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The Relationship between Supervisory Independence and Auditor's Opinion Shopping: Market Competition influence

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Abstract

It is stated in the financial reporting literature that companies in a competitive industry will pursue better disclosure policies. On the other hand, Product market competition substitutes internal governance that reduces agency costs**.** This study investigates the effect of product market competition on the relationship between the supervisory independence of the firm and the auditor's opinion on shopping. In this study, four methods have been considered to determine the occurrence of opinion shopping. It is assumed that opinion shopping occurs when one of these four conditions is met. The study sample includes 162 listed companies on the Tehran Stock Exchange during 2014–2019. Research hypotheses were tested by using logistic regression analyses. The results show that if the auditor's opinion shopping criterion is the ratio of the amount of restatement of financial statements to income, the board's independence has a negative and significant relationship with the auditor's opinion shopping. The research findings also show that the audit committee's independence was not related to the auditor's opinion shopping criteria. Also, separate tests on the role of product market competition on the above relationships indicate that this variable does not have moderator effects.

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1. Introduction

Dechow,Ge and Schrand (2010) stated that the extent to which auditors influence the quality of accounting information stems from their role in intentionally or unintentionally presenting the firm's economic and financial reality. Ruddock, Taylor and Taylor (2006) argued that auditors could add value to financial statements by reducing the likelihood of deliberately misrepresenting accounting information. Therefore, given that auditors should audit the information produced by accounting systems, and since one of the most important factors affecting the amount of auditing fees is the power and authority of the board, it is likely that in a competitive environment, corporate governance colludes with their auditor if they intend to disclose incorrect accounting information. From the historical point of view, when managers negotiate the audit fee, this raises concern that auditors play the role of a manager in many companies instead of supporting the capital market (Blue Ribbon Committee, 1999; Securities and Exchange Commission, 1988).

Previous studies have shown that product market competition is considered a kind of external governance mechanism and is a vital factor in making information disclosure decisions by companies. On the one hand, product market competition forces companies in similar industries to seek out competitors' information and, on the other hand, to hide their own information to have a competitive advantage. Product market competition broadly makes firms dependent on external competitive advantage and encourages owners to strengthen internal corporate governance mechanisms and reduce the opportunistic behaviors of managers (Teng and Li, 2011). Thus, product market competition substitutes internal governance that reduces agency costs (Giroud and Mueller, 2011; Baggs andBetignies, 2007). Darrough and Stoughton (1990) stated that companies operating in a competitive industry would pursue better disclosure policies. Cheng, Man and Yi (2013) believe that competition plays a vital role in managers' voluntary disclosure decisions. They attribute this to the manager's motivations for disclosure, influenced by the company's economic decision-makers, the organizational environment, and the characteristics of the industry. On the other hand, in a contradictory view, Gal-Or (1985) and Gertner, Gibbons and Scharfstein (1988) predicted that companies in more competitive industries do not pursue disclosure policies that contain useful future information and possibly provide incorrect reports. Raith (2003) states that companies try to dissuade competitors from entering the industry in the face of economic and competitive pressures. One way to deal with these pressures is to manipulate and manage earnings to provide stable and reliable information to the market. Lin and Wei (2014) also showed that companies' willingness to disclose information voluntarily decreases with increasing competition in the product market.

Therefore, we assume that managers in a competitive environment disclose information consistent with their objectives to act superior to their competitors and collude with their auditor to obtain an acceptable audit opinion. Therefore, the primary purpose of this study is to investigate the effect of competition on the relationship between supervisory independence and the auditor's opinion shopping from the perspective of whether the board and the audit committee collude and engage in opinion shopping or not?

2. Literature Review and Hypothesis Development

2.1. Auditor's opinion on shopping

In auditing literature, auditor's opinion shopping is a situation in which the manager is looking for auditors who, even if the reliability of the financial statements is seriously damaged, support current reporting methods and assist the firm in its financial reporting objectives (SEC, 1988). In other words, it is the attempts that the manager makes to influence or even manipulate the auditor's decisions to obtain a more favorable audit opinion (Garcia Osma et al., 2018). Independent auditors can't publish ads to gain a client and perform guaranteed auditing services for legal reasons, but due to the conditions of competition between auditors, it is possible to facilitate the submission of audit reports (quality reduction) in exchange for a higher fee; this is called opinion shopping. Therefore, to determine the auditor's opinion shopping by the client, it is necessary to identify the relationship between audit quality and audit fee. This section will explain the relationship between these two variables that determine opinion shopping.

2.2. Audit quality and audit fees

Since audit quality is multidimensional and inherently invisible, there is no single standard for measuring it. By combining financial reporting quality criteria, the researchers created an index of audit quality, arguing that if auditors perform high-quality audits, this should also be reflected in the financial statements.

According to previous studies, one of the dimensions of audit quality that distinguishes high-quality auditor services from low-quality auditor services is the expertise of the auditing firm in the industry (Almutairi, Kimberly and Terrance, 2009). O'Keefe, King and Gaver (1994) state that the auditors specialize is, especially in the economic sectors, the more knowledge he has about the client's activities, and he provides better services. Therefore, more auditors' expertise increases the quality of audit services and the quality of financial information.

Since specializing in the industry is a costly investment, the auditing firm wants a normal rate of return on the investment made. This is reflected in the higher fees for industry specialist firms versus non-specialist firms. According to previous studies, including the ones by Wang and Iqbal (2009) and Craswell, Francis and Taylor (1995), the auditor's expertise in the industry directly impacts the pricing of auditing services. According to Carson (2009) and Choi et al. (2010), the expertise of the auditing industry has a positive relationship with the fee, so the larger and more specialized the auditing firm, the more fees it receives.

Large audit firms have a higher incentive to perform a quality audit because they intend to maintain their competitive position, and therefore in research, the auditor's size has been considered an important variable (DeAngelo, 1981). DeAngelo (1981), O'Keefe, King and Gaver (1994) and Braunbeck (2010) believe that the larger the audit firm, the more resources it has, and therefore it can provide better services, and as a result, the larger the audit firm, the higher the quality of the audit and the higher the quality of the financial information reported. Another variable that may affect the amount of auditors' fees is the size of the auditing firm. It is argued that large auditors, because of concerns about maintaining their reputation, are more conservative in estimating audit risk. In other words, large auditors try to estimate the audit risk at a high level, thereby reducing the risk of not detecting important misstatements. This approach increases the audit cost and, therefore, the audit fee. However, small auditing firms have less reputation, and their concerns are more about keeping customers in a competitive market. Because of this, they try to reduce the scope of proceedings in different ways and receive lower fees (Wang, 2015). Choi et al. (2010) focused on the office size of an auditing firm and concluded that large auditing firms have a higher fee and higher-earning quality than small firms. Large auditing firms have a higher quality of work due to greater independence, the presence of specialized manpower, less dependence on the audited income of a particular company, performing audit procedures with high efficiency and effectiveness, and conducting continuous auditing, and thus receive higher fees from their clients than other firms. As DeAngelo (1981) and Fargher, Taylor and Simon (2001) state that larger audit firms have more financial independence, making them less likely to adopt and use bold (aggressive) and accrual accounting practices. As the size of the audit firm increases, the agency costs and the cost of the client's capital decrease. When the client signs a contract with a large institution, this client's action reflects the importance of audit quality and, on the other hand, the reduction of agency costs (Palmrose, 1986). With the increase in audit quality, the client's internal contradictions also decrease and improve the investors' attitude towards the company. Under these circumstances, the audit fee also increases (Simunic &Stein, 1987). Therefore, due to their higher audit quality, larger audit firms reduce information risk more appropriately for investors, which is expected to increase the company's audit fees.

Today, the restatement of financial statements and the quality of auditing are both events that attract most investors' attention, and the restatement of significant financial statements is a factor that can leave the reliability of published financial information in a state of ambiguity. If the audit quality is high, the likelihood of a restatement of the financial statements due to significant errors in previous periods is minimized. According to auditing standards, auditors should have reasonable assurance that financial statements are free from a material misstatement by planning and performing audit operations (Public Company Accounting Oversight Board, 2010). Previous studies have shown that the characteristics of the auditor, including the firm size, the auditor's reputation, the auditor's expertise, can affect the quality of the audit and the employer's obligation to restate financial statements due to a lack of accepted accounting or financial reporting principles in the following year. They also found a positive and significant relationship between audit quality and restatement, which indicates that large and reputable auditors are more likely to issue restatement (Agrawal and Chadha, 2005; Demirkan and Fuerman, 2014). In this regard, Agrawal and Chadha (2005) found a significant relationship between audit quality and restatement of financial statements. According to Files, Sharp and Thomson (2014), the characteristics of auditors and the intensity of restatement affect the repetition of financial statement restatements. Owners of companies audited by smaller audit firms are also more likely to have their financial statements restated; in their research, Lazer, Livnat and Tan (2004) found that companies with longer tenure are not interested in restating financial statements.

Chambers and Payne (2008), in their study on audit quality and reliability of accruals, concluded that high audit quality, as well as the application of the Sarbanes-Oxley Act, increases the reliability of accruals. Lai (2009) concluded that companies with higher investment opportunities are more likely to have more discretionary accruals; however, this relationship becomes weaker when they are audited by auditors who are members of the five major auditing firms.

2.4. Independence of the board and auditor’s opinion shopping

The non-executive members of the board supervise the executives’ decisions by supervising them. As a result, the board's composition can affect the financial performance of companies. If the majority of the board members are independent non-executive directors, the board will be more efficient. In a study, Carcello et al. (2002) concluded that one of the monitoring tools to reduce agency problems between managers and owners is non-executives (independent members) in the board's composition. Non-executive members are professional managers with expertise in decision control. Non-executive directors purchase high-quality auditing services to protect their capital and reputation, avoid legal debt, and protect their own interests and shareholders’ interests. Also, in a study conducted by (Ramdani and Wittloostuijn, 2010), more independent managers can perform managerial oversight tasks more effectively.

Tsui, Jaggi and Gul (2001) concluded in their study that there is a negative relationship between audit fees and board independence. Shan, Troshani and Tarca (2019) showed that when the level of managerial ownership is consistent with shareholder interests (e.g., "convergence of interests"), the relationship between managerial ownership and the size of the audit firm and audit fees is negative. Conversely, the relationship is positive when the level of managerial ownership is contrary to the interests of the shareholders (e.g., "conflict of interest"). In other words, when managers do not have the company's stock, they choose smaller auditing firms and pay lower fees.

In a study, Bernardus andFitriany (2017) show that an increase in abnormal audit fees increases the likelihood of issuing an acceptable opinion and hence a level of opinion shopping occurs. Their study also reveals that receiving an unusual audit fee increased the issuance of invalid opinions, led to the auditors becoming dependent on the client and caused the auditors' independence.

The results of their research also showed a negative relationship between the ability of management and the likelihood of the auditor expressing concern about the continuity of the activity. Finally, the results of their study indicate a relationship between management ability and auditors' decisions.

According to the agency theory of conflict of interests between managers and owners, managers may disclose incorrect information in order to achieve their goals and policies. The validation requirement of auditors' information limits managers from disclosing the information. Therefore, managers may collude with the auditor.

Hypothesis 1: There is a significant relationship between board independence and the auditor's opinion shopping

2.5. Independence of the audit committee and opinion shopping

The audit committee must be independent of the entity to perform effectively. To maintain independence, members of the audit committee should be selected from non-executives or external directors. Beasley et al. (2000) found that the audit committee in companies with fraudulent reporting has less independence than other companies. The findings of Carcello and Neal (2000) indicate that companies in financial crisis and have independent audit committees are less likely to receive an opinion on the non-continuation of activity. Beasley et al. (2000), Carcello and Neal (2000), and Abbott, Parker and Peters (2004) are based on the theory that independent audit committees have no personal or financial affiliation with executive management. Thus, an independent audit committee may disagree with management on some issues (Baysinger and Butler, 1985). Managers who are independent of the firm's operations are expected to seek quality auditing and reduce fraud and earning management (Beasley, 1996). Therefore, when the audit committee members are composed of independent managers, they will be able to apply more influence on the executive management to request more audit scope to ensure the quality of the audit. This, in turn, increases the audit fee. The results of Abbott, Parker and Peters's (2004) research also confirm the theory that there is a positive relationship between the independence of audit committee members and audit fees.

However, the findings in the research by Chan, Liu and Sun (2013) indicated a negative relationship between the independence of the audit committee and the audit fee. Carcello, Hermanson and Ye (2011) concluded that a stronger audit committee could reduce the audit feet by underestimating the audit risk. It can also increase the audit fee by requesting an independent auditor to make further efforts in a study; Brown and Wright (2008) and Dezoort, Hermanson and Houston (2008) concluded that the audit committee is more likely to support the auditors' position when they have more power. Sultana et al. (2015) showed that there is a positive relationship between conservatism in accounting and the three characteristics of the presence of managers with financial expertise in the audit committee, the manager's previous experience in the audit committee and the frequency of audit committee meetings; however, no relationship was found between the independence of audit committees and conservatism in accounting.

Alzoubi (2019) discovered that an audit committee and internal audit performance reduce income management and improve the quality of financial reporting. Alkilani, Hussin and Salim (2019) showed in their research that the expertise of the audit committee effectively improves financial reporting. Their findings also showed that the efficiency of corporate governance increases the quality of financial reporting.

In 2012, the Tehran Stock Exchange Organization obliged listed companies to establish an audit committee. One of the missions of the audit committee is to select and change the auditor. Since the audit committee is one of the specialized committees of the board, they have common interests. Given the above points, it is likely that the audit committee also agrees with the board in disclosing incorrect information.

Hypothesis 2: There is a significant relationship between the independence of the audit committee and the auditor’s opinion shopping.

2.6. Product market competition, supervisory independence and opinion shopping

Chhaochhariaet al. (2012) claim that competition greatly reduces agency problems, and those companies in less competitive industries are less efficient than companies in more competitive industries. Companies in less competitive industries are likely to have stronger governance mechanisms to align management interests with shareholders. Competition in the product market motivates managers to behave more efficiently. Due to conflicts of interest between managers and investors, investments need to be monitored to prevent inefficient investment in free cash flow.

Competition and disclosure theories state that the nature of competition has a different effect on financial disclosure and reporting. Typically, companies face two dimensions of competition in the product market: the first dimension is the threat posed by the entry of potential competitors, which can have a negative effect on the profitability of companies; in this case, the decision to enter the market depends on the entry costs and expected future benefits after entering the market; the second dimension is competition between existing companies that can threaten their competitive position in the market because entering the market is somewhat costly and decision making in the market depends on the expected future benefits (Li, 2010). Lin and Wei (2014) claimed that companies' willingness to disclose information voluntarily decreases as product market competition increases. Cheng, Man and Yi (2013) believe that competition plays a very important role in managers' voluntary disclosure decisions. They attribute this to the manager's motivations for disclosure, influenced by the company's economic decision-makers, the organizational environment, and the characteristics of the industry. Raith (2003) states that companies try to dissuade competitors from entering the industry in the face of economic and competitive pressures. One way to deal with these pressures is to manipulate and manage earnings to provide stable and reliable information to the market. In his research, Hang Shin (2018) showed that the company's market power has a positive relationship with audit fees. In particular, his research shows that, first, there is a positive relationship between market power and audit fees. Second, major shareholders reduce the positive relationship between market power and audit fees. Third, foreign investors strengthen the positive relationship between market power and audit fees. Wang (2015) provided evidence that auditors demand more payment for auditing companies in more competitive industries.

Studies in the area of competition have shown that managers are more likely to provide users with incorrect information to help them achieve their goals in a competitive environment in a competitive market. Since this information is disclosed, it must be validated by an independent auditor. Therefore, it is probable that the board of directors and the audit committee collude with the independent auditor in competitive market conditions and engage in opinion shopping by using their authority to change the auditor and determine the audit fee.

Hypothesis 3: Product market competition affects the relationship between board independence and the auditor’s opinion shopping.

Hypothesis 4: Product market competition affects the relationship between the independence of the audit committee and the auditor’s opinion shopping

3. Research method
3.1. Statistical sample and population

The statistical population of this research is the companies listed on the Tehran Stock Exchange for6 years from 2014-2019. The sample of this study included 162 companies (972 year-company) which were determined according to the elimination sampling among the companies of the population and according to the following conditions:

(1) They are not members of financial intermediaries, holdings, banks and insurance industries (due to their different operational nature);

(2) They have not entered the Tehran Stock Exchange after 2014; and

(3) Do not change the fiscal year during the study, and the operational halt should not be more than six months.

To collect data related to the experimental section and to test research hypotheses, data related to dependent, independent and control variables were collected from the audited financial statements of Tehran Stock Exchange companies on the Codal website.

3.2. Regression model

The following regression model has been used to test the research hypotheses:

Opinion shopping = β_0 + $\beta_1$inddir_board + $\beta_2$inddir_audit + β_3HHI + $\beta_4$inddir_board * HHI + $\beta_5$inddir_audit * HHI+ β_6Leverage + $\beta_7$inst_own + β_8Assets + β_9Age + β_{10}RnD + β_{11}Industry + ε

3.3. Research variables
3.3.1. Dependent variable

3.3.1.1 Opinion shopping: This auditor's opinion shopping variable is measured in the following four independent ways. Each of these four modes is fitted separately in the model.

Accordingly, when the increase in the company's audit fee this year is higher than the average increase in the audit fee in the industry compared to that in the previous year, and at the same time the quality of the audit is reduced (each of the following four causes according to previous researches mentioned in the theoretical foundations, indicates a decrease in the audit quality), the auditor’s opinion shopping has occurred:

1) When the industry specialist auditor has been changed to a non-specialist auditor, number one is assigned; otherwise, the number is zero. Following prior research (Neal and Riley, 2004), the market share approach calculated auditor specialization (First criterion).

2) The auditor has changed from the auditing organization (as a large auditing firm) to other auditing firms; the number is one, and otherwise, zero is assigned (second criterion).

3) The ratio of the amount of restatement of financial statements to income is higher than that in the previous year, the number is one, and otherwise, zero is allocated (third criterion).

4) Accruals of financial statements have increased compared to that in the previous year, the number is one, and otherwise, zero is assigned (fourth criterion).

3.3.2 Independent variables

3.3.2.1 Inddir- board: Percentage of non-executive board members to total members of the company i in year t

3.3.2.2 Inddir- audit: Percentage of independent members of the audit committee to total members of the company i in year t

3.3.3 Moderator variable

3.3.3.1 HHI: Herfindahl index is the total square of the considered company's sales share from the total sales of active companies in the same industry in year t; this index measures competition.

$HHI=S^2_1+S^2_2+S^2_3+\ldots\ldots+S^2_n$

3.3.4 Control variables:

3.3.4.1Leverage: The financial leverage index is measured by dividing total liabilities by total assets of the company i in year t.

3.3.4.2 insti_own: Percentage of total shares held by the institutional investors of the company i in year t

3.3.4.3 Assets: The natural logarithm of the assets of the company i in year t

3.3.4.4 Age: The age of the company is the number of years of the life of the company i, from the year of establishment to the year t

3.3.4.5 RnD: Ratio of R&D costs to assets for the company i in year t

3.3.4.6 Industry: assign a number to each industry

4. The Results

4.1. Descriptive statistics of observations:

This study's descriptive findings, including mean, median, standard deviation, minimum observation and maximum observation, are presented in Tables 1 and 2. It should be noted that the number of companies studied is 162 companies, and their information has been collected for 6 consecutive years (972 year-company).

Table 1. Descriptive statistics of quantitative variables related to the models of research hypotheses testing

Variables	Year-company	Symbol	Mean	Median	SD	Min	Max
Independence of the board	972	inddir_board	0.657	0.600	0.194	0.200	1.000
Independence of the Audit Committee	972	inddir_audit	0.659	0.667	0.109	0.333	1.000
Herfindahl index	972	HHI	0.022	0.001	0.092	0.001	0.722
Financial Leverage	972	Leverage	0.720	0.633	0.306	0.001	2.616
Institutional shareholders	972	inst_own	0.304	0.195	0.309	0.000	0.963
Firm size	972	Assets	14.224	14.101	1.301	10.533	19.313
Firm age	972	Age	20.189	19.000	8.782	3.000	51.000
R & D costs	972	RnD	0.001	*0.000	0.006	0.000	0.148

Table 2. Frequency of (binary) variables zero and one related to models of research hypotheses testing

Name of the variable	Symbol	One Frequency	Frequency percentage	Frequency	Zero Frequency percentage
Opinion shopping criterion method1	Opinion(1)	86	9	886	91
Opinion shopping criterion method2	Opinion(2)	77	8	895	92
Opinion shopping criterion method 3	Opinion(3)	58	6	914	94
Opinion shopping criterion method4	Opinion(4)	184	19	788	81

According to the results of descriptive statistics, on average, 66% of the board members are non-executive, and approximately 65% of the audit committee members are independent. The youngest surveyed company has been listed on the Tehran Stock Exchange since 2011, and the maximum presence of the surveyed companies is 51 years. Also, on average, 31% of the company's shareholders are institutional shareholders. 9% of the population engaged in opinion shopping according to criterion one. According to criterion number two, 8%, according to criterion number three, 6%, and criterion number four, 19% of the companies engaged in auditor's opinion shopping.

The results of the colinearity test between the model's explanatory variables (VIF) are presented in Table 3. Given that the VIF statistic of the above variables is around 1 and below 5, the colinearity between the explanatory variables of the regression model is not severe, and there is no problem in the fitting.

Table 3. VIF test results for explanatory variables used in research regression models

Variables	Symbol	Centred VIF	Variables	Symbol	Centred VIF
Independence of the board	inddir_board	1.126	Institutional shareholders	inst_own	1.089
independence of the Audit Committee	inddir_audit	1.116	Firm size	Assets	1.162
Herfindahl index	HHI	1.063	Firm age	Age	1.046
Financial Leverage	Leverage	1.139	Research and development costs	RnD	1.026

4.2 Hypotheses testing

The final results of fitting the four models and the AIC values are presented in Table 4.

Table 4. Results of AIC statistics for the model of research hypotheses

Dependent variable measurement	Identification criteria	Logistic model	Logistic model by applying time factor	Panel logistic regression model with fixed effects	Panel logistic regression model with variable effects
The first criterion	AIC coefficient	148.178	153.139	235.089	235.089
The second criterion	AIC coefficient	149.699	156.998	325.399	325.399
The third criterion	AIC coefficient	93.763	101.947	219.400	219.400
The fourth criterion	AIC coefficient	467.636	463.860	452.784	452.784

According to the results presented in Table 4 and the AIC values of each of the four mentioned models, it can be concluded that the most appropriate method to fit the model in the first to third cases of dependent variable measurement is logistic due to having the lowest AIC value and in the fourth mode of measurement, since the results of the fitting of the two models are the same, one of the two models of the panel and fixed effects logistic regression is fitted and the output is reported in the following tables.

As it is clear from the results in Table 7, considering that the P-value of the variable of board independence is less than the significance level of 0.05, it is accepted and according to the regression coefficient sign, which is equal to -6.4106, so there is a significant and negative relationship between the board independence and the third criterion of the auditor's opinion shopping (the ratio of the amount of restatement of financial statements to income).

Meanwhile, according to the results presented in Tables 5 to 8, the independence of the board of directors and the independence of the audit committee are not significantly related to other criteria of the auditor’s opinion shopping (change from large auditor to the small auditor, change from industry specialist auditor to non-specialist auditor and increase in discretionary accruals in the current year compared to that in the past year). Considering this, the first hypotheses (in the three criteria of opinion shopping) and the second hypothesis (with all four criteria of opinion shopping) are not confirmed. In addition, competition in the industry has not been able to affect the relationship between the independence of the board of directors and the independence of the audit committee with the auditor’s opinion shopping criteria of the auditor's opinion, and therefore hypotheses 3 and 4 are not confirmed.

Table 5. Results of fitting the model related to the first criterion of opinion shopping (a simultaneous increase of audit fee and change from industry specialist auditor to the non-specialist auditor)

Variables	Symbol	Regression coefficients	SD	t-statistic	P - Value
Constant	β_0	-0.001	0.002	-0.009	0.993
Independence of the board	inddir_board	0.001	0.002	1.051	0.293
Independence of the Audit Committee	inddir_audit	0.001	0.003	0.249	0.803
Herfindahl index	HHI	0.001	0.002	0.327	0.743
Herfindal relationship with the independence of the board	inddir_board * HHI	-0.001	0.002	-0.445	0.657
Herfindal relationship with the independence of the audit committee	inddir_audit * HHI	-0.002	0.003	-0.319	0.750
Financial Leverage	Leverage	0.001	0.002	1.329	0.183
Institutional shareholders	inst_own	0.002	0.003	0.307	0.759
Firm size	Assets	0.001	0.002	3.196	0.001
Firm age	Age	0.001	0.002	0.201	0.841
R & D costs	RnD	-0.001	0.002	-0.373	0.709
Industry code				Controlled	

Table 6. Results of model fitting related to the second criterion of opinion shopping (a simultaneous increase of audit fee and change from large auditor to small auditor)

Variables	Symbol	Regression coefficients	SD	t-statistic	P-Value
Constant	β_0	-0.001	0.002	-2.254	0.024
Independence of the board	inddir_board	-0.001	./002	-0.201	0.841
Independence of the Audit Committee	inddir_audit	0.001	0.002	1.740	0.082
Herfindahl index	HHI	0.002	0.003	0.776	0.438
Herfindal relationship with the independence of the board	inddir_board * HHI	0.003	0.002	0.391	0.696
Herfindal relationship with the independence of the audit committee	inddir_audit * HHI	-0.002	0.001	-0.781	0.435
Financial Leverage	Leverage	0.001	0.002	0.074	0.941
Institutional shareholders	inst_own	-0.002	0.003	-2.132	0.033
Firm size	Assets	0.001	0.002	1.616	0.106
Firm age	Age	-0.001	0.002	-1.281	0.200
R & D costs	RnD	-0.002	0.002	-0.153	0.878
Industry code				Controlled	

5. Conclusion

Using appropriate statistical tests, research hypotheses were tested, and the results were presented. The following is a description of the results obtained from the hypotheses testing:

Regarding the first hypothesis of this research, the results showed that the board of directors' independence has a negative relationship with the auditor’s opinion shopping (the third measurement criterion). This result is consistent with the results of the research by Teng and Li (2011) and Carcello et al. (2002), who showed that there is a significant relationship between board characteristics and auditor collusion (acceptable report). On the other hand, this result contradicts Tsui, Jaggi and Gul's (2001) research, which showed that the board's independence pays less auditing fees. The results also indicate that there was no significant relationship between the independence of the board and the auditor’s opinion shopping (the other three criteria of measurement).

Table 7. Results of fitting the model related to the third criterion of opinion shopping (simultaneous increase of audit fee and increase of the amount of restatement in the current year compared to that in the previous year)

Variables	Symbol	Regression coefficients	SD	t-statistic	P-Value
Constant	β_0	-54.152	119.667	-0.001	0.999
Independence of the board	inddir_board	-6.4101	2.9809	-2.150	0.032
Independence of the Audit Committee	inddir_audit	7.737	14.858	0.521	0.603
Herfindahl index	HHI	3067.201	4411.529	0.695	0.487
Herfindal relationship with the independence of the board	inddir_board * HHI	391.259	218.327	1.792	0.073
Herfindal relationship with the independence of the audit committee	inddir_audit * HHI	-4884.718	6608.307	-0.739	0.460
Financial Leverage	Leverage	-0.592	2.238	-0.264	0.792
Institutional shareholders	inst_own	0.674	2.135	0.315	0.753
Firm size	Assets	1.989	0.962	2.068	0.039
Firm age	Age	-0.300	0.178	-1.689	0.091
R & D costs	RnD	-0.232	9.169	-0.025	0.980
Industry code				Controlled	

Table 8. Results of fitting the model related to the fourth criterion of opinion shopping (a simultaneous increase of audit fee and increase of discretionary accruals this year compared to that in the previous year)

Variables	Symbol	Regression coefficients	SD	t-statistic	P-Value
Constant	β_0	-0.943	0.271	-3.485	0.001
Independence of the board	inddir_board	0.019	0.095	0.202	0.840
Independence of the Audit Committee	inddir_audit	-0.160	0.151	-1.055	0.291
Herfindahl index	HHI	3.354	3.983	0.842	0.400
Herfindal relationship with the independence of the board	inddir_board * HHI	0.034	1.858	0.018	0.985
Herfindal relationship with the independence of the audit committee	inddir_audit * HHI	-4.826	5.597	-0.862	0.388
Financial Leverage	Leverage	-0.21	0.026	-0.784	0.433
Institutional shareholders	inst_own	-0.097	0.061	-1.591	0.112
Firm size	Assets	0.083	0.016	5.091	0.000
Firm age	Age	0.004	0.002	1.659	0.097
Industry code				Controlled	

Although managers, independent of the company's operations, are expected to demand quality auditing, the reason for the contradiction in the results could be measuring the auditor's opinion shopping variable. This is because the appointment of the board of directors in Iran often happens based on relations. Therefore, although the board member may have complete independence from the executives, he is not aware enough to detect collusion and manipulation of accounting figures by executives. Given the above, the results of our research showed that the independence of the board has a negative relationship with the measurement method of restatement of financial statements, but it was not significantly related to other measurement methods.

The second hypothesis of this study, which showed that the independence of the audit committee has no significant relationship with the auditor’s opinion shopping, is in contradiction with the results of Lennox (2002), which showed that there is a significant relationship between the characteristics of the audit committee and receiving an acceptable audit report. The result of this study also contradicts the research by Alkilani, Hussin and Salim (2019) and Alzoubi (2019), in which the existence of an audit committee improved the quality of reporting.

One of the reasons for the contradiction between the results of our research and similar research is that despite the formation of an audit committee being mandatory by the Exchange Organization for member companies in 2012, establishing an audit committee has not been seriously done by many companies or even if it is done, newness and lack of familiarity of this committee with the limits of its powers and duties have had a diminishing effect on its effectiveness. Also, some companies have formed an audit committee nominally and have practically no effective activities.

In general, based on the theoretical foundations mentioned, it can be stated that company managers engage in auditor’s opinion shopping to achieve the desired results in the audit report. The first reason is the agency's cost, and managers look for more lenient auditors in their work; maybe because they identify violations in the statements but do not disclose these violations in their reports, or in other words, they ignore the poor quality of the financial statements. Another reason is related to the intensification of the information asymmetry phenomenon in which managers increase the degree of information asymmetry to achieve their goals and interests by improving the auditor's opinion. For example, to hide the weakness of their performance, managers seek to change the auditor or maintain the current auditor to prevent the publication of unfavorable news about the company. The third reason is related to the conservative approach of auditors; this means that managers prefer to look for auditors who are not too conservative and to comply with their demands to minimize disagreements over accounting and reporting practices. Therefore, considering that the board of directors' independence is one of the monitoring tools, it reduces the auditor’s opinion shopping by the managers.

In the third and fourth hypotheses of the research, the results showed that product market competition does not affect the relationship between supervisory independence and the auditor’s opinion shopping. This contrasts with the findings revealed by Gal-Or (1985) and Gertnero, Gibbons and Scharfstein (1988) indicate that companies disclose incorrect information and collude with the auditor in a competitive environment. The competition not being effective also contradicts the research findings stated by Cheng, Man, and Yi (2013) in terms of content, which showed a decreasing effect of competitive conditions in the market on information disclosure. In his research, Hang Shin (2018) showed that the company's market power has a positive relationship with audit fees. According to his study, market competition requires a higher quality audit as a supervisory tool. It can be argued that market competition reduces the tendency of managers to engage in the auditor's opinion shopping. Given that the result of this study shows the lack of effectiveness of competition, the results of these two studies are not consistent with each other.

In his research, Gal-Or stated that when managers are in a competitive condition, in order to be more successful in a competitive market, they take actions that they prefer not to disclose information about. He cited two reasons why managers are not interested in disclosing information. One reason is that they do not want the competitors to be aware of their strategy and the second reason is that the owners do not get aware of some of their activities. The reasons for the contradiction between the results and the other research findings and the reasons stated above are the difference between time and place and the prevailing conditions. Another reason for the difference could be the competitive market conditions. Competition in Iran is not real. For example, there are companies in the automotive and pharmaceutical industries in the study population. Since there are few domestic producers in these two industries, especially in the automotive industry, the automotive market and the pharmaceutical market do not have competitive market conditions compared to the economic level of society.

As stated above, all research hypotheses were rejected (Except for one case). We expected to see a decrease in auditor's opinion shopping as Supervisory Independence increased, but that did not happen. That could be the reason for the lack of good role-playing by Supervisory Independence. Future research should pay more attention to the efficiency of corporate governance in the Tehran

Stock Exchange.

The results show that if the auditor's opinion shopping criterion is the ratio of the amount of restatement of financial statements to income, the board's independence has a negative and significant relationship with the auditor’s opinion shopping. The research findings also show that the audit committee's independence was not related to the auditor’s opinion shopping criteria. Also, separate tests on the role of product market competition on the above relationships indicate that this variable does not have moderator effects. The research results should be interpreted according to the following limitations: Limitation of The statistical population, Limitation of variables measurement and Limitation of the research period, as each of these conditions can affect the results of the research

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