

Full Length Research Paper

An investigation of the relationship between audit firm size and earning management in quoted companies in Tehran stock exchange

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The aim of current study is to investigate relationship between size of audit firm and earning management in quoted companies in Tehran Stock Exchange. Therefore, the main question is addressed as follows: Is there any significant differences in the earning management between the audited companies by auditing organization and audited companies by other members of the society of chartered accountants in Iran? The period of the study was from 2005 to 2009. The main hypothesis of this research is that there is a significant difference between the earning management of audited companies by Auditing organization and audited companies by other members of society of chartered Accountants in Iran. The results show that there is no significant difference between discretionary accruals of audited companies by auditing organization and other members of society of chartered Accountants in Iran.

Key words: Earning management, audit quality, discretionary accruals, Jones model (1991).

INTRODUCTION

The main role of financial reporting is to transfer financial information for outside individuals reliably and timely (Salehi and Nanjegowda, 2006). Financial statements are considered to be the main outcome of financial reporting and main instruments for transferring accounting information to the outside individuals (Salehi et al., 2010). In doing so, the managers have enjoyed the opportunities to exercise judgment in financial reporting. Managers can use their knowledge about trade activity to improve the effectiveness of financial statements as instruments for transferring information to potential investors. However, in the meantime, the managers have some motivations to mislead the users of financial statements through their powers about accounting choices in financial reporting (Barzegar and Salehi, 2008). They can manipulate the earning by using diverse methods. Earning management

could be created through selecting accounting trends, using general accepted accounting principles and changing discretionary accruals.

Auditing is a valuable investigation that carnations would use of it to reduce their agency expenditures for creditors and shareholders (Salehi, 2007). Thus, the auditing will reduce in appropriate reporting of accounting information and lead to increase the value of this information as well (Salehi and Azary, 2008). Audited financial statements are very suitable media to transfer reliability information. The most competent individual for expressing his/her opinion about the integrity of preparing and providing financial reports of economical unit is the independent auditor (Salehi and Abedini, 2008; Salehi and Biglar, 2008). Auditor's qualification is due to the fact that he/she performs audit according to auditing standards assuring inserted items in the financial statements being prepared according to the accounting standards (Salehi, 2008a). Thus, the auditor gives weight (validity) to the claims of management in the form of financial

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statements and by this he/she will increase the reliability of the used information in the economical decisions (Salehi et al., 2008a,b). Quality which determines audit performance is therefore a function determined by numerous elements such as auditors' capabilities including knowledge, experience, comparing power and technical efficiency and professional implementation such as independence, objectivity, professional inspection, contrast of interests and judgment.

With regard to the above subjects, the main question here is that whether there is any significant difference between audited corporations by Audit Organization and audited corporations by other members of the society of chartered accountants in Iran in the earning management?

Research problem

One of the aims of financial statements is to reflect the results of management stewardship or their accountability in the face of resources under their control. Since the management of trade (business) unit is responsible for preparing the financial statements, the managers in doing this important matter have enjoyed opportunities to exercise judgment in their reporting (Salehi, 2009a). Accrual accounting will give significant right of selection to determine earning in the different time periods to managers. In deed, under this accounting system, the managers have significant control time of distinction over some cost items such as advertisement, research and development expenditures. Significantly on the other hand in accrual accounting system, the manager will face different options about time of distinction of income. For example, the most rapid distinction of income is thorough credit sales. This kind of performance by managers is called "earning management". One original element in the earning management test in the corporations is to estimate authority factor and exercise manager's opinion in determining earning. A review of literature based on earning management shows existence of different approaches to estimate and measure the power (authority) of management in determining earning. One of the most important approaches based an application of discretionary accruals as indicator to determine and discover earning management is in the business units (Businesses).

Theoretical issues

The relationship between earning smoothing (such as the change accounting methods, timing of sale, fixed assets and change accruals) and economical consequences have been discussed thoroughly in the financial literature (Salehi, 2009 b). Earning management is an informed action which is aimed at showing earning of corporation

to arrive at a desired or ideal level. Since the earning management is not measurable directly, literature of earning management suggests several estimative methods for potential earning management. These methods include: single accruals method, accumulation of accruals method, accounting changes method, distribution method and discretionary accruals method. In this research, discretionary accruals are used to measure earning management. Accruals include discretionary accrual and non- discretionary accrual. Discretionary accrual is determined by the management, but determination of non- discretionary accrual is not in the domain of the management.

In the auditing literature, the audit quality is defined in terms of integrity of supplied information by the auditor for an investor, or the ability of auditors to discover misstatements and manipulation in the financial statements is defined. Audit quality is an unobservable variable. Therefore, academic researchers use different measurements as auditing quality indicators.

De Angelo (1981) defines the audit quality consisting of the two profanities. First the auditors discover the defect in accounting system of client. Second he/she reports this defect discover of defect measure the audit quality in the form of knowledge and ability of auditor while it's reporting depends on the motivations of auditor disclosure.

Also, Titman, and Trueman (1986) have defined audit quality as the amount of integrity and validity of the information which is provided for investors after auditing. Davidson and Neu (1993) take the audit quality as the ability of the auditors to discover and eliminate the important alterations and discover performed manipulation in the net profit.

De Angelo (1981) has attempted to prove by the analysis method that the size of audit firm has a direct relationship with audit quality. He believes that the larger audit firms has more powerful motivation to provide higher quality audit, because they are more interested in obtaining more reputation in the market and since the number of their clients is too many, they are not anxious to loss them. It is assumed that due to access to more resources and possibilities to train their auditors and perform different tests; they provide audit services with higher quality. He states that there is a positive relationship between the size of audit firm and understanding of market about audit quality.

Literature review

Since the audit quality is not measurable before audit implementation, many researchers have attempted to measure it both directly and indirectly. Numerous studies have been done the world about the relationship between the audit quality and size of audit firm. For example, extensive studies by scholars such as Davidson and Neu (1993), De Angelo (1981), Becker et al. (1998)

experimentally support the positive relationship between the size of audit firm and audit quality. Libby and Fredrick (1990) have concluded that there is a direct relationship between auditor's experience and audit quality that is, more experienced auditors have deeper understanding of errors in the financial statements and their decision makings enjoy higher quality.

Deis and Giroux (1998) have examined the auditing quality in the non-profit institution. Their results showed that large auditing institutions have less detect working paper than the small auditing institutions.

Davidson and Neu (1993) have examined the relationship between the size of auditing firm and the audit quality. They demons traded that larger auditing firms have larger clients, thus the expectation of market from auditors to discover distortions within the financial statements will increase. In addition the empirical evidence demonstrates that the larger auditing firms have higher audit quality, because they enjoy optimal facilities and resources to educate the auditors to do auditing compared with the smaller audit firms. They stated that comparing provided forecasting earnings by management with audited earnings will provide an approach to measure the audit quality. Results show that following the control of client's features such as risk, the larger audit firms will provide the higher audit quality than the smaller audit firms; because they have more resources to educate their auditors, to perform more and better tests, they will consequently have higher audit quality.

Lam and Change (1993) have examined the relationship between the audit quality and size audit firm through discovering mistakes in forecasting earning in the Singapore capital stock original market, they found that generally the larger audit firms necessarily will not provide the higher audit quality than the small audit firms.

Moizer (1997) concluded in his research that the companies which change their auditors from Big-5 audit firms to other than Big-5 companies will face negative reaction of market. But companies which change their auditors from other Big-5 audit companies to Big-5 audit firms will face positive reaction of stock market. He concluded that the larger audit firms are more powerful in auditing the financial statements.

Becker and et al. (1998) have examined the relationship between audit quality and earning management. Their research question was whether the firms with non-Big 6 auditors as compared to the firms with Big-6 auditors would report higher discretionary accruals relatively. Their results showed that the companies audited by other audit firms have larger discretionary accruals than the companies audited by Big- 6 audit firms. They have concluded that there is a positive relationship between size of audit firm and audit quality. Krishnan and Schauer (2000) examined the quality differentiation among the auditors of non-profit institutions. They investigated the relationship between the size of audit firm and audit quality in the non-profit institutions

based on compliance amount of eight features in generally accepted reporting principles. They concluded that compliance the degree of generally accepted accounting principles in the non- profit corporations which their auditors have been Big-6 auditing firms in higher.

They found that compliance amount of generally accepted accounting principles in the non-profit corporations have a direct relationship with the size of audit firm. On the other hand as the size increases the compliance of generally accepted accounting principles will increase and there is a positive relationship between the size of audit firm and the audit quality.

Bauehede and Willekenes (2004), two Belgian researchers have tested the effects of the size of audit firm on the Belgium market. To audit, they analyzed some indicators such as share of audit market, number clients in the audit firm, number of partners, volume of assets and volume of operating income. The results showed that there was not a significant relationship between the auditor size and audit quality. One of the other results of this research was that the earning management in the corporations which audited by Big-6 audit firms was not less than other firms.

Deltas and Doogar (2004) concluded in their studies that whatever diversity of audit services would be lower, audit quality of financial statements would be higher. Also, these two researchers found that the larger audit firms are more powerful in providing more diversity auditing and accounting services.

Henock and Louis (2004) also examined the relationship between audit services quality and size of audit firms. They found that large audit firms do not necessarily always provide better services than the small audit firms. Instance small businesses are more satisfied from smaller auditors' services.

Lasse and Nieme (2005) stated that in a competitive market if the clients believe that audits quality is different, then price of audit services would be different. They used two dimensions research method (comparing Big-5 with other audit firms) and concluded that there is a positive relationship between size of audit firm and pricing audit task.

Steveny and Vanstraelen (2006) examined the effects of different audit contexts on the earning management. These studies were focused on France, Germany and England. Results show that the amount of earnings management in the examined countries is not identical. Severe audit content regardless of audit type could reduce the volume of earning's management.

Fureman (2006) examined in his study audit quality of Arthur Anderson and Big – 4 audit forms. In his research the basis and indicator of audit quality have been the compliance of trade rules and regulations and comparing time period is from 1996 to 2004 which have been categorized to three time periods. In the first period there was not a difference between Arthur Anderson and Big-4 in terms of audit quality, but in the second and third periods,

the Big-4 audit firms have enjoyed higher audit quality than the Arthur Anderson. His research results proved that by approving the private securities litigation reformism in 1995, audit quality of audit firms such as Big-4 have reduced gradually.

Chuntao et al. (2007) in their research analyzed the understanding of stock market about audit quality among the small audit market. In their research the criteria for measuring audit quality was earning response coefficient (FRC). These researchers found that there is a positive relationship between size of audit firm and investor's understands from profitability quality. They found that stock market shows more powerful response to audited unexpected earnings by the larger audit firms. Results of these researches showed that different sizes of audit firms have an impact on the audit quality. On the other hand, investors consider the larger audit firms have higher audit quality.

In Koch and Schunk's research which was performed on the Big-4 auditors was determined that constraints (limitation) on the auditors liability have not effect on auditors' quality. But potential investors and other audit firms are opposed to Big-4 and finally these two researchers have concluded that reduction of auditor's liability have not a significant relationship with the increase of audit quality.

In Dong Yu's research was determined that big-4 audit firms have higher quality than the other audit firms, because larger audit firms have experienced and expert auditors.

Bernad (2008) in his study entitled Earning management and Audit quality in European have investigated whether in the audited companies by Big-4 higher quality auditors will grant constraints on the earnings management are not? Considering auditors motivate to audit high quality in the private corporation, he proved that Big-4 auditors motivate to limit earnings management only in the countries with high tax structure which financial statements. Based on the private corporations' data in the European countries, this study provides evidence according to the expectation.

Also Langari (2001) investigated and measured the compliance amount of quality control factors of independent audits in Iran and studies the obstacles and challenges in this regard. One of the important and effective factors on audit quality and audit reporting would be quality control standard (No.22) and its compliance by auditors. In this research compliance of 15 audit quality control factors in the audit performed by Audit Organization have been examined:

1. Supervision
2. Task dividing
3. Professional education
4. Professional competence
5. Personnel promotions
6. Acceptance of continuous work with clients
7. Control

8. Independence
9. Impartiality
10. Consultancy
11. Employment regulations
12. Welfare facilities
13. Description of auditor's tasks
14. Measuring professional employees
15. Investigation of colleagues.

The researchers have answers to this question in the research whether these 15 factors of quality control are observed in attaining the quality of performed audit by auditing organization? Hypotheses were tested through a questionnaire and objective observation of the audit files in the auditing organization. He concluded that the quality control standard is not regarded in the audits of auditing organization.

Hassasyeganeh and Jafari (2006) have examined the effective factors on independence and competence (audit quality) of members of Iran's certified accountants to provide witnessing services. In this research by using Delphi method, seven important factors as acceptable criteria to promote audit quality such as:

- (1) Professionalism,
- (2) Audit efficiency,
- (3) Discover material distortions,
- (4) Interest contrast, (5) Existence of regulation and rules,
- (6) Mechanism of market,
- (7) Size of audit firm were recognized agreed upon by those professionals and accounting auditing authorizes agreed an them.

Examination and analysis by the certified accountants' member of Iran certified accountants indicate that audit approach of certified accountants is not effective.

Mahdavi and Nariman (2006) have examined the effects of accounting national standards on quality of independent auditor's opinion. Results show that accounting national standards have increased the quality of auditor's opinion.

Ebrahimi and Seadi (2009) have examined the relationship between independent auditors and type of auditor's opinion with earnings management. The effects of type of audit firm, type of auditor's opinion in the auditing report and the number of condition clauses on discretionary accruals have been estimated. To evaluate the discretionary accruals, the researchers have used Jones adjusted model. The type of audit firm has been divided to auditing organization and other firms and type of auditor's opinion to qualified and unqualified as well. In this research unvaried linear regression method has been used. To test the hypotheses of the research, two methods of compound and section data have been used applying the information of 71 listed companies on Tehran Stock Exchange. Findings of this research show that only the type of audit firm is related to the discretionary accruals.

METHODOLOGY

Demographic sample

Listed companies on Tehran Stock Exchange constitute the research population in the present study. Only those companies with the following features were included into the study sample cases:

1. Company's financial year would not been changed during 2005 to 2009.
2. Company had been listed on Tehran Stock Exchange before the end of financial year 2005.
3. Company would not have been eliminated from the list on Tehran Stock Exchange by the end of fiscal year 2009.
4. Required information, especially notes to financial statements would be available to extract necessary data such as account of discretionary accruals.
5. Companies' auditor would not been changed during the research period.

after the victory of Islamic Revolution of Iran, due to rules and regulations which approved by the revolution counsel, the profit and non-profit companies and institutions become national or came under government's management. To audit these firms, three audit firms in public division were formed. Those included audit firm of national industries organization and planning organization, audit firm of the oppressed foundation and an audit firm of Shahed. Each firm undertook to audit and control group of companies and firms legally. Legal constitution of auditing organization was formed as firm braving legal personality and financial independence and dependent on Ministry of Assets and Economical Affairs which not only continued to perform tasks of aforesaid institutions, but dealt with other activities mentioned in institution also. The most important task and responsibility of auditing organization is to audit and legally control corporations and profit units in the government and public sections. Corporations and institutions which have been audited by this organization in the recent years include banks, national company of Iran petroleum, Gas and Petrochemical and Tobacco companies, insurance companies, pension organization and many other large and infrastructure industries. Social security organization, Foundation of the oppressed, Shahed foundation and 15 Khordad foundation and its subsidiaries form other groups which were audited by this organization. Investment corporations and other companies affiliated to the banks are firms which were audited by this organization in 2007 (Salehi, 2008 b).

Society of Iran Certified Accountants has been recognized to have financial supervision over manufacturing, commercial and services units and attain confidence about trust ability of financial statements in the aforesaid units to protect the public interests, investors' and other stockholders' rights. At present 190 audit firms are acting as members of Iran's certified accountants. Twenty-nine firms with above qualifications have audited by the auditing organization. 100 firms that have had above features have been audited by other members of society of certified accountants. It should be noted here that Rahavard-e Novin and Tadbirpardaz databases were used in this regard.

Variables

One of the most important approaches based on discretionary accruals application is as indicators to determine and discover earning management in the businesses. Heli, De Angelo, and Jones in their researches about earnings management have designed models and used discretionary accruals to discover earning management. Jones' model seemed to get the upper hand more ability to discover earning management in the businesses.

Thus, in the present research Jones's model (1991) to examine the airing management in Tehran Stock Exchange companies.

$$TA_{it} / A_{i,t-1} = \alpha_1 \left(\frac{1}{A_{i,t-1}} \right) + \beta_1 (\Delta REV_{i,t} / A_{i,t-1}) + \beta_2 (PPE_{it} / A_{i,t-1}) + \varepsilon_i \quad (1)$$

The required materials data to compute earning management in this model included: AREV change in Net Revenues in every year, PPE property plant and Equipment in the same year, $A_i, t-1$ total assets in the beginning, TA total Accruals and $(\alpha, \beta_1, \beta_2)$ specific variables.

The discretionary accrual is attained as follow:

TA: Total Accruals computed as balance sheet method as follows:

$$TA_{i,t} = (\Delta CA_{i,t} - \Delta CASH_{i,t}) - (\Delta CL_{i,t} - \Delta CPL_{i,t}) - DEP_{i,t} \quad (2)$$

ΔCA : Changing current assets that computed as current assets in the beginning of the same year which include cash flows, short-term investments, receivables accounts, inventory

$\Delta CASH$: Changing cash flow which is the difference of cash flow in the end of every year with cash flow at the beginning of the same year.

ΔCL : Changing current liability which is the difference of current liability in the end of each year with current liability at the beginning of the same year and include payable accounts, payable short-term notes accrued taxes and accrued expenditures.

ΔCPL : Changing long-term current debt portion which is the difference of long term current debt portion in the end of each year with long term current debt portion of the beginning of the same year and include portion of long-term debt that is due date in the current period.

DEP: Depreciation Expense which is the depreciation expense of fixed assets for each year.

Then the parameters of each company $(\alpha, \beta_1, \beta_2)$ is evaluated through a multi-variate regression.

Discretionary accruals

To compute discretionary accruals first the nondiscretionary accruals (NDA) is computed by using model of Jones as follows:

$$NDA_{i,t} = \alpha_1 \left(\frac{1}{A_{i,t-1}} \right) + \beta_1 \left(\frac{\Delta REV_{i,t}}{A_{i,t-1}} \right) + \beta_2 \left(\frac{PPE_{i,t}}{A_{i,t-1}} \right) \quad (3)$$

ΔREV : Change in net revenues (sales) which are the differences of revenues in the end of each year with revenues at the beginning of the same year; PPE: property, plant and equipment of the same year, fixed assets of each year after reduction of accumulated depreciation.

$A_{i,t-1}$: Total assets at the beginning.

Therefore the total discretionary accrual is computed by using formula (2). At the end differentiate (2) and (3)

$$DA = TA_{i,t} - NDA_{i,t} \quad (4)$$

Table 1. Testing of hypotheses by using correlation model.

Name variable	T- student	p-value	Variables	multiple correlation
Type of audit firm	715	475	β_1	24
Operating cash flow	-846	398	β_2	-8.1
Total assets	606.1	109	β_3	39
Leverage	-449	654	β_4	-4
Absolute value of accruals	-602.4	1	β_5	-244.2
Capital increase	215.1	225	β_6	15
Old Audit	126	9	β_7	2
New Audit	-829.1	68	β_8	-103
Fixed amount	-418.1	157	β_0	-225

DA: Discretionary accruals.

In this research, the independent variable is the type of audit firm; finally, α , β is estimated through regression relationship among discretionary accruals and type of audit firm in each company.

Hypotheses

The aim of this paper is to investigate the relationship between sizes of audit firm of listed companies on Tehran Stock Exchange. To this end the earning management in the companies which were audited by the auditing organization and other members of society of certified accountants were examined. The hypothesis was tested by using two methods: Regression and sectional t-student method.

According to the purpose of the study, following hypothesis was postulated in the study:

H₁: There is a significant relationship between the earning management in the audited companies by auditing organization and audited companies by the other member of society of Iran certified Accountants.

Testing of hypotheses by using regression model

With regard to computation of discretionary accruals, a multiple regression is performed in terms of type of audit firm. Discretionary accruals is a dependent variable and type of audit firm (other members of society of certified accountants or Iran auditing organization), leverage, operating cash flows, total assets, accruals, percentage of capital increase and new auditor and old auditor are independent variables.

$$DA_{i,t} = \beta_0 + \beta_1 D + \beta_2 OCF_{it} + \beta_3 Assets_{it} + \beta_4 Hilev_{it} + \beta_5 AbasAccr_{it} + \beta_6 ShareIncr_{it} + \beta_7 OldAud_{it} + \beta_8 NewAud_{it} + \varepsilon_{i,D}$$

Type of audit firm (other members of society of certified accountants or Iran auditing organization)

Ocf: operating cash flow; Abas Accr: absolute value of accruals; Assets: Total assets; Share iner: capital increase; Hilev: leverage; Old Aud: if the firm would change the auditor after the sample last year is equal one; New Aud: if the firm changes the auditor in the sample first year is equal zero.

Pearson multiple correlation coefficients between discretionary accruals and type of audit firm, leverage, operation cash flow, total assets, accruals, percentage of capital increase, new and old auditors is equal to 21% and relevant probity amount to examine statistical hypothesis ($H_0: \beta_i = 0$) is equal to 1% which is smaller than 5%, thus a significant relationship with confidence of 95% is verified.

Probity value related to regression line slope for examination ($(H_0: \beta_i = 0)$ is as follows:

To test ($H_0: \beta_i = 0$) against ($H_0: \beta_i \neq 0$) it is sufficient to compare value of this profanity (p-value) with significant level of $\alpha = 0/05$. If this value of probity is smaller or equal to α , null hypothesis is rejected, otherwise alternative hypothesis is rejected. Based on Table 1, it is accruals whose p-value (01.0) is smaller than 05.0, Therefore a significant relationship based on this test by 95% confidence is accepted and thus H_0 hypothesis is not accepted and about other variables that include type of audit firm, leverage, operating cash flows, total assets, percentage of capital increase, new and old auditor their p-value is larger than 5.0, therefore a significant relationship based on this test by 95% confidence is not accepted and the research hypothesis is rejected.

Testing of hypotheses by using sectional independent two-sample test

To continue further investigation, this research has resorted to two independent sample, student-t test the

Table 2. Testing of hypotheses by T-test.

Group	Year	N	Mean	Std Deviation	t	P-value	95% confidence interval of the Difference	
							Upper	Lower
Companies which audited by auditing organization	2005	28	28	209	902	369	1944	-727
Companies which audited by society of certified accountants	2005	98	328	338				
Companies which audited by auditing organization	2006	28	-67	191	885	378	1610	-615
Companies which audited by society of certified accountants	2006	98	-564	279				
Companies which audited by auditing organization	2007	28	-337.0	179	409	683	1174	-771
Companies which audited by society of certified accountants	2007	98	-538	241				
Companies which audited by auditing organization	2008	28	633	228	-2.416	17	-357	-3596
Companies which audited by society of certified accountants	2008	98	-264	414				
Companies which audited by auditing organization	2009	28	228	158	-124	902	1114	-1236
Companies which audited by society of certified accountants	2009	98	302	305				

discretionary accruals in the companies which were audited by auditing organization and the society of certified accountants who have compared them annually. Of course before performing this test, first equality hypothesis of variances among two groups was accepted. Results of student – t tests for the different years are given in Table 2.

From Table 2, except for 2008 which discretionary accruals average in the society is higher than discretionary accruals average in the organization ($p=17.0$), there is no reason to reject equality hypothesis of discretionary accruals average therefore, it could be concluded that average of discretionary accruals in the society and organization is equal with other each. Comparative graphs of discretionary accruals in the society and organization confirm this fact in the different years. Figure 1 shows the relationship between medians and averages of two groups, the difference between the two groups is very insignificant. Consequently the research hypothesis is rejected. Therefore this method verifies the results of the first method (Regression method)

Conclusion and remarks

This research focused on whether there is any significant relationship between earning management of companies which were audited by auditing organization and

companies which were audited by other members of society of Iran's certified accountants? Theory of this research states that larger audit firms have more motivation to determine and discover misreporting of management. Researches such as De Angelo (1981), Becker (1998), Linux (1990), Krishnan and Schure (2000), Deltas and Dugar (2004), Forman (2006), Chantao et al. (2007), Dong yu (2007) prove that audit quality is related to the size of audit firm. Results of this research like other studies done by Tat (2001), Kim (2003), Bawood and Wilkins (2004), Louis Henvi (2004) show that larger audit firms always don't provide higher quality audit than the smaller audit firms.

Therefore there is not ability to discover distortions and accounting evaluations and management reporting (earning management) and auditing organization and audit firms members of society of Iran's certified accountants have identical ability in this area. With regard to the results of the study, it could be suggested that audit of government firms would delegate to audit firm's members of society of certified accountants. Of constraints in the present research is that have been assumed, different behavior in the discretionary accruals have been due to earning management. Thus effects of external factors such as inflation, behavior of investors etc have considered being stable. Meanwhile in this study Jone's model has been used to evaluate discretionary accruals have used from. Therefore other relevant models were

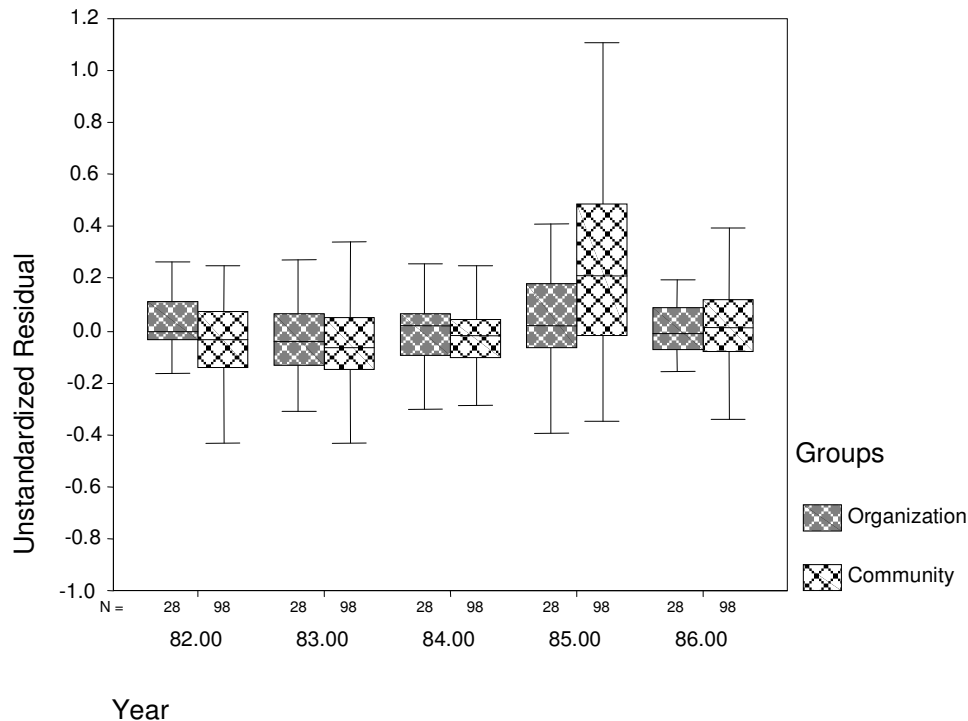


Figure 1. Median and average of the two groups.

used; we would have observed different results.

Suggestions for future study

Investigations show that very few researches have been done about audit quality of auditors in Iran. Therefore, it is suggested to evaluate discretionary accruals would use other models as well as other models in discovering earning management and then its results to be compared with results of this research.

Performing similar researches for audit firms members of society of Iran certified accountants, on the other hand of compare society of certified accountants in terms of size of audit firms and attained results would compare with results of this research.

Investigate the relationship between audit quality and earning response coefficient in the companies audited by auditing organization and by society of Iran certified accountants.

Investigate the relationship between change auditor and evening management in listed companies on Tehran Stock Exchange.

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