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Investigating the Effects of Auditing Quality and Accruals on Debt Expenditure in Companies Listed on the Tehran Stock Exchange

Ghodratollah Talebnia[1], Sadegh Hamehkhani[2]

[1]Associate Professor, Department of Accounting, Science and Research branch, Islamic Azad University, Tehran, Iran
[2]Ph.D. student of Accounting, Kish international Branch, Islamic Azad University, Kish, Iran

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ABSTRACT

Decision of investors in the Stock Exchange will be paid to the variables of Accounting and Economics. Reducing the cost of debt is one of the decision variables that reduces financial risk and increase the likelihood of profitability of companies. If the quality of auditing and accruals is high it reduces the cost of corporate debt. In this study we plan to find out if increasing the quality of audits and increasing the quality of accruals have an impact on reducing the cost of debt or not. The study sample of 92 firms in stock exchange over a period of 6 years from 2007 to 2014 were selected. The results showed that, between audit quality and the quality of accruals on the cost of debt there is a significant negative correlation. This is an improvement of audit quality and quality of accruals caused to reduce the cost of debt.

KEY WORDS: quality of audit, quality of accruals, cost of debt

INTRODUCTION

The purpose of this paper is that at first it surveys the effect of audit quality, Accruals quality on the cost of the debt. The second objective of this study is that financial analysts, investors and users of accounting information be aware of this impact. We expect that results of this study can have academic achievement and added value as follows. First, the results of this research could extend the previous literature's basic theories regarding the impact of audit quality, Accruals quality on the cost of debt. Second, research evidence shows that whether the impact of audit quality, the quality of accruals on the cost of debt has great importance in the information analysis of companies listed on Tehran Stock Exchange or not? This issue as a scientific achievement can provide useful information to investors in the Stock Exchange as well as financial analysts. Third, the results of this can present new ideas for new research in the field of audit quality. In the following theoretical foundations, conceptual models, research variables and hypotheses testing of research are examined.

Theoretical Basics

According to the concept of separation of ownership from management, corporate governance debate and proposed theories associated with it, such as agency theory, theory of stakeholders and other theories, there is an urgent need to investigate and audit the companies' financial statements (Aghaee and challaki 2007). Audit provides value added (double) for the reported financial forms, since the results of the study show the relevance and reliability of financial statements. An expert and independent auditing firm is able to find out misrepresentation of audited of financial statements and can be effective to present it to his boss so that reliable financial information can be reported. To achieve this desirable objective, it is dependent on the characteristics and properties of audit firms and these characteristics could be positively or negatively associated with audit quality. According to Titman and Truman the high quality audit can improve the accuracy of information and allows investors to estimate the value of the company more accurately. According to the presented definitions regarding the quality of auditor, its framework can be stated in these terms: the quality of the auditor's means his reputation and professional care, in which as a result of the auditor's reputation, it increases the credibility of financial statements information auditor's care, the quality of financial statements information will increase (Ahmad poor et al., 2010).

Experimental background

Noroosh et al (2006) in a survey studied the accruals quality with emphasis on the role of accruals' estimation error, the results indicate that high levels of accruals decreased the quality of accrual and earnings quality. So, more accruals mean quality and sustainability of less profit.

***Corresponding Author:** Ghodratollah Talebnia, Associate Professor, Department of Accounting, Science and Research branch, Islamic Azad University, Tehran, Iran

Ebrahimi Kordlar and Rasaiian (2010) in their study, investigated the relationship between external auditors and auditor's comment with the earnings management and concluded that only type of auditing institutions are related to accruals.
Alavi tabari et al (2011) in this study examined the relationship between audit quality and earnings management. They considered various criteria for audit quality and auditor tenure has been one of these criteria and results according to of the company for the period of 2007 to 2011 for the sample of 61 companies showed that there is no significant relationship between audit tenure and earnings management.
ESlovan (2008) in their study concluded, if the accruals of current profits given earnings a year later (earlier) is calculated, will have less stability compared to the stability of cash flow. He considers results due to differences in reliability of the accruals and reported cash flows and attributes less stable accruals to the accruals with the low reliability and vice versa.
Chambers and Pine (2009) in their second study regarding the audit quality and accruals reliability concluded that high quality of audit quality as well applying the rule of Sarbynez - Axcely can enhance the accrual reliability.

Theories
Based on the above theoretical foundations the following hypothesis were developed:

1. Between increasing audit quality and reduction in the cost of debt there is a significant relationship.
2. Between increasing accurses and reduction in the cost of debt there is a significant relationship.

RESEARCH METHODOLOGY

Since the objectives of this study was to investigate the relationship between audit quality, the quality of accruals on the company's cost of debt, so the methodology of the study was descriptive, and is the type of correlational. The research data has been adopted from the financial statements of companies listed on the stock exchange in the electronic information system. Hypothesis test has been conducted using regression models.

Model (1) is used to test the first hypothesis:

$$Cost\_Debt_{i,t} = \beta_0 + \beta_1 R + \beta_2 SIZE + +\beta_4 ROA + \varepsilon_{it}$$

The model is used to get the relationship between audit quality and cost of debt.
Model (2) is used to test the second hypothesis:

$$Aq - DD_{i,t} = \beta_0 + \beta_1 R + \beta_2 SIZE + +\beta_4 ROA + \varepsilon_{it}$$

The population sample

The population samples of present study are manufacturing firms listed in the Tehran Stock Exchange. That includes companies that meet the following conditions:

1. Should be among manufacturing companies and not investment companies, banks, insurance companies and multidisciplinary companies.
2. Their financial year ends on 29 March.
3. Do not change the fiscal year.
4. Should be accepted in stock market according to research period before 2009.
5. Company information should be available.

According to the above restrictions, only 92 companies (including 457 observing year - the company) for the period 2009 to 2014 have the above conditions and therefore were selected as sample.

Results and analysis of research hypotheses
Testing hypotheses

1. **Between increasing the audit quality and reducing the cost debt there is a significant relationship.**

$$\begin{cases} \text{H0:} & \text{Between the audit quality and the cost debt there is no a significant relationship} \\ \text{H1:} & \text{Between the audit quality and the cost debt there is a significant relationship} \end{cases}$$

The results are as following table

Table 1. test the First hypothesis with the dependent variable of the cost of debt

92 companies :studied companies the independent variable=cost of debt		Statistical method: multivariable linear regression :confidence level =95%	Variable input method :Enter	
Variance analysis model overall significance		Durbin Watson	R^2	R^2 Adjusted
stisitcsta F	Significance level			
5.572	.000	1.802	173.	171.

Significance of each variable		Beta	Independent and control variables	hypothesis
statistics t	significance level			
-.141	000.	-.098	Audit quality R	first
2.003	.000	.253	Company size SIZE	
-1.019	.000	-.108	Return on assets ROA	

As the table above can show, the relationship between audit quality and cost of debt through multivariable linear regression model in 92 companies were analyzed and tested statistically. Watson-Durbin number is 1.802, which shows the lack of correlation between the errors. Coefficient of determining is .173. These figures show that 17% of cost of debt changes can be explained by the changes in control and independent variables (audit quality, size of company and rate of return on assets) and the rest of changes are explained in cost of debt by some factors except that abovementioned factors. On the other hand, the significance level of variance analysis is less than 5%, indicating that the model is significant. Thus it can be said that a total of independent variables have significant and strong impact on the dependent variable. Because significant level is less than 5%, which represents significance. The beta of audit quality variable calculated by the application is-0.98 in which represents a significant adverse impact audit quality and cost of debt.

In summary H_0 in the first theory is rejected. So overall according to the variance table between audit quality and cost of debt there is an inverse relationship.

2) – There is significant relationship between the increase in accruals quality and reducing the cost of debt.

H0: There is no relation between quality of accruals and cost of debt

H1: There is relation between quality of accruals and cost of debt

The results are as following table

Table 2. The second hypothesis test with the dependent variable of cost of debt

92 companies :studied companies the independent variable=cost of debt		Statistical method: multivariable linear regression :confidence level =95%	Variable input method :Enter	
Variance analysis model overall significance		Durbin Watson	R^2	R^2 Adjusted
stisitcsta F	Significance level			
10.270	.000	1.835	184.	184.

Significance of each variable		Beta	Independent and control variables	hypothesis
statistics t	significance level			
-.141	000.	0.45.	Aq-DD inverted index accruals quality	first
2.003	.000	.0.403	Company size SIZE	
-1.019	.000	0.499-	Return on assets ROA	

As the table above can show, the relationship between accruals quality and cost of debt through multivariable linear regression model in 92 companies were analyzed and tested statistically. Watson-Durbin number is 1.835, which shows the lack of correlation between the errors. Coefficient of determining is .184. These figures show that 18.4% of cost of debt changes(dependent variable) can be explained by the changes in control and independent variables (accruals quality, size of company and rate of return on assets) and the rest of changes are explained in cost of debt by some factors except that abovementioned factors. On the other hand, the significance level of variance analysis is less than 5%, indicating that the model is significant. Thus it can be said that a total of independent variables have significant and strong impact on the dependent variable. Because significant level is less than 5%, which represents significance.

The beta of accruals quality variable calculated by the application is.45 in which represents a significant adverse impact audit quality and cost of debt.

In summary H_0 in the 2nd theory is rejected. So overall according to the variance table between audit quality and cost of debt there is an inverse relationship.

Conclusion

The results indicate that; **1-** There is a Significant and inverse relationship between audit quality and cost of debt **2.** There is a significant and inverse relationship between accruals quality and cost of debt , so the research hypothesis wasonfirmed and it was found that companies that their accounts auditing is done by auditors who have longer , the higher the quality of audits and accruals quality, the less cost of debt

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