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Article

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Evaluating Effectiveness of External Auditors' Report: Empirical Evidence from Iran

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Abstract

This study emphasizes that it is interesting to study the opinion of the auditor as intermediary information between the company and external users throughout audit report. Throughout questionnaire usable data were collected from different participants. The results of this study show that audit report is easily understandable from various stakeholders in Iran and it is cornerstone to investment making decision.

Keywords: auditor, audit report, and Iran.

1. Introduction

Etymologically, the word 'audit' is derived from the Latin word, '*audire*,' which means 'to hear'. Thus in the beginning, the word 'audit' was meant 'to hear' and auditor literally meant a "hearer" (Salehi, 2008 a, b). The hearing function by the auditor was then aimed at declaring that the accounts kept by the management and the financial statements prepared by them were 'true and correct'. And his function was to give assurance against fraud and intentional mismanagement (Salehi, 2009).

Accordingly, the main object of audit also transformed thus making the auditor declare that the accounts prepared by the companies as revealed by their financial statements were "true and fair". Littleton (1933, p. 260) was the view that early auditing was designed to verify the honesty of persons charged with fiscal, rather than managerial responsibilities. He identified two types of early audits; firstly, public hearings of the results of government official and secondly, the scrutiny of the charge-and-discharge accounts. "Both types of audit were designed to afford a check upon 'accountability' and nothing more. It was in effect a case of examining and testing an account of stewardship," (Littleton: 1933, p. 264). Many researches conducted on the concept of audit and its purposes too evidence the same.

In the nineteenth century, the role of auditors has been directly linked to management's stewardship function (Flint, 1971) with stewardship being regarded in the narrow sense of honesty and integrity. But the verifying function was on sampling basis because of the burgeoning volume of business activity. This functional shift in auditing from 'true and correct view' to 'true and fair view' caused a paradigm shift in the audit process. This also caused a change in audit opinion from 'complete assurance' to 'reasonable assurance'.

According to Chow (1982), controlling the conflict of interests among firm managers, shareholders and bondholders is a major reason for engaging auditors.

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In essence, auditing is an independent function by means of an ordered and structured series of steps, critically examining the assertions made by an individual or organization about economic activities in which they have engaged and communicate the results in the form of a report to the users (Salehi and Mansoury(2008).

The audit profession is crucial to current economies because of the assurances that auditors provide to users of financial statements (Arens and Leobbecke, 2000). Auditing increases the reliability of financial information provided to investors, owners, creditors and other users. In nut shell, the auditor's duty is detection fraud and errors. Which the results of audit practice is appear in audit report. If they do not them work according to guidelines or they issue wrong report, it leads bad condition to audit profession. In other word, auditors are buffeted by two forces. One hand, they are subject to pressure from their client's statements in the most favorable light. On the other hand, auditors are subject to lawsuits from investors and face legal liability for overstatement.

The primary product of an audit by an independent certified accountant (CPA) is an audit report, which serves as a major vehicle of communication between the auditor and those who use this work. In the report, the auditor indicates the scope of his examination and the conclusions drawn about the appropriateness of the financial statements presentations (the audit opinion).

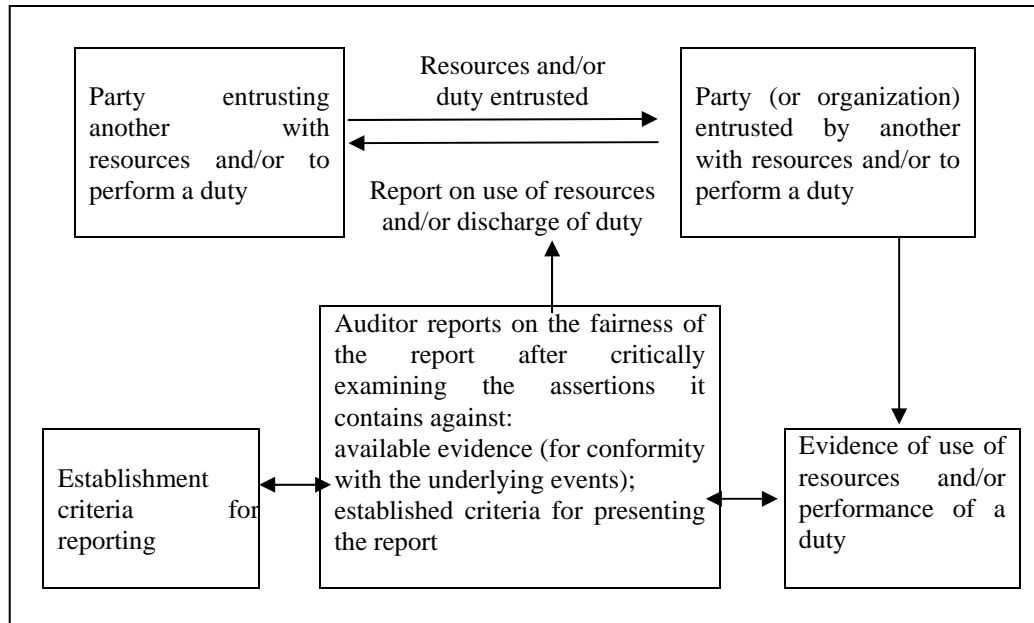
Low-quality audits can mislead investors and result in misallocated resources.

1.1 Features of audit

The major features of an audit are presented in Figure 1. When business organizations have grown from owner-operated entities to multi-national companies staged by thousands of employees, such growth has been made entity's management/directors for shareholders and other interested parties outside the entity, and of the evidence supporting the information contained in those financial statements. Possible by channeling financial resources from many thousands of small investors through financial markets and credit-granting institutions to the growing companies. As companies have grown in size, their management has passed from shareholder-owners to small groups of professional managers. Thus company growth has been accompanied by the increasing separation of ownership interests and management functions. As a consequence, a need has arisen for company managers to report to the organization's owners and other providers of funds such as banks and other lenders on the financial aspects of their activities.

Those receiving these reports (external financial statements) need assurance that they are reliable. They wish to have the information in the reports 'checked out' or 'audited'. At present, the audit philosophy focuses on expressing a fairness opinion on the reliability of financial statements prepared on the basis of accounting records, which are also subject to verification. Therefore, one of the major objectives of the audit is a financial statement audit. It is an examination of an entity's financial statements, which have been prepared by the accountants.

Figure 1: Major Features of an Audit



Source: Porter (2003:4).

Audit work consists of two main elements, viz., analytical review and substantive testing. Analytical review is a structural, temporal and cross sectional comparative evaluation of the financial report to assess its overall soundness. Once the auditor has invested the effort to model the firm and its environment, analytical review becomes essentially an armchair exercise. Substantive testing is the direct verification of the resources and obligations of the firm in the field, and requires costly checking of physical plant, inventories, creditors and debtors of the firm. Although the auditors developed sophisticated statistical techniques to design efficient sampling methods to cut these costs during the third quarter of the Twentieth Century, substantive testing consumed the bulk of the auditing budgets. Under the pressure of competition, the auditors shifted their production function from expensive substantive testing towards inexpensive analytical reviews. Greater parts of the audit work are now being carried out without leaving the office, with less time, labor and costs. The fact is that the corporate managers and directors hire the auditors. But the real clients of the auditors, that is, the investors never see the auditors. Even if they see, they are not aware if the auditors have done their job diligently.

Managers who see the auditors hardly have any proof to make sure that they properly check the representations made by the managers to the investors and others. Only on rare occasions, when a corporation runs into serious financial trouble, questions may be raised about the fairness of its financial reports and the quality of the audit work used to certify the reports. More than ninety-nine percent of the time, no questions are raised about the quality of the audit, and no one looks into what the auditors actually did. In this

environment, there is hardly any opportunity for the auditors to build their reputation based on the quality of their work.

1.2 Need for auditing

The demand for audit arises from the potential conflict of interest that exists between stakeholders and managers. As mentioned by Arens et al. (2006) the demand for audit services is triggered by many factors, including the remoteness gap between the users of the financial statements and the preparers of these statements; the conflict of interest between the users of the financial statements; the complexity of the economic transactions; and the expected effect of the financial statements on decision making. However, because the audit report is the medium of communication between the auditor and the users of the audit report, this report must be understandable, objective and accepted by the users as a relevant source of information. The relevance of the report means that it must make difference in decision making; otherwise, the users of the financial statements will not read the report and will not consider it in the decision-making process. The effect on decision-making means that the report must have information content, that is, it must affect investment decisions, credit decisions and share prices.

The contractual arrangement between these parties normally requires that management issue a set of financial information that purports to show the financial position and results of operations of the entity. A brief analysis of the theories advocating the need for auditing giving rise to contractual arrangement under: (a) Policeman Theory; (b) Credibility Theory; (c) Moderator of Claimants' Theory; (d) Quasi-Judicial Theory; (e) Theory of Inspired Confidence; and (f) Agency Theory.

(a) Policeman Theory

This was the most widely held theory on auditing until the 1940s (Hayes et al., 1999). Under this theory, an auditor acts as a policeman focusing on arithmetical accuracy and on prevention and detection of fraud. However, due to its inability to explain the shift of auditing to, 'Verification of truth and fairness of the financial statements,' the theory seems to have lost much of its explanatory power.

(b) Credibility Theory

This theory regards the primary function of auditing to be the addition of credibility to the financial statements. Audited financial statements are used by management (agent) in order to enhance the principal's faith in the agent's stewardship and reduce the information asymmetry. However, Porter (1990: 50) concludes, that "Audited information does not form the primary basis for investors' investment decisions". On the other hand, it is often asserted that financial statements have a function of confirming message that was previously issued (Hayes et al., 1999).

(c) Moderator of Claimants' Theory

Under this theory, it is important that all vital participants in an organization continue to contribute. In order to continue these contributions, it is important that each group believes it receives a fair share of the company's income by giving an opinion on the various interests represented in the amounts shown therein.

(d) Quasi-Judicial Theory

In this theory, the auditor is regarded as a judge in the financial distribution process (Hayes et al., 1999:36). However, Porter concludes that (i) an auditor's decisions and decision process are not publicly available; (ii) the doctrine of precedence/consistency is not guaranteed in auditing; and (iii) an auditor's independence differs from a judge's independence because of the different reward system involved

(e) Theory of Inspired Confidence

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg (Hayes et al., 1999:36). Limperg's theory addresses both the demand for and the supply of audit services. According to Limperg, the demand for audit services is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from the management, in return for their contribution to the company. Since information provided by management might be biased, a possible divergence between the interest of management and outside stakeholders, an audit of this information is required. With regard to the level of audit assurance that auditor should provide, (the supply side), Limperg adopts a normative approach. The auditor's job should be executed in such a way that the expectations of a rational outsider are not thwarted. So, given the possibilities of audit technology, the auditor should do everything to meet reasonable public expectations.

(f) Agency Theory

Agency theory analyses the relationship between two parties: investors and managers. The agent (i.e. manager) undertakes to perform certain duties for the principal (i.e. investors) and the principal undertakes to reward the agent (Jensen and Meckling, 1976). According to this theory, the role of the auditor is to supervise the relationship between the manager and the owners. A gap expectation occurs when the distribution of the responsibility is not well defined. The responsibility of every part is well defined in the regulation. The manager and the owners have to realize that the auditor does not have responsibility of the accounting, but only see that the auditing is done properly (Andersson and Emander, 2005).

It is argued that in a corporation, in which share ownership is widely spread, managerial behavior does not always maximize the returns of the shareholders (Donaldson and Davis, 1991). The degree of uncertainty about whether the agent will pursue self-interest rather than comply with the requirements of the contract represents an agent risk for an investor (Fiet, 1995).

Given that principals will always be interested in the outcomes generated by their agents, agency theory demonstrates that accounting and auditing have an important task in providing information and this task is often associated with stewardship, in which an agent reports to the principal on the companies' events (Ijiri, 1975). The demand for auditing is sourced in the need to have some means of independent verification to reduce record keeping errors, asset misappropriation, and fraud within business and business organization. However, a survey conducted by Wahdan et al. (2005) revealed that the auditors believe that the auditor's work would be used as a guide for investment, valuation of companies, and sometimes in predicting bankruptcy.

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According to (Hermanson et al., 1993:5), there are four conditions in the business environment which create a demand for an independent audit. They are: (1) Conflict of interest, (2) Consequence, (3) Complexity and (4) Remoteness.

(1) Conflict of interest

A company's financial statements are prepared by its directors and these directors are essentially reporting on their own performance. Users of the financial statements want the statements to portray the company's financial performance, position and cash flows as accurately as possible. However, they perceive that the directors may bias their report so that it reflects favorably on their management of the company's affairs. Thus it can be seen that there is a potential conflict of interest between the preparers and users of the financial statements. The auditors play a vital role in helping to ensure that directors provide, and users are confident of receiving information which is a fair representation of the company's financial affairs.

(2) Consequence

If users of a company's financial statements base their decisions on unreliable information, they suffer serious financial loss. Therefore, they wish to be assured that the information is reliable and safe to act upon. In this condition, auditor's works add credibility to financial statements and users of them have peace of mind, when audited financial statements are giving the real picture of company.

(3) Complexity

As the information communicated has become more complex, users of information have found it more difficult, or even impossible, to obtain direct assurance about the quality of the information received. As companies have grown in size, the volume of their transactions has increased. As a result of these changes, errors are more likely to creep into the accounting data and the resulting financial statements. Additionally, with the increasing complexity of transactions, accounting systems and financial statements, users of external financial statements are less able to evaluate the quality of the information for themselves. Therefore, there is a growing need for the financial statements to be examined by an independent qualified auditor, who has the necessary competence and expertise to understand the entity's business, its transactions and its accounting system.

(4) Remoteness

Remoteness is caused by the separation of the user of the information and the information source. It prevents the user from directly assessing the quality of the information received. In other words, as a consequence of legal, physical and economic factors, users of a company's external financial statements are not able to verify for themselves the reliability of the information contained in the financial statements. Although for example, if they are major shareholders in company, they have de facto right of access to the company's books and records.

1.3 Annual report

The demand for auditing arises from the auditor's monitoring role in the principal-agent relationship (Eilifsen and Messier, 2000). According to agency theory, an agency relationship is a contract under which one or more principals engage an agent to perform some service on the principals' behalf and delegate some decision-making authority to

the agent (Jenson and Meckling, 1976). When there are conflicts between the interests of the principal and the agent, the agent may not act in the best of interests of the principal. In order to avoid or minimize such divergences from his or her interests, the principal can establish monitoring systems. The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the principals, specifically, stockholders and potential stockholders, by providing reasonable assurance that management's financial statements are free from material misstatements (Watts and Zimmerman, 1986). In such conditions, the auditors play intermediately role between company and stakeholders. The primary product of an audit by CPA is an audit report, which serves as a major vehicle of communication between the auditor and those who use this work. In the report, the auditor indicates the scope of his examination and the conclusions drawn about the appropriateness of the financial statements presentations.

Audit report is the language of communication between the auditor and the users of the financial statements (stakeholders). It represents the most important aspect of the audit process and the auditor uses it to convey the results of the audit process to the users of the financial statements. The expected effect of the audit report on the users' decisions is one of the important factors that stand behind the demand for audit services.

In most countries the auditor has a statutory duty to make a report to the entity's members on the truth and fairness of the entity's annual accounts.

The duty to report on the truth and fairness of the financial statements is the primary duty associated with the external audit. The auditor has a duty to form an opinion on certain other matters and to report any reservations. The auditor must consider whether:

1. The entity has kept proper accounting records;
2. The entity's balance sheet and income statement agree with the underlying accounting records;
3. All the information and explanations that the auditor considers necessary for the purposes of the audit have been obtained and whether adequate returns for their audit have been received from branches not visited during the audit;
4. The entity has complied with the relevant legislation's requirements in respect of the necessary disclosures. If the entity has not made all the disclosures required the audit report should, if possible, contain a statement of the required particulars.

2. Literature review

The concept of audit is based on a will of good control allowing at first a better management and then a reconciliation of the divergent interests within the firm (Ng and Stoekenuis, 1979). So, the auditor allows to arrange a global vision of the company, to prevent the risks and to incite to set up devices of appreciation, evaluation and control (Brousseau, 1993) intended to confine the chances to delete them.

Within the framework of this debate which can exist within the company as well as between managers and shareholders as between managers and creditors (Jensen and Meckling, 1976), the firm has to give a particular care to the quality of the information (Antel, 1982) which it publishes: an objective that the auditor intervenes first for his realization.

By formulating an opinion on the financial status of companies, the auditor will guarantee the regularity and the sincerity of the information (Chan and Walter, 1996) of which he gives evidence that they appear according to the generally admitted accounting principles and the standards of the profession.

Thus, the auditor constitutes a regulator of the quality of the accounting and financial information (Soltani, 1996).

Hanks (1992) said that it was vital importance to improve the public's understanding of the present role of auditors. An example he cited how small investors relied on the auditors' report. Such investors usually felt inapprehensive of the status of the report, the nature of audited financial statements, the type and extent of work undertaken, as well as the level of assurance provided by auditors. It was common misconception of the general public to believe that an unqualified auditors' report implied that the figures were absolutely accurate or that there was no fraud or irregularity.

As mentioned earlier, the significance of the communication issue in auditing has traditionally been expressed in the literature in terms of the expectations gap, i.e., significant differences between what the public expects from an audit and what the profession understands the objectives to be. Humphrey et al. (1992) suggest that the nature and meaning of assurance report messages is one of the key elements in the expectations gap debate. Empirical studies (e.g. Bartlett 1991; Gay et al. 1998) have shown that significant differences in perception exist between users and preparers of audit, review, and compilation reports. In other words, according to above researchers third parties do not have much confidence to audit report. In view of the fact, the audit report should convey assurance to stakeholders; otherwise it will be very questionable.

Given that assurance reporting is a communication process, theories from the communications literature (drawing on fields as diverse as psychology, linguistics, and mathematics) may be useful in analyzing and enhancing the communication associated with assurance reports. Fiske (1990) categorizes this literature into two main schools of thought: the process and the semiotic views of communication.

The process school depicts a linear model of communication, where information flows from a source, through a channel, to a receiver (Shannon and Weaver 1949). This body of thought suggests that communication is enhanced by focusing on the channel, which in the assurance reporting context is the assurance report itself. This has been the implicit rationale underlying studies that examine the effect of changing report wording (for example, Hatherly et al. 1991; Houghton and Messier 1991; Monroe and Woodliff 1994). Such studies have found that users are sensitive to changes in terminology used (Bailey et al. 1983; Kelly and Mohrweis 1989) and to an increase in the amount of information provided (Innes et al. 1997).

The semiotic school adopts a broader view of the communication process, emphasizing the interaction between the reader and the message in the generation of meaning and therefore the process of communication (Ogden and Richards 1949; Barthes 1968). Thus, effective communication is contingent on an individual's capacity to understand and interpret the meanings of words and sentences (Korzybski 1958). For example, Schandl (1978) argues that one of the main obstacles in communication is predicting the effect of the data on the receiver. He proposes that the communicator should use symbols.

(Standard forms of reporting) bearing in mind the connotations they may evoke in the readers schemata.

The communication literature thus suggests that effective communication can be achieved by focusing on the channel of communication, as well as the interaction between the reader and the message conveyed by the channel. This study incorporates both of these approaches by examining the impact of alternatively worded reports on user perceptions. In doing so, it also derives feedback on the reporting forms examined, noting Schandl's (1978) proposition that obtaining feedback is one of the elements of effective communication. One of the most influential factors in communication between auditors and third parties which is done by audit report is audit quality. If audit quality be high then the result is the communication is acceptable. But what is the quality really? Quality, as an indicator of intrinsic value or worth, is sometimes difficult to measure. In some cases, the meaning of quality is precise; in other cases, perceptions of quality may vary greatly. For example, the term quality of life is broad and has different connotations to different individuals. Quality assessment may be performed by only one individual who is also the ultimate user of the object being assessed. In many cases, however, the ultimate users of quality assessment information are different from those who perform the assessment.

Kelly and Mohrwise (1989) conducted a questionnaire survey of investors and bankers to identify if the form of the audit report influenced their understandability and perceptions of who was responsible for the financial statements. They found that both investors and bankers perceived that expanded audit report to be more understandable than the short form. The form of the audit report did not; however, appear to influence investors' perceptions of the responsibility of auditors but the bankers group perceived the expanded audit report as conveying that auditors were assuming less responsibility.

Miller et al (1993) carried out a survey of bank loan officer designed to test their perception of a number of issues relating to unqualified audit report. The authors divided the bankers into two groups, one group was given the old short form report and the other was given the new long form report. Based on the loan officers' responses to a number of questions on the respective audit reports the authors concluded that the new audit report, SAS58, results to identify the responsibilities of auditors and management for the financial statements.

Humphrey et al (1993, p.399) asked respondents (Chartered Accountants, Financial directors, Investment analysis, Bankers involving corporate lending and Financial journalists) in the UK to indicate their agreement or disagreement concerning auditors' abilities to understand business problems and their role with respect to improving, and reporting on management efficiency. Auditors felt that they did understand business problems and should identify ways of improving management efficiency only 46% of the auditors felt that they should report to shareholders on efficiency of management.

The auditor should consider if the information in the financial statements describe the entity's ability to continue in operation in the future, or if there is significant uncertainty that the entity will be able to continue as a going concern. Therefore, the auditor should consider if adequate disclosure is/ is not made in the financial statements to express his opinion in the audit report, which the International auditing Standard No.570 (IFAC, 2001) states that the auditor should disclose such a case in an explanatory paragraph.

The Cohen Commission (1978) suggested that some users of financial statements equate an unqualified audit report with a guarantee of the accuracy and reliability of the financial statements and the continued viability of the business under examination. As evidenced by the media and litigation against auditors, when a business fails shortly after receiving an unqualified audit report, the public often perceives the failure as an audit failure. Investors and others question why they were not warned about the company's financial difficulties.

3. Research problem

Financial statements' users must trust that financial statements provides reliable basis for their decision-making. The importance of users' confidence is reflected in the words and actions of financial regulators and auditing profession.

A business entity prepares financial statements to present its financial position, and then brings in an outside party to testify to their accuracy and reliability. Statement of Financial Accounting Concepts (SFAC) (1978) No. 1 specifies financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions, which is directed to audit quality. Audit quality describes how well an audit detects and reports material misstatements of financial statements, reduces information asymmetry between management and stockholders and therefore helps protect the interests of stockholders. High audit quality should be associated with high information quality of financial statements because financial statements audited by high quality auditors should be less likely to contain material misstatements.

The impetus for this study stems from the arguably questionable nature of the audit process and the value of the audit report. Since, the inception of the compulsory audit, the audit report has been under discussion and criticism and it has been an important part of the audit expectations gap (Salehi and Gowda, 2006). Owing to the wide criticism of the audit profession within the context of business and audit failures, the value of the audit report continues to be scrutinized and criticized. For example, (Gwilliam, 1987) argued that a number of studies have suggested that the average investor pays little attention to the audit report. So, the aim of this study is illustrate that who extend audit report is important as well as effective. Furthermore, a study conducted by Salehi and Abedini (2008) regarding to importance of audit report from the bankers, viewpoint in Iran showed that the Iranian bankers does not rely on financial statements audited. So, this is the main problem that supposes stakeholders do not rely to audit report, what is the benefit of external auditors in Iran?

4. Purpose of the study

As it known, the results of audit practice is summarized in a sheet so- called audit report. Audit report is the final judgment of external auditors to the financial statements. In other word, managers hired auditors to issuing this report. Audit report is the hallmark to third parties at the time of decision making. So, the main purpose of this study is to examine factors hypothesized to affect degree of influence of audit effectiveness report to third parties decision making.

5. Research methodology, hypotheses and analysis

In this research at the first step the important factors related to audit report were explored by studying technical contexts. Further, for collecting useable data according to the literature, suitable questionnaires were designed and developed. The questionnaires contained two parts namely; Bio data and main questions. In this research, participants at the first step were requested to determine their idea (agreement or disagreement to the effectiveness of audit report). Then, according to their idea, they were asked to determine the degree of agreement and disagreement. For assessing degree of disagreement and agreement we used the range of integer numbers from -9 to 9, in which -9 represents strong disagreement, and 9 represents strong agreement with the hypothesis, while zero represents none of them. In order to verify the reliability of the questionnaire the authors have applied the pattern of internal consistency known as Cronbach's Alpha coefficient. Then the validity of the explored title was assessed by the Delphi group, which includes the Iranian Association of Certified Public Accounting (IACPA) members. In the Delphi session, using the gained viewpoints, the elementary group was requested to determine the key factors that affects on auditing effectiveness. Hence we can say that those factors which conduct research hypotheses are those factors which are completely compatible to effectiveness of audit report in Iranian environment. On the basis of important audit report effectiveness sub – factors we conducted the study based on five hypotheses, including:

H₁: Audit reports were being is easily useable for every stakeholder.

H₂: Result of auditing (audit report) is really cost- effective regarding used resources for auditing.

H₃: Audit practice reinforces the financial statements reports validity considerably.

H₄: Audit practice has positive affects on reliance capability of financial statements reports considerably.

H₅: An Audit report has positive affects on stakeholder decision correctness's.

Out of 180 questionnaires, 150 respondents (Chief Executive Officer (CEO), financial managers, internal auditors, tax officers, and faculty members) completed the research between 15th Mach to 10th July 2009.

Among these 150 participants, there were 14 C.E.O (10%) and 34 were in financial managers (24.10%), 39 was working as internal auditors (27.90%), 53 were expert in tax officers (37.9%) and 10 were faculty members. They consisted of 51 participants (34%) were younger than 35 years old and 70 participants were between 35 to 45 (46.7 %) and other 29 participant were older than 45. furthermore , Among these 31.3% had less than five year's experience, 42 percent had between 5 to 15 years' experience and 26 percent had more than 15 years' experience. The majority of participants had sufficient auditing knowledge. Out of 150 participants, 92 participants hold bachelor's degree in accounting and finance fields (61.3% per cent), and 58 participants hold Master or PhD degrees in accounting or finance fields (38.7%). Demographic characteristics of Participants are summarized in Table 1.

Table 1: Participant's Demographic Characteristics and Frequencies

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Case	Label	Frequency	percent
Age	Under 35 years	51	34.00
	Between 35- 45	70	46.70
	More than 45 years	29	19.30
	Total	150	100.00
Seniority	Under 5 years	47	31.30
	Between 5- 15	64	42.70
	More than 15 years	39	26.00
	Total	150	100.00
Education	bachelor degree	92	61.30
	MA or PhD degrees	58	38.70
	Total	150	100.00
Post	Chief executive officer	14	10.00
	Financial Management	34	24.10
	Internal Auditor	39	27.90
	Tax officer	53	37.90
	Faculty members	10	6.60
	Total	150	100.00

The binomial test was first conducted to assess which percent of Participants agree with each of hypotheses. For this purpose we divided the participants into two groups, i.e. those agreeing and disagreeing with the hypotheses. The results revealed that Auditing Reports was being prepared in standard form and is easily useable for any stakeholders ($p < 0.05$). Altogether 118 participants (80 per cent) agreed with this hypothesis which, according to our results, is confirmed (H1) with the mean degree of agreement equal to 3.80 (sd = 2.1, 95% of confidence interval from 3.2 to 4.4). Second hypothesis in this group was conducted to assess auditing cost – effectiveness. The result showed that this hypothesis (H2) was strongly confirmed, while 140 participants were agree with this hypothesis (93 per cent); the mean degree of agreement was 4.30 (sd = 1.91, 95 per cent of confidence interval from 3.5 to 5.1). According to our results, the third hypothesis in this research was significantly confirmed ($p < 0.05$). Further, there were 145 participants (96 per cent) who strongly agreed that audit practice decrease financial infractions and unlawful actions (H3). The mean degree of agreement was 5.20 (sd = 1.81, 95 per cent of confidence interval from 4.7 to 5.7). The reliance capability of financial statements reports was the forth hypothesis that was significantly confirmed according to these results. There were 147 participants (98 percent) who agreed that audit practice has considerably positive affects on reliance capability of financial statements reports (H4).

The mean degree of agreement was 5.4 (sd = 1.71, 95 per cent of confidence interval from 4.85 to 5.95). The Audit executing reports affections on stake holder decisions was the last hypothesis that was significantly confirmed too ($p < 0.05$). According to these results there were 141 participants (94 percent) who agreed that audit executing has considerably positive affects on stakeholder decisions (H5). The mean degree of agreement was 4.4 (sd = 1.93, 95 per cent of confidence interval from 3.75 to 5.15).

Hypotheses by binomial test are presented in Table 2.

As earlier mentioned, the participants were requested to determine their degree of agreement or disagreement with the questions.

Table 2: Audit Report Clarity and its Positive Affections on Auditing Effectiveness Variables

Hypothesis	Category	Frequency	Observed prop.	Test prop.	Asymp.sig.	Result
H ₁ (audit report is understandable to third parties)	Agree	120	0.80	0.5	0.000	Confirmed
	Disagree	30	0.20			
	Total	150	1			
H ₂ (Cost- effective of Auditing regarding its consumed resources)	Agree	140	0.93	0.5	0.00	Confirmed
	Disagree	10	0.07			
	Total	150	1			
H ₃ (Reinforcing financial statement Reports)	Agree	145	0.96	0.5	0.000	Confirmed
	Disagree	4	0.04			
	Total	149 ^a	1			
H ₄ (Reliance Capability of financial Statements)	Agree	147	0.98	0.5	0.000	Confirmed
	Disagree	3	0.02			
	Total	150				
H ₅ (Stakeholder decision's Correctness)	Agree	141	0.94	0.5	0.000	Confirmed
	Disagree	9	0.06			
	Total	150	1			

Note: In binomial test characteristic we divided respondent into two group including agreeing and disagreeing and eliminate those of respondent that haven't idea.

Table 3 represents the mean degree of agreement or disagreement according to their ideas and other statistical tools. As shown in table 3, the Market mechanism has the most effect on detecting important distortion neutrally by the auditor.

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Table 3: Mean Degree Participant Agreement or Disagreement and Other Statistics

Independent variable	Mean degree	Standard deviation	95 percent of confidence interval
Understandable by third parties	3.812	2. 11	3.211-4.393
Cost- Effective of Auditing	4.344	1.914	3.486-5.083
Reinforcing Financial Statement Reports	5.175	1.812	4.712-5.663
Reliance Capability of Financial Statements	5.446	1.714	4.856-5.950
Stakeholder Decision Correctness	4.421	1.931	3.746-5.147

6. Discussion and conclusion

The primary aim of the audit today is the verification of financial statements. The audit is an important part of the capital market framework as it not only reduces the cost of information exchange between managers and shareholders but also provides a signalling mechanism to the markets that the information which management is providing is reliable. The results of this study showed that audit report is very important to Iranian environment. The authors concluded that audit report is understandable to third parties, in other word; the majority of third parties have accounting or auditing knowledge, no matter by academic or by practice. Further, audit report has more benefits rather its cost, so the authors concluded that audit practice has reasonable price in Iranian condition. In nut shell, the authors became to this point that audit report is cornerstone of decision making in investments, divestments, and portfolios. According to above condition the auditors should very vigor in future also and the have to save them prestige in Iranian economy.

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