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The effect of board of directors' quality on relationship quality of internal audit function and quality of financial reporting

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ABSTRACT

Decision-making about selecting quality financial reporting of companies is an internal problem. Companies select the quality of their financial information, disclosure techniques in the financial information, and the expected benefits against the created costs by information disclosure quality measurement. Providing financial information with high quality may reduce the information asymmetry between firms and investors and agency costs. Despite these benefits, it is expected that companies as possible in the absence of any cost of disclose information, choose the highest level of financial information quality.

The purpose of this study is evaluating the effectiveness of internal audit quality and the quality of board reporting of listed companies in Tehran Stock Exchange.

140 listed companies in Tehran Stock Exchange for the period 2008-2012 had been investigated. The results of the study indicate that there is a significant positive relationship between the quality of the internal audit function and quality of financial reporting. As well, board of directors' quality affects on the relationship of internal audit function on the financial reporting quality.

KEYWORDS: Quality of financial reporting, Precautionary accruals, discretionary accruals of working capital, Precautionary benefit

INTRODUCTION

Concept Statement No. 1, codification of financial accounting standards board considers the financial reporting of profit units. General purpose of financial reporting is to provide information that is lead to useful business and economic decisions. Although in no 1 statement didn't mention the type or form of financial statement, but it is said that financial reporting should provide information about the economic benefits, liabilities, equity and profit unit performance through the measurement of profit and its components as well as providing the cash flow (Shabahang, 2005, 101).

Without having accountants and a general accounting and auditing standards that ensure the quality and integrity of financial data investment market will be less efficient, cost of capital will be more and reduce the level of our lives (Steven (1996))

According to the rules of the stock exchange having internal auditing for listed companies are required and the implementation of corporate governance in listed companies therefore expected to effect on the company's financial reporting.

This study search to analyze and look into the quality of financial reporting by listed companies in Tehran Stock Exchange that have internal audit with high quality and board structure with sufficient financial knowledge, and companies that do not have these items. Decisions making about selecting quality level financial reporting is an internal problem. Companies selected the quality of their financial information and how to disclose their financial information, evaluate the expected benefits against the created costs by disclosure information quality. Providing financial information with high quality may be reduce the information asymmetry between firms and their investors and agency costs. Despite these benefits, it is expected that as possible companies in the absence of any costs of disclose information, select the highest level of financial information quality.

As the quality of financial reporting increases, the cost of providing financial reports increases. Therefore, considerations of cost-benefit require that companies bear the cost of financial reporting quality that they believe the benefits of requires. Influential factors of the quality of the financial reports include the shareholders of a governmental agency and this research seeks to identify the relationship. Also expect that high quality of financial

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reporting have implications for the capital market. It means that the information asymmetry between firms and investors, and reduce the cost of companies capital.

Theoretical principals and a review of research background

Theoretical principals

Qualitative characteristics obedience of financial reporting and promotion of quality of financial reporting is one of the things that have been emphasize by many professional associations of accounting. In this regard, it can be noted the number1 standard of presentation of financial statements and accounting standards in Iran (Journal of Auditing 160) that instructors emphasized the financial statements as follows:

Financial statements must be present properly financial position, financial performance and cash flows of the business. Almost in all circumstances, appropriate accounting standards performances with disclosure requirements in excess of the required forms, leading to proper financial statements.

According to the importance of the accounting standards for quality improvement reporting, so do a research that investigate the ownership of the type of quality of financial reporting seems to be necessary.

The aim of this study is the investigation of the influence of institutional investors on the quality of financial reporting of governmental companies listed on the Stock Exchange of Tehran. This study helps to accounting literature in several ways. Its main contribution is that the internal factors of company's decision about the quality of financial reporting are calculated. It also shows that the failure to explain the internal factors of derivation and results influence the provided by the previous studies. Further contribution is the reaction to the concerns about the determinants empirical evaluation of the quality of disclosure.

In this study, a criterion is proposed to assess the quality of reporting that can be used in a more general research for samples of large firms. Finally, the findings of this research have important implications for studies of companies' disclosure policies.

LITERATURE REVIEW

Tesai and Gu studied the relationship between institutional ownership and firm performance in the casino industry for the years 1999 to 2003. Institutional ownership is the percentage of shares held by state-owned companies from the total capital stock and these companies consist of insurance companies, financial institutions, banks, state-owned enterprises and other components of the state. They showed that institutional investment in casinos may be help investors in this industry to reduce agency problems resulting from the separation of management and ownership. (Tsaia, H. and Z. Gu (2007))

Kapopoulos and Lazaretou examined the effect of ownership structure on firm performance by using the information of 175 Greek companies and concluded that centralized ownership structure positively related to corporate profitability. And to achieve higher profitability with dispersed ownership than required. (Kapopoulos, P. and S. Lazaretou (2007))

Mueller and Spitz analyzed the relationship between managerial ownership that including held shares by board members and performance of private small and medium companies in German with motivational patterns. They in their study divided a sample of 356 firms that trade-related services, for the years from 1997 to 2000. The findings show that the percentage of firms with managerial ownership above 40 percent, has improved. (Mueller, E. and A. Spitz (2006)).

Aydin, Sayim and Yalama investigate that whether Turkish companies with foreign ownership are significantly better than domestic firms that are internal owned? In this study, t-test and operating margin variables, assets return, return on equity and information of all companies in the Istanbul Stock Exchange for the years 2003 and 2004 have been used. Their results show that firms with foreign ownership, in terms of return on assets, have better performance than domestic owned firms. The evidence of this study supported the hypothesis that the participation of foreign ownership improves corporate performance. (Aydin, N. Sayim, M. and A. Yalama (2007))

Rahmanseresht and Mazlomi, studied "the relationship of management performance of corporative investment with ownership shares in the companies listed in Tehran Stock Exchange". In this study they examined the role of corporative investors and have raised the question whether the ownership structure of the organization explain the different functions in those companies? The results showed that different groups of owners (natural or legal) do not have a concentration of power in one hand and the impact on corporate performance. Andin general, differences in corporate ownership structures were able to explain a part of the variation in firm performance. (Rahmanseresht and Mazlomi (2005))

Mashayekh and Ismaili studied the relation between profit quality and some aspects of governance principal, including the percentage of ownership of board members and number of managers in 135 companies listed on the

Stock Exchange with regard to the Code of Governance principal for the period from 2002 to 2004. The profits continuity aspect was used to measure earnings quality. The results suggest that the level of 95% ensure, there is no relationship between profit quality and the percentage of ownership of board members and number of board members. The nonlinear relation between accruals and the ownership percentage of board members has been observed. Also, numbers of property managers and percentage of board members ownership that regarding as corporate governance principles mechanisms does not have an important role of in favor of improving the quality of listed companies in the exchange. (Mashayekh and Ismail (2006))

Noravesh the Ebrahimi Kordlour, study the company's investment role in reducing information asymmetry in Tehran Stock Exchange. In this research, investment companies and other commercial establishments were defined as investment companies. Results of the study showed that companies with a high percentage of shareholders than companies with the lowest percentage of investment have reported more information about future profits and thus few lack of informational asymmetry in firms with corporative ownership have been observed. (Noravesh Kordlor and Ebrahimi (2005))

RESEARCH METHODOLOGY

The recent study in the aspect of goal is functional and based on the data is described. In order to do descriptive research various methods have been used that in the present study the correlation of logistic regression analysis was used. Also, for data collection, two methods, the library method and the field is used. By using the library method, preliminary studies, chapters editing, theoretical framework and background of research, mainly of books, theses and journals in Farsi and Latin are available, also collected from the papers and internet. In the field method by using databases and websites of the Stock Exchange, the Financial Information Processing Center of Iran, Tehran Securities Exchange Technology Management Co. and other related sites and applications of modern data and Rahavar Novin software needed data were collected.

Research variables

Financial reporting quality: the quality of financial reporting is rules that segregate the helpful information and promotes useful financial information (Noravesh, 1998).

The quality of the board: if the board member has a financial knowledge, its equal to 1 and otherwise its zero.

Quality of internal auditing: If the company had aninternal auditor contract with the official members of the Society of Chartered Accountants, it’s equal to 1 and otherwise it’s zero.

The statistical sample size

In this study to determine the sample specific relationships did not used to estimate sample size and sampling, but the method of exclusion was used. In other word, companies that meet the following conditions were selected as the sample population and the remaining samples have been removed. Condition of selection presented as follow.

1- For comparability of their compliance, corporate financial year ending at March in every year.

2-During the scope of the study period, there was no stopping in the activity and have not changed their accounting period.

3-All needed information of companies was available for research.

4-There are not investment companies, financial intermediaries, holding and leasing companies, except bank and financial institutions.

5- Companies during the period of study provided financial statements to the stock Exchange.

Because require information in this study we have evaluated the Company's operating cash flow was collected in exchange, hence, once the domain of executive-search firms in the years 2008 to 2012 cash provide flow, were selected as a sample. Meanwhile, companies in the time period, value of equity shares were negative excluded from the sample under investigation. Thus, among all companies listed in Tehran Stock Exchange, 140 companies were selected.

Research hypothesis

1. There is significant relationship between the performance quality of internal auditor and financial reporting.

0.2 Quality of board affects on the relationship between the qualities of the internal audit function and financial reporting quality.

Research findings

Descriptive statistics and research models

One process of data analysis and statistical classification of the raw observations and data collected and extracted variables. The extraction process variables noted in Chapter III. Each of the variables according to the formula that is used to convert raw data into variables, are extracted. The variables were measured and calculated at two levels of scale.

Due to time constraints, the study suggests hypotheses over long periods search to test hypotheses on the main results of eleven-year-old (since 2008 to2012). Since, the descriptive statistics of the variables in the model of the 5-year study are shown in tables 1, 2, 3, 4 and 5.

In tables 1 to 5 for each of the model variables, parameters such as the number of samples, the range of variables, lower and upper range of change variables, mean, standard deviation, coefficient of strain, coefficient of skewness, median, mode and quartiles of 25%, 50 % and 75% of the variables have been shown.

Strain coefficient (k) and the coefficient of skewness (sk) of each of the model variables in the research in Table (1-4) is displayed, so that the absolute values of these coefficients are interpreted as less than or equal to 1.0 ($|sk$ or $k|<0/1$) is a normal distribution, if it's greater than 1.0 and less than or equal 5/0 ($0/5 \geq |sk$ or $k|>0/1$) distribution is approximately normal if the greater than 5.0 ($0/5< |sk$ or $k|$) the difference between the gross distribution is the normal distribution.

Table 1: Descriptive statistics for variables used in Model 1of the study

$$Accr_{i,t} = \alpha_0 + \alpha_1(1/TA_{i,t-1}) + \alpha_2 \Delta REV_{i,t} + \alpha_3 PPE_{i,t} + \alpha_4 ROA_{i,t} + \varepsilon_{i,t}$$

Variables		$Accr_{i,t}$	$1/TA_{i,t-1}$	$\Delta REV_{i,t}$	$PPE_{i,t}$	ROA_t
Sample		700	700	700	700	700
The mean		0.099	0.000	0.144	0.236	0.156
Middle		0.069	0.000	0.110	0.196	0.131
Mode		0.030	0.000	0.000	0.180	0.320
SD		0.106	0.000	0.130	0.158	0.116
Coefficient of skewness		2.574	34.539	1.736	0.700	1.212
Slenderness coefficient		9.981	1225.000	4.106	-0.374	1.532
Range		1.000	0.000	0.920	0.690	0.650
Minimum range		-0.090	0.000	-0.020	0.000	0.000
Maximum range		0.910	0.000	0.890	0.700	0.660
Quarter	0.25	0.029	0.000	0.053	0.105	0.072
	0.50	0.069	0.000	0.110	0.196	0.131
	0.75	0.133	0.000	0.198	0.351	0.211

The model variables of research in the table above are as follows:

Dependent variable:

Accr $_{it}$: Sum of accruals obtained from the following relationship

$$\frac{\Delta CurrentAssets - \Delta Cash - \Delta CurrentLiabilities - Depreciation}{TotalAssets}$$

Independent variables:

$TA_{i,t-1}$: Total assets by the end of the previous period

$\Delta REV_{i,t}$: Change in income divided by total assets

$PPE_{i,t}$: Balance of net property, machines and equipment divided by total assets

ROA_t : Return on assets (net income divided by average of total assets)

Table 2: Descriptive statistics for variables used in the model (2) of the research

$$WCA_{i,t} = \alpha_0 + \alpha_1 OCF_{i,t-1} + \alpha_2 OCF_{i,t} + \alpha_3 OCF_{i,t+1} + \alpha_4 \Delta \text{Rev}_{i,t} + \alpha_5 PPE_{i,t} + \alpha_6 DOCF_{i,t} + \alpha_7 OCF_{i,t} * DOCF_{i,t} + \varepsilon_{i,t}$$

Variables	$WCA_{i,t}$	$OCF_{i,t-1}$	$OCF_{i,t}$	$OCF_{i,t+1}$	$\Delta REV_{i,t}$	$PPE_{i,t}$	$DOCF_{i,t}$	$OCF_{i,t} * DOCF_{i,t}$
Sample	700	700	700	700	700	700	700	700
The mean	0.005	0.176	0.175	0.169	0.144	0.236	0.094	-0.008
Middle	0.009	0.152	0.152	0.149	0.110	0.196	0.000	0.000
Mode	0.000	0.390	0.390	0.390	0.000	0.180	0.000	0.000
SD	0.163	0.174	0.173	0.163	0.130	0.158	0.292	0.039
Coefficient of skewness	-1.012	0.849	0.849	0.801	1.736	0.700	2.786	-9.534
Slenderness coefficient	6.659	2.721	2.817	3.157	4.106	-0.374	5.770	129.651
Range	1.940	1.710	1.710	1.710	0.920	0.690	1.000	0.750
Minimum range	-0.99	-0.750	-0.750	-0.750	-0.020	0.000	0.000	0.000
Maximum range	0.950	0.950	0.950	0.950	0.890	0.700	1.000	0.000
Quarter 0.25	0.25	-0.055	0.066	0.069	0.066	0.053	0.105	0.000	0.000
Quarter 0.50	0.50	0.009	0.152	0.149	0.152	0.110	0.196	0.000	0.000
Quarter 0.75	0.75	0.085	0.249	0.240	0.248	0.198	0.351	0.000	0.000

Model variables of research in above table are as follows:

Dependent variable:

$WCA_{i,t}$: Accrual of capital flows which can be obtained from the following equation: (Chen et al (2011))

$$\frac{\Delta CurrentAssets - \Delta Cash - (\Delta CurrentLiabilities - \Delta CurrentDebt - \Delta TaxPayables)}{TotalAssets}$$

Independent variables:

$OCF_{i,t}$: Cash flow from operations divided to total assets

$\Delta REV_{i,t}$: Change in firm income divided to total assets

$PPE_{i,t}$: Balance of net property, Machines and equipment divided to total assets

$DOCF_{i,t}$: If the cash outflow from operations is 1, otherwise it is zero.

Table 3: Descriptive statistics for variables used in the model (3) ofresearch

$$\Delta AR_{i,t} = \alpha_0 + \alpha_1 \Delta \text{Re}\, v_{i,t} + \varepsilon_{i,t}$$

Variables		$\Delta AR_{i,t}$	$\Delta REV_{i,t}$
Sample		700	700
The mean		0.010	0.144
Middle		0.020	0.110
Mode		0.000	0.000
SD		0.392	0.130
Coefficient of skewness		-1.283	1.736
Slenderness coefficient		316.573	4.106
Range		16.000	0.920
Minimum range		-8.000	-0.020
Maximum range		8.000	0.890
Quarter	25%	0.053	0.021
	50%	0.110	0.098
	75%	0.198	0.158

The model variables in the table above are as follows:

Dependent variable:

$\Delta AR_{i,t}$: Change in accounts receivable divided to total assets

Independent variables:

$\Delta REV_{i,t}$: Change of company profits divided to total assets

Table (4): Descriptive statistics for variables used in models 4 and 5 of the research

$$(DisTA_{i,t}, DisWCA_{i,t}, DisRev_{i,t}, AccrCash_{i,t}) = \alpha_0 + \alpha_1 IAQ_{i,t} + \alpha_2 BODQ_{i,t} + \alpha_3 CG_{i,t} + \alpha_4 AQ_{i,t} + \alpha_5 LASSET_{i,t} + \alpha_6 INV_{i,t} + \alpha_7 LEV_{i,t} + \alpha_8 CFO_{i,t} + \alpha_9 LAGE_{i,t} + \alpha_{10} SGROWTH_{i,t} + \varepsilon_{i,t}$$

Variables	DisTA	DisRev	AccrCrash	IAQ	BODQ	IAQBODQ	CG	AQ	LASSET	INV	LEV	CFO	LAGE	SGROWTH
	700	700	700	700	700	700	700	700	700	700	700	700	700	**700**
Sample	-0.172	-0.064	-0.210	0.551	0.537	0.256	0.551	0.537	12.546	0.253	0.652	0.774	5.449	**0.248**
The mean	-0.039	-0.014	-0.051	1.000	1.000	0.000	1.000	1.000	12.425	0.236	0.670	0.165	5.396	**0.198**
Middle	-0.980	-0.900	-0.940	1.000	1.000	0.000	1.000	1.000	6.210	0.000	0.350	0.390	2.700	**0.000**
Mode	0.257	0.124	0.282	0.498	0.499	0.437	0.498	0.499	1.295	0.128	0.162	14.774	0.563	**0.470**
SD	-1.709	-3.735	-1.235	-0.207	-0.149	1.122	-0.207	-0.149	0.700	0.438	-0.657	26.443	0.700	**7.463**
Coefficient of skewness	1.861	18.145	0.226	-1.963	-1.983	-0.743	-1.963	-1.983	1.982	0.045	0.078	699.493	1.982	**100.380**
Slenderness coefficient	0.980	0.900	0.940	1.000	1.000	1.000	1.000	1.000	11.640	0.730	0.880	391.460	5.060	**8.630**
Range	-0.980	-0.900	-0.940	0.000	0.000	0.000	0.000	0.000	6.210	0.000	0.120	-0.430	2.700	**-0.950**
Minimum range	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	17.850	0.730	1.000	391.030	7.750	**7.680**
Quarter	-0.216	-0.064	-0.365	-0.150	0.000	0.000	0.000	0.000	11.718	0.157	0.560	0.068	5.089	**0.066**
	-0.039	-0.014	-0.051	0.720	1.000	0.000	1.000	1.000	12.425	0.236	0.670	0.165	5.396	**0.198**
	-0.001	-0.002	-0.001	1.563	1.000	1.000	1.000	1.000	13.191	0.336	0.770	0.276	5.729	**0.334**

The model variables in above table are as follows:
Dependent variable:

$DisTA_{i,t}$: Total discretionary accruals (The remaining model (1) x (-1)

$DisWCA_{i,t}$: Discretionary working capital accruals (The remaining model (-1) x (2)

$Dis\,\mathrm{Re}\,v_{i,t}$: Discretionary Income(The remaining models (-1) x3)

$AccrCash_{i,t}$: The natural logarithm of the absolute value of total accruals to the absolute value of operating cash flow multiplied by (-1)

$$AccrCash_{i,t} = -\ln(\frac{|Accr|}{|OCF|})$$

Independent variables:

$IAQ_{i,t}$: If Company has Internal Auditor contract of with members of the official audits community in Iran is equals to one and otherwise it's zero.

$BODQ_{i,t}$: If board members with financial knowledge is equals to one andotherwise it is zero.

$CG_{i,t}$: Variable is dummy if the corporate governance score greater than the median annual period is equal to one and otherwise zero.

1. board size (BSIZE)	**Number of board members** **Dummy variable: if BSIZE isgreater than annual cross-sectional median is one, and otherwise it is zero.**
2. Ratio of non duty members of the Board (BIND)	Non duty members of the board to the allmembers ofboard Dummy variable: if BIND is greater than the median annual cross against isone and otherwise equal to zero.
3. Dual responsibility of director (DUAL_CEO):	If the CEO and the Chairman or Vice-Chairman of the Directors Board of the company is not sameequals 1 and otherwise considered to be zero.
4. Free Float (FREE FLOAT((Nikomram, Mohammad Zadeh, 2009)	The amount of contribution is expected to be traded in the near future. Dummy variable: If annual cross-sectional median FREE FLOAT is greater than is one, and otherwise is zero.
5. Audit quality (AQ):	For companies by the National Audit Office, Audit has been considered number 1 and otherwise is zero.
6. Ownership Concentration (OWNCON :(Aghaie, Chalaki, 2009)	The total percentage of company shares owned by shareholders who hold at least 5%. Dummy variable: if OWNCON greater than annual cross-sectional median is one, and otherwise zero.
7. Institutional investors (INSOWN) :(Aghaie, Cahlaki, 2009)	The total percentage of company shares owned by banks, insurance, financial institutions, holding companies, institutions, organizations and governmental agencies. Dummy variable: if INSOWN is greater than annual cross-sectional median is one, and otherwise zero.
8. Associated with shareholder control (CONTROL)	If a person or company ownership is more than 50% of the voting stock of the company is number one, and otherwise zero.
9. Influence the Director)Aghaie, Chalak, (2009)	If the Chairman of the Board did not the members equals to 1 and otherwise its zero.
10. reliance on debt (DEBTRLT): (aghaie, chalaki 2009)	Total long-term debt divided by total assets. Dummy variable: if DEBTRLT greater than annual cross-sectional median is one, and otherwise zero.
11. time tenure of the Managing Board (TENURE)(Aghaie, Chalak،2009)	The natural logarithm of CEO tenure on the board. Dummy variable: if TENURE is smaller than the median annual cross equal one and otherwise equal to zero.
12. Audit opinion: Mehran, safar-Zadeh, 2001)	If the comment is acceptable equals to one and otherwise zero.

Corporate governance rating for each company is measured by 12 variables of above table.

$AQ_{i,t}$: If the auditor is an audit of the company equals to one and otherwise zero.

$LASSET_{i,t}$: The natural logarithm of total assets of the company.

$INV_{i,t}$: Inventories divided to the total assets of the company.

$LEV_{i,t}$: The total debt of company divided to total assets of the company.

$CFO_{i,t}$: Operating cash flow divided to total assets of the company.

$LAGE_{i,t}$: The natural logarithm of years of company participation in the Tehran Stock Exchange.

$SGROWTH_{i,t}$: Growth in sales compared to the year

Results of hypotheses testing

Hypotheses of this study are tested includes two hypotheses.

1- There is a significant positive relationship between the internal audit performance and the quality of financial reporting.

2- Board of directors' quality affects on the relationship of the quality of internal audit function on the quality of financial reporting.

To test the first hypothesis of the model (4) is used:

$$(DisTA \;, DisWCA \;, Dis\ \mathrm{Re}\ v, AccrCash \;)_{i,t} = \alpha_0 + \alpha_1 IAQ_{i,t} + \alpha_2 BODQ_{i,t} + \alpha_3 CG_{i,t} + \alpha_4 AQ_{i,t} + \alpha_5 LASSET_{i,t} + \alpha_6 INV_{i,t} + \alpha_7 LEV_{i,t} + \alpha_8 CFO_{i,t} + \alpha_9 LAGE_{i,t} + \alpha_{10} SGROWTH_{i,t} + \varepsilon_{i,t} \quad (4)$$

In the above modelif α_1 is positive the research hypothesis isapproved, otherwise is rejected.

To test the second hypothesis of the model (5) is used:

$$(DisTA \;, DisWCA \;, Dis\ \mathrm{Re}\ v, AccrCash \;)_{i,t} = \alpha_0 + \alpha_1 IAQ_{i,t} * BODQ_{i,t} + \alpha_2 CG_{i,t} + \alpha_3 AQ_{i,t} + \alpha_4 LASSET_{i,t} + \alpha_5 INV_{i,t} + \alpha_6 LEV_{i,t} + \alpha_7 CFO_{i,t} + \alpha_8 LAGE_{i,t} + \alpha_9 SGROWTH_{i,t} + \alpha_{10} CG_{i,t} + \varepsilon_{i,t} \quad (5)$$

In the above model if α_1 is positive or negative the second hypothesis is approved, otherwise is rejected.

To test this hypothesis of research, by using the above models, first those are stated as statistical hypothesis and then tested by using the above regression.Tables (4-13) to (4-15), corresponding to the results of the regression analysis models (4), (5) and (6) respectively. Beta coefficients of the variables in the tables (β), correlation coefficient (R) and coefficient of determination (R^2)adjusted model with significant study variables by using t test, significant model by using the F test and significant correlation by using t-test and also investigated the autocorrelation between observations by using "Dorbin - Watson" has been shown.

To determine the correlation coefficient of model by using a t-test can be test significant correlation. For this purpose, statistical hypothesis and related statistics formulas are as follows:

$$\begin{cases} H_\circ : \rho = \circ \\ H_1 : \rho \neq \circ \end{cases} \qquad t = \frac{R - \rho}{\sqrt{\frac{1 - R^2}{n - 2}}}$$ Degrees of freedom

T value is calculated based on the above formula. According to the statistical distribution of table t, the critical value with 98 degrees of freedom at a significance level of 1% is equal to 2/326 and significance level of 5% is equivalent

to 1/645. If the absolute value of the calculated t-statistic is greater than the critical value, hence we can conclude that H0 is rejected. The rejection of H0 hypothesis is as a significant correlation between the models.

The result of the first hypothesis test of research in regression model (4)
Results of regression analysis model (4) in table (5) are presented.

Table 5: Estimation results of model (4) of the research

$$(DisTA, DisWCA, DisRev, AccrCash)_{i,t} = \alpha_0 + \alpha_1 IAQ_{i,t} + \alpha_2 BODQ_{i,t} + \alpha_3 CG_{i,t} + \alpha_4 AQ_{i,t} + \alpha_5 LASSET_{i,t} + \alpha_6 INV_{i,t} + \alpha_7 LEV_{i,t} + \alpha_8 CFO_{i,t} + \alpha_9 LAGE_{i,t} + \alpha_{10} SGROWTH_{i,t} + \varepsilon_{i,t}$$

explanatory variables	financial reporting quality											
	$DisTA_{i,t}$			$DisWCA_{i,t}$			$DisRev_{i,t}$			$AccrCash_{i,t}$		
	Coefficient (β_i)	t	P-value	coefficient (β_i)	t	P-value	coefficient (β_i)	t	P-value	coefficient (β_i)	t	P-value
α_0	0.199	0.707	0.480	-0.030	-0.219	0.827	-0.772	-2.538	0.011	1.731	0.975	0.330
IAQ	1.009	3.455	0.000	1.001	3.129	0.000	0.910	3.486	0.000	1.010	3.081	0.000
BODQ	-0.005	-0.275	0.784	-0.007	-0.687	0.492	-0.007	-0.304	0.761	0.018	0.142	0.887
CG	-0.004	-0.193	0.847	0.014	1.486	0.138	0.028	1.324	0.186	0.096	0.767	0.443
AQ	-0.013	-0.635	0.526	-0.002	-0.217	0.828	0.017	0.767	0.444	-0.108	-0.848	0.397
LASSET	-0.004	-0.506	0.613	0.000	0.128	0.898	0.002	0.207	0.836	-0.030	-0.622	0.534
INV	0.007	0.087	0.931	0.000	-0.005	0.996	0.057	0.659	0.510	-0.805	-1.595	0.111
LEV	-0.031	-0.492	0.623	0.055	1.775	0.076	0.278	4.030	0.000	-0.102	-0.252	0.801
CFO	0.000	0.614	0.540	0.000	0.452	0.652	0.001	1.124	0.262	-0.002	-0.524	0.601
LAGE	-0.097	-1.004	0.316	-0.028	-0.587	0.557	0.117	1.115	0.265	-0.113	-0.184	0.854
SGROWTH	-0.063	-3.000	0.003	-0.011	-1.096	0.274	0..007	0.321	0.748	-0.155	-1.170	0.243
D-W		2.132			1.995			2.027			2.062	
F		3.206			3.812			2.708			3.633	
P-value		0.000			0.000			0.003			0.000	
R^2		0.003			0.003			0.024			0.005	
R		0.131			0.108			0.194			0.095	

Dependent variables: the quality of financial reporting
Coefficients mentioned in the above table for the first research hypothesis test consisted of:

α_1 : Coefficient of correlation between the performance of internal audit and financial reporting quality

The first statue: quality variable evaluator of accruals ($DisTA_{i,t}$)

As observed in table (5), F statistics equals to 3.206 and P-value equal to 0.000, which indicates a 99% confidence level linear regression model is statistically significant.

T-statistics for the explanatory variables IAQ (with a beta of 1.009) is equal to 3.455 and significance level variables equal to 0.000, which is statistically significant at the 99% confidence level. In order toinvestigation the first hypothesis, there is a significant positive relationship between the internal auditor's performance and the quality of financial reporting. Because beta of the descriptive variable IAQ equals to 1.009 and t-statistics equal to 3.455 which is significant at the 99% confidence level.

As observed in table (5) is the correlation coefficient and the coefficients of determination adjusted model (4) are 0.131 and 0.003 respectively.

Also, according to statistics "Dorbin - Watson» Model (4) whichhas shown in table (5) the value of this statistic is equal to 2.132, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation in model (4) among observations.

Second case: variable evaluator of quality accruals ($DisWCA_{i,t}$)

As observed in table (9), F statistics equal to 3.812 and P-value equal to 0.000, which indicates a 99% confidence level of linear regression model, is statistically significant.

T-statistics for the descriptive variables IAQ (with a beta of 1.001) is equal to 3.129 and significance level variable equal to 0.000, which is statistically significant at the 99% confidence level. As for the first hypothesis investigation, there is asignificant positive relationship between internal auditor's performance and the quality of financial reporting. Because descriptive beta variable IAQ equals to 1.001 and t-statistics equals to 3.129 which is significant at the 99% confidence level.

As observed in table (5) the correlation coefficient and the determination coefficient of adjusted model (4) are 0.194 and 0.024 respectively.

Also, according to statistics "Dorbin - Watson» Model (4) in table (5) has shown the value of this statistic equal to 1.995, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation among observations in model (4).

The third statue: variable evaluator of accruals quality ($Dis\,\mathrm{Re}v_{i,t}$)

As observed in table (5), F statistics equals to 2.708 and P-value equal to 0.003, which indicates a 99% confidence level of linear regression model, statistically is significant.

T-statistics for the descriptive variables IAQ (with a beta of 0.910) is equal to 3.496 and significance level of variables equal to 0.000, which is statistically significant at the 99% confidence level. For the first hypothesis investigation, there is significant positive relationship between the internal auditor's performance and the quality of financial reporting. Because descriptivebeta variable IAQ equals to 0.910 and also t-statistics equal to 3.496, which is significant at the 99% confidence level.

As observed in table (5) the correlation coefficient and the determination coefficient of adjusted model (4) are 0.194 and 0.024 respectively.

Also, according to "Dorbin - Watson» statistic of model (4) in table (9) has shown the value of this statistic is equal to 2.027, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation among observations in model (4).

The fourth statue: variable evaluatorof accruals quality ($AccrCash_{i,t}$)

As observed in table (5), F statistics equals to 3.633 and P-value equal to 0.000, which indicates a 99% confidence level linear regression model,statistically is significant.

T-statistics for the descriptive variables IAQ (with a beta of 1.010) is equal to 3.081 and significance level variables equal to 0.000, which is statistically significant at the 99% confidence level. For the first hypothesis investigation, there is significant positive relationship between the internal auditor's performance and the quality of financial reporting. Because beta of the descriptive variable IAQ equals to 1.010 and t-statistics equal to 3.081 which is significant at the 99% confidence level.

As observed in table (5) the correlation coefficient and the determination coefficient of adjusted model (4) are 0.095 and 0.005 respectively.

According to "Dorbin - Watson» statistics of model (4) in table (5) has shown that the value of this statistic is equal to 2.062, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation among observations in model (4).

Test result of the second hypothesis in the regression model (5)

Results of regression analysis model (5) provided in table (6).

explanatory variables	financial reporting quality											
	$DisTA_{i,t}$			$DisWCA_{i,t}$			$Dis\,\mathrm{Rev}_{i,t}$			$AccrCash_{i,t}$		
	coefficient $t(\beta_i)$	t	P-value	coefficient $t(\beta_i)$	T	P-value	coefficient (β_i)	t	P-value	coefficient $t(\beta_i)$	t	P-value
α_0	0.191	0.683	0.495	-0.036	-0.266	0.790	-0.767	-2.531	0.012	1.765	0.999	0.318
IAQ*BODQ	1.003	3.148	0.000	1.004	3.384	0.001	1.031	3.342	0.000	1.002	3.713	0.000
CG	-0.004	-0.185	0.853	0.014	1.492	0.136	0.028	1.313	0.190	0.096	0.764	0.445
AQ	-0.013	-0.663	0.507	-0.003	-0.284	0.776	0.019	0.867	0.386	-0.105	-0.831	0.406
LASSET	-0.004	-0.501	0.617	0.001	0.145	0.884	0.001	0.174	0.862	-0.030	-0.628	0.530
INV	0.006	0.070	0.944	0.001	0.026	0.980	0.059	0.688	0.491	-0.807	-1.602	0.110
LEV	-0.030	-0.465	0.642	0.055	1.782	0.075	0.275	3.988	0.000	-0.104	-0.260	0.795
CFO	0.000	0.598	0.550	.0.000	0.452	0.652	0.001	1.174	0.241	-0.002	-0.520	0.603
LAGE	-0.097	-1.007	0.314	-0.026	-0.558	0.577	0.117	1.116	0.265	-0.122	-0.199	0.842
SGROWTH	-0.063	-3.008	0.003	-0.011	-1.081	0.280	0.007	0.295	0.768	-0.155	-1.178	0.239
D-W		2.130			1.999			2.026			2.061	
F		3.310			3.866			3.181			3.703	
P-value		0.000			0.000			0.001			0.000	
R^2		0.004			0.002			0.027			0.004	
R		0.130			0.106			0.200			0.095	

Table (6): The results of estimating model (5) of the research

$$(DisTA, DisWCA, Dis\mathrm{Rev}, AccrCash)_{i,t} = \alpha_0 + \alpha_1 IAQ_{i,t} * BODQ_{i,t} + \alpha_2 CG_{i,t} + \alpha_3 AQ_{i,t} + \alpha_4 LASSET_{i,t} + \alpha_5 INV_{i,t} + \alpha_6 LEV_{i,t} + \alpha_7 CFO_{i,t} + \alpha_8 LAGE_{i,t} + \alpha_9 SGROWTH_{i,t} + \alpha_{10} CG_{i,t} + \varepsilon_{i,t}$$

Dependent variables: the quality of financial reporting
Coefficients used in the above table for the second hypothesis test is as follow:

α_1 : Coefficient of impact on the quality of the board's internal audit function and quality of financial reporting

First statue: variable evaluator of quality accruals ($DisTA_{i,t}$)

As observed in table (6), F statistics equals to 3.310 and P-value equal to 0.000indicates that coefficient level 99% of the linear regression modelstatistically is significant.

T-statistics for the descriptive variables IAQ * BODQ (with a beta 1.003) is equal to 3.148 and significant level of variable equal to 0.000, which is statistically significant at the 99% confidence level. For the second hypothesis on the impact of board quality on the quality of the financial reporting affect the quality of the internal audit function because the beta of the descriptive variable IAQ * BODQ equals to 1.003 and t-statistic is equal to 3.148 which is significant at the 99% confidence level.

As observed in table (6) is the correlation coefficient and the determination coefficients of adjusted model (5) are 0.130 and 0.004 respectively.

Also, according to "camera - Watson» statistics of model (5) in table (6) shown that the value of this statistic is equal to 2.130, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation among observations in model (5).

Second statue: variable evaluator of accruals quality ($DisWCA_{i,t}$)

As observed in table (6), F-statistic of 3.866 and a P-value equal to 0.000, which indicates a 99% confidence level linear regression model is statistically significant.

T-statistics for the descriptive variables IAQ * BODQ (with a beta of 1.004) is equal to 3.384 and significance level variables equal to 0.000, which confidence statistically at level 99% is significant. For the second hypothesis on the impact of board quality on the quality of the financial reporting affect the quality of the internal audit function because the beta of descriptive variable IAQ * BODQ equals to 1.004 and t-statistic is equal to 3.384 which is significant at the 99% confidence level.

As shown in Table (6) the correlation coefficient and the determination coefficient of adjusted model (5) are 0.106 and 0.002 respectively.

According to "Dorbin - Watson» statistics model (5) in table (6) is shown the value of this statisticequal to 1.999, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation among observations in model (5).

Third statue: variable evaluator of accruals quality ($Dis\,\mathrm{Re}\,v_{i,t}$)

As observed in table (6), F statistics equals to 3.181 and P-value equal to 0.001, which indicates a 99% confidence level of linear regression model, statistically is significant.

T-statistics for the descriptive variables IAQ * BODQ (with a beta of 1.031) equals to 3.342 andsignificant level of variable equal to 0.000, which is statistically significant at the 99% confidence level. For the second hypothesis the impact of board quality on the quality of the financial reporting affect the quality of the internal audit function. The descriptive variable IAQ * BODQ beta of 1.031 and t-statistic is equal to 3.342 which is significant at the 99% confidence level.

As observed in table (6) the correlation coefficient and the determination coefficient of adjusted model (5) are 0.200 and 0.027 respectively.

Also, according to "Dorbin - Watson» statistics Model (5) in table (6) shown the value of this statistic is equal to 2.026, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation among observations in model (5).

The fourth statue: variable evaluator quality accruals ($AccrCash_{i,t}$)

As observed in table (6), F statistics equals to 3.703 and P-value equal to 0.000. It indicates that 99% of the linear regression model statistically is significant.

T-statistics for the descriptive variables IAQ * BODQ (with a beta of 1.002) is equal to 3.713 and this variable is significant and equal to 0.000, which is statistically significant at the 99% confidence level. As for the second hypothesis on the impact of board quality on the quality of the financial reporting affect the quality of the internal audit function. Because the beta of descriptive variable IAQ * BODQ 1.002 and t-statistic is equal to 3.713 which is significant at the 99% confidence level.

As observed in table (6) the correlation coefficient and the determination coefficient of adjusted model (5) are 0.095 and 0.004 respectively.

According to statistics "Dorbin - Watson» Model (5) in table (6) shown the value of this statistic is equal to 2.061, which is between 1.5 and 2.5. Thus it can be concluded that there is no autocorrelation among observations in model (5).

DISCUSSION AND CONCLUSION

The study of the effect of internal audit quality and financial reporting quality on quality of listed companies in Tehran Stock Exchange was determined as the subject of the present study. For this purpose, the following regression models Johel et al (2012), investigate the relationship between internal audit quality and the quality of the board and the quality of financial reporting.The research hypotheses statistical test, indicate the acceptance the first hypothesis (in the case that the quality of financial reporting total purchase commitments and working capital accruals measured) and the second hypothesis and the first hypothesis rejected (in the case that the quality of financial reporting and prudential benefit accruals relative to cash flows have been measured). The results indicate that according to the results of Johel et al (2013) there is a significant positive relationship between the internal audit performance and the quality of financial reporting.

Further study suggestion

According to the wide research in aboard of Iran with the emphasis on financial reporting, and also lack of attention to this subject during the studies conducted in Iran up to now, suggest that regarding to the high potential of the quality of financial reporting, do various studies in different area in Iran. Some of the cases can be study in the future study includes: study the relationship between quality of financial reporting and dept costs, financial level, equity, manager interest motivation.

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