



Expectation Gap between CPAs and Analysts: Auditing in Iran

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ABSTRACT: In this study, the differences of opinions between CPAs working in audit firms who are the members of Iranian Association of Certified Public Accountants (IACPA) and analysts working in holding investment companies listed in Tehran Stock Exchange are investigated. For this purpose, the chi-square (X²) statistical test is used and the opinions and perspectives of 259 auditors from various professional levels and 259 analysts of holding investment companies are collected and analyzed. The results indicated a significant difference between the opinions of these two categories on CPAs selection method and their independence and impartiality, and therefore the difference of their opinions on clients' performance impact and the role of regulations and standards on auditors' independence were not confirmed. Auditors consider that the role of time budget pressure and their tax report effects are important which may circumscribe their independence, while for financial analysts, the role of professional rules and standards as well as auditors selection method are important and are significantly effective on auditors' opinion.

Key words: Auditing, Auditors Independence, Certified Public Accountant, Standards and Professional Rules

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INTRODUCTION

Independence is a multifaceted concept. Based on the opinions of Mautz and Sharaf (1961), independence is divided into two domains: organizational independence and operational independence. It means that the auditor and the audit profession should be considered independent in people's view and this independence requires being independent in planning, investigating as well as reporting. However, the operational independence refers to information and knowledge independence (Mautz and Sharaf, 1961). Moreover, according to standards and professional behavior regulations of countries, the independence is pointed out as a conceptual and internal state, based on which the independence is investigated in two areas of nominal and actual independences. Investigating the independence concept as well as the effective factors on it, from the perspective of auditors and auditing service users, can specify the expectation gap of their opinions and can identify these factors in regard to their importance (Declarations of American Accountants Association, 1987, Wanda, 2002). Based on the Agency Theory, CPAs, as trusted and expert individuals and representatives of stockholders, have a conformational task and also have to confirm the accuracy of the information announced by managers. It is assumed that they have independence, and fairly and professionally publish their opinions on managers' performance and reports, and report any important and meaningful departure from accounting accepted principles and constraints in providing documents and information as well as frauds occurred by managers, to company owners and stockholders (Watts and Zimmerman, 1986; Fama and Jensen 1983; Abdoli et al., 2012). This role of auditors prevents from any moral

hazard between stockholders and company managers, and they increase the financial statements' reliability with their opinion (Mautz and Sharaf, 1961; Chahkhooi Nejad et al., 2013).

In this paper, the differences between the opinions of auditors and analysts, working in holding investment companies listed in Tehran Stock Exchange, about effective factors on auditor's independence, whether nominal or actual, are investigated.

LITERATURE REVIEW AND EXTRACTION OF HYPOTHESES

Ghoush et al. in a research conducted during 2001-2009, examined the non-audit wages and auditors' independence in capital market. The results of their research indicated that there is no relationship between the ratio of auditors' independence and non-audit wages. Furthermore, they found out that there is a negative relationship between auditors' independence and clients' importance level.

Zolgharnane et al. studied the relationship between wages of auditors and audit quality. In this study, discretionary accrual items were used for audit quality, and for audit quality, the auditors' wages and the client's size were applied. They found out that wages and audit quality are significantly interconnected.

Joushi et al. studied the relationship between non-audit services by auditors and their independence among two groups of auditors and clients. Both categories confirmed the impact of non-audit services on auditors' independence. In fact, their opinions differed according to clients' size, non-audit wages amount, and company's foreign operations.

Lin and Feng (2004) studied the expectation gap between the auditors and users of their reports in

China. Their results confirmed high expectation gap between auditors and general user in commitment to discovering frauds by auditors and their reports as well as their responsibility to third parties.

Bitty and Firnelly investigated 25 factors increasing the auditor's independence in England. Their results indicated that, according to managers' opinions, competition, clients' firm size, and audit committee are the most important factors increasing the auditor's independence among the 25 audit independence increasing factors.

Ahmad et al. (2011) studied the impact of auditors, board members, and family stockholders on aggressive financial reporting and found out that there is a significant relationship between CPA's independence and discretionary accrual items amount.

Rani et al. (2007) introduced a model indicating that the audit quality is a function of two auditor-related factors. These factors include: auditor's capability (including knowledge, competent, adaptability, and technical performance) and professional performance (including independence, objectivity, professional care, benefits conflict, and judgment). In addition to the above mentioned function characteristics, their model includes the impact of economic motives (such as wage, expenses, efficiency, lawsuits, and consulting services), market structure (such as competition, industry concentration, and scale economizing), law passing mechanisms, and the state of auditor's employment.

According to opinion of accountants who are members of Iranian Association of Certified Public Accountants, Sajjadi (2008) indicated that these auditors believe that providing non-audit services and auditor's economic dependency to the client are two factors decreasing auditors' independence.

Mehrabani (2005) and Motavassel et al. (2013) scrutinized the opinions of auditors, investment managers and providers. In their opinion, any bookkeeping, preparing financial statements, and consulting services would circumscribe auditors' independence. Moreover, according to their opinion, non-disclosure the revenues might violate the independence.

Mojtahadzadeh and Agha'ee (2004) demonstrated that in most cases there is no significant difference between auditors and clients' opinions, and according to their opinion there are 24 factors which have the highest impact on audit quality, among which time budget pressure, different conclusions from professional laws and auditors' selection methods are the most important.

Namazi et al. (2010) found out that there is a weak and positive connection between audit firm size and the time of auditing with earnings management.

Ebrahim (2001) provided more observations about audit quality impacts on earnings management behavior. The results illustrated that auditor's expertise has a positive upshot on the process effectiveness and improved auditor's informing performance by auditors. Also, the results indicated that an important client may affect auditor's independence or the auditors may allow the main clients to have more liberty in earnings report.

Naghi and Falateh believe that auditors with more than enough time for auditing in a company have higher opinion quality and more impartiality in their opinions. Chambers and Payne (2008) in their studies demonstrated that enforcing the Sarbanes-Oxley Law has improved audit quality and auditors' independence as well as impartiality.

Sadighi et al. (2009), by investigating the opinion of auditors, bank, and students in Bangladesh, studied their expectation gap about audit and the impact of education on its decrease, and concluded that educating the professional topics will lead to a significant decrease in expectation gap among them.

Hanifeh and Hadib in their studies in KSA found out that the expectation gap of audit profession and the users of auditors' reports are significant and setting audit standards and ethical as well as professional codes based on Islam can decrease this gap among opinions.

Hypotheses: Considering the results of studies carried out in Iran and other countries about the difference of opinions among auditors and clients and also the impact of Iran's legal conditions on auditors' behavior, as well as imposing changes in Iran's professional laws, the following hypotheses are recognized for investigating the significance of auditors and analysts' expectation gap in nominal and actual independence domains:

H1: There is a significant difference between auditors and analysts' opinions about CPAs selection method.

H2: There is a significant difference between auditors and analysts' opinions about independence of auditors' performance.

H3: There is no significant difference between auditors and analysts opinions about the impact of client's performance on auditors' independence.

H4: There is no significant difference between auditors and analysts' opinions about the role of standards and professional laws on auditors' independence.

MATERIALS AND METHODS

Statistical Population and Sample: The statistical population of research comprises two categories. The first includes auditors working in audit firms who are

the members of Iranian Association of CPAs in different auditing levels. There are 1341 employed auditors who are the members of CPA Association. The other statistical population category consists of the employed analysts in investment holding companies who are around 1426 people. 357 people were chosen from each category. Among them only 259 people completely and reliably answered and returned the questionnaires which were used as the basis of our analysis.

Data Gathering Tool and Method: The research data was gathered by sending written questionnaires in person. The written questionnaire was examined for validity and reliability prior to its distribution. In this study, in order to examine the validity, the questionnaires were distributed among 10 faculty members of accounting field in Shahrood and Semnan Azad Universities, and the validity of contents and the questionnaire's structure were evaluated subsequent to receiving their revised opinions. In order to examine its reliability, the questionnaires were distributed among the auditors working in Raimand Auditing Firm which is a member of Iranian Association of CPAs as well as among the analysts working in Shasta Holding Investment Company, and their opinions were collected in terms of answers to the topics presented in the written questionnaire. Then, using SPSS software and Cronbach's Alpha Statistical Test, the reliability of questionnaire was determined as 83% which is higher than its minimum value (70%). Therefore, the questionnaire's pilot study was carried out.

Statistical Methods of Hypotheses Testing: The answers to questionnaires were first averaged in regard to the relationship of each question with

research hypotheses, and the average of answers of each category of auditors and investment companies were tested using the chi-square method descriptive statistics. The confidence interval in this research was 95% and alpha was 5%, which were obtained according to the p-value for each respondent category and for both categories.

RESULTS

The examination of descriptive statistics indicated that 68% of auditors and 39% of analysts disagreed with CPAs' selection method. Also, 51% of the auditors believe that they are independent and their opinions are fully impartial. This was 37% for the analysts. The auditors assume that the role of clients' performance in their impartiality is 34% while it is 49% for the analysts. In this research, the determined role of standards and laws in auditors' impartiality was 47%. This ratio was 66% in analysts' opinion.

Detailed review of the respondent auditors indicated that all of them hold at least B.A. degree in accounting, management, and economics and 87% of analysts hold B.A. degree. The average job experience of auditors was 9 years and of analysts was 13 years.

The auditors stated that the highest factors in their independence and impartiality are time budget pressure, and their opinions and tax effect of reports; however, financial analysts believe that unfamiliarity of auditors with professional laws and the auditors' selection method plays the highest role. The following table presents a summary of the auditors and analysts' opinions about the effective factors on independence and impartiality of auditors. The table 2 presents the results of chi-square test for hypotheses:

Table 1. The summary of auditors and analysts' opinion about the effective factors on independence of auditors

Factors influence on auditor independence	Analysts view. %	Auditors view. %
Budget pressure	43	65
Tax effect opinion	32	62
Stock price Market effect	53	46
Continue auditing engagement	50	60
State and local pressure	46	53
Weakness of auditing standards	43	58
Don't professional care of auditors	61	45
Selection of auditors	62	56

Table 2. The summary of research hypotheses results

Tests	analysts	auditors
Chi-Square(a,b)	38.742	107.355
Asymp. Sig.	.020	0.020
Chi-Square(a,b)	66.887	124.226
Asymp. Sig.	.031	0.031
Chi-Square(a,b)	138.452	151.000
Asymp. Sig.	.017	0.017
Chi-Square(a,b)	151.161	76.129
Asymp. Sig.	.048	0.048

As indicated in Table, the significance level is less than 5%, therefore the significance of opinions difference of CPAs and financial analysts of investment companies about CPAs selection method as well as independence and impartiality of auditors' performance were confirmed. That is to say, the opinions of auditors and financial analysts are not similar, and their expectation gap about the auditors' selection method for companies, their opinion impartiality, and also their reporting are significantly different. The results of descriptive statistics also confirm this conclusion.

Furthermore, considering that the sign value of the relationship between the opinion of auditors and financial analysts is less than 5%, the difference between their opinions about the impact of client's performance on CPA's independence is not significant. Specifically, CPAs and financial analysts have similar opinions about the role of standards and professional laws and also clients' performance in CPAs' independence and impartiality, and they believe that professional regulations and clients' performance have equal effects.

CONCLUSION

According to Mautz and Sharaf (1961), and Power point of views, auditor's independence can be studied from two dimensions: organizational independence and operational independence. In their opinions, this independence should be presented both in behavior as well as action. Therefore, this independence should be in auditor's selection method and the professional performance plus auditing team, and observing this independence requires laws, standards, and peer reviews. The answers of auditors in this study demonstrated insistence on selection of auditors by Iranian Association of CPAs, while investment companies and analysts insist on giving more authority to holding investment companies. This difference of opinions seems natural since both categories emphasize on their own profession and assume more highlighted role for themselves.

The answers of auditors' confirm the existence of time budget pressure and increasing effect of auditors' fame on auditor's independence. However, investment companies believe that the expertise needed for the topics performed by auditors and their lack of uniformity in facing events are effective. Thus, in this section, similar to cases mentioned in the first hypothesis, auditors and financial analysts have deep differences in opinion (Pour Bahrami and Nameni (2012) The impact of factors, such as ownership structure (the presence of institutional and non-institutional investors), on audited companies, the diversity and complexity of clients' activities,

independence of company board members, internal auditor, and disclosure of auditors' wages are effective on the independence of auditing firms. Both categories accept as true that the ownership structure and the diversity of clients' activity are important, and CEO's independence and disclosure of wages are least in importance. Thus, both the auditors and analysts have emphasized on the effect of structure and composition of ownership in companies on auditors' performance and opinion, and therefore they do not entail significant difference. Both categories believe that multiplicity of laws and regulations, inflexibility of standards, concerns about litigation risk, as well as ongoing cooperation with the clients are effective, and emphasized on their important impacts on auditors' impartiality. These issues should be taken into account and met by formulators of Iran's audit and accounting professional regulations (Vahedi et al., 2012).

SUGGESTIONS

1. The opinions of auditors and investment companies in regard to the method of auditors' selection and the independence of auditing firms' have significant difference. It is suggested that professional references such as Iranian Audit Organization as well as Iranian Association of CPAs exert further efforts to decrease the expectation gap of these two categories.

2. The time budget pressure and providing non-audit services, as well as the expertise needed for the topics audited by auditors are some of the issues upon which there are opinion difference between CPAs and analysts. Therefore, the professional references should take measures about this issue.

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