



The Impact of Audit Quality on Earnings Management

Safoura Ebrahim Abadi¹, Mohammad Reza Shourvarzi^{2 *}

1- Department of Accounting, Neyshabur Branch, Islamic Azad University, Neyshabur, Iran

2- Department of Accounting, Neyshabur Branch, Islamic Azad University, Neyshabur, Iran

Abstract

This paper examined the relationship between audit quality and earnings management, and its impact on earnings management in companies listed in Tehran Stock Exchange. The joint auditor's criteria, the auditor's financial dependence and the size of the audit firm were used as independent variables to determine the auditor's quality; and the method of abnormal accruals- based on the modified Jones model- was used as a dependent variable to measure earnings management. The criteria such as renewing the profit presentation, the firm size, the losses of the company, the financial leverage, and the [ratio of] equity market value to the book value were used as control variables. Eighty one companies listed in Tehran Stock Exchange were selected using simple random sampling method from among 140 companies of the studied population during a 5-year period from 2010 to 2014. To measure the hypotheses, regression and Pearson correlation models were used using Eviews9 econometric software and data panel method. The results of the study showed that the size of the audit firm did not have a significant effect on earnings management, but the use of a joint auditor among several companies and the auditor's financial dependence had a significant effect on earnings management.

Keywords: Audit quality, earning management, tehran stock exchange.