

The Effect of Auditor Tenure and CEO Role Duality on the Probability of Opportunistic Earnings Management

Abstract

In many companies, the management of the company is entrusted to individuals other than its owners and shareholders. The separation of ownership from management in many companies can lead to various problems. For example, managers may lack the necessary skills to run their respective areas of responsibility, or they may reward themselves with unreasonable incentives and bonuses that are not aligned with their performance. Therefore, the concept of corporate governance was developed to address the issues arising from the separation of ownership and management of a company. Based on this, the present study examines the impact of the tenure of auditors and CEO duality on the likelihood of earnings management by management opportunism. To achieve this goal, information from 119 companies listed on the Tehran Stock Exchange for five years (from the beginning of 2016 to the end of 2020) was collected, and the necessary research variables were calculated and statistically tested. The research method used is descriptive-correlational, and the research design is experimental, utilizing a post-event approach. Multiple regression analysis was utilized to test the hypotheses of the research. The hypotheses were examined using statistical and econometric methods. The research findings indicate that both auditor tenure and CEO duality have a positive and significant impact on earnings management.

Keywords: Auditor Tenure, CEO Duality, Earnings Management CEO Role Duality, Opportunistic

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Introduction

One of the most significant characteristics of joint-stock companies is the separation of ownership from management, and financial reports are vital sources of information for economic decision-making, which managers, investors, creditors, and other users utilize to meet their respective needs (Abbott et al., 2016). With the separation of management from ownership, various issues have arisen in the accounting profession, stemming from the conflict of interests between managers and shareholders. One of these issues is the formation of information asymmetry between shareholders and managers. This matter has prompted researchers to investigate ways to reduce information asymmetry, aiming to decrease the volume of information asymmetry and facilitate informed and well-considered decision-making regarding capital allocation or disinvestment by shareholders. On the other hand, one of the most critical factors in making decisions about an investment is its profitability or return. In other words, investors seek high-quality profits, which researchers define as profits that have undergone minimal manipulation or, in other words, have been managed as little as possible. The Issue of Earnings Management is one of the topics that have been repeatedly scrutinized in accounting research. Since the primary function of the capital market is to attract resources for individual and societal investors' participation in the country's economic cycle and various economic activities, such as production, trade, and services, the increased likelihood of opportunistic reporting and the presence of earnings management in various forms,

driven by diverse motives, as well as widespread fraud at different levels of financial reporting, will erode the essential trust in various segments of society, including the capital market. No investor will be willing to invest in an opaque and fraud-prone environment. Consequently, by withdrawing their capital from this opaque and risky market, they may incur damage and seek greater benefits in counterfeit markets such as the gold, silver, and even black markets. The growth of counterfeit markets itself has been the root cause of many macroeconomic problems in the country, affecting all segments of society.

On the other hand, transparency in financial reporting leads to an increased willingness among investors to inject their financial resources into the capital market, ultimately strengthening and flourishing this market. With the increase in transparency in the reporting process and the reduction of opportunistic reporting and purposeful intervention in profit reporting, ethical behavior among corporate managers will increase, fostering positive and constructive competition among them. This will encourage them to report their earnings transparently and without manipulation. On the other hand, for smaller companies, motivation will be created to attract investors' capital and evolve into larger and international companies (Pulliam, 2020).

With the prevailing perception in society that earnings management often takes a negative form, lawmakers have recently reevaluated certain corporate governance laws to address opportunistic earnings management. For example, they

have enacted laws requiring specific members of corporate boards to possess financial expertise. However, some researchers, through their scientific studies, assert that earnings management can be efficient (beneficial). They argue that it can increase valuable information about earnings. Earnings management is classified into two main types (Ajinkga et al., 2015):

1. Opportunistic Earnings Management: This involves manipulating and reporting earnings in a way that maximizes the manager's self-interest.

2. Ethical Earnings Management: In contrast, ethical earnings management involves improving and reporting earnings using confidential and proprietary information for the benefit of shareholders.

Extensive research has been conducted on earnings management, but there is relatively limited research specifically focusing on the factors influencing the choice of a particular type of earnings management. Krishnan (2003) discovered in his research that independent auditors often serve as representatives of corporate governance mechanisms and play a significant role in deterring opportunistic earnings management. Other representatives of corporate governance include the proportion of independent board members and the presence of an audit committee. Healy and Palepu (1993) argue in favor of opportunistic earnings management. They consider the agency problem between managers and shareholders as a driver for managers to opportunistically exploit the flexibility provided by accepted accounting principles, resulting in an abnormal reporting of earnings (as cited in Gonzalez & Hoffman, 2018).

In general, the evidence available in research regarding the type of opportunistic earnings management versus ethical earnings management is somewhat ambiguous. Therefore, in this study, the possibility of opportunistic earnings management as the dependent variable is discussed and examined. An attempt is made to clarify and determine the extent of the impact of auditor tenure and CEO duality as explanatory variables. Based on this, the following questions arise:

1. First Question: What is the impact of auditor tenure on earnings management?
2. Second Question: What is the impact of CEO duality on earnings management?

Theoretical Framework and Research Background

1. The Role of Managers in Organizations:

Managers who has ethical values are one of the indicators of societal developments. For inside of the company and for the outside of the company, it means for employees and customers they provide fair management and quality services or products that aim to leverage the quality of the life (Kavlu, 2017; Zaim et al., 2020).

In the context of fast change and major external developments such as economic crises, pandemics and technological advances, the leader role is becoming increasingly critical for the success of the T&H organization. Whittington et al. (2020) argue that leading strategic change in practice involves managers at different levels in an organization.

The tenure of CEOs and their role in organizations have been fundamental considerations in the field of management. Managers are the primary and most loyal assets of any form of economic organization. Managerial behaviors and management approaches vary widely across the world and are influenced by the prevailing environment. Managers have the duty and responsibility to provide appropriate strategies for better utilization of available financial resources and to create favorable conditions for selecting optimal investment projects. By applying this knowledge, the efficiency of utilizing public wealth in society has increased, increasing public wealth and social well-being (Shateri, 2014).

2. Auditor Tenure and Its Impact:

Lack of familiarity between auditors and their clients can potentially raise concerns for auditors, leading them to avoid potential audit risks. Auditors may, therefore, report some transactions more conservatively or increase audit procedures. Conversely, longer auditor tenure can lead to increased familiarity and reduced audit independence. Moreover, excessive trust between auditors and management after a long-term relationship can make auditors less vigilant. On the other hand, a shorter auditor tenure increases the likelihood of reporting discretionary items, as well as enhancing auditor independence. Furthermore, companies with longer auditor tenure may receive a less significant market reaction to their profit announcements because there is less confidence in the quality of their earnings. Consequently, increasing the auditor's tenure leads to a reduction in the dispersion of optional commitment item distributions, which results in an improvement in audit quality (Selim et al., 2019).

The division of responsibilities at the senior level within a company must be clearly defined to ensure a balance of power and limits of authority for the board of directors, providing sufficient confidence. The lack of separation between the roles of the chairman of the board of directors and the CEO results in a single individual being responsible for both executive and oversight functions. In such cases, the chairman of the board, who is also the CEO of the company, wields significant power,

and this can lead to the detriment of shareholders' rights (Feeli, 2019). The level of board members is typically measured in one of two ways: either through duality, where both the positions of the chairman of the board and the highest executive officer (CEO) are held by one person, or through separation, where the number of board members is considered. The ethical risk model is based on information asymmetry and addresses the costs that lead to long-term and optimal results for the company. Individuals seek outcomes that are beneficial to themselves, in other words, decisions that are personally beneficial to management may not necessarily be optimal for the company. The inclination to make long-term investments that do not yield short-term profitability decreases because managers view these long-term profits as beneficial only to future CEOs (Alimohammadi, 2019).

The philosophy of earnings management involves the utilization of flexibility in accounting standards and accepted accounting principles. Various interpretations of the implementation methods of an accounting standard can also contribute to the existence of earnings management. This flexibility is the primary reason for the diversity in accounting methods. When the interpretation of an accounting standard is highly flexible, the consistency of data presented in financial statements is reduced. The principles of matching and conservatism can also lead to earnings management. Company managers have emphasized that this is done to present more realistic and comparable financial statements with other companies in the same industry. Financial analysts and auditors refer to these actions as "accounting tricks." It's important to note that all these actions are carried out within the framework of accepted accounting principles.

The theory of earnings quality was first introduced by financial analysts and stockbrokers because they felt that reported earnings did not accurately represent the true earning power they perceived in their minds. They discovered that it is difficult to forecast future earnings from reported performance. Financial experts also discovered that several flaws in the assessment of accounting information make it challenging to analyze a company's financial statements. The main query is: Why do financial analysts proceed with care and do not use stated net income or earnings per share (unadjusted) in their assessments? The answer is that both the number and quality of earnings ought to be taken into account when assessing a company's worth. Earnings quality refers to the potential for future earnings growth and the likelihood of realizing future earnings. Put another way, a share's value is determined by its earnings per share for the current year as well as by our perceptions of the company's prospects, potential for future profits and degree of confidence in those prospects. Financial analysts attempt to assess the outlook for a company's earnings.

The earnings outlook takes into account both favorable and unfavorable attributes of net income.

Research conducted provides suitable evidence of earnings management in various conditions. Company managers attempt to demonstrate the growth in profitability in a way that leads to achieving their expected level of return through earnings management. Given that the economic, accounting, social, and cultural environment in Iran is different from Western countries, the motivations for earnings management in Iran may also differ from Western countries. In several studies, reward systems have been considered as one of the motivations for earnings management. To compensate for the creativity and innovations of management in finding and implementing more advanced and efficient procedures and methods, organizations often provide management with rewards. These rewards are usually given for performing tasks at a level higher than standard job requirements. Profit-based reward schemes, in conjunction with other factors such as job security, job level, and company size, which have a direct or indirect relationship with company profitability, are related to the high profitability of the company. The assumption is that managers seek to increase their well-being through increased company profitability .

Review of Research Background

1. Alimohammadi (2019) examined the effective relationship between the audit committee and internal audit and its impact on the quality of financial reporting. The study's findings showed a substantial correlation between the audit committee's size, the financial expertise of its members, the number of audit committee approvals, and the caliber of financial reporting. The quality of financial reporting did not, however, significantly correlate with the impartiality of the members of the audit committee or the existence of internal audits.
2. Aftab-bakhshayesh (2019) examined the connection between the qualities of financial reporting in firms registered on the Tehran Stock Exchange and the audit committee's features. The study revealed that audit committee size and independence significantly influence the quality of financial reporting and profit distribution. Additionally, control variables such as board independence, firm size, and financial leverage positively affected the quality of financial reporting.
3. Feeli (2019) investigated the connection between the caliber of financial reporting of businesses traded on the Tehran Stock Exchange and the audit committee. The primary focus of the study was on the connection between the caliber of financial reporting and the audit committee.
4. Raees Taheri (2019) investigated the impact of audit quality and political connections on the quality of financial reporting. The results of the research models suggested that political

connections negatively impacted the quality of financial reporting. Furthermore, the study found that audit quality did not significantly affect the quality of financial reporting.

5. Hoos and colleagues (2018) examined the moderating role that audit quality had in the connection between investment efficiency and the quality of financial reporting. The results show that there is a significant positive relationship between financial reporting quality and investment efficiency, also audit quality does not have a moderating role in the connection between investment efficiency and the quality of financial reporting.

Research Methodology

The present research follows an applied approach and, in terms of the research method, it falls under the category of descriptive-correlational research. Additionally, from a temporal perspective, it is considered a post-event study. All firms registered on the Tehran Stock Exchange throughout five years, from the beginning of 2016 to the end of 2020, were included in the population of this research.

To select an appropriate sample representative of the target population, a screening (exclusionary) method was employed. For this purpose, the following criteria were considered, and if a company met all these criteria, it was chosen as one of the sample companies.

Furthermore, to obtain the desired statistical sample, a systematic elimination method was used. Thus, the statistical population was adjusted using the following constraints:

- 5-year membership of sample companies (during 2016-2020) in the Tehran Stock Exchange.
- Having a fiscal year ending March 20.
- Having sufficient financial information to measure defined variables.
- No change of fiscal year,
- Not operating in banking and other financial institutions, investment and intermediation companies, and holding and leasing.

In the end, 119 companies were selected for the study.

Hypotheses and Analytical Model

Hypothesis 1: The continuity of the auditor's tenure has a significant impact on earnings management.

Hypothesis 2: CEO duality has a significant impact on earnings management.

To test the research hypotheses, the following regression model will be utilized:

$$H1: \quad OREP_{it} = \beta_0 + \beta_1 TEA_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 LOSS_{it} + \beta_5 PROF_{it} + \beta_6 CUR_{it} + \epsilon_{it}$$

$$H2: \quad OREP_{it} = \beta_0 + \beta_1 DUAL_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 LOSS_{it} + \beta_5 PROF_{it} + \beta_6 CUR_{it} + \epsilon_{it}$$

The evaluation methods for the research variables are briefly presented in Table 1.

Table 1: Evaluation Methods for Research Variables

row	Variable Names (Symbols)	Variable Types	Evaluation method
1	Earnings Management (OREP)	Dependent	evaluation method calculated based on actual earnings management
2	Auditor Tenure (TEA)	Independent	If the company's auditor has been in the same audit firm for three years; the score is one, otherwise the score is zero as the basis for calculations
3	CEO Duality (DUAL)	Independent	If the CEO and board roles are held by one person; the score is one, otherwise the score is zero as the basis for calculations.
4	Financial Leverage (LEV)	Control	<u>Total liabilities / Total assets</u>
5	Company Size (SIZE)	Control	Natural logarithm of the remaining assets of the business at year's end
6	Loss Reporting (LOSS)	Control	If the company reports a net loss; the score is one, otherwise the score is zero as the basis for calculations.
7	Profitability (PROF)	Control	<u>Number of shares - Market value per share</u> <u>Common shareholders' equity</u>
8	Current Ratio (CUR)	Control	<u>Current assets</u> <u>Current liabilities</u>

In the end, for data analysis, a multiple regression method and statistical tests were performed using the SPSS version 22 and EViews version 8 software.

Results

Descriptive Statistics of Research Variables

The descriptive statistics of research variables are presented in Table 2.

Table 2- Descriptive statistics of research variables in the study period

variable	symbol	mean	Median	Max	Min	Standard Deviation	Observation
Opportunistic Management Reporting (OREP)	OREP	0.157	0.186	0.753	0.1-16	0.795	595
Continuation of Audit (TEA)	TEA	0.205	0.710	1.000	0.000	0.612	
Dual Role of CEO (DUAL)	DUAL	0.863	0.000	1.000	0.000	0.975	
Company Size (SIZE)	SIZE	7.728	8.024	10.243	5.078	0.251	
Financial Leverage (LEV)	LEV	0.638	0.675	0.878	0.410	0.240	
Profitability (PROF)	PROF	1.944	1.845	2.401	1.115	0.682	
Loss Reporting (LOSS)	LOSS	0.265	0.000	1.000	0.000	0.115	
Current Ratio (CUR)	CUR	1.609	1.946	2.197	1.099	0.745	

4-3 Normality test of error terms distribution of research hypotheses

To assess the normality of the distribution of the research hypothesis error sentences, the Jarque-Bera test was used. The statistical distribution of the test is as follows:

H0: The error sentences of the research hypothesis have a normal statistical distribution.

H1: The error sentences of the research hypothesis do not have a normal statistical distribution.

The results of the test are presented in Table 3.

Table 3: Results of the Normality Test for the Distribution of Error Sentences of the Research Hypothesis

Variable	Symbol	Jarque-Bera statistic	Jarque-Bera statistic p-value
First hypothesis error sentences	RESIDUAL	241.265	0.065
Second hypothesis error sentences		203.254	0.081

Taking into account that the statistical distribution of the research hypothesis's mistake sentences has a likelihood of the Jarque-Bera statistic that is higher than the 5% significance level, the null hypothesis (H0) is confirmed, indicating that the statistical distribution is normal.

For testing the reliability of the research variables, the Levin, Lin, and Chu test was employed. The statistical distribution of this test is as follows:

H0: The data of the variables are not stationary.

H1: The data of the variables are stationary.

The results of this test are presented in Table 4.

Table 4: Reliability and Stationarity Test for Research Variables

variable	Symbol	Levene, Lin, and Chu test		Collinearity statistics	
		Test statistic	Test statistic p-value	Tolerance	Variance Inflation Factor (VIF)
Managerial Opportunistic Reporting	OREP	51.455	0.0000	-	-
Continuity of Auditors	TEA	10.628	0.0000	0.414	2.415
Dual Role of CEO	DUAL	21.418	0.0000	0.423	2.364
Company Size	SIZE	44.194	0.0000	0.407	2.457
Financial Leverage	LEV	28.447	0.0000	0.452	2.212
Profitability	PROF	31.297	0.0000	0.443	2.257
Loss Reporting	LOSS	55.784	0.0000	0.471	2.123

variable	Symbol	Levene, Lin, and Chu test		Collinearity statistics	
		Test statistic	Test statistic p-value	Tolerance	Variance Inflation Factor (VIF)
Current Ratio	CUR	31.118	0.0000	0.410	2.439

Based on the results obtained, it can be concluded that the research variables were stable during the study period. This is because the probability of the Levene, Lin, and Chu test statistics for all variables was less than a 5% significance level. Furthermore, it can be deduced that there is no multicollinearity among the study variables because all tolerance values were larger than 0.2 and the variance inflation factor (VIF) was less than five.

Heteroscedasticity and Levene, Lin, and Chu test

Table 5: Investigation of heteroscedasticity of research variables

The name of the tests	hypothesis	Test statistic	Degree of freedom	Test statistic p-value
White test	First	4.197	(4,414)	0.0728
	Second	4.214	(4,318)	0.0811
F Lerner test	First	44.184	(122,485)	0.0000
	Second	4.283	(122,485)	0.0000
Hausman test	First	52.003	5	0.0000
	Second	50.345	5	0.0000

Based on the results obtained, it can be concluded that the p-value of the White test is greater than the 5% significance level, indicating homoscedasticity of variances. Therefore, there is no issue of heteroscedasticity.

Additionally, the p-value of the F Lerner test is less than the 5% significance level, suggesting the selection of the fixed effects model over the random effects model for conducting mixed-effects regression. As can be seen, the Hausman test's p-value is likewise below the 5% threshold of significance. Therefore, it is established that the study hypothesis should use the fixed effects model rather than the random effects model (Table 5).

First hypothesis test

Table 6 displays the fixed effects regression model for the aforementioned hypothesis.

Table 6: Fixed effects regression model of the first research hypothesis

OREP _{it} =β ₀ +β ₁ TEA _{it} +β ₂ LEV _{it} +β ₃ SIZE _{it} +β ₄ LOSS _{it} +β ₅ PROF _{it} +β ₆ CUR _{it} +ε _{it}				
statistics Variables	Symbol	Regression coefficients	t statistic value	t statistic P-value
constant term	C	5.972	0.769	0.4601
Continuity of Auditors	TEA	8.207	2.575	0.0121
Company Size	SIZE	5.560	20.153	0.0000
Financial Leverage	LEV	10.872	4.360	0.0000
Profitability	PROF	10.088	0.380	0.7235
Loss Reporting	LOSS	9.260	1.359	0.1869
Current Ratio	CUR	10.848	1.196	0.2460
R2	Adjusted R ²	Durbin Watson	F statistic value	F statistic P-value
0.598	0.523	2.011	20.469	0.0000

The results obtained from the table convey the following:

1. Continuity of the Auditor has a Significant Positive Impact on Income Manipulation: The regression variable associated with "Continuity of the Auditor" (8.207) has a positive coefficient, and the p-value (0.0121) is below the significance level of 5%. Therefore, the first hypothesis of the research, which suggests a positive relationship between auditor continuity and income manipulation, is confirmed at a 95% confidence level.
2. Adjusted R-squared Indicates a Good Fit: The adjusted R-squared value indicates that When taking into account the control variables, modifications to the explanatory variables included in the model can account for around 52% of the variation in the dependent variable. This suggests that the model provides a good fit to the data and effectively predicts changes in the dependent variable based on the explanatory variables.
3. Durbin-Watson Test for Autocorrelation: There is no significant autocorrelation between the error terms since the Durbin-Watson statistic (2.011) falls within the optimal range of 1.5 to 2.5. This means that the assumption of no autocorrelation among the variables is supported.
4. F-Test for Model Significance: The F-test was used to assess the overall significance of the model. The p-value (0.0000) is below the 5% significance level, so the regression model is considered statistically significant. In other words, the linear regression model as a whole is reliable.

Testing the second hypothesis of the research

The regression model for the second research hypothesis is presented in Table 7.

Table 7. Regression model for the second research hypothesis

OREP _{it} =β ₀ +β ₁ DUAL _{it} +β ₂ LEV _{it} +β ₃ SIZE _{it} +β ₄ LOSS _{it} +β ₅ PROF _{it} +β ₆ CUR _{it} +ε _{it}				
statistics Variables	Symbol	Regression coefficients	t statistic value	t statistic P-value
constant term	C	6.206	0.799	0.4781
Continuity of Auditors	DUAL	1.075	3.314	0.0125
Company Size	SIZE	2.331	0.982	0.3755
Financial Leverage	LEV	7.322	0.768	0.4971
Profitability	PROF	8.194	0.367	0.7724
Loss Reporting	LOSS	7.773	3.197	0.0098
Current Ratio	CUR	9.144	1.009	0.3616
R ²	Adjusted R ²	Durbin Watson	F statistic value	F statistic P-value
0.701	0.670	1.999	31.941	0.0000

The results obtained from the above table indicate the following:

The duality of the CEO's role has a positive and significant impact on income manipulation. First, the important variable's coefficient (1.075) has a positive sign. Secondly, the t-statistic's probability value (0.125) is less than the 5% significance threshold. As a result, there is 95% confidence that the second research hypothesis is true. According to the model's modified coefficient of determination, changes in the explanatory variables predicted by the model account for around 67% of the variations in the dependent variable's value when control factors are taken into account. To examine the autocorrelation among the research variables, the Durbin-Watson test has been used, and since its value (1.999) falls within the optimal range of 1.5 to 2.5, it suggests that there is no serious autocorrelation among the variables, and the assumption of their autocorrelation is rejected. An F-test was used to determine the model's significance, and since the test's probability value (0.0000) is less than the threshold of 5%, the fitted regression model's significance is validated. Put otherwise, the linear regression model as a whole is trustworthy.

Conclusion

Based on the research findings, the continuity of auditors has a significant impact on earnings management. This impact, with an adjusted coefficient of determination (52%), is moderate and highly significant based on the probability value of the t-statistic (0.0121). These findings align with the first hypothesis and confirm it.

The results also indicate that the duality of the CEO's role has a significant impact on earnings management. This impact, with an adjusted coefficient of determination (67%), is moderate and highly significant based on the probability value of the t-statistic (0.0125). These findings align with the second hypothesis and confirm it. These results are consistent with those of Gonzalez et al. (2018).

In clarifying these results, it should be mentioned that leading auditing organizations have criticized the significance of reliable and excellent financial reporting as a result of the events that followed the global economic downturn and other upsetting developments in the global economy during the previous ten years. Additionally, they have raised awareness of the function and importance of audit quality from a novel and creative angle. Regarding financial reporting, they stress that attaining excellence in both the financial reporting and the auditing process is necessary to ensure the quality of financial reporting. Overall, they recognize each of these cycles as a critical link in the financial reporting supply chain. The independent (external) auditor is a crucial component of this disclosure supply chain, contributing significantly to the caliber of financial reporting across the board, be it in the capital markets, public sector, or private sector. Consequently, it is crucial to pay close mindfulness to the legal and regulatory framework governing this industry. Raising the caliber of auditing services is the only way to realize the overall impact of these initiatives and endeavors in upholding the general public's interest. It is for this reason that the International Auditing and Assurance Standards Board (IAASB) emphasizes the utmost importance of audit quality for international standard-setting bodies. IAASB directly contributes to enhancing the quality of auditing services by developing International Standards on Auditing (ISAs) and International Standards on Quality Control (ISQCs). In a manner where these standards are consistently considered as foundational support for conducting high-quality audits. However, there is now fierce rivalry in trade, business, and investment due to the quick expansion and change in the world's economic ties. As a result, businesses must not only provide accurate financial reporting but also make timely and suitable investments. With the current state of the globe, particularly in emerging nations that confront many obstacles, these countries need suitable ways to make better use of their riches and resources. In this regard, one of the important solutions is expanding and developing investments and improving the quality of financial reporting. Improving the caliber of financial reporting is one of the most important problems, given the limited resources available. Effective investment management requires, among other things, that resources not be overextended in endeavors where investors have gone beyond reasonable bounds (preventing

overinvestment), and on the other hand, directing resources towards activities that require more investment (preventing underinvestment). Companies' financial reports have to provide data that helps creditors, other users, and present and prospective investors make informed judgments about lending money, investing, and other advantageous activities. The information required to evaluate the financial status and economic entity's infrastructure, performance evaluation, profitability assessment, assessment of financial resource procurement and cash flow, evaluation of management's direct responsibility and legal compliance, and providing supplementary information should be included in financial reports to better understand the presented financial information and forecast future conditions. As a result, these reports have great importance in achieving the mentioned goals, and improving their quality can lead to more efficient company investments and the preservation and development of their resources. The quality of auditing and the factors influencing it have long been of interest to investors, financial analysts, researchers, and stakeholders. High-quality auditing increases the reliability of the presented financial statements, which, in turn, builds trust among users of accounting information. One of the factors affecting the quality of auditing is the quality of financial reporting. High-quality financial reporting affects the quality of auditing through the improvement of internal controls and the reduction of audit process risks. The presence of strong regulatory mechanisms and structured frameworks within companies can enhance the quality of financial reporting. As the quality of financial reporting improves, issues related to agency problems and information asymmetry decrease. Therefore, the primary argument in this section is that by increasing the quality of financial reporting, agency problems are reduced, subsequently leading to a decrease in information asymmetry and potentially enhancing the quality of auditing. A critical issue is the doubt about the reliability of financial information, which stems from conflicts of interest. High-quality auditing mitigates the negative effects of ownership separation from management through the reduction of information asymmetry between users and preparers of financial statements. Thus, auditing serves as a means to reduce informational risks for users of financial statements. Apart from conflicts of interest, other issues, such as the lack of direct access by users to information, have led to increased demand for independent audit services. In essence, auditing plays a role in assessing the quality of information for users. Protecting the interests of shareholders against material misrepresentations in financial statements is the general objective of auditors. Thus, auditors lower information asymmetry between managers, creditors, and investors by enhancing financial reporting, which lowers the possibility of unethical behavior and adverse selection. This, in turn, leads to

a reduction in the costs of monitoring managers and ultimately lowers the costs of securing capital for companies. It should be noted that the quality of auditing in the financial reporting process is of utmost importance. Companies use financial reporting as a disclosure tool to exchange information with stakeholders such as investors and creditors, helping them assess investment risks and allocation decisions.

Suggestions

1. It is recommended that the Stock Exchange Organization enact rules and regulations aimed at safeguarding the interests of stakeholders by reducing the tenure of auditors.
2. It is suggested that the Iranian Auditing Organization and the Society of Certified Accountants of Iran establish precise and unambiguous accounting and auditing standards to prevent opportunistic reporting by managers.
3. It is proposed that parent companies and investment funds reduce the tenure of auditors to three years. This would help strengthen the independence of auditors, subsequently enhancing the quality of reporting and reducing opportunistic reporting by managers.
4. Investors are advised to classify target companies for investment based on the use of different auditing firms. They should conduct investment activities through units that have engaged various auditing firms over time. This approach helps minimize fraudulent reporting at lower levels within these units.

The likely consequences of collecting and disseminating various types of data should be considered and explored, and efforts made to guard against predictable misinterpretation or misuse.

Findings should be communicated for the benefit of the widest possible community, yet attempt to ensure no harm to any population group

Ethical Principles

1. Pursuing Objectivity

Statisticians should pursue objectivity without fear or favor, only selecting and using methods designed to produce the best possible results, taking account of factors such as accuracy and timeliness. They should ensure the data used in the analysis are fit for purpose. They should ensure they have the required subject knowledge available to them. They should present all findings openly, completely, and in a transparent manner regardless of the outcomes. They should provide information about the limits on the relevance of the findings by providing appropriate quantitative and qualitative information. Statisticians should be particularly sensitive to the need to present findings when they challenge a preferred outcome. The statistician should guard against predictable misinterpretation or misuse. If such misinterpretation or

misuse occurs, steps should be taken to inform potential users. Findings should be communicated for the benefit of the widest possible community yet taking care not to harm any population group.

2. Clarifying Obligations and Roles

The respective obligations of employer, client, or funder and statistician regarding their roles and responsibility that might raise ethical issues should be spelled out and fully understood. In providing advice or guidance, statisticians should take care to stay within their area of competence, and seek advice, as appropriate, from others with the relevant expertise.

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