghadam & Hassanifard (2010) studied the manipulation of real financial events by focusing on some variables such as cash flows arising from operation, discretionary costs, and change in inventory and cost of manufacturing. The results showed that there is a significant relationship between operating cash funds and changes in inventory. On the one hand, the earnings management is listed corporations in Tehran Stock Exchange.

3. RESEARCH HYPOTHESES

The study consists of two main hypotheses as follows:

1) There is a significant relationship between the qualified audit opinion other than the article of going-concern and earnings management.
2) There is a significant relationship between the qualified audit opinion related to the article of going-concern and earnings management.

4. METHODOLOGY

Library method has been used to write the theoretical principles and research literature.

The required information for measuring the variables of study was extracted by using document mining method from financial statements of listed corporations in Tehran Stock Exchange. *Tadbir Pardaz and Rah Avard Novin* softwares, other related online resources and database of Tehran Stock Exchange were used in this study. Since the results of this study can be used by the investors and other groups, the results of the study are functional in terms of goal and because it deals with the relationship between the variables by using regression analysis, it is descriptive-correlation in terms of nature. Descriptive and inferential statistical methods are used in this study.

Descriptive statistics include the description of statistical characteristics of the variables and how they are symmetrical. Inferential statistics include the regression analysis. Combined data regression (Logistic regression) is used in the study. Fisher-F-Test and T-test were used for the signification of regression model and coefficients. As data are combined, F- limer test was used to be selected between panel and pool data methods, and if necessary Hausman test was used to be selected between the methods of fixed and random effects.

4.1 Population and Statistical Samples

The listed corporations in Tehran Stock Exchange between 2010 and 2015 are the population of this study. To select the statistical sample, systematic removal method will be used. Therefore, all corporations of statistical population including the following criteria are selected as sample and others are removed:

1. Their financial year is ended on 19th March.
2. At least, every three months their shares are exchanged.
3. They should not be included in financial broking corporations (banks, investment, insurance and so on).
4. They should not have changed their financial year during the time periods of research.
5. Due to the above limitations, totally 90 qualified corporations have been selected.

4.2. Testing Hypotheses

The model used to analyse data and to test hypotheses is based on Tsipouridou and Spathis research (2014) and thus the model (2) is as follows:

Model (2)

$$Ao_{\mathrm{it}} = \beta + \beta_1 DAit + \beta_2 BIGNit + \beta_3 ROA_{\mathrm{it}} + \beta_4 TURNit + \beta_5 INVRECit + \beta_6 TLEit + \beta_7 0\mathrm{LAOit} + \beta_8 ARLAGit + \beta_9 AGEit + \beta_{10} LLOSS_{\mathrm{it}} + \varepsilon_{it}$$

To test the first hypothesis of the study, the qualified opinion variable was used and the qualified opinion variable with the article of going-concern was used to test the second hypothesis.

The used variables in the above model along with the method of measuring them will be investigated in next part.

4.3. Variables of the Study

Dependent, independent, and control variables are three categories of research variables that have been studied:

The earnings management is the independent variable of the study. Earnings management will be measured based on the Modified Jones Model and Model (1).

Model (1)

$$\frac{\mathrm{TA_{it}}}{\mathrm{A}_{it-1}} = b_0\left(\frac{1}{\mathrm{A_{it-1}}}\right) + \mathrm{b_1}\left(\frac{\Delta\mathrm{REV} - \Delta\mathrm{REC}}{\mathrm{A_{t-1}}}\right) + \mathrm{b_2}\left(\frac{\mathrm{PPE}}{\mathrm{A_{it-1}}}\right) + \varepsilon_{\mathrm{it}}$$

That in this model:

TA_{it} means accruals of corporation i in year t.

A means book value of the total assets of corporation i in year t.

ΔREV means changes in sales revenue of corporation i in year t.

ΔREC means changes in receivables of corporation i in year t.

PPE means net properties, machinery, and equipment of corporation i in year t.

$\boldsymbol{\varepsilon_{it}}$ means wasting of regression model and equals discretionary accruals of any corporation in each year.

In this study, the absolute value of discretionary accruals will be used as a criterion for earnings management. The dependent variable in this study, based on the study of Tsipouridou and Spathis (2014) is the auditors' opinion. Regarding the research hypotheses, the auditors' opinion includes two following types:

The going concern qualified opinion: if the auditors' opinion includes the article of opinion related to going concern, it equals number 1 otherwise equals 0. Non-going qualified opinion: if the auditors' opinion includes the article of qualified opinion, it equals number 1 otherwise equals 0.

In order to give a better clarification about the regression model based on Tsipouridou and Spathis (2014), some important variables influencing the auditors' opinion will be used as follows:

Audit quality (BIG): is a virtual variable. If the auditor of corporation is audit organization, the number equals 1 otherwise equals 0.

Return on assets (ROA): equals net earnings divided by book value of total assets.

Asset turnover (TURN): equals net sales divided by book value of total assets, inventory turnover (materials and products), and accounts.

Receivables documents (INVREC): equals with the sum of receivable inventories and accountants divided by book value of total assets

Financial Leverage (TLE): Financial leverage is equal to debts divided by the book value of equity.

Delay in audit reporting (ARLAG): equals the natural logarithm of time interval between the end of financial year and the date of the audit reporting.
The corporation age (AGE): is equal to the natural logarithm of the number of years passing from the acceptance date of the company in exchange.

The audit opinion of the previous year (LAO): is a virtual variable. If the qualified report had been issued in last year, the number would have equaled 1 otherwise it is 0.

Loss of the previous year (LLOSS): is a virtual variable. If the corporation undergone the loss in the previous year, the number would equal 1 otherwise 0.

5. THE RESULTS OF HYPOTHESES TEST

In this section, research hypotheses were tested. This study consists of two hypotheses. Two hypotheses were tested by using logistic regression models. In regression models, and regarding p-values, the decision is made about the rejection or acceptance the null hypothesis. If p-value is less than the significance level of 0.05, the null hypothesis is rejected otherwise it is accepted.

5.1 Test the First Hypothesis

The first hypothesis is as follows:

"Other than the article of going concern, there is a significant relationship between the qualified audit opinion and earnings management."

The results of data analysis by using logistic models are showed in Table 1.

Table 1: Results of Data Analysis to Test the First Hypothesis

Variable	Coefficient	Standard Deviation	Z Statistics	p-value
C	2.68	0.34	7.78	0.00
DA	1.38	0.10	13.54	0.00
BIG	-1.73	0.09	-19.34	0.00
ROA	-0.08	0.08	-1.06	0.29
TURN	-0.47	0.06	-7.41	0.00
INV	0.41	0.06	7.10	0.00
TLE	-0.02	0.004	-4.61	0.00
LAO	-0.08	0.01	-9.54	0.00
ARL	4.59	1.33	3.46	0.00
AGE	0.002	0.003	0.52	0.60
LOSS	28.43	0.57	50.27	0.00
Likelihood Ratio Statistics (LR)		112.5	Pseudo R-squared	0.40
Prob(LR-statistic)		0.00		

Note: DA is discretionary accruals, BIG is a virtual variable. If the auditor of corporation is audit organization, the number equals 1 otherwise equals 0. ROA is equals net earnings divided by book value of total assets. TURN is equals net sales divided by book value of total assets, inventory turnover (materials and products), and accounts. INV is equals with the sum of receivable inventories and accountants divided by book value of total assets. TLE is financial leverage is equal to debts divided by the book value of equity. LAO is a virtual variable. If the qualified report had been issued in last year, the number would have equalled 1 otherwise it is 0. ARL is equals the natural logarithm of time interval between the end of financial year and the date of the audit reporting. AGE is equal to the natural logarithm of the number of years passing from the acceptance date of the company in exchange and LOSS is a virtual variable. If the corporation undergone the loss in the previous year, the number would equal 1 otherwise 0. The obtained p-value for likelihood ratio statistics that shows the significance of model equals 0 (p-value≤0.05). The null hypothesis is rejected and this shows the regression model is totally significant. According to Table 1 and the amount of p-value of Z statistics for the variable of earnings management (DA) that equals h_0 and is less than error level of 0.05, the null hypothesis (there is no relationship between the auditors' qualified opinion and earnings management) is rejected; it is concluded that there is a significant relationship between the auditors' qualified opinion and earnings management. As a result, the first hypothesis is accepted. Also, as the coefficient of earnings management is positive, it is concluded that there is a positive relationship between the auditors' qualified opinion and earnings management. R^2 Pseudo that is equivalent to coefficient of determination in common regression model equals 0.40, which shows that 40 percent of variabilities of dependent variable are explained by independent variables. Hosmer-Lemeshow test was used to test Goodness of Fit Model in Logistic regression. The existence of null hypothesis in this test shows goodness of fit model. Considering the amount of p-value that is equal to 0.14 and is more than the error level of 0.05, the null hypothesis is accepted and it is concluded that the model has been fitted well.

Table 2: Hosmer-Lemeshow Test

H-L statistics	p-value
10.22	0.14

The following Table 3 shows the accuracy of predicting the fitted logistic model. According to table, the accuracy of predicting the Logit model for the auditors' opinion that does not include the article of opinion related to going-concern equals 62.3% and it is equal to 66.8% for the auditors' opinion including the article of opinion related to going-concern.

It shows that model has properly determined 62.3% of the auditors' opinion that does not include the article of opinion related to going-concern and 66.8% of the auditors' opinion including the article of opinion related to going-concern.

Table 3: Studying the Accuracy of Predicting Model

	The auditors' opinion including the article of opinion related to going-concern	The auditors' opinion that does not include the article of opinion related to going-concern	Total
Percent of the accuracy of predicting	66.8	62.3	64.5

5.2. Testing the Second Hypothesis

The second hypothesis is as follows:

"There is a significant relationship between the qualified audit opinion related to the article of going-concern and earnings management".

The results obtained of data analysis and using Logistic model are showed in Table 4.

Table 4: Results of Data Analysis to Test the Second Hypothesis

Variable	Coefficient	Standard Deviation	Z Statistics	p-value
C	11.86	0.77	15.41	0.00
DA	1.06	0.46	2.33	0.02
BIG	0.20	0.16	1.24	0.22
ROA	-1.24	0.52	-2.40	0.02
TURN	4.16	1.69	2.47	0.01
INV	0.47	0.26	1.84	0.07
TLE	-4.67	0.67	-6.95	0.00
LAO	0.30	0.11	2.69	0.01
ARL	-0.63	0.52	-1.20	0.23
AGE	0.01	0.01	1.09	0.28
LOSS	0.60	0.05	11.48	0.00
Likelihood Ratio Statistics (LR)		226.4	Pseudo R-squared	0.38
Prob(LR-statistic)		0.00		

Note: DA is discretionary accruals, BIG is a virtual variable. If the auditor of corporation is audit organization, the number equals 1 otherwise equals 0. ROA is equals net earnings divided by book value of total assets. TURN is equals net sales divided by book value of total assets, inventory turnover (materials and

products), and accounts. INV is equals with the sum of receivable inventories and accountants divided by book value of total assets. TLE is financial leverage is equal to debts divided by the book value of equity. LAO is a virtual variable. If the qualified report had been issued in last year, the number would have equalled 1 otherwise it is 0. ARL is equals the natural logarithm of time interval between the end of financial year and the date of the audit reporting. AGE is equal to the natural logarithm of the number of years passing from the acceptance date of the company in exchange and LOSS is a virtual variable. If the corporation undergone the loss in the previous year, the number would equal 1 otherwise 0.
The obtained p-value for the statistics of likelihood ratio that shows the significance of whole model equals 0 (p-value≤0.05), so the null hypothesis is rejected and it shows the regression model is totally significant. According to Table 4, the amount of p-value of Z statistics to the variable of earnings management (DA) equals 0.02 and it is less than the error level of 0.05, the null hypothesis (lack of relationship between the qualified opinion related to the auditors' going-concern and earnings management) is rejected and it is concluded that there is a significant relationship between the qualified opinion related to the auditors' going-concern and earnings management. So the second hypothesis is accepted. Also, as the coefficient of earnings management is positive, there is a positive relationship between the qualified opinion related to the auditors' going-concern and earnings management. R^2 Pseudo that equals the coefficient of determination in common regression model is about 0.38 that this shows 38% of the variabilities of dependent variable is explained by independent variables. Hosmer-Lemeshow test was used to test goodness of fit model in Logistic regression. The existence of null hypothesis in this test shows goodness of fit model. According to p-value that equals 0.25 and is more than the error level of 0.05, the null hypothesis is accepted and it is concluded that the model has been fitted well.

Table 5: Hosmer-Lemeshow Test

H-L statistics	p-value
18.5	0.25

The following table shows the accuracy of predicting the fitted logistic model. According to the table, the accuracy of predicting the Logit model for the auditors' opinion that does not include the article of qualified opinion equals 61.5 and it is equal to 65.8 for the auditors' opinion including the article of qualified opinion. It shows that model has properly determined 61.5% of the auditors' opinion that does not include the article of qualified opinion and 65.8% of the auditors' opinion including the article of qualified opinion.

Table 6: Studying the Accuracy of Predicting Model

	The auditors' opinion including the article of qualified opinion	The auditors' opinion that does not include the article of qualified opinion	Total
Percent of the accuracy of predicting	65.8	61.5	63.7

6. DISCUSSION AND CONCLUSION

Mainly, first hypothesis states that there is a significant relationship between the auditors' qualified opinion and earnings management. The above hypothesis was tested at the level of combined data. The results and data analysis showed that there is a positive relationship between the auditors' qualified opinion and earnings management. So it can be said that the first hypothesis is accepted. The results and findings of this hypothesis are consistent with this idea that manager use accounting methods and standards to earnings management that contrary to the allowed methods and standards are considered by the auditor so the auditor provides the qualified report with respect to its importance. In other words, the existence of earnings management in a corporation shows the low quality of financial reporting. Therefore, in order to mention these matters to the shareholders, the auditor provides the qualified report. The results and findings of this hypothesis are consistent with the findings of Tsipouridou & Spathis (2014).

The second hypothesis of this study states that there is a significant relationship between the qualified opinion related to the auditors' going-concern and earnings management. The mentioned hypothesis was tested at the level of combined data. The results and statistical analysis showed that there is a positive relationship between the qualified opinion related to the auditors' going-concern and earnings management. The results and findings of this hypothesis are consistent with the idea that when the amount of the earnings management of corporation is very extensive and the quality of financial reporting (earnings quality) is very poor or earnings management causes the financial ratios unfavourable or it causes abnormal changes in the corporation's operating cash flow. Thus, the auditor's assessment of going-concern is changed and it causes to provide the qualified audit reporting with the article of going-concern. In other words, to reduce audit risk and the risk of lawsuits against him, the auditor provides a qualified report with the article of going-concern. The results and findings of this hypothesis are consistent with the findings of Tsipouridou & Spathis (2014).

The existed limitations in the study and in the interpretation of the results of study and its generalizability that should be considered are as follows: Lack of control of some effective factors on the results of study such as the effect of some variables like economic factors, political conditions, and type of industry are out of the researcher's control and may influence the relations. If several criteria of measuring earnings management are used, some results different from the current results may be achieved. Since the systematic removal method has been used to sampling in this study, some industries, due to lack of having the related characteristics, have not been considered as samples; so generalizing the results to all industries should be carefully done. Since the financial statements based on historical cost have been used for calculating the variables of study, maybe the results of the study are different from the current results in case of the adjustment of information of financial statements based on inflation. According to research findings that show the usefulness of audited information, the investors and all users of financial statements are offered to consider audit reports in evaluating the quality of financial reporting of corporations more than before. The auditors are recommended to be aware of the methods of earnings management of corporations to reduce the risk of lawsuit against them and be careful about the quality of financial reporting published by corporations. Tehran Stock Exchange is offered to make the necessary reforms in order to the investors make timely decisions in regulations related to time of publishing audit report and financial statements. The Audit Office is recommended to take new instructions and to publish new standards to prevent opportunistic earnings management by considering the type of issued report.

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