



RESEARCH ARTICLE

The Severity of a Client's Negative Environmental, Social, and Governance Reputation Affect Audit Effort and Audit Quality

Mahdi Moradi*, Seyed Mohsen Salehi Vaziri

Faculty of Economics and Administrative Sciences, Ferdowsi University of Mashhad, Mashhad, Iran

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Abstract

In recent years, investors have evaluated the organizations through environmental, social and governance criteria and assessing firms. However, environmental, social, and governance (ESG) risks affect business processes and controls, increase financial risk, and threaten the firm's survival. This paper examines whether the employer's negative environmental, social, and governance reputation is related to audit effort and quality. For this purpose, data from 107 firms is collected from 2015 to 2020. The analyses show a positive and significant relationship between ESG criteria and delays in the audit report; auditors increase audit efforts by spending long days auditing financial statements in response to poor ESG credits. Because auditors work harder, the financial statements of such firms are less likely to be reviewed. There is a positive and significant relationship between ESG criteria and the restatement of financial statements: the greater the negative reputation resulting from ESG criteria, the greater the likelihood of financial statement restatement and the higher the quality of the audit due to the auditors' scrutiny. Furthermore, there is no significant relationship between ESG criteria and financial statement reform. The paper also studies the interactive effect of the negative clients' ESG reputation and the delay of the audit report. The results show that delays in the audit report have a significant inverse effect on the relationship between ESG criteria and the presentation of financial statements and adjustment of financial statements.

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*Corresponding Author: Mahdi Moradi
Email: mhd_moradi@um.ac.ir
Tel: 09155164202
ORCID: 0000000348457379

1. Introduction

Investors have long regarded corporate credibility (Demiroglu and James, 2010; Helm, 2007). Today, however, the focus has shifted to corporate environmental, social and governance (ESG) practices (Bernow et al., 2017). The market reacts negatively once a firm's ESG standards perform poorly (Capelle-Blancard and Petit, 2019; Grewal et al., 2019). The importance of ESG factors for investors in terms of addressing the risks associated with ESG criteria to create long-term value. Accordingly, the growing pressure of investors on corporate executives to address ESG risks has led to new regulations requiring ESG disclosure in several countries. In the absence of mandatory disclosure of ESG criteria, the media disseminate information concerning firms' ESG measures to investors. Recent experimental evidence shows that the intensity and extent of media coverage of a firm's ESG mistakes weaken investors' perceptions of a firm and, subsequently, increase the assessment of its financial risk (Kölbel et al., 2017).

As investors, a firm auditor is aware of media coverage of his/her ESG misconduct. The auditor ensures that ESG practices affect the firm's financial statements (Burke et al., 2019; Sharma et al., 2018). The critical question is, "how do auditors respond to media and ESG issues". Most studies have focused on auditors' responsiveness to corporate self-reported environmental initiatives or social responsibility performance (LópezPuertas-Lamy et al., 2017; Sharma et al., 2018). However, these measures differ from the media reports examined in this paper.

The following steps are considered to address the research question: First, the paper examines the relationship between the intensity of media coverage of the negative validity of ESG criteria (an environmental, social, and governance reputation) and the efforts of auditors: weakened ESG credibility increases customer risks and provides a positive relationship with audit efforts and delays audit reports. Second, the relationship between negative reputation resulting from ESG criteria and audit quality is examined. As ESG mistakes increase the client's occupational hazards, auditors work harder to demonstrate higher audit quality and the likelihood of a return on funding decreases. Particularly, the paper analyses the negative reputation resulting from ESG criteria associated with delays in the audit report and its impact on the likelihood of re-presentation. However, the negative interaction indicates more audit efforts are needed.

The rest of the paper is organized as follows: In the following, the theoretical foundations, research background, and hypothesis development are discussed. Next, the sample and research plan are explained. Then, additional results and analyzes are presented, and the last section deals with concluding remarks.

2. Theoretical Foundations and Hypotheses Development

Research on organizational legitimacy shows that organizations need social approval to obtain resources and survive. The media and consumer groups publish information regarding firms. The information. However, it affects stakeholders' perceptions and the firm's social validation. Firms use their credits to help them achieve and maintain a competitive advantage. Firms with good credit, for instance, reduce transaction costs. However, crises and scandals easily erode a firm's reputation. A bad reputation undermines social endorsement, affects key stakeholders, threatens legitimacy and survival, and influences purchasing goals. A bad reputation similarly leads to analysts' pessimistic predictions (Jackson, 2005) and lower recommended buying prices (Fang and Yasuda, 2009). Consequently, a bad reputation leads to declining profits, lost shareholder value and higher operating, financing and regulatory costs. In this regard, in recent years, reputation concerns are shifted from traditional geopolitical, technological and economic risks to ESG ones (COSO, 2018).

The auditing profession (through auditing standards) has long emphasized the risks, including litigation and publicity of audit failure. Auditing Standard No. 1101 (AS 1101) indicates that audit

risk is a function of inherent, control, and non-disclosure risks (PCAOB, 2010). The auditor presents the control and inherent risks based on the assessments made. However, the combination of inherent risk and control constitutes the risk of distortion in the financial statements. When the risk is high, auditors should reduce the risk of non-disclosure to reduce audit risk, which auditors manage by increasing their effort. However, as mentioned earlier, environmental, social, and governance risks have unique characteristics. Auditing Standard No. 8, which auditors use to assess the risk of misstatement, does not provide any inferences about ESG factors. Therefore, it is unclear whether events related to ESG criteria affect auditors' assessment of adversary risk in the financial statements. This provides an opportunity to examine the relationship between ESG criteria and the auditors' efforts.

The literature often links the audit report to the effort required to audit the financial statements and the performance of the audit. Knechel et al. (2009) showed that delays in the audit report are a reasonable proxy of the audit effort. Accordingly, a link between ESG criteria and delays in the audit report creates a link between poor reputation and audit effort. Whether this increase in effort is transferred to a higher audit quality is the second major issue to be considered here. Hillegeist (1999) and Shibano (1990) stated that further audit efforts lead to higher quality, which supports the evidence under Sarbanes–Oxley (SOX) Act. The evidence suggests that when the client is more likely to distort financial statements, auditors will design more tests and use more evidence to evaluate, as they believe that more effort increases the chances of detecting distortions. Here, higher auditing efforts lead to higher-quality financial statements. ESG risks likely lead to greater customer risk, which increases distortion and the likelihood of financial statements being restated. Dittenhofer (1995) call on auditors to consider the risks posed by environmental issues, e.g. the risks affect business processes and internal control, which increase the risk of financial reporting. In such circumstances, auditors are expected to make greater efforts to obtain sufficient evidence to reduce the risk of audit distortion. This includes understanding and evaluating the impact of negative reputation resulting from ESG criteria on the client's financial condition and responding to appropriate audit steps and resources. Therefore, auditors increase the credibility of financial statements for clients with negative reputations arising from ESG criteria by recognizing the implications of financial reporting risk and responding appropriately. Revising financial statements is also a direct measure of audit quality because they reflect explicit audit distortions (DeFond and Zhang, 2014). Therefore, the lack of adjustment and re-presentation indicates a higher audit quality. As Shibano (1990) and Hillegeist (1999) argue and based on the audit risk model (AS 1101) and the consideration of post-SOX evidence on the relationship between audit work and audit quality (Blankley et al., 2012; Lobo and Zhao, 2013), we expect firms with a negative reputation due to ESG criteria to show higher audit quality, not because of customer characteristics but because of increased audit effort. Therefore, it is expected that there is a relationship between the negative reputation resulting from ESG criteria and the likelihood of restatement of financial statements, which depends on the audit effort.

This paper contributes to existing literature: firstly, the paper expands on issues related to company credibility and audit quality. Cao et al. (2012) showed that highly reputable firms have a higher audit quality. Negatively credited firms have higher audit quality; because their auditors spend more time on financial statements. Therefore, this is among the first papers to prove auditors respond to ESG credentials and that their efforts lead to higher audit quality.

Secondly, the findings extend previous literature, such as Sharma et al. (2018) and Burke et al. (2019). Sharma et al. (2018) found that auditors consider higher audit costs for clients' environmental metrics because of the risks associated with environmental metrics. However, as mentioned earlier, these authors focus on strategic environmental initiatives (a positive environmental factor) that are distinct from the negative media reports examined here. Therefore, we extend the findings of Sharma

et al. (2018) by showing that auditors respond to negative ESG media reports by increasing their efforts. Burke et al. (2019) also show that auditors increase their costs to the client with negative reputations arising from ESG criteria. This paper expands by proving that auditors respond to ESG risks through audit work more after controlling cost effects. In addition, we show that the highest quality audit of clients with a negative reputation due to ESG criteria is probably due to increased audit effort. In this regard, the results confirm that the audit report makes the audit effort more than the audit costs supported by Knechel and Sharma (2012).

2.1. Background

Xiao et al. (2020) examined the impact of audit efforts on audit quality. The results of their research show that the audit effort significantly increases the likelihood of adjustment in the audit report. This restrains positive earnings management and improves audit quality.

Burke et al. (2019) found that auditors increase audit costs in response to ESG mistakes. However, the literature often uses auditing costs as an intermediary for auditing efforts. This concern causes the delay criteria in the audit report to demonstrate a cost-effective and provide no new evidence. In their research, Burke et al. (2019) did not examine how the negative reputation of ESG criteria is related to audit quality. However, studies show that delays in the audit report take the audit effort beyond the cost of the audit (Knechel and Payne, 2001; Knechel et al., 2009; Knechel and Sharma, 2012). Knechel and Sharma (2012) concluded that the relationship between negative reputation resulting from ESG criteria and poor audit quality is related to audit report delay, not audit costs.

Burke et al. (2019) found that auditors either refrain from commenting or increase their costs in response to risks posed by ESG criteria. However, the authors do not consider the reason for the higher audit costs. This gap is critical to address because higher audit costs can reflect more audit effort or be an essential risk to auditing ESG criteria in auditing clients (Defond and Zhang (2014)). Auditors, however, pay higher charges for risky clients because of the effort required to audit their financial statements, but the additional effort may not lead to higher audit quality. Therefore, we emphasize audit report delays as a proxy of audit effort and control of audit costs in the literature.

Empirical accounting research shows that firms that pay more attention to social responsibility and the environment are less involved in profit management, are less aggressive in paying taxes, and can issue bonds at a lower cost and receive better credit ratings. Firms that care about the environment gain capital market benefits through higher market valuation (Sharma et al. 2018). Bernardi and Stark (2018) indicate that CSR levels and environmental disclosure are essential for informed market participants.

Sharma et al. (2018) showed a positive relationship between environmental projects and audit costs. In a study, MohammadRezaei and MohadSaleh (2018) examined the relationship between audit report delay and earnings management. Their results showed that the delay in the audit report has no significant relationship with earnings management. Chan et al. (2016) concluded that delays in the audit report increase the likelihood of a restatement of financial statements next year. In their study, Blankley et al. (2014) examined abnormal delays in auditing reports and restatements in financial statements. They concluded that abnormal delays in the accounting report were positively related to the restatement of the financial statements in the following financial year. They also reported that workload (low audit effort) was directly related to the increased restatement of financial statements in the following fiscal year.

LópezPuertas-Lamy et al. (2017) found that firms with socially responsible initiatives pay less auditing costs. Khan and Subramaniam (2012) concluded in a study that a reduction in audit effort is less likely to lead to the risk of non-disclosure and, ultimately, audit error.

Vafaeipour and Ghasemi (2016) examined the impact of financial crises and investment

opportunities in firms on audit quality. The results show that firms' financial crisis and investment opportunities negatively and significantly affect audit quality.

From the perspective of financial groups, [Anvarkhatibi et al. \(2019\)](#) examined the effect of audit quality on the quality of financial reporting. They selected 10 indicators to measure audit quality, namely: auditor expertise in the industry, auditor reputation, auditor independence, audit workload, annual income, quality control score, partner-to-employee ratio, number of certified auditors hired and number of professional auditors. The results indicate a significant difference between different groups regarding the relationship between audit quality indicators and reporting quality.

[Bozorg Asl et al. \(2015\)](#) examined the factors affecting publication at the time of the audit report. Findings indicated a positive and significant relationship between the characteristics of the size of the audit firm, type of comment, reporting risk, number of clauses of the auditor's report and the board's size with the audit report's delay. However, there is also a significant negative relationship between the audit committee members' ownership focus and expertise with the reporting delay. [Safari Grayli's \(2017\)](#) results indicate that the abnormal delay of the auditor's report increases the probability of restatement of future financial statements. In addition, the results reveal that the auditor's economic dependence on the client exacerbates the effect of the auditor's anomalous delay on the restatement of the financial statements. [Rahmani and Bakhradi Nasab \(2016\)](#) demonstrate that increasing the normal delay in submitting the audit report causes the auditor to be independent. However, unusual delays in submitting the audit report do not affect increasing or decreasing the auditor's independence.

[Ahmadi \(2015\)](#) proved in a study that there is a significant negative relationship between abnormal delays in submitting audit reports and the restatement of financial statements. Furthermore, time pressure on the auditor and financial/economic dependence on the client significantly affect the relationship between these two variables.

2.2. Research Hypotheses

This paper studies the relationship between negative environmental, social and employee reputation of audit effort and audit quality. However, the concept of delay and the impact on the auditors' efforts, as well as the possibility of readjustment of financial statements and adjustment of financial statements and its impact on audit quality, is considered.

The research hypotheses are as follows:

Hypothesis 1. There is a significant relationship between the negative client's ESG reputation and the delay of the audit report.

Hypothesis 2. There is a significant relationship between the negative client's ESG reputation and the restatement of financial statements.

Hypothesis 3. There is a significant relationship between negative clients' ESG reputation and adjustment of financial statements.

Hypothesis 4. Delays in the audit report moderate the relationship between negative clients' ESG reputation and the restatement of financial statements.

Hypothesis 5. Delays in the audit report moderate the relationship between negative clients' ESG reputation and the adjustment of financial statements.

3. Research Methodology

3.1. sample

The statistical population is the firms listed on the Tehran Stock Exchange. Which have the following conditions:

1-At least from the beginning of the fiscal year 2015, the firms have been listed on the Tehran

Stock Exchange and have been activated until the end of the fiscal year 2020;

2-Their information is available.

3-Benefiting from a trading interval of more than three months.

4-Not belonging to banks and financial institutions, investment firms or financial intermediation and insurance firms as well;

5-The fiscal year of the firms is ended on March 20/ Esfand 29

Upon applying the above conditions, the data of 107 available firms were collected, and then hypotheses were tested at the total level of the sample.

Table 1. Statistical Sample

Description	Eliminated firms in the period	Total number of firms
Statistical community		583
Selected firms should not have financial intermediation activities	63	
Non-manufacturing firms that were not in the selected industries	78	
Lack of research information needed in some years	156	
no stock symbol for more than three months	149	
The financial period has not ended on March 20	30	
Number of final sample firms		107

To provide information concerning firms listed on the Tehran Stock Exchange, the paper adopt various sources, including the information site of the Tehran Stock Exchange and Rahvard software. Statistical tests were performed in Eviews10.

3.2. Research models and variable

3.2.1. The first hypothesis test, based on the first model:

$$\text{AULAG}_{it} = a_0 + a_1 \text{BADREP}_{it} + a_2 \text{SIZE}_{it} + a_3 \text{LEV}_{it} + a_4 \text{LOSS} + a_5 \text{MTB}_{it} + a_6 \text{BIG1}_{it} + a_7 \text{TENURE}_{it} + a_8 \text{FORN}_{it} + a_9 \text{INDUSTRY}_{IT} + a_{10} \text{YEAREND}_{it} + \varepsilon_{it}$$

In this model, the dependent variable is the delay in the audit report, and we use the delay in the audit report as a mediator of the audit effort.

Where:

AULAG: the natural log is the difference between the days between the end of a firm's fiscal year and the date of signing the audit report. In this model, the independent variable is the client's ESG reputation.

BADREP: the negative client's ESG reputation; BADREP equals the maximum number of reports a firm submits in a period. BADREP is equal to the sum of the total public reports of the company in one year divided by the average number of reports in the same year. For each fiscal year, the variable captures the amount of change in the negative client's ESG reputation.

SIZE: A variable of a firm size that is equal to the natural log of the total assets of the firm

LEV: The financial leverage variable is equal to the total debt divided by the market value of the assets;

LOSS: The firm's loss variable is equal to one if it reports the net loss in its financial statements; otherwise, it is zero.

MTB: The ratio of market value to the book value of assets.

BIG1: firms that are audited by the auditing organization equal to 1; otherwise, zero

TENURE: The variable equals the years the auditor has worked with the firm.

INDUSTRY: dummy variable for the industry.

YEAREND: dummy variable for the year

3.2.2. The second hypothesis test, based on the second model:

$$\text{RESET}_{it} = a_0 + a_1\text{BADREP}_{it} + a_2\text{SIZE}_{it} + a_3\text{LEV}_{it} + a_4\text{LOSS}_{it} + a_5\text{MTB}_{it} + a_6\text{IC}_{it} + a_7\text{CEO} \\ - \text{IND}_{it} + a_8\text{FORN}_{it} + a_9\text{ROA}_{it} + a_{10}\text{INDUSTRY}_{IT} + a_{11}\text{YEAREND}_{it} + \varepsilon_{it}$$

In this model, the dependent variable is the probability of restatement of the financial statements, which is indicated by REST, which is equal to 1 if the restatement of the financial statements provides; otherwise, zero.

IC: If the firm has an internal control weakness specified in the auditor's report, it is equal to 1, otherwise zero.

CEO – IND: The variable of board independence; is equal to the ratio of the number of non-executive board members to the total number of board members.

ROA: The return on assets variable; is equal to the net profit divided by the total assets.

3.2.3. The third hypothesis test, based on the third model:

$$\text{RESETCORE}_{it} = a_0 + a_1\text{BADREP}_{it} + a_2\text{SIZE}_{it} + a_3\text{LEV}_{it} + a_4\text{LOSS}_{it} + a_5\text{MTB}_{it} + a_6\text{IC}_{it} \\ + a_7\text{CEO} - \text{IND}_{it} + a_8\text{FORN}_{it} + a_9\text{ROA}_{it} + a_{10}\text{INDUSTRY}_{it} + a_{11}\text{YEAREND}_{it} + \varepsilon_{it}$$

In this model, the dependent variable is the adjustment of the financial statements, which is indicated by RESTCORE that equals 1 if the financial statements are adjusted; otherwise, zero.

3.2.4. The fourth hypothesis test, based on the fourth model:

$$\text{RESET}_{it} = a_0 + a_1\text{BADREP}_{it} + a_2(\text{BADREP} \times \text{AULAG})_{it} + a_3\text{AULAG}_{it} + a_4\text{SIZE}_{it} + a_5\text{LEV}_{it} \\ + a_6\text{LOSS}_{it} + a_7\text{MTB}_{it} + a_8\text{IC}_{it} + a_9\text{BIG1}_{it} + a_{10}\text{FORN}_{it} + a_{11}\text{ROA}_{it} \\ + a_{12}\text{INDUSTRY}_{it} + a_{13}\text{YEAREND}_{it} + \varepsilon_{it}$$

BADREP * AULAG: the interactive effect of the audit report delay and the negative reputation of the client.

3.2.5. The fifth hypothesis test, based on the fifth model:

$$\text{RESETCORE}_{it} = a_0 + a_1\text{BADREP}_{it} + a_2(\text{BADREP} * \text{AULAG})_{it} + a_3\text{AULAG}_{it} + a_4\text{SIZE}_{it} + a_5 \\ \text{LEV}_{it} + a_6\text{LOSS}_{it} + a_7\text{MTB}_{it} + a_8\text{IC}_{it} + a_9\text{BIG1}_{it} + a_{10}\text{FORN}_{it} + a_{11}\text{ROA}_{it} + a_{12}\text{CND} - \text{IND}_{it} + \\ a_{13}\text{INDUSTRY}_{it} + a_{14}\text{YEAREND}_{it} + \varepsilon_{it}$$

4. Data Analysis and Findings

The data of the surveyed firms are collected and summarized using appropriate tools. Firstly, descriptive statistical methods were used to understand better the study population and the collected information and then inferential statistical methods were used to analyze the research hypotheses. The hypotheses are tested using the data collected from the statistical sample, which includes 107 firms in the period 2015-2020. By Eviews10, descriptive statistics of variables and hypotheses are

tested with appropriate statistical methods.

4.1. Descriptive statistics

Descriptive findings, including mean, median, standard deviation, minimum observation and maximum observation, are presented in the following tables. A slight difference between the mean and mean variables indicates that the variables are normal. Variables also have a low standard deviation, confirming the data's uniform distribution.

The average delay of the audit report is 4.228, which indicates that it takes an average of 4 days from the end of the firms' financial year to the time of the audit report. However, the average value of negative clients' ESG reputation is 0.801, above the theoretical value of 0.5. In other words, most sample firms have negative clients' ESG reputations. Furthermore, the average value of the audit tenure is 3.783, which is below the theoretical value of 0.5.

Table 2. Descriptive statistics of variables

Variable	Re-Presentation	Mean	Median	SD	Min	Max
Audit report delay	AULAG	4.228	4.277	0.440	2.890	4.905
Negative reputation	BADREP	0.801	0.775	0.329	0.041	2.365
Interactive effect of audit report delay and reputation	BADREP*AULA G	3.401	3.296	1.488	0.139	11.261
Restatement of Financial Statements	RESET	0.496	0.000	0.501	0.000	1.000
financial statements Adjustments	RESETCORE	0.164	0.000	0.370	0.000	1.000
Independence of the board	CEO_IND	0.697	0.800	0.181	0.325	1.000
Market to book value	Mtb	3.408	2.759	9.616	-114.477	104.098
Firm size	Size	14.478	14.278	1.607	11.116	19.774
Financial Leverage	Lev	0.614	0.588	0.314	0.061	4.003
Return on assets	Roa	0.072	0.113	0.731	-12.273	2.618
Operational losses	Loss	0.155	0.000	0.362	0.000	1.000
internal control weakness	IC	0.247	0.000	0.431	0.000	1.000
External operations	FORN	0.721	1.000	0.450	0.000	16.000
Auditor tenure	TENURE	3.783	2.000	3.998	0.000	16.000
Big auditing firms	BIG1	0.270	0.000	0.444	0.000	1.000

4.2. Hypotheses Tests

Hypothesis 1. There is a significant relationship between the negative client's ESG reputation and the delay of the audit report.

To evaluate the test of the first hypothesis based on the first model, first, the preconditions of the model fit. However, the significant value of the Fisher statistic is 0.000 and indicates that the model fits well.

Table 3. Descriptive Statistics of binary variables

Variables	Variable Role	Frequency	% of Frequency
RESETCORE	financial statements adjustments	77	0.164
RESE	Restatement of Financial Statements	233	0.496
Loss	Operational losses	73	0.155
IC	internal control weakness	116	0.247
FORN	External operations	339	0.721
BIG1	Big auditing firms	127	0.271

In a sense, the value of the adjusted multiplication factor was 0.763; in other words, about 76% of the dependent variable was determined by independent variables. The Durbin-Watson test, with a

value of 1.864 and being in the range of 1.5 to 2.5, indicates the lack of autocorrelation between model errors. As Table 4 shows, the significant value of a negative client's ESG reputation variable is 0.000, below %5, with a positive coefficient. Therefore, based on the first hypothesis, a direct and significant relationship was observed between the negative client's ESG reputation and the delay of the audit report. Among the control variables, the ratio of market to book value variable has a positive coefficient with a significant value of 0.046, below %5. Therefore, a positive and significant relationship was observed between the market-to-book value ratio and the audit report's delay. Furthermore, since other control variables have significant values above 5%, no significant relationship was observed between other control variables and the audit report delay.

Table 4. Test results of the first hypothesis based on the first model

$AULAG_{it} = a_0 + a_1 BADREP_{it} + a_2 SIZE_{it} + a_3 LEV_{it} + a_4 LOSS_{it} + a_5 MTB_{it} + a_6 BIG1_{it} + a_7 TENURE_{it} + a_8 FORN_{it} + a_9 INDUSTRY_{it} + a_{10} YEAREND_{it} + \epsilon_{it}$						
Variable	Re-Presentation	Coefficient	SD	T-Statistic	Significant	
Constant coefficient	C	4.612	0.700	6.582	0.000	
The negative reputation of the client	BADREP	0.061	0.053	2.153	0.000	
Firm size	SIZE	-0.036	0.047	-0.767	0.443	
Financial Leverage	LEV	0.011	0.055	0.211	0.832	
Operational losses	LOSS	0.072	0.037	2.925	0.055	
Market to book value	MTB	0.002	0.001	2.996	0.046	
Big auditing firms	BIG1	0.010	0.054	0.190	0.849	
Auditor tenure	TENURE	0.006	0.005	1.192	0.233	
External operations	FORN	0.058	0.042	1.377	0.169	
Fisher statistics			15.007			
Significance of Fisher statistics			0.000			
coefficient of determination			0.817			
The adjusted coefficient of determination			0.763			
Durbin-Watson test			1.864			

Hypothesis 2. There is a significant relationship between the negative client's ESG reputation and the restatement of financial statements.

First, the goodness of fit preconditions is tested to study the test of the second hypothesis based on the second model. The significant value of the Fisher statistic is 0.000 and indicates that the model fits well. However, the value of the adjusted multiplication factor was 0.165; in other words, approximately 16% of the dependent variable was determined by independent variables. The Durbin-Watson test indicates the lack of autocorrelation between model errors with a value of 2.119 and a range of 1.5 to 2.5.

As Table 5 exhibits, the significant value of the negative client's ESG reputation is 0.021, below 5%, and its coefficient is positive. Therefore, based on the second hypothesis, a direct and significant relationship was observed between the negative client's ESG reputation and the restatement of financial statements. However, since the control variables have significant values above 5%, no significant relationship was observed between control variables and the restatement of financial

statements.

Table 5. Test results of the second hypothesis based on the second model

RESET _{it} = a ₀ + a ₁ BADREP _{it} + a ₂ SIZE _{it} + a ₃ LEV _{it} + a ₄ LOSS _{it} + a ₅ MTB _{it} + a ₆ IC _{it} + a ₇ CEO - IND _{it} + a ₈ FORN _{it} + a ₉ ROA _{it} + a ₁₀ INDUSTRY _{it} + a ₁₁ YEAREND _{it} + ε _{it}					
Variable	Re-Presentation	Coefficient	SD	t-statistic	significant
Constant coefficient	C	3.222	1.662	2.938	0.053
The negative reputation of the client	BADREP	0.028	0.126	3.228	0.021
internal control weakness	IC	-0.041	0.065	-0.629	0.125
Firm size	SIZE	-0.187	0.113	-1.655	0.062
Financial Leverage	LEV	-0.066	0.132	-0.503	0.893
Operational losses	LOSS	-0.067	0.089	-0.755	0.466
Market to book value	MTB	-0.000	0.002	-0.241	0.654
Board Independence	CEO – IND	0.077	0.182	0.425	0.905
Return on assets	ROA	0.118	0.057	2.071	0.279
External operations	FORN	-0.050	0.101	-0.495	0.942
Fisher statistics			5.850		
Significance of Fisher statistics			0.000		
coefficient of determination			0.359		
The adjusted coefficient of determination			0.165		
Durbin-Watson test			2.119		

Hypothesis 3. There is a significant relationship between negative clients' ESG reputation and adjustment of financial statements.

The goodness of fit preconditions is tested to study the test of the third hypothesis based on the third model. The significant value of the Fisher statistic is 0.000 and indicates that the model fits well. However, the value of the adjusted multiplication factor is 0.076; in other words, approximately %7 of the dependent variable was determined by independent variables. With a value of 2.510 and not being in the range of 1.5 to 2.5, the Durbin-Watson test indicates the existence of autocorrelation between model errors.

Table 6. Test results of the third hypothesis based on the third model

RESETCORE _{it} = a ₀ + a ₁ BADREP _{it} + a ₂ SIZE _{it} + a ₃ LEV _{it} + a ₄ LOSS _{it} + a ₅ MTB _{it} + a ₆ IC _{it} + a ₇ CEO - IND _{it} + a ₈ FORN _{it} + a ₉ ROA _{it} + a ₁₀ INDUSTRY _{it} + a ₁₁ YEAREND _{it} + ε _{it}					
Variable	Re-Presentation	Coefficient	SD	T-Statistic	Significant
Constant coefficient	C	-0.990	1.298	-2.762	0.046
The negative reputation of the client	BADREP	-0.109	0.099	-1.108	0.268
Big auditing firms	BIG 1	-0.015	0.097	-0.159	0.873
internal control weakness	IC	0.036	0.512	0.720	0.471
Firm size	SIZE	0.080	0.088	0.912	0.361
Financial Leverage	LEV	-0.027	0.103	-0.262	0.792
Operational losses	LOSS	0.100	0.069	1.443	0.149
Market to book value	MTB	0.000	0.002	0.068	0.945
Big auditing firms	BIG1	0.058	0.142	0.409	0.682
Board Independence	CEO – IND	0.017	0.044	0.393	0.694
Return on assets	ROA	0.041	0.078	0.529	0.597
External operations	FORN	-0.990	1.298	-0.762	0.446
Fisher statistics			1.353		
Significance of Fisher statistics			0.020		
coefficient of determination			0.293		
The adjusted coefficient of determination			0.076		
Durbin-Watson test			2.510		

As Table 6 exhibits, the significant value of the negative client's ESG reputation is 0.268, above 5%. Therefore, given the third hypothesis, no significant relationship was observed between the negative client's ESG reputation and the adjustment of the financial statements. Since the control variables have significant values above 5%, no significant relationship was observed between control variables and the adjustment of financial statements.

Hypothesis 4. Delays in the audit report moderate the relationship between negative clients' ESG reputation and the restatement of financial statements. The goodness of fit preconditions is tested to study the test of the fourth hypothesis based on the third model. The significant value of the Fisher statistic is 0.000 and indicates that the model fits well. However, the value of the adjusted multiplication factor is 0.173; in other words, independent variables determined approximately 17% of the dependent variable. The Durbin-Watson test indicates the lack of autocorrelation between model errors with a value of 2.487 and is in the range of 1.5 to 2.5. As Table 7 exhibits, the significant value of the variable of the interaction effect of a negative client's ESG reputation and the delay of the audit report is 0.025, which is below 5%, and its coefficient is negative. Therefore, according to the fourth hypothesis, the delay of the audit report has a significant inverse effect on the relationship between the negative client's ESG reputation and the restatement of financial statements. Among the control variables, the return on assets variable has a significant value of 0.032, less than 5%, and a positive coefficient. Therefore, a positive and significant relationship was observed between return on assets and restatement of financial statements. Since other control variables have significant values above 5%, no significant relationship was observed between other control variables and the presentation of financial statements.

Table 7. Test results of the fourth hypothesis based on the fourth model

$RESET_{it} = a_0 + a_1 BADREP_{it} + a_2 (BADREP * AULAG)_{it} + a_3 AULAG_{it} + a_4 SIZE_{it} + a_5 LEV_{it} + a_6 LOSS_{it} + a_7 MTB_{it} + a_8 IC_{it} + a_9 BIG1_{it} + a_{10} FORN_{it} + a_{11} ROA_{it} + a_{12} INDUSTRY_{it} + a_{13} YEAREND_{it} + \varepsilon_{it}$					
Variable	Re-Presentation	Coefficient	SD	T-Statistic	Significant
Constant coefficient	C	1.446	1.899	0.761	0.446
The negative reputation of the client	BADREP	1.839	0.815	2.255	0.024
The interactive effect of negative reputation and audit report delay	BADREP - AULAG	-0.426	0.190	-2.241	0.025
Audit report delay	AULAG	0.346	0.196	1.766	0.078
Big auditing firms	BIG 1	0.091	0.124	0.736	0.462
internal control weakness	IC	-0.039	0.065	-0.605	0.545
Firm size	SIZE	-0.164	0.112	-1.459	0.145
Financial Leverage	LEV	-0.074	0.313	-0.565	0.572
Operational losses	LOSS	-0.057	0.089	-0.648	0.516
Market to book value	MTB	-0.000	0.002	-0.260	0.794
Return on assets	ROA	0.122	0.057	2.152	0.032
External operations	FORN	-0.038	0.101	-0.384	0.700
Fisher statistics			6886		
Significance of Fisher statistics			0.000		
coefficient of determination			0.369		
The adjusted coefficient of determination			0.173		
Durbin-Watson test			2.487		

Hypothesis 5. Delays in the audit report moderate the relationship between negative clients' ESG reputation and the adjustment of financial statements. The goodness of fit preconditions is tested to study the test of the fifth hypothesis based on the fifth model. The significant value of the Fisher statistic is 0.010 and indicates that the model fits well. However, the value of the adjusted multiplication factor is 0.087; in other words, approximately 8% of the dependent variable is

determined by independent variables. The Durbin-Watson test indicates the lack of autocorrelation between model errors with a value of 1.866 and is in the range of 1.5 to 2.5.

Table 8. Test results of the fifth hypothesis based on the fifth model

$RESET_{it} = a_0 + a_1 BADREP_{it} + a_2 (BADREP * AULAG)_{it} + a_3 AULAG_{it} + a_4 SIZE_{it} + a_5 LEV_{it} + a_6 LOSS_{it} + a_7$ $MTB_{it} + a_8 IC_{it} + a_9 BIG1_{it} + a_{10} FORN_{it} + a_{11} ROA_{it} + a_{12} INDUSTRY_{it} + a_{13} YEAREND_{it} + \varepsilon_{it}$					
Variable	Re-Presentation	Coefficient	SD	T-Statistic	Significant
Constant coefficient	C	-2.726	1.477	-1.844	0.065
The negative reputation of the client	BADREP	1.313	0.634	2.069	0.039
The interactive effect of negative reputation and audit report delay	BADREP - AULAG	-0.337	0.148	-2.279	0.023
Audit report delay	AULAG	0.365	0.152	2.394	0.017
Big auditing firms	BIG 1	-0.027	0.097	-0.281	0.778
Board Independence	CEO – IND	0.043	0.141	0.306	0.759
internal control weakness	IC	0.027	0.051	0.534	0.593
Firm size	SIZE	0.095	0.087	1.082	0.279
Financial Leverage	LEV	-0.032	0.102	-0.315	0.752
Operational losses	LOSS	0.099	0.069	1.428	0.154
Market to book value	MTB	0.000	0.002	0.094	0.924
Return on assets	ROA	0.022	0.044	0.503	0.615
External operations	FORN	0.046	0.078	0.590	0.555
Fisher statistics			4.402		
Significance of Fisher statistics			0.010		
coefficient of determination			0.305		
The adjusted coefficient of determination			0.087		
Durbin-Watson test			1.866		

As Table 8 exhibits, the significant value of the variable of the interaction effect of a negative client's ESG reputation and the delay of the audit report is 0.023, which is below 5%, and its coefficient is negative. Therefore, according to the fifth hypothesis, the delay of the audit report has a significant inverse effect on the relationship between negative clients' ESG reputation and the adjustment of financial statements. Moreover, the delay of the audit report due to the significant value is 0.017, which is below 5% and shows a positive coefficient; therefore, it has a positive and significant relationship with the correction of financial statements. Since the control variables have significant values above 5%, no significant relationship was observed between the control variables and the correction of financial statements.

5. Conclusion

The SEC makes a clear proposal on environmental, social and governance disclosures that are required to be presented in the financial statements. However, environmental, social, and governance disclosures are still optional in many countries, including Iran. Auditors also do not formally address environmental, social and governance issues in auditing standards. In the absence of mandatory disclosures, the Board's annual reports The management publishes information on the company's environmental, social and governance issues. This information can affect investors' assessment of environmental, social and governance risks.

The risks of crises related to negative reputations due to ESG criteria may weaken the firm's value, performance and sustainability and here is the primary concern for investors. In recent years, numerous firms have suffered from risks related to ESG criteria. Since ESG issues are central to investment decisions, investors have called for decisive disclosure of the criteria. In this study, we tried to investigate how and how the intensity of media coverage of negative ESG issues. A firm affects the efforts of auditors and their quality. Moreover, the study benefits from the concept of delay

in the audit report and its impact on the auditors' efforts and the possibility of revaluation of financial statements and adjustment of financial statements and its impact on audit quality. Five hypotheses and 107 firms were formulated and analyzed in line with the purpose. In 2016, the SEC publicly invited firms to disclose information related to ESG criteria but failed to address issues related to the disclosure of ESG criteria. On the other hand, ESG criteria are not formally defined in auditing standards. In the absence of mandatory media disclosure, firms publish information on ESG issues of firms, and the intensity and extent of media criticism can affect investors' assessment of ESG risks.

Kölbel et al. (2017) demonstrate that the intensity of media criticism of a firm's environmental, social and governance issues can increase an investor's assessment of related financial risk. Considering the importance of ESG responsibility for investors, this study provides insights into how auditors respond to media criticism. However, the relationship between negative clients' ESG reputation and audit quality was investigated. The analyses show a positive and significant relationship between ESG criteria and delays in the audit report; auditors increase audit efforts by spending long days auditing financial statements in response to poor ESG credits. And because auditors work harder, the financial statements of such firms are less likely to be reviewed. There is a positive and significant relationship between ESG criteria and the restatement of financial statements: the greater the negative reputation resulting from ESG criteria, the greater the likelihood of financial statement restatement, and the higher the quality of the audit due to the auditors' scrutiny. Furthermore, there is no significant relationship between ESG criteria and financial statement reform. The paper also studies the interactive effect of the negative clients' ESG reputation and the delay of the audit report. The results show that delays in the audit report have a significant inverse effect on the relationship between ESG criteria and the presentation of financial statements and adjustment of financial statements.

The paper expands on the previous literature: Sharma et al. (2018) and Burke et al. (2019). However, it is suggested that new indicators consider measuring the negative clients' ESG reputation and compare the impact on the audit effort and quality. Some limitations restrain the results: as the paper considers the public reports, only firms whose reports end in 12.29 were examined, and the rest were excluded. Furthermore, some variables were unavailable for firms excluded from the sample. The enlightenment of the research can be expressed in such a way that this research examines the relationship between environmental, social and governance disclosure with quality and audit efforts in terms of the negative reputation of the client that has not been examined before. Also, new variables It has been used to investigate a subject that has not been used in connection with this subject.

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