The effect of the restated financial statements on the company's growth in companies listed in Tehran Stock Exchange

Mohammadreza Mahmoudi*, Issa Heidari**

*Department of Accounting, Persian Gulf International Branch, Islamic Azad University, Khorramshahr, Iran
**Department of Accounting, Shoushtar Branch, Islamic Azad University, Shoushtar, Iran

Abstract

Restatement of financial statements and auditor changes both are events drawing attention of public investors. Important restatement of financial statements causes uncertainty in inability to provide reliable financial information and inappropriate audit by auditors. The main objective of the present research is find answer to this question if there is significant relationship between restatement of financial statements and independent auditor change. Hypotheses were tested using logistic regression and panel data approach for the period 2008 to 2014 showed that 1387-1393, using the information of the 160 companies selected by systematic removing method of sampling. Results showed that there is significant and positive relationship between restatement of financial statements and its change with the intensity of the positive relationship between auditor and its intensity and auditor change. In fact, as financial statements of companies are restated highly, the probability of auditor change will be high due to lack of discovery and identification of mistakes leading to restatement. In addition, there is a significant relationship between independent auditor change and corporate governance features in restatement of financial statement companies.

Keywords: restatement of financial statements, auditor change, logistic regression.
Introduction
Financial restatements raises doubts and uncertainty on management honesty, adequacy of internal controls of the company's, effectiveness of the Audit Committee, effectiveness of the auditor independence, and audit quality. Independent auditor dismiss after reporting the financial restatement is a tangible measure and action that companies can do it to restore the trust of the capital market and to improve its audit monitoring on financial reporting. Independent auditors are also expected to do their best against charges related to financial restatement of employers and to increase their audit reputation and reduce the risk of your audit institution has a double effort and reduce the legal risk of this charge.

Identification of factors affecting the auditor change is very important because the identification of these factors leads to the correct decisions with regard to quality and the amount of disclosure or announcement of items related to the audit change to the market or legal authorities. Second, high understanding of the phenomenon of auditors change leads to strengthened credibility of the audit process. Ultimately, this information can be used to create a model with regard to auditors change in various communities. Hence, in this study, the impact of restatement of financial statements on auditor change in financial statements listed in Tehran Stock Exchange is investigated by using logit model.

Literature Review
Domestic studies
Zolghi et al (2013) investigated the impact of restatement of financial statement on the quality of the accruals in restatement companies during the years 2001 to 2010. Results showed that variables of the size of the company, the sale change, and change of cash flows resulting from operations, debt ratio change, the ratio of market value to book value, the percentage of institutional investment ownership and tenure of CEO had significant relationship with profit quality in these companies.

Aghaei et al (2014) examined the impact of compulsory restatements in comparison with the optional restatement on the profit quality of restatement companies. Results also show that improved corporate governance is effective in increasing profit accruals in companies with compulsory restatement.

Heidari (2014) examined the relationship between restatement of financial statements and independent auditor changes in companies listed on the stock exchange. The results showed no significant difference between the restatement of financial statements and auditor change. Additionally, according to the findings, significant relationship was found between importance of restatement of financial statements and independent auditors.

Vakilifard and Mohamadi (2015) examined the audit change and type of audit report. Research results showed that there is significant relationship independent audit change and audit report. Considering type of changes, results of hypotheses test suggest that there is no significant relationship between independent audit change and audit report in studied companies.

Mousavi et al (2015) examined the relationship between corporate governance and restatement of financial statements listed in Tehran's stock exchange. The results showed that there is a
significant positive relationship only between audit quality and restatement of financial statements at 95 percent level.

External studies

Hans et al (2012) examined the relationship between auditor independence and restatements of figures of financial statements. The results of research confirmed a direct and significant relationship between the auditor's reputation and restatements of financial statements.

Blankly et al. (2001) examined the relationship between audit report and restatement of financial statements. The results of the study showed that delay in the statement of audit report in companies restating financial statements is abnormally higher compared to companies that have not restated financial statements.

Fiona Ball et al (2015) examined the relationship between the auditor change companies CEO and audit quality of companies listed in Australian Stock Exchange. The results showed that no significant relationship between the auditor change and CEO change and audit quality.

Research hypothesis

The first main hypothesis: There is a significant relationship between auditor change and intensity of restatement of financial statements.
The second main hypothesis: There is a significant relationship restatement of financial statement and audit changes.
The third main hypothesis: there is significant relationship between independent auditor change and corporate governance features and auditor change in companies restating financial statements.

Research methodology

The present study is positive accounting research. The current study is applied in terms of objective and it is descriptive in terms of nature. It terms of time of study, it is considered among ex post facto study and historical information of sample companies was used. To estimate regression model and to test research hypotheses, econometric method of combined data will be used.

Statistical model of study

The regression model of main first hypothesis:
The regression model of main second hypothesis:
The regression model of main third hypothesis:
That in these models:
Statistical population
One hundred and fifty companies were selected among companies listed in Tehran Stock Exchange. Time domain of study was between 2008 and 2014.

**Hypotheses test**
**First model of study test**

Before examining the model, it is necessary to evaluate the model goodness of fit. In the logit regression, using an integrated approach, two criteria were used to evaluate goodness of fit that the most important of them is LR. Therefore, lack of significance of model is rejected and the model is significant and reliable. Another criterion used for evaluation is log likelihood.

The value of this statistic is negative and larger absolute value suggests appropriateness of model. The value obtained for this model is -551.8 and greater than -5. Therefore, the model is reliable and significant. The results of the logit regression model of research are as follows:

**Table (4-5):**

<table>
<thead>
<tr>
<th>VIF</th>
<th>p.v</th>
<th>Z value</th>
<th>Standard error</th>
<th>Coefficient</th>
<th>Parameter</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>0.46</td>
<td>-0.72</td>
<td>0.83</td>
<td>0.60</td>
<td>β₀</td>
<td>Intercept</td>
</tr>
<tr>
<td>1.29</td>
<td>0.00</td>
<td>3.16</td>
<td>0.02</td>
<td>0.07</td>
<td>β₁</td>
<td>Change Report Res</td>
</tr>
<tr>
<td>1.05</td>
<td>0.03</td>
<td>2.10</td>
<td>0.05</td>
<td>0.11</td>
<td>β₂</td>
<td>Income Reconsider</td>
</tr>
<tr>
<td>1.12</td>
<td>0.01</td>
<td>2.44</td>
<td>0.01</td>
<td>0.04</td>
<td>β₃</td>
<td>Decrease</td>
</tr>
<tr>
<td>1.38</td>
<td>0.09</td>
<td>1.67</td>
<td>0.12</td>
<td>0.21</td>
<td>β₄</td>
<td>Audit Fee</td>
</tr>
<tr>
<td>1.03</td>
<td>0.00</td>
<td>-3.72</td>
<td>0.02</td>
<td>-0.10</td>
<td>β₅</td>
<td>SIZE</td>
</tr>
<tr>
<td>1.01</td>
<td>0.00</td>
<td>2.71</td>
<td>0.11</td>
<td>0.32</td>
<td>β₆</td>
<td>LEVE</td>
</tr>
</tbody>
</table>

McFadden coefficient of determination

| 0.36 | LR chi²(7)       |
| 72.55 | p.vLR             |
| -551.8 | logit regression |
In logistic regression analysis, the McFadden coefficient of determination plays the same role of moderated coefficient of determination in a linear regression model. According to McFadden determination coefficient, it can be claimed that about 36% of the changes in auditor change is explained by control and independent variables of model.

**Second model of study test**

The X2 value of the statistic LR with seven degrees of freedom is 58.18 and the probability related to it is zero. Therefore, lack of significance of model is rejected and model is reliable and significant. Additionally, negative likelihood lag was -522.95. As its absolute value is greater, it suggests the appropriateness of the model. Therefore, the model is reliable and significant. The results of logit regression model are as follows:

Table (4-6): The results of the second model test results of study at the level of combined data using logit method

<table>
<thead>
<tr>
<th>VIF</th>
<th>p.v</th>
<th>Z value</th>
<th>Standard error</th>
<th>Coefficient</th>
<th>Parameters</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>0.57</td>
<td>-0.56</td>
<td>0.78</td>
<td>-0.44</td>
<td>β₀</td>
<td>Intercept</td>
</tr>
<tr>
<td>1.03</td>
<td>0.03</td>
<td>2.15</td>
<td>0.04</td>
<td>0.09</td>
<td>β₁</td>
<td>Restatment</td>
</tr>
<tr>
<td>1.03</td>
<td>0.09</td>
<td>1.68</td>
<td>0.10</td>
<td>0.17</td>
<td>β₂</td>
<td>Audit Fee</td>
</tr>
<tr>
<td>1.04</td>
<td>0.00</td>
<td>-3.08</td>
<td>0.03</td>
<td>-0.11</td>
<td>β₃</td>
<td>SIZE</td>
</tr>
<tr>
<td>1.01</td>
<td>0.00</td>
<td>2.70</td>
<td>0.11</td>
<td>0.31</td>
<td>β₄</td>
<td>LEVE</td>
</tr>
</tbody>
</table>

According to McFadden determining coefficient of fit model, we can claim that about 23% of the changes in auditor change are explained by the independent and control variables. Variance inflation factor (VIF) index value also shows that independent variables of the first model have not severe co-linearity problems with each other. When the VIF statistic is lower than 5, there would be no evidence of multicollinearity between independent variables of the model.
The third model test of study

The results of the logit regression model of the study are as follows:

Table (4-7): The results of the research model test at the level of combined data using logit model

<table>
<thead>
<tr>
<th>Description</th>
<th>Parameters</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>Z value</th>
<th>p.v</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>$\beta_0$</td>
<td>-0.20</td>
<td>0.09</td>
<td>-2.18</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>Instown</td>
<td>$\beta_1$</td>
<td>0.26</td>
<td>0.09</td>
<td>-2.78</td>
<td>0.00</td>
<td>1.005</td>
</tr>
<tr>
<td>BSIZE</td>
<td>$\beta_2$</td>
<td>0.06</td>
<td>0.01</td>
<td>3.94</td>
<td>0.00</td>
<td>1.01</td>
</tr>
<tr>
<td>BIND</td>
<td>$\beta_3$</td>
<td>0.30</td>
<td>0.12</td>
<td>2.31</td>
<td>0.01</td>
<td>1.01</td>
</tr>
<tr>
<td>SIZE</td>
<td>$\beta_4$</td>
<td>-0.10</td>
<td>0.05</td>
<td>-2.06</td>
<td>0.04</td>
<td>1.03</td>
</tr>
<tr>
<td>LEVE</td>
<td>$\beta_5$</td>
<td>0.29</td>
<td>0.08</td>
<td>3.49</td>
<td>0.00</td>
<td>1.01</td>
</tr>
<tr>
<td>AUDITFEE</td>
<td>$\beta_6$</td>
<td>0.16</td>
<td>0.10</td>
<td>1.60</td>
<td>0.10</td>
<td>1.02</td>
</tr>
</tbody>
</table>

The X2 value of the statistic LR with seven degrees of freedom is 72.69 and the probability related to it is zero. Therefore, lack of significance of model is rejected and model is reliable and significant. Determination coefficient is criterion explaining the strength of relationship between independent and dependent variable. Variance inflation factor also shows that independent variables of the first model have no severe collinearity problem.

Research results

Accounting standards of Iran specifies that companies should present and disclose companies the financial statement figures in comparative way along with current year figures. Accordingly, figures of the past year is reviewed and classified by company and auditor. In the case of any important mistake in nature and classification and sums of the past year, they should be restated in the current year. Therefore, restatement could be interpreted as a defect or a problem discovered in the current year. Creating an atmosphere of uncertainty in the capital markets,
perceiving unreliable financial statements, attempt to access information outside the exchange, the losses caused by wrong decisions of users of financial statements, and ultimately a waste of resources public, are part of consequences in this regard. Since the financial restatements and changes in auditors are both events leading to public attention by investors, important financial restatements cause uncertainty in the inability to provide reliable financial information and inappropriate audit by auditors. As a result, the need for significant change in mechanisms and governance tools of companies is being felt in this regard. To enhance the quality of audit and refund reputation during restatements of financial statements to public investors, financial restatements of companies leads to the dismissal of the auditors of the those companies. The research results showed that between there is positive and significant relationship between financial restatements and auditor change. In fact, as financial statement of companies is restated highly, the probability of audit increases due to lack of discovery and identification of mistakes. Additionally, there is significant relationship between independent auditors and corporate governance features in companies restating financial statements. Companies with strong corporate governance usually avoid of negative results of independent auditor change, but it is expected that same company to take measure to dismiss auditors in order to refund its reputation and trust of investors due to the inability of the auditor in discovering wrong procedures of accounting. Therefore, by increasing the quality of corporate governance, the probability of independent auditor dismissal increases due to discovery of wrong procedures of accounting. Additionally, improved corporate governance can reduce the number of financial restatements.
References


3-Raei Reza & Talangui Ahmad, Advanced investment management, Samt publication, First edition, 2004
4-Shahmardani Abolhassan, Survey of the relationship between financial leverage, growth of company and the profitability of the companies listed on the Tehran Stock Exchange, Thesis of Master, University of Mazandaran, 2013