European Online Journal of Natural and Social Sciences 2014; www.european-science.com
Vol.3, No.3 pp. 651-660
ISSN 1805-3602

The Effect of Corporate Governance and Audit Market Privatization on the Auditor Independence

Afsaneh Soroushyar, Bahman Banimahd*, Hadi Amiri
Department of Accounting, Tehran Science and Research Branch
Islamic Azad University, Tehran, Iran
*E-mail: dr.banimahd@gmail.com

Received for publication: 21 April 2014.
Accepted for publication: 05 August 2014.

Abstract

Establishment of the Iranian Association of Certified Public Accountants and audit market privatization as the new phenomenon in Iranian audit market is taken into consideration by many researchers. The purpose of this paper is to investigate the effect of audit market privatization on auditor independence and accruals quality, and to study whether corporate governance mechanisms (duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO) can affect above relations. We test research hypothesis in listed firms on Tehran Stock Exchange (TSE) for the period of 2001 to 2011. Using multiple regression analysis, we have found that audit market privatization is negatively associated with auditor independence and accruals quality. Also, corporate governance mechanisms don't decrease the negative relation between audit market privatization, auditor independence and accruals quality. This paper extends the audit market literature by examining how increased competition in the audit market affects auditor independence and accruals quality in emerging markets.

Keywords: Audit Privatization, Auditor Independence, Corporate Governance, Accruals Quality

Introduction

Financial statements are the easy and cheap way to access the information of companies. Since managers' interests depend to performance of company and also managers prepare the financial statements, it provides incentives and opportunities for them to manipulate financial results (Klimentchenko, 2009). Audit services are demanded as monitoring devices to detect the vast majority of distortions and verify the undistorted information (Elliott and Jacobson, 1999). Audit increase the reliability of financial information by decreasing the noise contained in financial statements. Auditor monitoring strength is determined by the auditors' ability to provide objective reports. Competence and independence of auditor are the measures of auditor's monitoring effectiveness (Li, 2007). Independent auditors can identify misstatements in financial statements and exert pressure on the client to correct those misstatements (DeAngelo 1981). As a result of reducing accounting misstatements, the audited financial statements show higher quality (Chambers and Payne, 2011). Auditor independence improves the reliability of the auditor's report in two ways. First, auditor independence increases the credibility of published financial reports and adds value to stakeholders. The second, auditor independence by decreasing information asymmetry and increasing the information transparency, improve the information quality (Li, 2007). The issue of auditor independence is important because much of relations in the capital markets depend on the credibility of the audited financial statements (Anandarajan et al, 2010). Brown et al (2009) addresses the question whether auditor independence affect the earnings quality. They find the positive relation between the auditor independence and earnings quality. Also, Meuwissen et al (2003) examine the relation of auditor independence regulation and earnings quality in the US. Their results indicate that with increasing the strength of auditor independence regulation, information content of accruals increase and earnings management decrease.

Concentration or competition in markets always takes into consideration of economists. Based on the most of economic theory competition in markets improve the quality and decease the price of goods and services. But according to economic theory of customer switching cost competition, in some service industries such as audit (that relationships of customer and service providers are long-term, switching customer requires high transactions costs and client specific knowledge is necessary) probably increasing the competition in market decrease the quality of services. Because competition in audit market increase the number of audit firms and auditors inclined to retain their clients; so, they may accept questionable accounting treatments of clients (Harris and Duellman, 2008).

Privatization of Iran audit market lead to establishment of private audit firms, increase the number of audit firms and competition in this market. Accordingly, it seems that audit market privatization may declines the auditor independence and quality of financial statements. The main purpose of this paper is studying the effectiveness of audit privatization plan in Iran and the role of the corporate governance strength on improvement the effectiveness of audit privatization. The result of this study in several aspects important: first, this paper is to examine the effects of the privatization of Iranian audit market on auditor independence and financial statements quality by using information of firms listed in Tehran Stock Exchange (TSE). Second, the role of corporate governance as a mechanism of moderating the performance managers on the audit market privatization consequences is examined. Third, this paper adds new evidences about audit market privatization in capital markets of developing countries. Finally, these results can direct legislators and standards setter and provide the pattern for other capital market in Middle-East.

This study seeks to provide answer these questions: First, did the audit privatization reduce the accruals quality? Second, did the audit privatization distort the auditor independence? Third, did corporate governance mechanisms affect the relation between audit market privatization and the accruals quality? Fourth, did corporate governance mechanisms affect the relation between audit market privatization and the auditor independence?

The remainder of the paper is organized as follows: The next section explains theoretical framework and literature review. Section 3 presents hypothesis development. Section 4 contains sample selection. Section 5 explains research design. Section 6 presents and discusses the empirical results of research. Section 7 concludes the paper.

Literature Review

Audit Market Privatization, Auditor Independence and Quality of Financial Statements

Before Islamic revolution in 1979, KPMG, Winney Merry, Arthur Andersen, Arthur Young and Deloitte had participated in Iranian audit market as major audit firms. After Iranian revolution, the ownership of all banks and insurance firms and many industrial companies were transferred to government control. During 1980–1982, the government established audit firms and the Budget, Planning and National Industries Organization. In 1987, following the merger of the public-sector audit firms, the Audit Organization was established as the sole auditor of entities with public ownership and as the only regulatory body for national accounting and auditing standards. The Audit Organization is responsible for compiling and determining principles and rules of auditing and accounting in Iran (Banimahd and Vafaei, 2012).

In 2001, Iranian Association of Certified Public Accountants (IACPA) was established. Since that time, IACPA members are permitted to establish private audit firms and provide audit services. Audit market privatization causes to presence of private audit firms in this market. As a result, ratio of auditor change and competition in audit market increase. The extent of economic consequences of this phenomenon causes the new concerns and questions for capital market practitioners. For example, based on economic theory of customer switching cost, competition in audit market leads to destroying the auditor independence and subsequently distorting the financial statements. Consistent with the expectations Harris and Duellman (2008) find competition in audit market decline the quality of financial statements. Also, Kallapur et al (2008) achieve to similar results. Francis et al (2013), by studying audit markets in 42 countries, address the question whether concentration of audit market decrease earnings quality of clients. The research results indicate dominance of Big 4 doesn't harm audit quality and earnings quality. Jensen and Payne (2003) study the effects of price competition on the audit market. They conclude competition in audit market decrease audit fees, delete the expertise premia, inclined to unskilled audit firms and exit Big 6 audit firms. Newton et al (2013) investigate the relation of audit market competition and financial restatements due to defeats in the application of GAAP. Their results indicate high auditor competition increase the probable of financial restatements. Unlike our expectations, Yang et al (2001) investigate the consequences of disaffiliation of CPA firms from government bodies in China. They show that disaffiliation program improve the auditor independence. Also, Gul et al (2009) find after performing this program the likelihood of receiving a qualified report as a measure of auditor independence significantly increased.

On the other hand, some researchers believe large audit firms present more quality services. Two arguments to this issue are presented. First, DeAngelo (1981) argues larger audit firms have more incentive to issue accurate reports because they have more to lose from failure to detect and report the important misstatements of clients. Moreover, Dye (1993) argues larger audit firms have more wealth at risk from litigation because they have deeper pocket (Li et al, 2008). DeFond et al (2000) examine the impacts of implementing rigorous new auditing standards in China. Their results show since larger auditors have more loss if they are found to be in violation of auditing standards, it expects that larger auditors to be relatively more independent than smaller auditors. Li et al (2008) indicate the positive relations between audit firm size and audit quality.

Corporate Governance and Quality of Financial Statements

The corporate governance mechanism includes the system by which organizations are directed and controlled and hence, it determines to implement the internal and external process and policy. Corporate governance mechanisms improve financial reporting quality and decrease the risk of financial reporting problems (Hashim and Devi, 2008). Therefore, the quality of financial statements can be affected by corporate governance mechanisms. Jiang et al (2008) argue that weak corporate governance increase the probable of earnings management. Abdullah (2004) suggests strong governance practices improve the reliability of financial reports.

Xie et al (2003) investigate the effect of the board of directors, the audit committee, and the executive committee as the mechanisms of corporate governance on earnings management. They find the composition of a board and audit committee meeting frequency decrease earnings management. Lin and Liu (2009) show strong corporate governance (such as the ownership concentration, the size of the supervisory board and the duality of CEO and chairman of board of directors) lead to choose high quality auditors. Soliman and Elsalam (2012) examine the effectiveness of corporate governance practices and their relations to audit quality and conclude board independence; CEO duality and audit committees significantly associate with audit quality, but institutional investor and managerial ownership have no significant relationship with audit quality. Hashim and Devi (2008) study the effect of internal governance mechanisms on earnings quality. Their results show that board tenure and outside board ownership have significant relation with earnings quality. But there isn't any significant relation between board of directors' independence and earnings quality. Shiri et al (2012) examine the relation of the composition of the board of the non-bound directors, absent from the CEO as chairman or vice chairman and institutional investors as the corporate governance mechanisms and accrual quality, persistence and predictability as the measures of earning quality in Iran. They conclude the ratio of non-bound members, separation of the chairman or vice chairman and the percentages of institutional investors are associated with earnings persistent. Also, there is the significant relationship between the ratio of non-bound members and predictability of earnings. Moreover, the percentage of institutional investors is associated with accrual's quality.

According to the negative effect of audit market privatization on earnings quality, it seems the strong corporate governance can reduce this negative effect and improve the earnings quality. In this study duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO are used as the corporate governance mechanisms.

Hypothesis Development

Privatization as the new phenomenon in the audit market in Iran may have important economic consequences. With performing the audit market privatization plan and establishment of private audit firms, monopoly of Audit Organization as the only audit firm ended and small auditor enter to audit market. According to studies, small audit firms probably present lower quality audit. Also, presence of private audit firms increases the competition in this market. Auditor competition may destroy auditor independence and auditor ignores the misstatement of clients. So, the quality of financial statements is diminished. Before privatization, Audit Organization was only audit institution, so without concern about missing the client, issued its actual opinion. But after establishment of the Iranian Association of Certified Public Accountants and enforce the privatization plan, private audit firms in order to retain clients may compromise their independence and quality of clients financial statements is decreased. Hence, we hypothesize that:

H1: Audit market privatization decreases the accruals quality.

H2: Audit market privatization decreases the auditor independence.

With agency conflict between management and company's stakeholders, the existence of monitoring devices is necessary. Although independent auditors mostly play this role, the internal corporate governance mechanisms can help to reduce information asymmetry and improve the reliability and transparency of financial statements. Considering our expectations about reducing the auditor independence and accruals quality by audit market privatization and the effect of monitoring corporate governance mechanisms, we hypothesize that:

H3: strong corporate governance decreases the negative effect of audit market privatization on accruals quality.

H4: strong corporate governance decreases the negative effect of audit market privatization on auditor independence.

Sample Selection

Our sample covers companies listed in Tehran Stock Exchange (TSE) across the period from 2001 to 2011. The sample selection criteria are:

1. The end of fiscal year is March 2001;
2. The end of fiscal year aren't change over the period of 2001-2011;
3. Their basic operations aren't investment, insurance and banking ;

4. Book value of assets aren't negative;
5. Data is available in this period.

Given to above criteria, final sample included 111 firms.

Research Design

In this paper we used four multiple regressions for the test of hypotheses presented. Because of heteroskedastic error, all regressions are estimated in GLS method. Accruals quality is used as the quality of financial statements. For calculating accruals quality, the model described by McNichols (2002) is estimated cross-sectionally. Then, standard deviation of residuals estimated from this regression is applied as a measure of earnings management. Since the high standard deviation of residuals represents low accruals quality, it is multiplied by (-1).

$$\Delta WC_{it} = \alpha_0 + \alpha_1 CFO_{i,t-1} + \alpha_2 CFO_{it} + \alpha_3 CFO_{i,t+1} + \alpha_4 \Delta REV_{it} + \alpha_5 PPE_{it} + \varepsilon_{it} \quad (1)$$

Where, $\Delta WC_{i,t}$ is the change in non-cash working capital, $CFO_{i,t}$ is the operating cash flow, $\Delta REV_{i,t}$ is the change in firm sales and $PPE_{i,t}$ is the gross property, plant and equipment.

In order to examine the effect of audit market privatization on the accruals quality, model (2) is estimated.

$$EQ_{i,t} = \alpha_0 + \alpha_1 Private_{i,t} + \alpha_2 Tenure_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFO_{i,t} + \alpha_5 LEV_{i,t} + \alpha_6 growth_{i,t} + \alpha_7 BTM_{i,t} + \alpha_8 ROA_{i,t} + \alpha_9 Loss_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where, EQ is accruals quality explained above, $Private$ is the dummy variable that set 1 if firm changes its auditor from Audit Organization to private audit firms, but 0 otherwise, $Tenure_{i,t}$ is the tenure of audit in firm's client, $Size$ is the natural logarithm of book value of total assets, CFO is the operating cash flow scaled by beginning total assets, LEV is the leverage of company is calculated by sum of long-term debt and debt in current liabilities divided by beginning total assets, $growth$ is the change in revenues scaled by beginning total assets, BTM is the Book-to-Market ratio (Company market value is calculated by liability book value plus equity market value), ROA is return on assets, $Loss$ is the dummy variable equal to 1 if earnings is negative, equal to 0 otherwise.

In order to examine the relation between audit market privatization and auditor independence, model (3) is estimated.

$$Influe_{i,t} = \alpha_0 + \alpha_1\ Private_{i,t} + \alpha_2 Tenure_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 Lev_{i,t} + \alpha_5 ROA_{i,t} + \alpha_6 Loss_{i,t} + \varepsilon_{i,t} \quad (3)$$

$Influe_{i,t}$:client influence on auditor as a measure of auditor independence that is determined as follow:

Like to Chambers and Payne (2011) client influence is calculated by ratio of the client's audit fees to the total audit fees earned by this audit firm. Because audit fees aren't available for all companies and there is high correlation between audit fees and total assets, for calculations of client influence measure, total assets are used instead of audit fees.

In order to investigate the role of corporate governance mechanisms on the relation between audit market privatization and accruals quality, model (4) is used.

$$EQ_{i,t} = \alpha_0 + \alpha_1 Private_{i,t} + \alpha_2 Governance_{i,t} + \alpha_3 Private_{i,t} * Governance_{i,t} + \alpha_4 Tenure_{i,t} + \alpha_5 Size_{i,t} + \alpha_6 CFO_{i,t} + \alpha_7 LEV_{i,t} + \alpha_8 growth_{i,t} + \alpha_9 BTM_{i,t} + \alpha_{10} ROA_{i,t} + \alpha_{11} Loss_{i,t} + \varepsilon_{i,t} \quad (4)$$

$Governance$ is the measure of corporate governance. Duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO are used as three index of corporate governance. So, model (4) is estimated three times separately for each corporate governance variable.

Finally, for examine the fourth hypothesis, model(5)is estimated. According to the latest hypothesis, the interaction effect of duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO (as the measures of corporate governance) and privatization on auditor independence are tested.

$$Influe_{i,t} = \alpha_0 + \alpha_1\ Private_{i,t} + \alpha_2\ Governance_{i,t} + \alpha_3\ Private_{i,t} * Governance_{i,t} + \alpha_4 Tenure_{i,t} + \alpha_5 Size_{i,t} + \alpha_6 Lev_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 Loss_{i,t} + \varepsilon_{i,t} \quad (5)$$

Results

Table 1 presents the sample means, median and standard deviations. The mean of privatization is 0.657 shows that 65.7% of the sample companies are audited by private audit firms. On the other word only 34.3% of the sample companies are audited by Audit Organization. These results indicate the share of Audit Organization in audit market has been decreased gradually.

Table 1. Descriptive Statistics of Variables

Variables	Mean	Median	Std. Deviation
EQ	-1.377	-0.507	2.134
Private	0.657	1	0.474
Tenure	3.651	3	2.601
Size	12.929	12.764	1.305
CFO	0.24	0.162	0.508
LEV	0.246	0.226	0.164
growth	0.136	0.107	0.457
BTM	0.784	0.780	0.952
ROA	0.132	0.105	0.125
Loss	0.058	0	0.234
Influe	0.137	0.026	0.251
IND	0.794	1	0.404

Model (1) examines the effect of audit market privatization on accruals quality. The results of the estimation of this model are shown in Table 2. The coefficient of privatization is -0.304 and significant. So, it was found that audit market privatization decrease the accruals quality. Z-statistics of this variable is -3.94.

Table 2. Regression of Accruals Quality on Privatization

$$EQ_{i,t} = \alpha_0 + \alpha_1 Private_t + \alpha_2 Tenure_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFO_{i,t} + \alpha_5 LEV_{i,t} + \alpha_6 growth_{i,t} + \alpha_7 BMT_{i,t} + \alpha_8 ROA_{i,t} + \alpha_9 Loss_{i,t} + \varepsilon_{i,t}$$

Variables	Coefficients	z-statistics	p-value	Wald-statistics (p-value)
Private	-0.304	-3.94	0.000	84.60 (0.000)
Tenure	-0.403	-3.04	0.002	
Size	-0.076	-2.98	0.003	
CFO	-0.111	-2.17	0.030	
LEV	0.781	3.74	0.000	
growth	-0.076	-0.76	0.449	
BTM	-0.038	-1.13	0.260	
ROA	-1.742	-4.37	0.000	
Loss	-0.210	-1.61	0.108	

Model (2) tests whether audit market privatization decrease auditor independence. The obtained results are reflected in Table 3. The coefficient of privatization is 0.125 and z-statistics is 0.000; that is, audit market privatization increase the client influence on auditor and decrease auditor independence.

Table 3. Regression of Auditor Independence on Privatization

$$Influe_{i,t} = \alpha_0 + \alpha_1 Private_{i,t} + \alpha_2 Tenure_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 Lev_{i,t} + \alpha_5 ROA_{i,t} + \alpha_6 Loss_{i,t} + \varepsilon_{i,t}$$

Variables	Coefficients	z-statistics	p-value	Wald-statistics (p-value)
Private	0.125	19.24	0.000	442.14 (0.000)
Tenure	-0.004	-4.79	0.000	
Size	0.016	7.59	0.000	
Lev	0.001	0.09	0.930	
ROA	-0.007	-0.28	0.776	
Loss	-0.013	-0.88	0.379	

Table 4. Regression of corporate governance effect on the relation between Privatization and Accruals Quality

$$EQ_{i,t} = \alpha_0 + \alpha_1 Private_{i,t} + \alpha_2 Governance_{i,t} + \alpha_3 Private_{i,t} * Governance_{i,t} + \alpha_4 Tenure_{i,t} + \alpha_5 Size_{i,t} + \alpha_6 CFO_{i,t} + \alpha_7 LEV_{i,t} + \alpha_8 growth_{i,t} + \alpha_9 BTM_{i,t} + \alpha_{10} ROA_{i,t} + \alpha_{11} Loss_{i,t} + \varepsilon_{i,t}$$

	duality of CEO and chairman of board of directors	The number of changes in board of directors	The change of CEO
Variables	Coefficients (z-statistics)	Coefficients (z-statistics)	Coefficients (z-statistics)
Private	-0.378* (-5.17)	-0.418* (-4.55)	-0.363* (-3.93)
Governance	0.313 (0.67)	-0.022 (-0.60)	-0.103 (-0.82)
Private* Governance	0.144 (0.29)	0.020 (0.44)	0.040 (0.26)
Tenure	-0.036* (-2.88)	-0.040* (-3.09)	-0.050* (-3.53)
Size	-0.058* (-2.48)	-0.056* (-2.33)	-0.113* (-4.03)
CFO	-0.116* (-2.45)	-0.114* (-2.33)	-0.108 (-1.86)
LEV	0.804* (3.89)	0.860* (4.16)	0.713* (2.99)
growth	-0.097 (-0.99)	-0.065 (-0.63)	-0.169 (-1.27)
BTM	-0.036 (-1.13)	-0.029 (-1.12)	-0.042 (-1.27)
ROA	-1.321* (-3.21)	-1.325* (-3.22)	-2.022* (-4.61)
Loss	-0.154 (-1.21)	-0.097 (-0.74)	-0.318* (-2.12)
Wald chi2 -statistics (p-value)	85.12 (0.000)	84.42 (0.000)	95.42 (0.000)

* Significant at 5%

Third hypothesis provide empirical evidence on effect of corporate governance mechanisms on the relation between audit market privatization and accruals quality. Model (3) tests this hypothesis and its' results are presented in Table 4. We used three variables as the measures of corporate governance: duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO. Then, model (3) is estimated three times. Table 4 indicates the coefficients of privatization like to model (1) negative and significant (-0.378, -0.418 and -0.363). The coefficients of duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO respectively are 0.313, -0.022 and -0.103. The interaction coefficients of privatization and duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEOrespectively are 0.144, 0.02 and 0.04. But then one of corporate governance variables and the interaction coefficients of corporate governance variables and privatization are significant.

Table 5 shows the results obtained from estimation of model (4), which investigates the effect of each corporate governance variable on relation between audit privatization and the auditor independence. Similar to model (3), this model is estimated separately for each corporate governance variable. Consistent with the notion, the coefficients of privatization are 0.125, 0.131 and 0.119 and significant. The coefficients of duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO respectively in this regression are -0.007, -0.0006 and 0.001. The interaction coefficients of privatization and duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO respectively are 0.0009, -0.003 and -0.022. Like to model (3) corporate governance variables and the interaction coefficients of corporate governance variables and privatization aren't significant.

Table 5. Regression of corporate governance effect on the relation between Privatization and Auditor Independence

$$Influe_{i,t} = \alpha_0 + \alpha_1\, Private_{i,t} + \alpha_2\, Governance_{i,t} + \alpha_3\, Private_{i,t} * Governance_{i,t} + \alpha_4 Tenure_{i,t} + \alpha_5 Size_{i,t} + \alpha_6 Lev_{i,t} + \alpha_7 ROA_{i,t} + \alpha_8 Loss_{i,t} + \varepsilon_{i,t}$$

	duality of CEO and chairman of board of directors	The number of changes in board of directors	The change of CEO
Variables	Coefficients (z-statistics)	Coefficients (z-statistics)	Coefficients (z-statistics)
Private	0.125* (18.31)	0.131* (14.01)	0.119* (15.17)
Governance	-0.007 (-0.62)	-0.0006 (-0.25)	0.001 (0.14)
Private* Governance	0.0009 (0.03)	-0.003 (-0.78)	-0.022 (-1.61)
Tenure	-0.005* (-4.80)	-0.005* (-4.85)	-0.007* (-6.47)
Size	0.016* (6.66)	0.018* (7.04)	0.016* (8.92)
LEV	-0.0006 (-0.00)	-0.004 (-0.21)	0.011 (0.50)
ROA	-0.012 (-0.45)	-0.012 (-0.39)	0.007 (0.25)
Loss	-0.013 (-0.90)	-0.011 (-0.74)	-0.005 (-0.37)
Wald chi2 -statistics (p-value)	424.15 (0.000)	390.96 (0.000)	342.86 (0.000)

* Significant at 5%

Conclusion and remarks

Audit Organization as only institute to provide audit services in Iran was established in 1987. But in 2001 with establishment of Iranian Association of Certified Public Accountants (IACPA), private audit firms were allowed to provide audit services. This event is named audit privatization and it is expected affects audit market and capital market considerably. This paper seeks to provide evidence on the effects of audit market privatization on accruals quality. The results of this study indicate audit market privatization reduce the accruals quality; that is, accruals quality of companies audited by Audit Organization is more than the companies audited by private audit firms. Also, audit market privatization destroys the auditor independence. Therefore, we can argue audit market privatization with increasing the number of audit firms (that some of them are small and have lower experience than Audit Organization managers) in order to retain their client, don't enforce client to adjust the misstatements in their financial reports. Therefore, quality of financial reports decrease. These results is consistent with the result of Newton et al (2013), Harris and Duellman (2008), Kallapur et al (2008) and Jensen and Payne (2003) but against to Gul et al (2009) and Yang et al (2001).

The other results of this research is that duality of CEO and chairman of board of directors, the number of changes in board of directors and the change of CEO as the measures of corporate governance don't improve the accruals quality and auditor independence. Furthermore, these corporate governance variables can't decline the negative consequence of audit market privatization on auditor independence and accruals quality.

These results contribute the existing literature about the consequences of audit market privatization in the emerging market. This research reveals the audit market privatization has not been successful to achieve the underlying intent of this plan in Iran. Regarding to inefficiency of internal corporate governance mechanisms in Iran, legislators should concentrate on improvement of independent audit quality. Accordingly, legislators and standards setter should issue some acts and standards to restrict fraud and misstatements of managers and protect the outside users.

References

Abdullah, S.N. (2004). Board Composition, CEO Duality and Performance Among Malaysian Listed Companies. Corporate Governance. 4(4). pp 47-61.

Anandarajan, A., G. Kleinman. And D. Palmon. (2010). Auditor Independence Research: Where Do We Stand? www.ssrn.com.

Banimahd. B. and E. Vafaei. (2012). The Effects of Client Size, Audit Report, State Ownership, Financial Leverage and Profitability on Auditor Selection: Evidence From Iran. African Journal of Business Management, 6(11), 4100-4105.

Brown,J.R., D. Falaschetti, and M.J. Orlando. (2009). Auditor Independence and The Quality of Information in Financial Disclosures: Evidence for Market Discipline vs. Sarbanes-Oxley Prescriptions. American Law and Economics Review, 12(1), 39-68.

Chambers, D. and J. Payne. (2011). Audit Quality and Accrual Persistence: Evidence from the Pre- and Post-Sarbanes-Oxley Periods. Managerial Auditing Journal. 26(5). pp.437 - 456.

DeAngelo, L. E. (1981). Auditor Size and Audit Quality. Journal of Accounting & Economics, 3(3). 183.

DeFond, M.L., T.J Wong, and S. Li. (2000). The Impact of Improved Auditor Independence on Audit Market Concentration in Chin. Journal of Accounting and Economics, 28, 269-305.

Dye, R. A. (1993), Auditing Standards, Legal Liability, and Auditor Wealth. Journal of Political Economy, 101, 887–914.

Elliott, R.K. and P.D. Jacobson. (1999). Audit Independence Concepts. The CPA Journal, 68 (12), 1- 9.

Francis, J. P. Michas. and S. Seavey. (2013). Does Audit Market Concentration Harm the Quality of Audited Earnings? Evidence from Audit Markets in 42 Countries. Contemporary Accounting Research. 30 (1). 325-379.

Gul. F., H. Sami and H. Zhou. (2009). Auditor Disaffiliation Program in China and Auditor Independence. Auditing: A Journal of Practice & Theory, 28(1), 29- 51.

Harris, D. and S. Duellman. (2008). Auditor Competition and Auditor Independence: The Quality of Financial Statements. area2.bwl.uni-mannheim.de

Hashim, H. and S. Devi. (2008). Board Characteristics, Ownership Structure and Earnings Quality: Malaysian Evidence. Research in Accounting in Emerging Economies. 8. pp 97-123.

Jensen, K. and J. Payne. (2003). Audit Pricing and Audit Quality: The Influence of the Introduction of Price Competition. www.ssrn.com.

Jiang, W., P. Lee and A. Anandarajan, (2008). The Association Between Corporate Governance and Earnings Quality: Further Evidence Using the GOV-Score. Advances in Accounting, 24, 191-201.

Kallapur, S., S. Sankaraguruswamy, and Y. Zang. (2008). Audit Market Competition and Audit Quality. www.ssrn.com

Klimentchenko, D. (2009). Myth of Auditor Independence. University of Illinois Law Review, 2009(4), 1275-1300.

Li, D. (2007). Auditor Tenure and Accounting Conservatism. PhD Dissertation in the School of Management, Georgia Institute of Technology.

Li, CH., F. Song. and S. Wong. (2008). A Continuous Relation between Audit Firm Size and Audit Opinions: Evidence from China. International Journal of Auditing, 2 (2), 111-127.

Lin, Z. and M. Liu. (2009). The Impact of Corporate Governance on Auditor Choice: Evidence From China. Journal of International Accounting, Auditing and Taxation. 18. pp 44–59.

McNichols, M.E. (2002). Discussion of "The Quality of Accruals and Eamings: The Role of Accmal Estimation Errors". The Accounting Review 11 (Supplement). pp 61-69.

Meuwissen, R., F. Moers. E. Peek and A. Vanstraelen. (2003). The Influence of Auditor Independence Regulation on Earnings Quality: An Empirical Analysis of Firms Cross-Listed in the US. Working paper in maastricht university.

Newton, N., D. Wang. and M. Wilkins. (2013). Does a Lack of Choice Lead to Lower Quality? Evidence from Auditor Competition and Client Restatements. Auditing: A Journal of Practice & Theory. 32 (3). pp 1-52.

Shiri, M, H. Vaghfi., J. Soltani. and M. Esmaeli. (2012). Corporate Governance and Earning Quality: Evidence from Iran. Middle-East Journal of Scientific Research. 11 (6). pp 702-708.

Soliman, M. and M. Elsalam. (2012). Corporate Governance Practices and Audit Quality: An Empirical Study of the Listed Companies in Egypt. World Academy of Science, Engineering and Technology. 71. pp 1292- 1297.

Xie, B., W. Davidson. and P. DaDalt. (2003). Earnings management and corporate governance: the role of the board and the audit committee. Journal of Corporate Finance, 9, 295– 316.

Yang,L., Q. Tang, A Kilgore, and J.Y Hong. (2001). Auditor-Government Associations and Auditor Independence In China. British Accounting Review, 33, 175-189.