THE ASSOCIATION AMONG AUDITOR'S REPORT, FINANCIAL STATEMENT AND QUALITY STOCK RETURNS

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Abstract. Financial reports is available sources of information on capital markets which is expected to play an effective role in improving the efficiency of investment and beneficial, the aim of this study was to investigate the effect of audit reports on the timeliness of accounting information, accounting and stock returns' impact on the reliability of the information. The period consisted of 5 consecutive years from 2010 to 2014 and samples are 114 companies listed in the Tehran Stock Exchange. Test the hypothesis of the present study is based on panel data regression analysis and using EVewis software, the significance relationship between variables investigated. The results of the research showed that the accounting report has no significant impact on the timeliness of information but has a significant effect on reliability.

Keywords: audit report, the reliability, timeliness, stock returns.

1 Introduction

Research and analysis of all aspects of securities markets and draw correct conclusions can speed up the development of these markets. Valid world exchanges have shown successfulness in maintaining and raise capital, and it is resulted of the confidence of investors to capital markets and market efficiency, so that they know do not waste investments and brings reasonable profits. Research on various issues affecting the stock market can help to shareholder to make correct decisions and the efficient allocation of economic resources to be the efficient allocation of economic resources to make more favorable investment situation (Ghaemi et al. 2003). In the present competitive world that reducing the cost and time efficiency are so important, competition in the auditing profession in the world and particularly in developed countries has been significantly intensified. Audit firms to remain competitive and increase their share in the global market, have to implement the principles and techniques of planning and management in their institutions. To achieve these two important points must consider: increasing the quality and reduce the price of goods and services (Firth, 1993).

Today, due to the expansion of economic activities, financial markets and investment boom in the capital markets, especially the stock exchange by natural and legal persons, access to accurate information, timely and realistic analysis of them are the most important tools to make the right decisions, achieve the expected benefits, financial facilities, efficient and optimal use. Information in today's society play a significant role in human life and whatever more advanced society of more and better uses. One of the reasons progress in developed societies is optimal and effective use of information. The end product of accounting, is providing information for different users ranging from internal users and outside users of the company, in the form of accounting reports. The group of accounting reports prepared and presented, with aims to meet the information needs of users of outside the company, placed in the area of financial accounting (Vaghfi, 2009). The main philosophy of the audit is to validate the data reflected in the financial statements; because mentioned information is the base of the decision-making groups such as shareholders, potential investors, agents, managers, financial consultants, analysts, creditors and the government. Therefore the audit of the users' perspective is especially useful when shareholders during their proceedings to investigate and evaluate the continuity of the establishment, freedom from false financial statements, pay to significant fraud and illegal acts affecting the entity's activities and agreed to abide by the above declare (Amini et al., 2011).

Transparent and reliable financial information are produced by a comprehensive reporting system and it counts also a key element of assessing the financial condition and performance of a company and make decisions about exchange of securities issued. In today's professional communities from the perspective of users, the information is deemed reliable that an independent agency on the company's reporting process and at the center of this process means monitor the financial statements. The examples of these organizations are audit firms which mainly are monitored and evaluated in the internal control structure of the reporting unit the final product of the financial statements and internal control. The most important and valuable service the auditing profession are, independent and expert opinion about the desirability of the financial statements. (Publication 105 Corporate Audit). Auditors with the reliability to the financial statements, financial reporting and transparency of financial markets play a crucial role to play in the process. Audit report as the end product of the audit, the nature of the goods (services) are public, which the use of which do not prohibit the use of other public services and its use is not restricted to any one user. Public goods like other goods and services must have appropriate quality to be continuing demand for it. If the audit is a means of monitoring the multiple roles to undertake these, assuming the other conditions permanently, forms of STI policies have audited financial high quality, will be reliable and more confident to consumers of goods (services) (Hassas Yeganeh and Jafari, 2010). The effect of an audit opinion on stock returns in alignment depend on the auditor's theory, shareholders and investors. If the audits' idea is different with the shareholders and investors according to official auditor access to information within the enterprise, his theory has the response of shareholders. The existence of reliable financial information, one of the requirements for the development and production of human science. The investor's decision to buy or sell stocks, a banker who decides on the approval of a loan application, the state to collect taxes based on the tax returns, they rely on information that is provided by others. Auditors did not comment on correcting intentional or unintentional mistakes in financial statements, and the quality of accounting information as a basis for decision makers raise investors. As mentioned in problem statement, the purpose of this study, is investment the effect of the audit report on the quality of accounting information and stock returns of companies listed on the Stock Exchange. In fact, the purpose is the answer to this question: whether or not the information content of the auditor's report for the users? Is there a significant relation among the kind of audit report, timeless information, reliability, financial statement and stock returns? With the intensification of competition in different fields such as accounting, auditing institutions they are looking for ways to increase the efficiency of their efficiency that to achieve this goal, they must identify important factors of efficiency and strive to eliminate or minimize its inhibitors, for this cause, auditors need a tool to warn himself to the risk of distortion, one of these tools is the use of analytical methods. Analysis of financial and non-financial variables can also be the means for the implementation of analytical methods reasonable assurance level that is associated with the issuance of the audit opinion. In this study seeks to provide useful information to users of our accounting and auditing practice, infect in this research tries to follow (main purpose of accounting is to provide useful information for decision-making).

We try in this research to answer the following question is there a significant relation between the auditor's report and the timeliness of accounting information?

Is there significant relation between audit report and stock returns?

To answer these question, formulated the following hypotheses:

1) There is a significant relation between the auditor's report timeliness of accounting information.

2) There is a significant relation between the auditor's report and the reliability of accounting information.

3) There is a significant relation between audit report and stock returns.

2 Audit report, stock return and quality of disclosure

2.1 Financial reporting

According to theoretical concepts of financial reporting, the financial statements purposes are included summarize and classify the information provided about the financial position, financial performance and financial flexibility of commercial unit which for a wide range of users in making economic decisions is directly applicable to financial statements. Achieving this goal requires the information has primarily been relevant and reliable and secondly, be understandable and comparable. Financial reports is available sources of information on capital markets which is expected to play an effective role in improving the efficiency of investment and beneficial (Modares and Hesar Zade, 2008) the purpose of financial reports require some specific traits that called quality of accounting information. Qualitative information characteristics make useful information and when dealing with accounting choices (choice of accounting methods, reporting forms and information that must be disclosed) to be searched; these are the criteria that determine what information is relevant for purposes of decision-making (Babajani and Azimi Yancheshmeh, 2012).

2.2 Disclosure Quality

According to Brown and Hillegeist (2006) disclosure quality shows the general awareness ability of disclosed information and depend on the volume of disclosed information, timeliness and accuracy of it. Some researches consider disclosure quality related to continuous release timely information and awareness. According to them, the companies with disclosure quality the probability to refuse unfavorable and valuable is lower. Disclosure quality refers to the ease of studying and interpreting financial reports. When the volume of information, timelessness and the accuracy of disclosure be aware of the obvious cause and investors about the value of securities after receiving the data reach rightly believed, disclosed information has high quality. Therefore, disclosure quality affects the value of the securities. It is expected after increasing disclosure quality, the information content of earnings increase and reported earnings effect on behavior of investors. Information disclosure quality is reported one of the most important factors for evaluation information. If the quality of disclosure increase, information provided are greater and reduce credibility, confidential information and information asymmetry. Full disclosure and transparency of financial reporting can make certain circumstances as increases investor confidence. Transparency have a positive impact on shareholders performance and can protect their interests. Increasing investor confidence, reduced expected returns and value of company increases (Kurdistani and Hosseini, 2013). The results show that between independent variables of profit error forecast and the adjustments annual earnings with variable delay in the issuance of the audit report negative significance was established and there is no relation between the independent variable of disclosure quality rating companies the delay in the issuance of the audit report. Among the control variables, firm size, size of audit firm, having good or bad news and the company's debt, only the size of the company with variable delay in the issuance of the audit report has been negative significance and other variables are not any significant relationship (Mollaymeny and Marfou, 2015).

2.3 Stock returns

In theoretical foundations of financial reporting has been pointed the role of financial investors' decision-making. One of the criteria for the usefulness of financial information and explanatory power of prediction is this information. Hence investors with financial information to evaluate and predict stock returns (Hashemi and Motalebiyan, 2013). Francis et al (2013) suggest that investment is a money transfer that is expected to followed additional money. Every investment involves a degree of risk which entails the loss of the money in time to get its benefits. In fact, the main variable efficiency in the decision to invest. Return is a factor to compare the real benefit that create by investors to returns to offset investment risk. Although, researches in other countries, similar research has not been done in Iran; however, corporate governance and other structures have been studied alone such as corporate governance and firm performance (Mashayekh and Ismaeli (2006), Ghaemi (2009)), corporate governance and profit divided (Fakhari and Yusuf Ali Tabar (2010), corporate governance and audit quality (Ahmadpur and Kashanipoor (2010), corporate governance and agency expenses (Noroush and Karami (2009) but less study has been done in this field.

Nikoumaram (2011) evaluate the relationship between the cost of equity and six aspect of earnings quality. Six aspect of earnings quality are based on accounting information contained accrual quality, earnings variability, discretionary accruals, the common factor, the predictability of the earnings and profits are being paved. Hypotheses test showed that generally companies with a minimum acceptable value for each benefit quality (any quality was considered separately) compared to firms with maximum optimal value, are higher than the cost of equity. The common factor in the cost of capital was not confirmed and discretionary accruals relationship is contrary to the cost of capital. Among the other four indicators of earnings quality, "AQ" is the highest impact on the cost of equity. In addition, the explanatory power of the model includes six indicators for earnings quality is more than explanatory power models which used only one of the indicators of the profits as independent variables. Therefore it can be said that earnings quality has a significant negative correlation with the cost of equity. The results of this study could remind the importance of earnings quality, from investors and other stakeholders' points of view.

Setayesh and Zolfaghari (2011) were examined the impact of the quality of disclosure on liquidity and current and future cost of equity capital firms listed in the Tehran Stock Exchange.

In this regard, the criteria for assessing the liquidity of the stock turnover rate, the number of shares traded and the volume of quantification exchanges were used. Survey 105 companies during the period 2004 to 2008 findings, show that there is a significant and positive relationship between firm size and its current and future liquidity, but there is not a significant relationship between disclosure quality and current and future liquidity of the companies. Moreover, there is a significant negative relationship between disclosure quality and cost of equity in current and future capital of company. However, no evidence observed a significant relationship between firm size and the current and future cost of equity capital. Pereira (2009) evaluate the relationship between corporate governance, the quality of accounting information and the independent auditor's report for the 419 companies listed on the stock Sao Paulo, Brazil. In addition to content analysis was conducted on data governance and financial year 2006 of these companies, Logit model is used by independent auditors to examine the relationship between governance mechanisms such as the presence of members with financial expertise on the board, the audit committee and the audit 4 large institution, to provide an unqualified opinion. The results of this investigation showed that the dominant characteristic of auditors qualified opinion to express appeal for companies that had used their financial statements, included, they were no board members with financial expertise, they were independent auditors services other than four large auditing firm, they were reportedly will have negative net worth and generally privately controlled and have non-institutional investors and most of them were involved in legal disputes. In the following stated that the probability of error of 5% there is a significant communication between a board of directors with financial expertise, and the four largest audit services with unqualified opinion by the auditors. But no evidence of a relationship was found between the presences of the Audit Committee of the Company control structure, with an unqualified opinion by the auditors.

Pereira (2009) has stated that internal auditors have a close relationship with managers, therefore they can monitor the issuance of reports and management decisions. Institutional owners have effective monitoring to corporate managers and can increase the efficiency of capital market information.

Ali Shah and colleagues (2009) have reported negative relationship between active participation of institutional owners and earnings management.

3 Methodology

In this study, the comparative method is used for understanding literature and inductive method is used to collect data and test hypotheses. The research territory to determine population, are the sample, collect data and test research hypotheses, in Tehran Stock Exchange.

The time period is 2010 to 2014 to collect data and test hypotheses that is a 5-year period.

3.1 Test hypothesis model

1. The auditor's report is not a significant relationship timeliness to accounting information.

Time $=\alpha_0+\alpha_1$ report $+\alpha_2$size +e

2. The auditor's report is a significant relationship to reliability of accounting information.

Reliability $=\alpha_0+\alpha_1$ report $+\alpha_2$size +e

3. Audit report is significant relationship with stock returns.

Ret $=\alpha_0+\alpha_1$ report $+\alpha_2$size+e

The study variables is presented in table 1.

Table 1: variables and definitions

Variable symbol	Variable type	Variable name
Report	Independent	Audit report
Time	Independent	Timelessness of information
Reliability	Independent	The ratability of accounting information
Ret	Dependent	Stock return
Size	Control	Size of the company

The statistic society in this study included all active companies in the Tehran Stock Exchange which mentioned limits the number of 570-year- companies are selected Due to the availability of information throughout the company, all data to test hypotheses have been selected. In this study, to test each hypothesis only panel data is used. The reason is that using cross-sectional data econometric estimation models may be associated with problems of inefficiency and inconsistency. As a result of all mentioned, to analyze test hypotheses on the results of the estimation model is based on the combined data.

4 Data analysis

4.1 Descriptive statistics of variables

Since the data is usually summarized by calculating statistics such as mean, standard deviation, minimum, maximum, range, and coefficient of variation takes place, therefore, to examine and analyze primary data, at first information concerning the descriptive statistics and explanatory variables studied in this research is presented in the table to overview of the data analyzed in this study were obtained. The descriptive statistics of variables used in the study is presented in table 2.

Table 2. Descriptive statistics of variables used in the study

Size	Lever	Quick ratio	Current ratio	Reliability	Timelessness	Stock return	Variable characteristic
5.96	0.62	0.10	1.38	54.31	78.43	0.21	Average
5.89	0.62	0.06	1.22	62.31	82.79	0.14	Middle
8.26	1.57	1.41	10.95	99.87	100	8.06	Maximum
4.56	0.09	0	0.22	0	0.84	-6.22	Minimum
0.61	0.20	0.13	0.91	33.88	19.28	0.66	Standard division
3.69	1.48	1.41	10.72	99.87	99.16	14.28	Variation range
0.10	0.33	1.34	0.66	0.62	0.25	3.13	Coefficient of variation

Adjustment and classification of data are draw and calculate values such as mean, median, etc. which shows the profile of every member of society. Descriptive statistics data from a group, described that group and obtained information cannot be generalized to the same category. The mean and median are the most common measures of central tendency. In this study, the average stock return 0.21, timeliness 78.43, reliability 54.31, current ratio 1.38, quick ratio 0.10, leverages 0.62 and liquidity is 5.69; and median, respectively, 0.14, 82.79, 62.31, 1.22, 0.06, 0.62, 5.89, which shows the numeric value located in the middle of a data set. The standard deviation as a dispersion index shows how much the data average distance from average value. The current ratio is the lowest dispersion.

4.2 This model estimation and hypothesis testing

The null hypothesis: there is not a significant relationship between the type of auditor's report and timeliness of information.

First assumption there is a significant relationship between the type of auditor's report and timeliness of information.

Control variables of current ratio, leverage and audit ratings have a significant impact on reliability of the information. The first model results are presented in table 3.

Table 3. The first model results

$Time_{it} = \alpha + \beta 1Report_{it} + \beta 2size_{it} + \beta 3Lev_{it} + \beta 4Rank_{it} + \beta 5Current_{it} + \beta 6Ani_{it} + \varepsilon_{it}$			
The significance level	T statistics	Variable ratio	Variable
0.27	1.09	0.68	Reports
0.000	4.71	18.78	size
0.09	1.67	2.39	Current ratio
0.000	-4.04	-18.001	Lever
0.04	-1.98	-0.49	Auditor rank
0.81	0.23	0.93	Quick ratio
0.79	-0.25	-5.73	Intercept
0.84			R2
0.79			Adjusted R2
18.31			F
0.00			Probe
2.00			Durbin-Watson statistic

4.3 The first hypothesis result

According to significant level of variable the auditor's report 0.27 (more than 5 hundredths of error is considered) the null hypothesis is accepted. The auditor's report is not a significant relationship timeliness to accounting information. The size of controlling variables, leverage and audit ratings have a significant impact on the timeliness of information.

Statistics F show the Overall significance of regression coefficients, Durbin-Watson statistic with 2.00 reflects the lack of correlation between the disturbing elements. The coefficient of determination and adjusted coefficient of determination models are 84 percent and 79 percent respectively; thus, we can conclude that the regression equation, only about 79 percent of the dependent variable changes explained by the independent variables.

4.4 The second model result

The null hypothesis: there is not a significant relationship between the type of auditor's report and reliability.

First assumption: there is a significant relationship between the type of auditor's report and reliability. Its results are presented in table 4.

Table 4. The second model results

$Reliability_{it} = \alpha + \beta 1Report_{it} + \beta 2size_{it} + \beta 3Lev_{it} + \beta 4Rank_{it} + \beta 5Current_{it} + \beta 6Ani_{it} + \varepsilon_{it}$			
The significance level	T statistics	Variable ratio	Variable
0.00	4.30	1.63	Reports
0.99	-0.00	-0.002	size
0.00	5.94	2.42	Current ratio
0.000	-6.27	-7.04	Lever
0.000	-3.52	-1.27	Auditor rank
0.81	0.23	-44.72	Quick ratio
0.000	-20.79	-5.73	Intercept
0.98			R2
0.98			Adjusted R2
244.08			F
0.00			Probe
2.17			Durbin-Watson statistic

4.5 The first hypothesis result

According to significant level of variable 0.00 (more than 5 hundredths of error is considered) the null hypothesis is not accepted; there is a significant relationship between the type of auditor's report and reliability. Statistics F show the Overall significance of models' coefficients, Durbin-Watson statistic with 2.17 reflects its lack of correlation between the disturbing elements. The coefficient of determination and adjusted coefficient of determination models are 98 percent and 98 percent respectively; thus, we can conclude that the regression equation, only about 98 percent of the dependent variable changes explained by the independent variables.

4.6 The third model result

The null hypothesis: there is not a significant relationship between the type of auditor's report and stock return.

First assumption: there is a significant relationship between the type of auditor's report and stock return. The third model result is presented in table 5.

Table 5. The third model results

$Ret_{it} = \alpha + \beta 1Report_{it} + \beta 2size_{it} + \beta 3Lev_{it} + \beta 4Rank_{it} + \beta 5Current_{it} + \beta 6Ani_{it} + \varepsilon_{it}$			
The significance level	T statistics	Variable ratio	Variable
0.54	0.61	0.02	Reports
0.67	-0.42	-0.20	size
0.10	-1.62	-0.04	Current ratio
0.06	-1.86	-0.33	Lever
0.93	0.07	0.002	Auditor rank

0.000	3.80	0.43	Quick ratio
0.56	0.57	1.61	Intercept
0.28			R2
0.07			Adjusted R2
1.37			F
0.01			Probe
2.5			Durbin-Watson statistic

4.7 The third hypothesis result

According to significant level of audit report 0.54 (more than 5 hundredths of error is considered) the null hypothesis is not accepted; there is not a significant relationship between the type of auditor's report and stock return.

Quick variable also has a significant effect on the control variable returns. Statistics F show the Overall significance of models' coefficients, Durbin-Watson statistic with 2.5 reflects its lack of correlation between the disturbing elements. The coefficient of determination and adjusted coefficient of determination models are 27 percent and 7 percent respectively; thus, we can conclude that the regression equation, only about 7 percent of the dependent variable changes explained by the independent variables.

5 Discussion and Conclusion

In this study, has been paid to the effects of auditing report on the timeliness of accounting information, the impact on the reliability of accounting information and stock returns. The results of the first and second test hypotheses shows accounting report has no significant impact on the timeliness of information, but has a significant effect on reliability.

It can be resulted when investors and other users of financial reports do not have the same equal time access to information, this issue potentially reduces the content of information accounting reports and affect the performance of the audit and subsequently of reliability financial statements. These results disagree with the results of Karhashmy Bahreman and Banimahd (2015) that show the audit report showed a negative relationship with the timeliness of information. This result also against are Pourhoseini (2010). In a study entitled "The Relationship between financial and non-financial aspects and time of completion of audit firms listed in the Tehran Stock Exchange" he states that given that timeliness is one of the most important characteristics of financial information. The interval between the publication dates of the financial statements of the fiscal year of business units are shorter, benefit from the annual financial statements of entities increases. The controlling size variables, leverage, and current and the audit rated impact on the timeliness of the information and the reliability of information. This result is in line with Smile and Chandler (2004) is in line to check the timeliness of financial reports Malaysia's midterm companies. They studied regarding the timeliness of financial reporting and the characteristics of the size of profitability, growth and capital structure of the company studied in their research. The results showed that despite the fact that companies are more tend to provide timely financial reports. But they found that the timeliness of financial reporting period by size, profitability, growth and leverage the company will be affected. The results also showed that larger companies and companies with profitability, growth and leverage provide midterm financial reports faster. The results of the test show that the third hypothesis audit report has no significant effect on stock returns. These results are consistent with studies mentioned in the following. Chen Vezayv (2000) paid in the Shanghai Stock Exchange in the period 1997-1995 to assess the impact of contingent and non-contingent with section description audit report on their stock prices and returns. They used market model to calculate abnormal returns. The results showed that the market reaction to any of these reports there is no significant difference. Puchenta et al (2004) in Spain, using event study method to examine the capital market's reaction to the qualified audit reports. They concluded that qualified audit reports has no value for users of the information. Alsa Nybyt et al (2008) to assess the information content of audit reports of Stock Exchange Jordan, examined the impact of qualified audit reports on stock prices. Their research results indicate the reported condition had no impact on stock prices. Also, the quick control variable also has a significant effect on returns.

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