

1 The Survey of the Relationship between Auditing Quality and
2 the Profitability in the Companies Accepted in Tehran's
3 Exchange Market

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7 **Abstract**

8 The present study deals with the evaluation of the relationship between auditing quality and
9 the profitability in the companies accepted in Tehran's securities exchange market. To
10 determine the auditing quality there has been made use of two scales of auditor size
11 (DeAngelo, L.E., 1981) and the auditor's tenure period (Myers, J.N., Myers, L.A. Omer,
12 T.C., 2003). The total number of 52 companies accepted in Tehran's securities exchange
13 market has been surveyed. The study findings show that generally there is a positive and
14 weak relationship between the auditor size (auditor's good fame) and the auditor's tenure
15 period and the profitability ratios. To survey the auditor's size the member auditing
16 institutions of the formal accountant society are regarded as small auditing firms and
17 accounting organization due to the great many staff members working in it and also due to
18 their long working history is considered as the big auditing institution.

20 *Index terms*— auditing quality, auditor's tenure period, auditor's size, profitability ratios and tehran's
21 securities exchange market.

22 **1 Introduction**

23 one of the items in the financial statements which is regarded as the performance evaluation scale and for-profit unit
24 profitability competency is the "profit reporting". But, the net profit calculation of a forprofit unit is influenced
25 by the accounting methods and estimations. The managers authorization in the usage of actualization and
26 adaptation, estimation and prediction and also the implementation of methods such as the change in the method
27 of the inventory evaluation, goodwill depreciation, current costs or considering the research and development
28 costs as capital and the determination of the costs of doubtful debts are among the subjects through the exertion
29 of which managers can change the profit. From one hand, due to the most of the managers' awareness of the firm
30 status, it is expected that the data be procured and offered in a manner which is most reflective of the company
31 status. From the other hand, because of some reasons such as retention in the company, receiving reward etc.
32 The forprofit manager may intentionally or unintentionally manifest the company's status as optimum through
33 the manipulation of the data.Under such circumstances, there would be a discrepancy between the real profit
34 and the reported one in the financial statements and there would be expected an incident under the title of profit
35 management.

36 Also, quality which is the determinant of the auditing performance is a function of numerous factors
37 such as auditor's capabilities (including knowledge, experience, adaptation power and technical efficiency)
38 and professional implementation (including independency, objectivity, professional caring, interest conflict and
39 judgment). (Mojtahedzadeh, Vida and Parvin Aqaee, 2004)

41 2 II. A Review of the Study Theoretical Foundation

42 Generally speaking, auditing has long meant scrutinizing the accounts in order to discover the frauds and misuse
43 and during the course of history therehas always been some sort of auditing in the governmental and private
44 organizations, but auditing in its new and modern meaning is the examination and commenting on the financial
45 statements and the reason behind this novel meaning is the growth and the emergence of the enterprises in which
46 the shareholders responsibility is confined to the amount of the capital they have put in the company. The origin
47 of this modern usage of auditing is England. But, the wonderful change that is now on the way, is the auditing
48 evolution from financial auditing to comprehensive and inclusive auditing in which besides the examination of
49 the entities financial statements reports from the point of view of observing the due policies, its operations and
50 transactions are also examined by the decision making authorities (such as general meeting) and the observance
51 of the rules and regulations governing the economical entities and the entities mangers efficiency is also evaluated
52 from the perspective of the quality of using the extant resources and the method of implementing the plans and
53 operations and the obtained results will be reported. This type of auditing which its recent aspect is termed as
54 management audit generally regarding the big firms possessing macro-resources and their area of activity is vast
55 and its management is different from capital possession is being implemented in response to the management
56 performance evaluation necessity of such organizations by the qualified experts (accountants and experts from
57 the other disciplines) and it is the professional accounting evolution future trend.

58 In other words, auditing is the inspection seeking for accounting evidences and other documents at the
59 foundation of financial statements.

60 3 Types of auditing from various perspectives:

61 From the point of view of refering the task: 1.obligatory 2.optional From the nature of examination and auditing:
62 1.systematic examiantion 2.verificational examination 3.case examination (special) From the task fulfilment point
63 of view: 1.implied audit 2.final audit 3.continuous (ongoing) auditing Auditing objective:

64 Validating the financial statements in order to create confidence in their presentation favorableness and their
65 reliability. Validation is consisted of two separate stages: 1. Collecting auditing documents 2. Reporting the
66 findings or the socalled audit reports Which communicates the auditors notions and comments regarding the
67 presentation favorableness and reliabilty of the financial statements to the financial statements users. (Abbas
68 Arbabsoleymani and Mahmood Nafari, 2009) III.

69 4 Auditor and Audit Quality

70 Auditor quality: is defined as the overall quality of the auditing services in generally all of the organization
71 auditing processes.

72 Audit quality: the word audit quality conveys different meanings to different people. With this explanation
73 that the auditing process should bedefined seperately for every auditing task since it is likely that all of the
74 auditing tasks performed by the same auditing institution are not with the identical quality level.

75 From one hand, the auditing quality can have various meanings for the auditors. Moreover, in its examinations
76 auditing can evaluate business risk as well in the preservation of the generally accepted auditing standards in
77 order to prevent lawsuits and the dissatisfaction of the employer and also limiting the damage to the professional
78 reputation which is an outcome to malaudit. Deangelo (1981) defines the auditing quality as the likelihood of
79 the discovery and the report of the important extant distortions in the financial statements by a certain auditor.

80 Davidon and Neo (1993) in a more comprehensive definition, define the auditing qulaity as the auditor
81 competency in the discovey and resolution of the important distortions and manipulations performed on the
82 reported profit. Therefore, the auditor's capability is a crucial subject in the auditing quality which hs been
83 interpreted from various aspects and it has an extensive relationship with the internal and external factors,
84 auditors' characteristics (such as experience, competency, ethics etc.), auditors' independency (independency
85 from employer, market competition etc.) And legislative environment (obligatory substitution, auditing and
86 nonauditing services etc.). According to the fact that the auditing quality is multifaceted, it it is not evident
87 that which of the aforementioned factors is influential in determining the auditors' qualities and therefore the
88 auditing quality cannot be directly observed and measured.

89 And also the process of completing the servicing activities is not tangible in the process of progress and
90 contrary to the merchandise under construction. (Morteza Asadi and Majid Darabi, 1391)

91 5 a) Factors affecting the auditing quality

92 Conceptually, the auditing quality can be measured through the three basic aspects of inputs, outputs and
93 environmental factors. Except auditing standards, there are other inputs for the auditing quality. One such
94 an input is the unique and prominent features of the auditor such as his or her experience, moral values and
95 his propensities. One of the other important factors, is the auditing process. This process includes auditing
96 methodology, the amount of the effects of the applied auditing methods and the amount of acccess to the
97 required auditing documents and evidences.

98 Auditing outputs also bring about important outcomes for the auditing quality, since the outputs are taken
99 to consideration by the users for the auditing quality evaluation. For instance, when the auditor's report clearly

100 expresses the result subsequent to the auditing act can exert a positive impact on the auditing quality. Also,
101 the relationship between the auditors and the leadership foundations in such subjects as financial reports quality
102 aspects and the internal control weaknesses can have a positive effect on the auditing quality.

103 **6 b) The relationship between auditing quality and profitability**

104 More qualified auditing firm with better quality can affect the management discretions in the selection of the
105 accounting procedures and its motivation for manipulating the profit. Also, the more there are accounts such as
106 accounts receivable, accounts payable, and inventory (of the optional accrual items), the more there would be
107 observed demands for better supervision and more qualified auditing.

108 The bigger the size of the auditing and the longer the tenure period of auditor, the higher the quality of
109 the auditing will be and the higher the quality of auditing the extent of its influence will be greater on the
110 management discretions in the choice of the accounting procedures and his or her motivation for manipulating
111 profit to reach personal interests and the higher would be the reliability of financial statements. (Asghar Azizi,
112 2010)

113 **7 c) Auditor size**

114 The quality of the auditing institutions differ from one another and the researchers use alternatives for the
115 differentiation between the auditing firms with high qualities and those with low qualities. The size of the
116 auditing firms, their history and the trade mark are but some of the discriminating factors. That is to say that
117 bigger institutions and those with more respectful and famous trade mark in relation to the others exhibit higher
118 quality auditing job.

119 **8 d) The relationship between the auditing quality and the 120 auditor's size**

121 The auditing size is one of the features which influences the auditing quality. DeAngelo believes that the bigger
122 auditing companies offer auditing services with higher qualities, since they are intending to acquire better fame in
123 the work market and because the number of their clients is great they are not concerned with and worried about
124 losing them. It is stipulated that such institutions due to having access to more interests and facilities for training
125 their own auditors and performing various tests offer auditing services with higher qualities. (Mojtahedizadeh
126 and Aghaei, 2004) Firms with bigger auditing size besides their fame and credit perform more successfully in
127 issues such as training the staff and maintaining independence (seeming and real) in the face of the employees and
128 other important issues influencing the increase in their quality of auditing. Therefore, the audited companies by
129 the auditing organization are rated among the companies that their financial statement items are of a great value
130 and in the end they will enjoy from a higher auditing quality. And on the contrary, the companies audited by
131 the other auditing institutions (auditing firms which are members of the formal accountant society) are regarded
132 as having smaller size in relation with the auditing organization. These auditing firms have lower validating and
133 valuer power in comparison with the auditing organization and subsequently they will have lower quality
134 auditing from the independency, staff training etc (Yahya Hassas, Yeganeh and Kaveh Azinfar, 2010) e) Auditor's
135 tenure period Auditor's tenure period is one of the measures for measuring the auditing quality which is expressed
136 as the number of consecutive years that an auditor examines and audits the auditing firms.

137 f) The relationship between auditing quality and the auditor's tenure period Regarding the effect of the
138 continuous appointment of the auditor on the audit quality there exists two perspectives: 1. It is believed
139 that the long-term relationship between the employer and the auditor causes their extreme closeness and this
140 in its turn hurts the auditors independence and the auditing quality mitigation. 2. Refers to the auditing
141 problems of the relationship between the auditor and the employer in the early years. In this perspective,
142 having no exact familiarity with subjects such as operation type, accounting system and the internal control
143 structure of the audited company plus increasing the auditing costs may add to the possibility of the auditor
144 not getting to the errors and basic violations. Therefore, in case of the continuation of the auditor's appointment
145 the possible mistakes in the accounting information will be easily discovered and this per se brings about the
146 increase in the accounting information quality and therefore increase in the predictive potential of the information.
147 (Mohammadramazan Ahmadi and Kamran Jamali, 2013) Output is the reward that an investor expects from his
148 or her investment in a project.

149 **9 IV. The Effect of the Auditing Quality on the Output**

150 Shareholders and investors are continuously searching for information which assists them in the selection of
151 the best investment and appropriate portfolio. One of the important discussions which influences the investors
152 decisions is the accounting information quality. Financial researchers are constantly looking for variables to be
153 able to predict the stock return for the future terms with a higher percentage of confidence in relation to the prior
154 variables and models. The recognition of the way that the stock market responds to the accounting information
155 is of a great value for the recognition of the capital market efficiency and also the evaluation of the utility of the
156 financial statement information . Experimental researches show that the accounting figures have predictive power

12 B) FOREIGN STUDY BACKGROUNDS

157 and the accounting information predictive value can be accepted as one of the qualitative features of accounting
158 information. Therefore, the financial statement auditing is counted as one of the most crucial tools for confiding
159 in the companies' financial data clarity and it makes the accounting information, for example financial ratios of
160 each of the shares, predictive

161 10 The Relationship Between Auditing

162 Quality with Predictive Profit

163 Prediction is the key element in the economical decisions. Investors, creditors and other entities rely on the
164 predictions and expectations in their decisionmaking. For instance, an investor in making decisions regarding
165 purchase, sale or the retention of shares is willing to become aware of the time and the amount of the partitioned
166 profits and their risks. To become aware of such future partitioned profits characteristics which is not readily
167 available apriori and with absolute precision therefore prediction should be perforce resorted to. Crediors are
168 interested in the prospective profit of the company as well.

169 Audit high quality increases the reliability of the reports via decreasing the intentional and unintentional
170 errors in the historical profit. The historical profit information is not a proper index for the evaluation of the
171 prospective performance evaluation. Therefore, the prediction of the future profit is of a particular position. The
172 profit predictability power increases with the existence of reliable financial information. Previous researches show
173 that the business entity makes use of the historical profits information to predict the future profits. Financial
174 analysts process the available information such as prior profits and prices in order to be able to estimate the
175 future profit and because one of the sources for the companies to procure budget is the profit prediction, financial
176 statements are historical, therefore, the validity and the financial statements reliability is of great importance for
177 them. (Dr.Seyyed Hossein Alavi Tabari, 2009)

178 11 a) Study background

179 There are few researches performed on the subject in Iran and most of the performed researches regard the audit
180 quality which is explained below.

181 Mashayekhi et al dealt with the survey of the optional accrual items role in the profit management of the
182 companies accepted in Tehran's securities exchange market. The results of their study suggests that in the
183 studied companies profit management has been exerted through the increase in optional accrual items.

184 Karami and his colleagues (2011) in a study came to this conclusion that there is a direct relationship between
185 audit selection continuation and profit management (in the orientation of showing lesser profit). Bozorgasl and
186 Shayestehmand (2011) found that with the increase in the audit continuous appointment, the probability of profit
187 management becomes more likely, whether in an ascending or descending manner.

188 Hassasyeganeh and colleagues (2005) in a study entitled as "influencing factors on independence and
189 competence of members of Iran's formal accountant society in offering deposition services", dealt with the audit
190 quality the result of which was the determination of the 7 affective factors for enhancing the audit quality as
191 stated below:

192 1.specialism, 2.audit efficiency, 3.discovery of the important distortions, 4.interest conflicts, 5. The existence
193 of the rules and regulations, 6.market mechanism, 7. the size of the audit firms Nourvash et al (??006) dealt
194 with the survey of the accrual items quality and profit with an emphasis on the accrual items estimation error.
195 The results obtained shows that the quality of accrual items has a positive and significant relationship with profit
196 sustainability and the accrual items are more interpreted as lower quality and lower sustainability of the profit.

197 Ebrahimi Kordlor and Seyyedi in their study surveyed the relationship between the independent auditors and
198 the type of auditor's comment and profit management and they came to this conclusion that only auditing firm
199 type is in relationship with the optional accrual items.

200 Azizkhani et al performed a study under the title of "auditing tenure period, auditing partners and financial
201 reporting validity. The results of their study shows that auditing tenure period and audit partners have a
202 relationship with the forecasted costs of the equity holders' rights. Also, the researchers found that the increase
203 in the auditor's tenure period leads to the high quality financial reporting.

204 12 b) Foreign study backgrounds

205 De Angelo, Palmerose, Tendello and Vastraelen and Chen et al, consider the auditing firms which are members of
206 the top 4 big auditing organizations (previously they were famous as 6 big auditing organizations and 8 big aditing
207 organizations) as the great auditing organizations with credibility and fame and proposed the auditing performed
208 by these organizations as the high quality auditing and presented it as the scale and the measure of the auditing
209 quality in their studies, since the firm members of the 4 top big auditing organizations besides their reputation
210 and credibility, perform successfully in the field of personnel training and education and preserving independency
211 before the employers and the other items influencing the quality enhancement. and profit management in
212 the stages before and after the IPO and they came to this conclusion that, firstly, in such companies profit
213 management takes place and secondly, there is a significant relationship between profit management and audit
214 quality, and it is in a way that the higher the quality of auditing the lower the profit management of such
215 firms. Also, Bal and Shiva Kumar (2005) stated that the private companies in comparison with the governmental

216 companies are in short for the timely announcement of their losses. Tendello and Vanstraelen (2008) also in
217 a study under the title of "profit management and auditing quality in Europe: private distribution firms", by
218 considering the top 4 big auditing firms as the high quality auditors and the survey of the profit management
219 in the audited firms by these four firms and the profit management came to this conclusion that there is a
220 significant relationship between profit management and audit quality and the high quality of auditing in the
221 companies having similar taxation regulations causes the profit management to go down.

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223 Ken Chen et al (2005) in the article auditing quality and profit management for the companies involved in the
224 initial public offering (IPO) of Taiwan stock market by selecting top 4 big auditing firms as the quality auditors
225 and the comparison of the profit in the audited firms by these four firms and the profit in the audited firms
226 by auditors other than these four big firms studied the auditing quality relationship and profit management in
227 the stages before and after the IPO in Taiwan came to this conclusion that, firstly, in such companies profit is
228 managed and secondly, there is a significant relationship between profit management and audit quality, and it is
229 in a way that the higher the quality of auditing the lower the profit management of such firms. (Chen, K; Lin
230 L.K.&Zhou, J.2005)

231 In the study performed by Louis Hencock (2005) it became evident that the bigger auditing firms usually offer
232 better services than the smaller organizations. But there was also found that the smaller auditing firms provide
233 their employers with better consult. ??Louis Hencock, 2005) Kim et al ??2003) showed that the discrepancy
234 between the big auditing firms effectiveness and the small auditing firms originates from the companies' managers
235 conflict with the auditors regarding the auditing reports. When the managers are sufficiently motivated to increase
236 the amount of the profit via the use of profit generating accounting procedures, the auditors impartiality results
237 in the conflict between the managers and auditors. They found out that the big auditing companies are more
238 effective in preventing the profit manipulation than the small firms (supposing the existence of the contradiction
239 between the managers and the auditors).

240 Lahm and Chang (1994) found out that generally the big auditing companies do not necessarily offer better
241 auditing quality than the smaller firms. (Hay David, Davis David, 2002). Fuerman (2006) in his study came
242 to this conclusion that the bigger auditing firms have lesser auditing negligence. (Fuerman R. Comparing 2006)
243 Deltas and Doogar (2004) in their studies came to this conclusion that the lower the diversity of auditing products
244 the higher the quality of the financial statements will be (Deltas G, Doogar R.2004) Chuntao and colleagues (2007)
245 in their study dealt with the analysis of the cognition (perception) of the stock exchange market through the
246 auditing quality among some of the small auditing institutions in China's auditing market. These researchers
247 found that there is positive relationship between the size of the auditing firms and the investor's perception
248 of the profitability quality. The results of the studies performed by Chuntao et al showed that different sizes
249 of the auditing firms affects the auditing quality. (Chuntao Li., Frank M.song,2007) ??hi and Doogar (2005)
250 showed that with the increase in the tenure period, the auditors' tendencies for publishing reports containing the
251 cooperation continuation condition decreases. Kapli and Dose (1993) also found that low quality audits increase
252 with the tenure period. The results of the studies by Vanstraelen (2000) signifies that the long-term cooperation
253 between the auditor and the employer increases the likelihood of issuing acceptable reports by the auditors.
254 The results of the studies performed by Batz e al ??1982) shows that the auditors' judgment is influenced by the
255 employer-auditor long-term relationships.

256 Steak (1991) in a study stated that in the sampling performed, 30% of the companies claiming a lawsuit, their
257 auditor's tenure period has been 3 years or shorter. (Ghplamreza Karami et al, 1390) Kamran et al ??2001) in
258 some studies surveyed the profit management and auditor substitution relationship by posing this question that
259 whether changing the auditor will increase the audit quality? The results indicate that in case that the auditor
260 substitution is voluntary, this change (shorter commission periods) will increase the auditing quality.

261 Gaiger and Raganandan (2002) with the survey of the companies filing a bankruptcy during the years from
262 1996 to 1998 came to this conclusion that there is a positive relationship between the auditor's tenure period and
263 the possibility of the bankrupted company receiving a conditional report demanding the cooperation continuation
264 in the year before bankruptcy.

265 Fundano et al (2010) studied the relationship between the audit quality and the company size and the cost
266 of equity. In this research, the tenure period, auditing firm size, and the auditor's expertise are considered as the
267 scales of the auditing quality. The results of the study shows that there is a negative and significant relationship
268 between the auditing firm size, the auditor's commissioning period and the auditor's expertise in the industry
269 with the cost of equity.

270 Jule, Job and Hugton (2005) in their study for the measurement of the audit quality besides the auditing firm
271 size made use of the audit firm expertise in the employer's industry. They believed that the audit companies
272 who are expert in the employer's industry would do the auditing with higher qualities. Amongst these, the
273 results of the study performed by Davis et al (2009) comes striking. They found evidences which indicates that
274 the predicted profit, for the companies with short appointment continuation (of less than three years) and the
275 long appointment continuation (of 15 years or more) normally are accompanied with lower error rates and these
276 companies usually by making use of the optional accrual items achieve the expected profit or more than what
277 is forecasted. These results show that as it is possible that the auditing quality decrease with the enlarging

278 the auditor's appointment period, there is the possibility that the auditing quality suffers in the early years
279 of the employer-auditor relationship. (Davis, L.R., Soo,B.,&Trompeter, G.2009) Davis and Soo (2002) noted
280 the positive relationship between the auditor's continuous appointment and the amount of the optional accrual
281 items and the negative relationship between the auditor's continuous appointment and the error in the forecasted
282 profit by the analysts. These results show that due to the auditor's continuous appointment the auditing quality
283 succumbs and the management will bear witness to more flexibility from the auditors side in the reports and
284 would be able to acquire the forecasted profit. (Davis, L.R., & Soo,B., 2002).

285 **14 c) Study Hypotheses**

286 In the current study the hypotheses have been compiled based on the objectives and the importance of the
287 theoretical foundation as follows: 1. There is a significant relationship between auditor tenure period and the
288 profitability ratios. 2. There is a significant relationship between the auditing size and the profitability ratios.

289 **15 VI. Study Population and Statistical Sample**

290 The study population is all of the companies accepted in Tehran's securities exchange market and the sample is
291 determined based on demography taking the following conditions into consideration:

292 1. The fiscal year ends in Esfand (March) every year. 2. The companies had not changed their fiscal year
293 during the study period. 3. Companies had provided the stock market with their financial statements during the
294 study years. 4. The companies had been audited during the study years.

295 According to the above mentioned conditions the number of the statistical sample has been determined as 52
296 companies. It is worth mentioning that the outlier observations were not taken into consideration.\

297 **16 a) Study methodology**

298 The current study deals with the relationship between the audit quality and profitability of the companies
299 accepted in Tehran's securities exchange market. Therefore, this is an applied research. In the present study the
300 library method was taken advantage of for collecting data and information. In the library part, the basic theories
301 of the study were compiled from the persian and english books and journals. The methodology of the study is
302 exploratory-surveying of correlation type. The temporal scope of the study is the years from 2008 to 2013. The
303 present study data have been extracted from the financial statements and the explicatory notes by making use of
304 the Rah-Avard-e-Nowin and Tadbir-Pardaz softwares. And for data analysis the SPSS and Excel softwares were
305 used.

306 **17 b) Study variables**

307 i. Independent variable 1. Auditing size: to survey the auditing size it was taken advantage of the reliable
308 auditing firms in the stock market. 2. The auditor's tenure period: the auditor's tenure period is one of the
309 measures of audit quality measurement which refers to the consecutive years that the auditing firms are appointed
310 for the examination and auditing the accounts of other companies.

311 ii. Dependent variables 1. Profit margin: it is obtained by dividing net profit by the net sale. 2. The
312 investment return rate: it is obtained by dividing the net profit by the total assets. 3. The equity return rate: it
313 is obtained by dividing the net profit by the equity.

314 c) Data analysis i. Inferential statistics One of the linear regression presupposition is that the dependent
315 variable data distribution should be normal or near normal. To figure out the data normality or otherwise the
316 data abnormality, the one-sample Smirnov-Kolmogorov test and the descriptive tests were used.

317 In the interpretation of the Smirnov-Kolmogorov test, if the test significance level is more than 0.05 then it
318 can be said that the observatory and the theoretical distribution are identical and there is no difference between
319 the two that is to say that the obtained distribution is closer to the normal. As it can be seen the investment
320 return rate is not normally distributed.

321 **18 Year ()**

322 **19 D**

323 In the interpretation of the descriptives if the amount of this error is in the range of 2,-2, then the data distribution
324 is normal. As it can be seen the investment return rate is not present in this range, so it is not normal.

325 If the results of the test showed that the data distribution is not normal, for the implementation of regression
326 the normal data log should be applied. First Hypothesis: there is a significant relationship between the auditing
327 tenure period and the profit margin: R: it is known as the multiple correlation coefficient and it is indicative of
328 the amount of the multiple correlation between the entire collection of the dependent and independent variables.
329 It takes a number from 1 to -1. The closer it is to 1 it is more indicative of the strong correlation between
330 dependent and independent variables.

331 The amount of the adjusted coefficient is equal to 0.008 which suggests that the tenure period independent
332 variable has been able to account for 0.8% of the variations of the dependent variable profit margin. Therefore,

333 the rest of these variations (99.2%) are subjected to the effects of the variables exogenous to the model. T-value
334 shows the relative importance of the presence of each of the independent variables in the model. To recognize
335 which variables significantly and meaningfully influences the dependent variable we can look at t-value. Usually,
336 when the t numerical value modulus is bigger than 2.33 the error level will be lower than 0.05 and therefore it can
337 be said that the questioned variable has a significant statistical effect on the elaboration of the dependent variable
338 variations. As it can be observed the standardized regression coefficient for the profit margin variables (0.071) in
339 the error level bigger than 0.05 is not significant. Therefore, it can be said that there is no significant relationship
340 between the tenure period and the profit margin. Second Hypothesis: there is a significant relationship between
341 the investor's return rate and the tenure period. R: it is known as the multiple correlation coefficient and it is
342 indicative of the amount of the multiple correlation between the entire collection of the dependent and independent
343 variables. It takes a number from 1 to -1. The closer it is to 1 it is more indicative of the strong correlation
344 between dependent and independent variables.

345 **20 Model**

346 The amount of the adjusted coefficient is equal to 0.018 which suggests that the tenure period independent
347 variable has been able to account for 1.8% of the variations of the dependent variable profit margin. Therefore,
348 the rest of these variations (98.2%) are subjected to the effects of the variables exogenous to the model. T-value
349 shows the relative importance of the presence of each of the independent variables in the model. To recognize
350 which variables significantly and meaningfully influences the dependent variable we can look at tvalue. Usually,
351 when the t numerical value modulus is bigger than 2.33 the error level will be lower than 0.05

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353 Volume XV Issue IV Version I Year () D and therefore it can be said that the questioned variable has a significant
354 statistical effect on the elaboration of the dependent variable variations. As it can be observed the standardized
355 regression coefficient for the investment return rate variables (0.11) in the error level lower than 0.05 is significant.
356 Therefore, it can be said that there is a significant relationship between the tenure period and the profit margin.

357 Third Hypothesis: there is a significant relationship between the equity return rate and tenure period. R:
358 it is known as the multiple correlation coefficient and it is indicative of the amount of the multiple correlation
359 between the entire collection of the dependent and independent variables. It takes a number from 1 to -1. The
360 closer it is to 1 it is more indicative of the strong correlation between dependent and independent variables.

361 The amount of the adjusted coefficient is equal to 0.000 which suggests that the tenure period independent
362 variable has not been able to account for the variations of the dependent variable of profit margin. Therefore,
363 the rest of these variations (100%) are subjected to the effects of the variables exogenous to the model. T-value
364 shows the relative importance of the presence of each of the independent variables in the model. To recognize
365 which variables significantly and meaningfully influences the dependent variable we can look at t-value. Usually,
366 when the t numerical value modulus is bigger than 2.33 the error level will be lower than 0.05 and therefore it
367 can be said that the questioned variable has a significant statistical effect on the elaboration of the dependent
368 variable variations. As it can be observed the standardized regression coefficient for the profit margin variables
369 (0.323) in the error level bigger than 0.05 is not significant. Therefore, it can be said that there is no significant
370 relationship between the auditing tenure period and the equity return rate.

371 Fourth Hypothesis: there is a significant relationship between the profit margin and the auditing size. R:
372 it is known as the multiple correlation coefficient and it is indicative of the amount of the multiple correlation
373 between the entire collection of the dependent and independent variables. It takes a number from 1 to -1. The
374 closer it is to 1 it is more indicative of the strong correlation between dependent and independent variables. The
375 amount of the adjusted coefficient is equal to 0.019 which suggests that the tenure period independent variable
376 has been able to account for 1.9% of the variations of the dependent variable of profit margin. Therefore, the rest
377 of these variations (98.1%) are subjected to the effects of the variables exogenous to the model. T-value shows
378 the relative importance of the presence of each of the independent variables in the model. To recognize which
379 variables significantly and meaningfully influences the dependent variable we can look at t-value. Usually, when
380 the t numerical value modulus is bigger than 2.33 the error level will be lower than 0.05 and therefore it can be
381 said that the questioned variable has a significant statistical effect on the elaboration of the dependent variable
382 variations. As it can be observed the standardized regression coefficient for the profit margin variables (0.009)
383 in the error level smaller than 0.05 is significant. Therefore, it can be said that there is a significant relationship
384 between the auditor size and the profit margin . T-value shows the relative importance of the presence of each
385 of the independent variables in the model. To recognize which variables significantly and meaningfully influences
386 the dependent variable we can look at t-value. Usually, when the t numerical value modulus is bigger than 2.33
387 the error level will be lower than 0.05 and therefore it can be said that the questioned variable has a significant
388 statistical effect on the elaboration of the dependent variable variations. As it can be observed the standardized
389 regression coefficient for the profit margin variables (0.537) in the error level smaller than 0.05 is not significant.
390 Therefore, it can be said that there is no significant relationship between the auditor size and the investment
391 return rate . Sixth Hypothesis: there is a significant relationship between the auditing size and the equity rate.

392 **22 Coefficients a**

393 **23 Model**

394 The amount of the adjusted coefficient is equal to 0.003 which suggests that the tenure period independent
395 variable has been able to account for 0.3% of the variations of the dependent variable of profit margin. Therefore,
396 the rest of these variations (99.7%) are subjected to the effects of the variables exogenous to the model. T-value
397 shows the relative importance of the presence of each of the independent variables in the model. To recognize
398 which variables significantly and meaningfully influences the dependent variable we can look at t-value. Usually,
399 when the t numerical value modulus is bigger than 2.33 the error level will be lower than 0.05 and therefore it
400 can be said that the questioned variable has a significant statistical effect on the elaboration of the dependent
401 variable variations. As it can be observed the standardized regression coefficient for the profit margin variables
402 (0.168) in the error level smaller than 0.05 is not significant. Therefore, it can be said that there is no significant
403 relationship between the auditor size and the equity return rate.

404 **24 Global Journal of Management and Business Research**

405 Volume XV Issue IV Version I Year () D 2015 R: it is known as the multiple correlation coefficient and it is
406 indicative of the amount of the multiple correlation between the entire collection of the dependent and independent
407 variables. It takes a number from 1 to -1. The closer it is to 1 it is more indicative of the strong correlation
408 between dependent and independent variables.

409 **25 VII. Conclusions and the Suggestions**

410 The objective of the current study is the survey of the auditing quality and the relationship between its variables
411 and the profitability ratios and according to the study and the proposition of the hypotheses we came to the
412 following results: there is no significant relationship between the tenure period and the net profit margin ratios
413 and ROE while there is a significant relationship between the tenure period and ROI and the results of the
414 current study conforms with the results of the studies performed by: Mayers Therefore, based on the current
415 study there is a significant relationship between the auditing size and the net profit margin profitability ratios
416 and ROE while this relationship with the ROI ratios is not significant. There has not been performed a study in
417 Iran which deals with the relationship between the auditing quality and profit management. So, the comparison
418 between this study and other internal studies regarding the subject is not possible for the time being.

419 **26 Durbin-Watson**

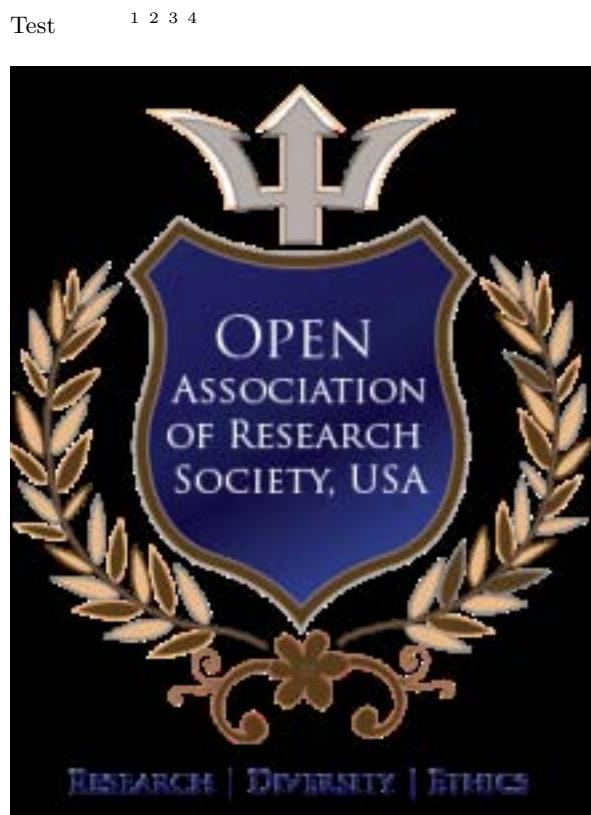


Figure 1: VolumeD

Chen, K.; Lin L. K. & Zhou, (Chen, K.; Lin L. K. & Zhou, J. 2005)(Palmrose, Z. 1988)
(J. 2005)

Figure 2: The

(Francis, J. R.; Maydew, E. L. & Sparks, H. C. 1999)

Figure 3: Fifth

(Myers, J. N., Myers, L. A & Omer, T. C. 2003)

Figure 4:

420

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²The Survey of the Relationship between Auditing Quality and the Profitability in the Companies Accepted in Tehran's Exchange Market

³The Survey of the Relationship between Auditing Quality and the in the Companies Accepted in Tehran's Exchange Market

⁴The Survey of the Relationship between Auditing Quality and the Profitability in the Companies Accepted in Tehran's Exchange Market © 2015 Global Journals Inc. (US)

(Chen, K.; Lin L. K. & Zhou, J. 2005)

Figure 5:

(Ball, R. & Shivakumar, L. 2005)

Figure 6:

(Tendello, B. & Vanstraelen, A. 2008)

Figure 7:

One-Sample Kolmogorov-Smirnov Test

		profitmargins	ROI	ROE
N		300	300	300
Normal Parameters ^a	Mean	0.231465644	0.145232	0.3404
		7	3114	93
	Std. Deviation	0.166113386	0.112564	0.1720
		79	25900	998
Most Extreme	Absolute	.096	.111	.096
Differences	Positive	.096	.111	.096
	Negative	-.083	-.110	-.083
Kolmogorov-Smirnov Z		1.667	1.922	.922
Asymp. Sig. (2-tailed)		.008	.001	.201

Figure 8:

One-Sample Kolmogorov-Smirnov Test

		profitmargins	ROI	ROE
N		300	300	300
Normal Parameters ^a	Mean	0.231465644	0.145232	0.340410
		7	3114	9367
	Std. Deviation	0.166113386	0.112564	0.172015
		79	25900	99808
Most Extreme	Absolute	.096	.111	.057
Differences	Positive	.096	.111	.057
	Negative	-.083	-.110	-.026
Kolmogorov-Smirnov Z		1.667	1.922	.992
Asymp. Sig. (2-tailed)		.008	.001	.278
a. Test distribution is Normal.				

Figure 9:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
profitmargins	300	0.0012704	0.8539587	0.23146564	0.166113386	1.177	.141	1.667	.281
ROI	300	0.0016802	0.9421046	0.14523231	0.112564259	2.874	.141	14.400	.281
ROE	300	0.0069381	0.9228944	0.34041093	0.172015998	.380	.141	-.179	.281
Valid N (listwise)	300								

Figure 10:

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.105 ^a	.011	.008	0.16548007388	1.996

a. Predictors: (Constant), Tenure

b. Dependent Variable: profitmargins

Figure 11:

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.147 ^a	.022	.018	.85094	2.050

a. Predictors: (Constant), Tenure

b. Dependent Variable: lnroi

Figure 12:

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2.515	.127		-19.747	.000
	.085	.033	.147	2.572	.011

a. Dependent Variable: lnroi

Figure 13:

power grow more. Therefore, the quality of such information increases with the auditing quality and the prospective output obtained by relying on such information

(Mohammadramazan Ahmadi and Kamran Jamali, 2013)

V.

gets closer to the reality.

Year
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Figure 14:

Year
36
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	1	(Constant)	Unstandardized Coefficients	B Std.	Standardized Coefficients	T	-	Sig.
Trustee								
ex- chang e			Error	-2.144	.122			

A. Dependent Variable: lnroi

[Note: D]

Figure 15:

Year	No relationship exists	1.996	Significance	Year
level	rela-	0.071	tion-	ship
Year	Year			be-
				tween
				the
				tenure
				pe-
				riod
				and
				profit
				mar-
				gin
Volume	Relationship exists	No relationship exists	Relationship exists	No relationship exists
XV				No relationship exists
Issue				
IV				
Version				
I Global				
Journal				
of Man-				
age-				
ment				
and				
Busi-				
ness				
Re-				
search (
)				

[Note: *Dservices*,]

Figure 16:

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