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Research Article

The Impact of Litigation Risk and Auditor Size on Auditor Conservatism and Auditor Conservatism on Information Asymmetry

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Abstract

This study examines the 'The impact of litigation risk and auditor size on auditor conservatism and auditor conservatism on information asymmetry.' This study is applied research, and its design is quasi-experimental, using a post-event approach. The statistical population of the study is the companies listed on the Tehran Stock Exchange. The required information was extracted from audited financial statements of 112 companies from 2010 through 2016. The results of this study showed that there is a significant relationship between litigation risk, auditor's size, and auditor's conservatism. But there is no significant relationship between auditor's conservatism and information asymmetry.

Keywords: Auditor Conservatism, Economic Consequences of Auditor Conservatism

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1. Introduction

Conservatism can be seen as business executives' tendency to report lower assets and later earnings and more debts and expenses (Shoroozi and Barzegar, 2009). The economic implications of applying conservative financial reporting approaches have pushed corporate executives, auditors, and formulators of accounting standards towards conservatism (Kordestani and Langroudi, 2010).

On the other hand, the auditor's task is to assure financial statements for their users. Therefore, the auditor harms a wider range of users concerning other professions, such as the medical profession, resulting from an inaccurate performance. The auditor's conservatism is one of the important issues that remain to be resolved. Still, it is expected to prevent the manager's opportunistic behavior (to manage corporate profits) and reduce moral hazard, inhibiting information asymmetry and its losses. It avoids the wrong decisions made by investors and other users of financial statements to reduce the information risk of investors (Kordestani and Langroudi, 2010). Accountants have used conservatism for many years as one of the limiting accounting conventions. Today's world's economic system is based on a thorough study of the activities of industries and business and services and accurate information from the figures related to these activities' results. Whether in daily activities or the implementation of long-term programs, the country's success and recovery are subject to the correct financial information reporting. How to ensure the correctness or at least the appropriateness of this financial information and the correct calculation of all the figures and numbers required? A major contribution to answering these questions relates to how auditors handle these reports and information and statistics.

Auditors provide useful services requested by investors (Dechow and Schrand, 2010); on the other hand, conservatism's goal is to prevent investors and other users' inaccurate decisions. The financial statement users expect the auditors to reduce the grounds for committing fraud by identifying its motives. The increasing number of legal claims against international auditors and the high cost of defense and litigation have led to suggestions to reduce the burden on auditors, and auditors' conservative behavior is one of the areas that has always been discussed and researched over the last few decades. By changing the disclosure of information in the audit report, auditors reduce their liability to users of the audit report and, as a result, reduce legal claims against them (Dashti and Abadi, 2014). As auditing quality increases, auditors' conservatism is expected to increase, and, as a result, the credibility of financial statements is increased.

The importance of this research is to demonstrate the 'Impact of litigation risk empirically and auditor size on auditor conservatism and auditor conservatism on information asymmetry and its implications to analysts, investors, managers, and other users of accounting information and to expand its theoretical foundations in Iran'.

2. Theoretical foundations and research background

2.1. Litigation risk and auditor's conservatism

Previous research has shown that three types of risks affect auditors' incentive to provide audit quality: a) litigation risk; 2) reputational risk; 3) regulation related risk. Perhaps at first glance, the reputation risk seems to increase audits, but little evidence supports this claim. Litigation will bring a lot of damage to auditors. Auditors are expected to adopt various strategies to address these claims, such as risk reduction strategies by increasing audit quality (Simunic, 1980).

2.2. Auditor's size and auditor's conservatism

From the auditors' viewpoint, an audit firm's size is one factor that affects audit work (Mehrani and Naeimi, 2003). De Angelo (1981) believes that larger audit firms provide

higher-quality audit services because they are interested in gaining a better market reputation. Because of the large number of their clients, they are not concerned about losing them (Dang, 2004). Therefore, as the auditor's size increases, the auditor will increase the item verification's accuracy and rigor and apply more conservatism in its audits. Therefore, it is expected that there will be a direct link between the audit firm's size as one of the audit quality measures and the auditor's conservatism.

2.3. Auditor conservatism and information asymmetry

Negative effects of information asymmetry have led to the emergence of new concepts in accounting information disclosure. One of these concepts, which is nowadays considered to be the most heavily peeked in financial and accounting terms, is the concept of conservatism. Conservatism is an important contract in financial reporting, which causes a precautionary application to identify and measure income and assets (Iyengar and Zampelli, 2010). According to the theoretical basis, the auditor's conservatism is expected to increase the quality of the audit and the quality of financial reporting and, as a result, reduce the information asymmetry. Thus, there is a negative correlation between auditor's conservatism and information asymmetry.

3. Research background

Souzo et al. (2011) investigated the relationship between auditor quality and conservatism. The research results showed a positive and significant relationship between the auditor's institution and conservatism size. There is a negative and significant relationship between the delay in presenting the auditor's report and the conservatism. The research results also showed no relationship between the auditor's committee's existence and the auditor's conservatism expertise.

Habib et al. (2014), in a research entitled litigation risk, audit, and financial reporting, have investigated legal claims against auditors regarding financial reporting quality. Their research findings indicate that the basis of legal claims against auditors is the low quality of financial reporting and audit quality. Their study shows that litigation against auditors has a significant impact on the auditor's planning and opinion. Feng et al. (2016) have compared the behavior and type of audit opinion of some American banks in two periods of time in a study titled auditor's conservatism and ambiguity in measuring banks during the financial period, including the period of the financial crisis (2009-2008) and the post-financial crisis period (2011-2010). Their research shows that auditors are less willing to issue unmodified statements during the financial crisis, and they are more likely to issue modified statements. The researchers explain that the likelihood of complaints against auditors increases during the financial crisis, increasing the auditor's conservatism. Therefore, auditors are more likely to present conservative statements during the crisis period. Essam Elshafie (2016), in research entitled "effective factors and consequences of the conservatism of the auditor", provided a theoretical framework for examining the causes and effects of the auditor's conservatism when the auditor is in doubt, and this case provides an appropriate report to the client. In this study, conservatism was measured by Basu (1997) model. The results show that conservatism positively correlates with business risk, reduces information asymmetry, and increases audit costs. Roodposhti (2011) examined the impact of the audit firm's size on conservatism, the cost of representation, and capital cost. The results showed that the audit firm (audit quality) directly correlates with conservatism and a negative correlation with the cost of representation and cost of capital.

4. Methodology of research

4.1. Research hypotheses

Hypothesis 1: Litigation risk affects the auditor's conservatism.

Hypothesis 2: The auditor's size affects the auditor's conservatism.

Hypothesis 3: The auditor's conservatism affects information asymmetry.

This research is applied research in terms of purpose, and it is descriptive-correlative in terms of nature. Also, considering that companies' past information is the basis used in research, this research is a post-event research. From the theoretical aspect, this research is classified as positive research, and from another perspective, this research is quasi-empirical in the field of the capital market.

4.2. Statistical population and sample

This research's time domain is from 2010 to 2016, and the place domain includes companies listed on the Tehran Stock Exchange. The following conditions are used to select the statistical sample:

1. It is not part of banks, financial, investment, holding, and leasing institutions. 2. There must be no more than three months of trading halts. 3. To comply with the comparability, the company's fiscal year will end on March 29th each year. 4. The company has been admitted to the stock exchange by the end of 2011 and has not been removed from the stock exchange until 2016. The securities were not released. 5. Financial statements and company information must be available. Considering the above conditions, 112 companies remained in the final sample of research.

4.3. Operational definition of the research variables

4.3.1. Independent and dependent variables

Auditor Conservatism (ACONS): In this study, accruals have been used as auditor conservatism following Francis and Krishnan (2005) and the developed model of discretionary accruals of Kothari et al. (2005) has been selected as an auditor's conservatism criterion. Based on Kothari et al. (2005) model, profit is more qualitative with fewer accruals (Nikoo and Amini, 2011). The model residues ($\Sigma_{i,t}$) represent the auditor's conservatism (description of accruals). If the model's residuals are less, it shows lower discretionary accruals, higher qualitative earnings, and higher auditor conservatism.

T-$ACCRUAL_{i,t}$= $\propto_0$+$\propto_1$ $1/asset_{i,t-1}$+$\propto_2$ $\Delta REV_{i,t}$+$\propto_3$ $PPE_{i,t}$+$\Sigma_{i,t}$

$T-ACCRUALS_{it}$ *:* Current discretionary accruals (Net Operating Cash Flow - Amortization Expense + Current Profit); $\Delta REV_{i,t}$*:* Income changes that come from sales of this year - sales last year; $\Delta PPE_{i,t}$: Tangible fixed assets; Finally, for the aggregation of all items, they will be divided into the sum of the first-time assets. Litigation debts (LITSCORE Litigation Risk): Shu (2000) explains the litigation against the auditor using eight company features. Based on Shu's findings (2000), Krishnan (2005) present a brief model for scoring litigation as follows:

LITSCORE=0/276×SIZE+1/153×INV+2/075×REC+1/251×ROA+1/501×LEV+5/301×GROWTH-0/371×RET+0/235-10/049

LITSCORE: Litigation score; SIZE: Natural logarithm of total assets at the end of the year; INV: Available cash divided by momentary total assets at the end of the year; REC: Receivable accounts divided by total assets at the end of the year; ROA: Net income of the year dropped to an average sum of assets; LEV: Total debts divided by total assets at the end of the year; GROWTH: Change in sales from the previous year to the current year

divided by previous year's sales; RET: Compound shares' return by the end of the year and the last day of the fiscal year.

The above equation is used to calculate the litigation score. We categorize sample companies each year into a high litigation risk group and a low litigation risk group. High risk (low) companies are companies whose litigation score is greater than the average litigation score for typical companies (is not). The litigation risk against the auditor is a virtual variable considered for companies with a litigation score above 1 and companies with a litigation score below zero (Jabbarzadeh Kangar et al., 2014).

Auditor's firm size (BIG): If the Audit Organization audits the company and Audit Firms having "A" and "B" grades of Official Iranian Accountants Organization, 1 score is considered for this variable; otherwise, we will consider zero scores for this variable.

Information Asymmetry (SPRED): To measure the information asymmetry among investors, the model of Venkatesh and Chiang (1986) is used; they designed this model to determine the price range for buying and selling stocks.

The model is as follows:

$$\text{SPREAD}_{it} = \frac{(AP-BP)\times 100}{AP+BP)\div 2}$$

i = the surveyed company; t = the surveyed year; AP = Average proposed price for selling i company's stock on t day; BP = average proposed price for buying i company's stock on t day. According to the above model, if the range of the proposed price difference between buying and selling the stock is larger, it would show more information asymmetry.

4.3.2. Control variables

Company size (SIZE): It is obtained from the logarithm of the company's total assets.

Profitability or return on assets (ROA): It is obtained from dividend operating profit on total assets.

Financial leverage (LEV): Leverage is measured by the ratio of total debt to total assets.

Market value to book value (MVB): The effect of the market value to book value ratio is also monitored in Khan and Watts's (2007) research.

5. Statistical tests and research findings

5.1. Descriptive statistics

To study the variables' general characteristics and their accurate analysis, familiarity with the variables' descriptive statistics is necessary. Table 1 shows the descriptive statistics of the data relating to the research variables. Descriptive statistics of 112 sample companies over 6 years (2010-2016) are presented. The results of the descriptive analysis of the data can be summarized as follows:

In Table (1-9), the main central index is the mean, which represents the balance point and gravity center of the distribution. It is a good indicator of the centrality of the data. For example, the average value for the financial leverage variable is (0.586), which indicates that most data are concentrated around this point. In other words, in most of the companies surveyed, their debt-to-assets ratio is close to 58%. In general, dispersion parameters are a criterion for determining the amount of dispersion from each other or their dispersion relative to the mean. The most important parameter of dispersion is the standard deviation. The value of this parameter for the litigation risk variable is 40.339, and it is 0.031 for information asymmetry. This indicates that these two variables have the highest and lowest standard deviations, respectively.

Table 1. Descriptive statistics of research variables

Variable Name	Number	Average	Standard Deviation	Min	Max
Auditor conservatism	672	0.320	0.093	-0.142	0.836
Litigation risks	672	17.281	40.339	-28.880	315.462
Information asymmetry	672	0.027	0.031	0.000	0.236
Company value	672	1.862	0.977	0.644	7.185
Auditor Size	672	14.046	1.580	10.031	19.106
Return on assets	672	0.152	0.138	-0.289	0.674
Financial leverage	672	0.586	0.171	0.090	0.964
Market value to book value	672	1.275	1.050	0.069	6.826

5.2. Testing of research hypotheses

This section analyzes the data using inferential statistics. In this section, the data analysis is done using the combined data method with the panel data approach. First, the variables are considered to be stationary. Then, using the Chow test, it is tested whether the panel should be used with effects or without effects, and for testing the panel method, using either the fixed effects method or the random effects test, the Hausman test should be used. If there is a problem, heterogeneity of variance and serial autocorrelation is eliminated in the final estimation.

5.3. Stationary test of variables

According to the econometric literature, it is necessary to examine the variables' stationery before estimating the model. Using tests such as Dickey-Fuller and Phillips-Peron is not recommended for panel data because they are weak in detecting stagnation. To ensure more reliable stationary tests in panel models, it is suggested that the data be aggregated and then monitored (Anders, 2007).

Table 2. Stationary test (Harris) for all variables of the study

Variable Name	Test statistic	Significance level	Result
Auditor conservatism	-13.754	0.000	Stationary
Litigation risks	-22.093	0.000	Stationary
Auditor Size	-2.881	0.002	Stationary
Information asymmetry	-15.390	0.000	Stationary
Company value	-12.056	0.000	Stationary
Return on assets	-8.059	0.000	Stationary
Financial leverage	-3.949	0.000	Stationary
Market value to book value	-11.222	0.000	Stationary

According to Table 2, it is clear that the significance level of the variables is less than 5% and expresses the stationary of the variables.

5.4. Normal distribution diagnostic test

Shapiro–Francia test was used to investigate the normality of variables of the research. In these tests, if the level of significance is less than 5% (Sig<5%), the assumption zero is rejected at the 95% confidence level.

The assumptions of the test are as follows:

H0: Distribution of data is normal.

H1: Distribution of data is not normal.

The results of the normal distribution test are presented in Tables 3-9:

Table 3. Shapiro–Francia Test Results

Variable Name	Number of observations	Shapiro–Francia Significance	Result
Auditor conservatism	672	0.000	No normal distribution
Litigation risks	672	0.000	No normal distribution
Auditor Size	672	0.000	No normal distribution
Information asymmetry	672	0.000	No normal distribution
Company value	672	0.000	No normal distribution
Return on assets	672	0.000	No normal distribution
Financial leverage	672	0.000	No normal distribution
Market value to book value	672	0.000	No normal distribution

According to the results of Table 3, the significance level, according to the Shapiro–Francia normal distribution test for variables is less than 5%. Therefore, the data do not have a normal distribution. Consequently, Johnson's transformation is used to normalize the dependent variable.

Table 4. The results of the Johnson transformation test for the dependent variable

Variable Name	Normalization before transformations	Normalization after transformations	Result
Auditor conservatism	0.005	0.662	Normal distribution

According to Table 4, the variable's significant level after the Johnson transformation test is equal to 662, which is more than 5%, and indicates the dependent variable's normal distribution after Johnson’s normalization operation.

Table 5. The results of the Johnson transformation test for the dependent variable

Variable Name	Normalization before transformations	Normalization after transformations	Result
Information asymmetry	0.005	0.111	Normal distribution

According to Table 5, it can be seen that the significance level of the variable after the Johnson transformation test is 0.111, which is more than 5%, and indicates the normal distribution of the dependent variable after Johnson’s normalization operation.

Table 6. The results of the Johnson transformation test for the dependent variable

Variable Name	Normalization before transformations	Normalization after transformations	Result
Company value	0.005	0.256	Normal distribution

Table 6 shows that the variable's significance level after the Johnson transformation test is 0.256, which is more than 5%, and indicates the dependent variable's normal distribution after Johnson’s normalization operation.

5.5. F Limer test (Chow) and Hausman test

In order to estimate the research models, the data compilation technique has been used. Based on the estimates and statistical tests, probable F and t (p-value) and coefficient of determination are calculated. Each of the research hypotheses is evaluated and discussed. If there is the heterogeneity, panel data method is used; otherwise, the combined data method with the ordinary least square approach (OLS) is used to estimate the model.

For this purpose, the Limer test (Chow) is used, and the test hypotheses are listed as

follows:

H0: Equality of y-intercept (Combined data)

H1: Heterogeneity of y-intercept (Panel data)

After performing the F Limer test (Chow) and selecting the fixed-periodic effects model, the Hausman test is used for choosing the data test method from two methods of fixed effects and random effects. The Hausman test hypothesis will be:

H0: Random effects

H1: Fixed effects

The results of the F Limer test (Chow) for the research hypothesis are presented in Table (7):

Table 7. F- Limer test results

Model Name	Test statistic	Significance level	Result
First Hypothesis	0.000	3.19	The panel approach
Second Hypothesis	0.000	3.16	The panel approach
Third Hypothesis	0.000	2.41	The panel approach

According to Table 7, since the F- Limer test's significance level in the first to the ninth model is less than 5%, the panel data is accepted versus the combined data (money).

Table 8. Hausman test results

Model Name	Test statistic	Significance level	Result
First Hypothesis	0.000	49.32	Fixed effects of the y-intercept
Second Hypothesis	0.000	27.95	Fixed effects of the y-intercept
Third Hypothesis	0.018	13.63	Fixed effects of the y-intercept

According to Table 8, the Hausman test's significance level in models is less than 5%. Hence the estimated coefficients are accepted with the fixed effects of y-intercept versus the random effects.

5.6. Inequality test of the variance of research models

If the regression errors are heterogeneous, what happens to the researcher, regardless of this? In this case, although OLS estimators still provide uncertainty coefficients, these other coefficients do not have the least variance. The result will be that if OLS is used in the event of heterogeneity, the standard deviation can be false, and therefore any inference made may be misleading.

The statistical assumptions of this test are as follows:

H0: There is no heterogeneity of variance.

H1: There is a heterogeneity of variance.

Table 9. The results of the inequality test of variance

Research Models	Test statistic	Significance level
First Hypothesis	12921.07	0.000
Second Hypothesis	2.1	0.000
Third Hypothesis	5.2	0.000

The results in Table 9 show that the moderated Wald test's significance level is less than 5% and indicates the existence of heterogeneity of the variance, which is resolved in the final estimation of the models (by weighting the data via the GLS command).

5.7. Serial autocorrelation test

One of the regression assumptions is the independence of the errors (the difference between the actual values and the values predicted by the regression equation). In the panel data approach, the Wooldridge test is used to check the independence of the errors.

According to this test results, if the significance level is more than 5%, it indicates a lack of serial autocorrelation among the sentences (David Druker, 2003).

Table 10. Serial Autocorrelation Test Results

Research Models	Test statistic	Significance level
First Hypothesis	8.938	0.003
Second Hypothesis	9.125	0.003
Third Hypothesis	8.784	0.003

Regarding the results of Table 10-9, it can be seen that the significance level of the Wooldridge test is less than 5% and indicates the serial autocorrelation in the model, which is eliminated using the Auto Correlation command.

5.8. Co-linear test

In statistics, the variance inflation factor (VIF) evaluates the intensity of multilinearity. If the VIF test statistic was close to 1, there is a lack of linearity. As an empirical rule, if the value of VIF is greater than 5, multilinearity is high (note that in some cases, the number 10 is also introduced as the threshold).

Table 11. Co-linear test of independent variables [First hypothesis (Model)]

Variable Name	Variance inflation factor	Tolerance
Return on assets	1.93	0.519
Financial leverage	1.66	0.601
Market value to book value	1.59	0.630
Litigation risks	1.07	0.934
Company size	1.07	0.938
Result	There is no collinearity.	

Because the values of the inflation factor of variance, i.e., VIf, are less than 5, and the values of tolerance are greater than 0.2, there is no co-linear problem between the independent variables.

Table 12. Co-linear test of independent variables [Second hypothesis (Model)]

Variable Name	Variance inflation factor	Tolerance
Return on assets	1.85	0.539
Financial leverage	1.75	0.570
Market value to book value	1.58	0.631
Auditor size	1.11	0.902
Company size	1.09	0.919
Result	There is no collinearity.	

Because the values of the inflation factor of variance, i.e., VIf, are less than 5, and the values of tolerance are greater than 0.2, there is no co-linear problem between the independent variables.

Table 13. Co-linear test of independent variables [Third hypothesis]

Variable Name	Variance inflation factor	Tolerance
Return on assets	1.87	0.533
Financial leverage	1.65	0.606
Market value to book value	1.60	0.625
Auditor conservatism	1.09	0.919
Company size	1.06	0.940
Result	There is no collinearity.	

Because the values of the inflation factor of variance, i.e., VIf, are less than 5, and the values of tolerance are greater than 0.2, there is no co-linear problem between the independent variables.

5.9. Final estimates of research hypotheses

Table 14. Final estimation of the first hypothesis

Variables	Coefficients	Standard error	Z statistics	Significance level
Litigation risks	0.010	0.000	6.38	0.000
Company size	-0.001	0.004	-0.36	0.721
Return on assets	0.198	0.032	6.15	0.000
Market value to book value	0.008	0.003	2.31	0.021
Financial leverage	0.049	0.032	1.52	0.130
Y-intercept	0.263	0.051	5.16	0.000
Modified coefficient of determination	0.678%			
Wald statistic	136.12			
Wald significance level	0.000			

According to the results of Table 14, it is observed that the litigation risk variable has a positive coefficient and a significant level of less than 5%. Since Koortari's model (2005) has been used for estimating the auditors' conservatism. Companies with higher quality earnings have received more conservative behavior from auditors. The increase in the dependent variable means a decrease in the auditor's conservatism. It can be said that the increase in litigation risk leads to a decrease in the auditor's conservatism, and the second hypothesis is accepted. The control variable of the company size and financial leverage has a significant level of more than 5% and has no significant effect on the dependent variable. Still, the market value to book value and the return on assets directly impact the dependent variable. The modified coefficient of determination is 67%, which shows that the model's independent and control variables can explain 67% of the dependent variable's variation. The Wald statistic is 136.12, and its significance level is less than 5%; hence, the model can be said to have sufficient credibility.

Table 15. Final estimation of the second hypothesis

Variables	Coefficients	Standard error	Z statistics	Significance level
Auditor size	-0.202	0.102	-1.98	0.048
Company size	-0.016	0.030	-0.54	0.590
Return on assets	3.041	0.335	9.07	0.000
Market value to book value	0.044	0.036	1.22	0.221
Financial leverage	0.890	0.365	3.35	0.001
Y-intercept	-0.837	0.438	-1.91	0.056
Modified coefficient of determination	0.132%			
Wald statistic	100.83			
Wald significance level	0.000			

According to Table 15, it is observed that the auditor size variable has a negative coefficient and a significant level of less than 5%, and it can be said that by increasing the size of the auditor, the dependent variable decreases; therefore, the decrease in the dependent variable means the increase in the auditor's conservatism. It can be said that an increase in the auditor's size leads to an increase in the auditor's conservatism, and the fourth hypothesis is accepted. The control variable of the company size and the market value to book value has a significant level of more than 5% and has no significant effect on the dependent variable. Still, the financial leverage and the return on assets directly and significantly impact the dependent variable. The modified coefficient of determination is 13%, which shows that the model's independent and control variables can explain 13% of the dependent variable's variation. The Wald statistic is 100.83, and its significance level is less than 5%; hence, the model can be said to have sufficient

credibility.

Table 16. Final estimation of the third hypothesis

Variables	Coefficients	Standard error	Z statistics	Significance level
Auditor conservatism	-0.022	0.012	-1.82	0.069
Company size	0.000	0.000	0.33	0.745
Return on assets	-0.004	0.014	-0.29	0.772
Market value to book value	-0.004	0.001	-3.10	0.002
Financial leverage	-0.022	0.013	-1.64	0.1
Y-intercept	0.049	0.013	3.74	0.000
Modified coefficient of determination	0.014%			
Wald statistic	15.97			
Wald significance level	0.006			

According to Table 16, it is observed that the auditor's conservatism variable has a significance level of more than 5%, hence has no significant effect on information asymmetry, and the seventh hypothesis is not accepted. Among the control variables, only the market value to book value has a reverse and significant effect on information asymmetry. The modified coefficient of determination is 1%, which shows that the model's independent and control variables can explain 1% of the dependent variable's variation. The Wald statistic is 15.97, and its significance level is less than 5%. Therefore, the model can be said to have sufficient credibility.

6. Discussion and conclusion

This study aimed to investigate the factors affecting the auditor's conservatism and its economic consequences in companies listed on the Tehran Stock Exchange. To achieve the research goals, 112 companies from among the Tehran Stock Exchange companies were surveyed from 2010 to 2016. According to the auditor's conservatism definition, auditors use conservatism as a risk management strategy. If auditors oppose managers' optimistic practices, they will use more conservative approaches to review financial statements and further audit the financial statements' figures. It can be said that auditor's conservatism is the response of auditors to profit management by managers and neutralizes the manager's bias and increases the quality of the audit.

The first hypothesis has shown that litigation risk has a negative and significant effect on auditor's conservatism. That is, with increasing litigation risk, the auditor's conservatism decreases. The second hypothesis showed that the auditor's size positively and significantly affects the auditor's conservatism. That is, with increasing auditor size, the auditor's conservatism increases. The third hypothesis has shown that auditor's conservatism has no significant effect on information asymmetry that is increasing the auditor's conservatism does not play a role in reducing information asymmetry.

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