EXAMINING THE DIFFERENCES BETWEEN FINANCIAL RESTATEMENTS REPRESENT REPORTING AND AUDITOR CHANGE AT INSTITUTIONAL OWNERSHIP AND NON-INSTITUTIONAL OWNERSHIP

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Abstract
The main purpose of this study is examining the differences between financial restatements represent reporting and auditor change at institutional ownership and non-institutional ownership. The population of this study are the companies that active in Tehran stock exchange since 2008 we considering 119 companies were selected as sample. The sampling method of this study is probability simple random sampling. In order to analyze the data, we used deductive and descriptive statistical methods. The results K-S Test shows the test distribution is Normal. So we can use Multi Regression to test the hypothesis of the research. Findings show that the t amount and p-value for between financial restatements represent reporting and auditor change at institutional ownership and non-institutional ownership that control variable is meaningful in 95% confidence level. Also, the Adjusted Coefficient of Determination is 37 percent. It indicates independent variables and control variable predicate 37 percent changes in auditor changes.

Keywords: financial restatements represent reporting, auditor change, institutional ownership, non-institutional ownership

INTRODUCTION
Economic decisions in every society must be based upon the information available at the time the decision is made. For example, the decision of a bank to make a loan to a business is based upon previous financial relationships with that business, the financial condition of the company as reflected by its financial statements and other factors. If decisions are to be consistent with the intention of the decision makers, the information used in the decision process must be reliable.

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Unreliable information can cause inefficient use of resources to the detriment of the society and to the decision makers themselves. In the lending decision example, assume that the barfly makes the loan on the basis of misleading financial statements and the borrower Company is ultimately unable to repay. As a result the bank has lost both the principal and the interest. In addition, another company that could have used the funds effectively was deprived of the money (Alzadeh, 2013: 214).

Financial Accounting is concerned with providing information to external users such as shareholders, creditors, labor unions, government authorities etc., It is oriented towards the preparation of financial statements i.e. Profit and Loss account and Balance Sheet which summarizes the results of operations for selected periods of time and show the financial position at particular dates. It follows Generally Accepted Accounting Principle. Financial accounting accounts for money. Since, financial statements are general purpose in nature and only one set of accounts is prepared and sent to all, financial accounting suffers from the following limitations.

1. Financial accounting is mostly historical in nature.
2. It does not provide detailed cost information for different jobs. Processes or departments.
3. It is difficult to know the behavior of cost as expenses are not classified into fixed and variable.
4. It does not possess an adequate system of standards to evaluate the performance of departments and employees.
5. It does not provide necessary information to management in taking important decisions like pricing, special orders, alternative etc.
6. Annual reporting is a rule in financial accounting You et al. 2003: 415).

Audit was originally confined to ascertaining whether the accounting party had properly accounted for all receipts and payments on behalf of his principal, and was in fact merely a cash audit. Modern audit not only examine cash transactions, but also verify the purport to which the cash transactions relate. Audit is, therefore, an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they purport to relate (Shafai et al, 2012: 75).

You et al. (2003) provide empirical evidence regarding the relation between managerial ownership, earnings management, and audit quality. They show that managerial ownership and audit quality are both inversely associated with abnormal accruals.

Bauwhede et al. (2000) illustrate that audit quality and public ownership act as constraints on income decreasing earnings management. Perhaps the most commonly used indirect measure of audit quality is audit size. The theory advanced by De Angelo (1981) proposes that the size of an audit firm is an indicator of audit quality because larger firms have more equipment. According to Choi et al. (2010), the office size has significantly positive relations with both audit quality and audit fees. These positive relations support the view that large local offices provide higher-quality audits compared with small local offices. Krishnan (2003) finds that specialist auditors mitigate accrual-based earnings management more than no specialist auditors and, therefore influence the quality of financial reporting. Chen et al. (2006) investigate the relationship between auditor brand name, industry specialization and earnings management in Taiwan. They find that the use of Big 5 auditors is related to less earnings management and industry specialist auditors are related to less income increasing earnings. Safari et al. (2011) reveal that discretionary accruals are negatively related to auditor size and auditor industry specialization.

A restatement provides an explicit acknowledgement of material omissions or misstatements in the original financial statements. So it is not surprising that restatements engender concerns not
only about the quality of financial reporting but about the quality of services rendered by independent auditors. Evidence suggesting an increase in the frequency of restatements has exacerbated these concerns. Statements by the SEC’s Chief Accountant indicate that the SEC considers restatements to be audit failures (Turner 1999), and concern over restatements contributed to SEC Chairman Levitt urging the Public Oversight Board to appoint the Panel on Audit Effectiveness in late 1998.

Financial restatements represent reporting failures where companies admit that previous financial representations are not reliable. Such reporting failures have various potential causes and effects that can undermine company health and raise questions about the expertise and integrity of individuals that affect reporting, operations, and compliance. In the post-Sarbanes–Oxley era, financial report users (for example, investors, creditors, analysts) have seen an explosion in the number of restatements, giving rise to questions about why so many companies find it difficult to produce accurate information (DeZoort, 2011).

Restatements must be submitted when, for a variety of possible reasons, previously released financial information has been deemed inaccurate. Restatements could become necessary due to mundane clerical errors, inaccurate treatment of government regulations, or even fraud.

Financial restatements, despite the cause, are considered major corporate reporting errors. They undermine the reputation of not only those individuals—such as accountants, managers and members of the Board of Directors—who are directly responsible for reporting financial information, but also of the company as a whole (Rothberg, 2012).

The causes of financial restatements vary considerably across cases. However, the accounting research literature (Plumlee and Yohn, 2008; Scholz, 2008) and existing restatements highlight a number of potential causes of restatements, including:

- Complexity of accounting standards and/or transactions. Although there is a growing push to emphasize principles-based standards, companies in the United States still face demands related to rules from an array of authoritative bodies. GAAP involve hundreds of rules provided by IASB for most countries and FASB in the United States.
- Weak financial governance and controls. Contemporary corporate governance frameworks highlight the importance of management, the board of directors/audit committee, internal auditors, and external auditors in ensuring financial reporting reliability. Weak governance and internal controls over financial reporting increase the likelihood of financial reporting failure and restatement.
- Increased auditor and audit committee conservatism. The SOX created a number of new demands on auditors and audit committees. Increased regulation, scrutiny, and legal exposure for auditors and audit committees increase their motivation to be conservative and revisit management’s judgments when evaluating financial reporting and specific accounting issues.
- Broad application of materiality. The SEC Advisory Committee on Improvements in Financial Reporting expressed concern that restatements result from overly strict materiality assessments where restatements occur to correct misstatements that investors might not find important.
- Earnings management. Management faces tremendous pressure to meet or beat expectations established by various groups (for example, analysts, and directors). GAAP provide a great deal of opportunity for earnings management (for example, in areas
related to depreciation, reserves, asset valuation) that is subject to abuse that can lead to restatement.

- Lack of transparency. In complex reporting environments, companies often fail to provide disclosures that are complete and understandable in compliance with GAAP. For example, footnotes that fail to provide clear, sufficient descriptions of company activities and policies undermine financial reporting reliability.

- Fraud. The largest frauds are due to financial reporting schemes where individuals intentionally misstate companies’ financial statements.

A considerable body of research has focused on the role of institutional investors as corporate monitors. The rationale is that due to the high cost of monitoring, only large shareholders such as institutional investors can achieve sufficient benefits to have an incentive to monitor (Millon Cornett et al, 2007: 1773).

Chaganti and Damanpour (1991) and Lowenstein (1991), for instance, find little evidence that institutional ownership is correlated with firm performance. McConnell and Servaes (1990), on the other hand, report that there is a positive relation between firm value and ownership by institutional investors. Seifert, Gonenc and Wright (2005) study does not find a consistent relationship across countries. They conclude that their inconsistent results may reflect the fact that the influence of institutional investors on firm performance is location specific. The above studies generally consider institutional investors as a monolithic group. However, Shleifer and Vishny’s (1986) as well as Pound’s (1988) theorizations and later empirical examinations by McConnell and Servaes (1990) suggest that shareholders are differentiable and pursue different agendas. Jensen and Merkling (1976) also show that equity ownerships by different groups have different effects on the firm performance.

METHODOLOGY

The main purpose of this study is examining the differences between financial restatements represent reporting and auditor change at institutional ownership and non-institutional ownership. The population of this study are the companies that active in Tehran stock exchange since 2008 and had this characteristics:

- Fiscal year is end March 19
- During the years 2008 to 2013 be presented annual Audited financial statements.
- Companies has accepted in Tehran stoke Exchange since 2007.
- Final sample from 2008 to 2013
- Don’t be one of Investment company

So, with considering this situation, 119 companies were selected as sample. The sampling method of this study is probability - simple random sampling. Data has gathered from www.rdis.ir and www.irbourse.com.

In order to analyze the data, we used deductive and descriptive statistical methods. The results K-S Test shows the test distribution is Normal. So we can use Multi Regression to test the hypothesis of the research. The SPSS tool has been used
RESULTS AND CONCLUSION

A) Deductive Results

Table 1 to shows the deductive results of variables in Petroleum industry.

<table>
<thead>
<tr>
<th>E. Error</th>
<th>Elongation</th>
<th>Sk. Error</th>
<th>Variation</th>
<th>SD</th>
<th>mean</th>
<th>mix</th>
<th>min</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNNAF</td>
<td>.250</td>
<td>1.615</td>
<td>.125</td>
<td>.957</td>
<td>67662</td>
<td></td>
<td></td>
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<tr>
<td>INST</td>
<td>.250</td>
<td>1.811</td>
<td>.125</td>
<td>-1.653</td>
<td>95.25</td>
<td>24.766</td>
<td>75.2236</td>
</tr>
<tr>
<td>NUMBD</td>
<td>.250</td>
<td>1.817</td>
<td>.125</td>
<td>1.653</td>
<td>95.25</td>
<td>2.990</td>
<td>6.88</td>
</tr>
<tr>
<td>ROA</td>
<td>.250</td>
<td>-.221</td>
<td>.125</td>
<td>.118</td>
<td>96.92</td>
<td>21.223</td>
<td>50.0210</td>
</tr>
<tr>
<td>SIZE</td>
<td>.250</td>
<td>.099</td>
<td>.125</td>
<td>.513</td>
<td>7.38</td>
<td>1.354</td>
<td>13.2154</td>
</tr>
<tr>
<td>LEV</td>
<td>.250</td>
<td>12.987</td>
<td>.125</td>
<td>9.876</td>
<td>8.04</td>
<td>.52315</td>
<td>.6897</td>
</tr>
<tr>
<td>RINBD</td>
<td>.250</td>
<td>.365</td>
<td>.125</td>
<td>.365</td>
<td>.33</td>
<td>.2258</td>
<td>.51</td>
</tr>
</tbody>
</table>

B) Hypotheses Results

In this paper we have two main hypotheses. The statistical way of analysis of hypotheses is two ways, \( H_1 \) is acceptance of hypothesis and \( H_0 \) is rejecting of hypothesis. In other words, it means that \( H_1 \) has positive meaning and \( H_0 \) has no meaning.

Hypothesis: There is differences between financial restatements represent reporting and auditor change at institutional ownership and non-institutional ownership.

- \( H_1 \): There is differences between financial restatements represent reporting and auditor change at institutional ownership and non-institutional ownership
- \( H_0 \): There is not differences between financial restatements represent reporting and auditor change at institutional ownership and non-institutional ownership

Table 1 shows that Multi Regression analysis has been done in order to determine the relationship between financial restatements represent reporting as independent variable and free auditor change as dependent variable.

Table 1, Coefficient of Determination and Durbin Watson

<table>
<thead>
<tr>
<th>Coefficient Of Determination</th>
<th>Adjusted Coefficient Of Determination</th>
<th>Durbin Watson</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>.379</td>
<td>.368</td>
<td>2.158</td>
<td>33.750</td>
<td>.000</td>
</tr>
</tbody>
</table>

Table 1 results show that F test results show that p-value is 0.000 in 95% confidence level. It means that the Regression model is meaningful. And also, the test distribution is normal, Because Durbin Watson test is 2.158 and is Between 1.5 – 2.5. So, we can used liner Regression.
Table 2, Multi Regression of the independent and dependent variables

<table>
<thead>
<tr>
<th>Explanatory Variable</th>
<th>B</th>
<th>t</th>
<th>P-Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>.742</td>
<td>22.143</td>
<td>0.000</td>
<td>Confirm</td>
</tr>
<tr>
<td>REST</td>
<td>.196</td>
<td>4.517</td>
<td>0.000</td>
<td>Confirm</td>
</tr>
<tr>
<td>GC</td>
<td>-0.053</td>
<td>-3.924</td>
<td>0.000</td>
<td>Confirm</td>
</tr>
<tr>
<td>MODOP</td>
<td>-0.179</td>
<td>4.086</td>
<td>0.000</td>
<td>Confirm</td>
</tr>
<tr>
<td>STTNR</td>
<td>-0.129</td>
<td>-2.918</td>
<td>0.104</td>
<td>-</td>
</tr>
<tr>
<td>LTTNR</td>
<td>-0.070</td>
<td>-1.477</td>
<td>0.140</td>
<td>-</td>
</tr>
<tr>
<td>LNAF</td>
<td>-0.151</td>
<td>-2.156</td>
<td>0.000</td>
<td>Confirm</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.172</td>
<td>1.032</td>
<td>0.303</td>
<td>-</td>
</tr>
<tr>
<td>LOSS</td>
<td>-0.257</td>
<td>-0.542</td>
<td>0.251</td>
<td>-</td>
</tr>
<tr>
<td>LVRG</td>
<td>-0.151</td>
<td>-4.156</td>
<td>0.000</td>
<td>Confirm</td>
</tr>
<tr>
<td>GROWTH</td>
<td>-0.044</td>
<td>-1.310</td>
<td>0.191</td>
<td>-</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.053</td>
<td>-3.924</td>
<td>0.191</td>
<td>-</td>
</tr>
<tr>
<td>NUMBD</td>
<td>0.024</td>
<td>0.732</td>
<td>0.465</td>
<td>-</td>
</tr>
<tr>
<td>RINDBD</td>
<td>0.016</td>
<td>0.396</td>
<td>0.692</td>
<td>-</td>
</tr>
<tr>
<td>INOWN</td>
<td>0.019</td>
<td>0.445</td>
<td>0.657</td>
<td>-</td>
</tr>
</tbody>
</table>

a Predictors in the Model: (Constant), REST, GC, MODOP, STTNR, LTTNR, LNAF, ROA, LOSS, LVRG, GROWTH, SIZE, NUMBD, RINDBD, INOWN

b Dependent Variable: Auditor Change

According to the table, it is observed that the amount of sig is equal 0.000 at 95% confidence level is less than 5%. Therefore, assuming a linear regression model was significant and the model is confirmed.

The t amount and p-value for dependent and independent variables show that control variable is meaningful in 95% confidence level.

Also, the Adjusted Coefficient of Determination is 37 percent. It indicates independent variables and control variable predicate 37 percent changes in auditor changes.

References


