



Investigating the effect of the Board of Directors characteristics on auditor selection in the companies listed in Tehran Stock Exchange

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ABSTRACT

Original Article:

Increasing the number of users of the audit report, as customers of this public good, has caused the quality of the auditors' job to be put under observation. Quality of the auditors' work and their opinion can lead to improving the financial information system of countries and finally optimal economic decision-making. The results of studying the research variables among 74 companies in 6 industries, using multiple linear regression and panel data, showed that the Board size has a significant inverse relationship with auditor tenure. But this variable has no significant relationship with auditor size. So, it is suggested that acceptable standards be considered for auditor selection in order to improve the audit procedures so that the auditor tenure will be less affected by the Board size and also personal judgments. In addition, the proportion of outside directors has no significant relationship with auditor tenure and auditor size. The results indicated that the company size has a significant positive relationship with the auditor size. Thus, larger companies use larger firms for auditor selection. Accordingly, it is recommended that larger organizations should employ larger audit firms to enhance audit quality.

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1. Introduction

Increasing expansion of communities and the complexity of transactions and trade exchanges in capital markets on one hand and conflicts of interest between the two groups of producers and users of information on the other have revealed the need for selecting independent auditors in order to monitor and validate the financial information (Moradzadehfar&Rahmannezhad, 2011). An independent auditor is a person who, invited by the shareholders, interested natural or legal persons or as provided by law, examines the accounts in question and reports the result in writing to the caller or any other natural or legal person who has appointed him (ArbabSoleimani&Nafari, 2009). Audit profession plays an important role in improving the information system and ensuring the reliability of financial reporting of countries. Increasing the number of users of the audit report, as customers of this public good, has caused the quality of the auditors' job to be put under observation. Quality of the auditors' work and their opinion can lead to improving the financial information system of countries and finally optimal economic decision-making. Therefore, it is essential to investigate the factors affecting the quality of auditors' work (KhosraviCharmi, 2006). In recent years, with the formation of Certified Public Accountants

Association, part of the activities of the audit organization has been assigned to the private institutions that are members of that association. On the other hand, the results of previous studies such as the research on earnings quality and earnings management index indicate a reduction in the quality of financial reporting and one reason for the decline in the quality of financial reporting can be the type of auditor (Moradzadehfar&Rahmannezhad, 2011). Several factors may influence the auditor selection. Among these factors are the Board characteristics. Board of Directors is one of the internal mechanisms of corporate governance, which has a great impact on corporate performance and respecting the rights of the business stakeholders. The Board's role is crucial in monitoring the method of corporate governance in order to achieve the set goals and conducting the executive management so that in some occasions, good corporate governance is measured by the composition and performance of the Board of Directors. In addition to strategic guidance of the company, the Board of Directors has major responsibility for monitoring managerial performance, achieving an appropriate return for shareholders, observing the rules, preventing conflicts of interest and creating a balance between conflicting demands from the company (Rahmani, 2008). Based on the foregoing, this paper attempts to answer the question as to