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Research Article

The Impact of Audit Report on Earnings Quality Emphasizing the Moderating Role of Corporate Governance Quality

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Abstract

The purpose is investigating the manipulation effect and relationship and earning smoothing in companies with independent auditors' report, investigating the impact and relationship of corporate governance components with corporates independent auditor's report, and also examining the simultaneous impact of these two variables, auditor's characteristics and financial traits of addressing corporates and auditor's problems on auditor's report. The spatial scope of the research includes corporates listed on the Tehran Stock Exchange. The spatial realm of research includes the period between 2012 and 2018. The examination consists of two independent variables (audit report), the dependent variable (earnings quality), and moderating variables (corporate governance). The results show that the type of audit report affects earnings quality. Corporate governance quality does not modify the interaction between audit statement type and earnings quality. The type of audit statement is different in firms with strong and weak corporate governance. It also shows that it is endorsed in firms with strong corporate governance and not in firms with weak ones.

Keywords: Audit Report, Earnings Quality, Corporate Governance Quality

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1. Introduction

With the ever-expanding of world financial markets since the 20th century, management, earnings smoothing, and corporate governance in the accounting world, management, economics, and other sciences have been seriously considered. Each scholar and researcher has examined and interpreted their findings from their own sciences point of view. Given these, earnings management and corporate governance can individually affect corporate financial statements. On the other hand, the users of financial statements are directly or indirectly affected by these financial statements. They prefer to use financial statement information that independent auditors have reviewed and commented on their utility. So, the question may arise here in the minds of corporate financial statements' users, whether the type of auditor's opinion is influenced by corporates' earnings management and probable corporate governance or not? Therefore, in the present study, the impact of audit reporting on earnings quality is examined, emphasizing the moderating role of corporate governance quality in the research model.

According to Iranian auditing standards, the purpose of financial statements auditing is that the auditor can comment on whether the financial statements have been prepared from all critical aspects by accounting standards or not. Therefore, the audit report is a valid indicator to measure the quality of information and compliance of the reports rendered with accepted accounting practices (Auditing Standards, 2007).

Therefore, auditors play an important role in overseeing managerial performance and limiting opportunistic management behaviors to the extent that academic and professional assemblies view the audit task as validating and reassuring financial reporting and ultimately enhancing accounting information (Chen et al., 2010).

Based on the information quality hypothesis, the auditor's task is to improve accounting information quality, ultimately enhancing the information's usefulness for investors' decision-making, creditors, and other stakeholders. According to this hypothesis, the higher the quality of information through the audit process, the lower the capital, information asymmetry, and agency cost. According to these hypotheses, investors believe they provide useful information for their decision- making models. It means that the audit process increases the financial statements' value to investors, ultimately enhancing the audit profession's dignity and value (Wallace, 2004).

On the other hand, earnings sustainability is one of the qualitative characteristics of accounting earning based on accounting information. It is an index that helps investors evaluate future earnings and corporate cash flows (Khajavi et al., 2011). It also means the repeatability of current earnings. The higher the earnings sustainability, the greater the corporate ability to maintain current earnings, and the higher the corporate quality of earnings are assumed. Accounting earnings consist of two components: cash and accrual. The accrual component is less sustainable because of its subjectivity and estimation, but sustainable earnings are part of existing earnings that persist, and their stability continues. Changes in earnings current components are transferred to future ones and reflect earnings sustainability and earnings quality (Kormendi & Lipe, 1987). Managing efficiency is in the use of resources provided to it, and earnings sustainability can demonstrate it. The more earnings gained are through operating assets, the greater the earnings sustainability (Khajavi et al., 2015).

According to research, investors are more confident in investing stocks of corporates with a more stable earnings sustainability trend. Corporates with more sustainable earnings and higher cash flows have higher earnings sustainability that can be useful for earnings evaluation. The reported earnings can help users assess performance and measure corporate and stakeholders' profitability power, and investors estimate their expected returns based on earnings information; the quality of information must be. So that evaluates past performance possible and is effective in assessing profitability power and predicting future activities. Although the reported earnings figure is important to investors and affects their decisions, the quality of earnings quality is also considered one of the earnings information dimensions, especially considered by investors. Therefore, simply focusing on earnings figures may mislead its users, so financial analysts and investors do not consider accounting earnings as the sole determinant in determining future cash flows. Still, reported earnings' repeatability and sustainability are very important (Khajavi and Ghadriyan, 2016).

Given these discussions, it can be argued that investors in the decision-making process choose corporates whose earnings are in higher sustainability and, in fact, higher quality. Also, managers in the context of economic fluctuations and pressures try directly or indirectly to regulate the corporate situation to influence reflected earnings figures in financial statements and make the users of financial statements, especially investors, look positively. So, in many cases, financial information providers' purpose is not the same as their users, and this is due to the interest conflict between the stakeholders. In such circumstances, strategies and tools by which the conflict of interest can somehow be mitigated and the agency problems minimized are of particular importance. Among these tools, corporate governance and its mechanisms have become widespread in society and attracted various financial and economic decision-makers. An intelligent and effective mechanism to strengthen independent audit objectives to moderate this conflict of interest among these groups is required. Therefore, it is theoretically claimed that there is a relationship between earnings quality and audit report, but accepting this claim empirically concerning Iran requires some research tests.

2. Theoretical literature

Managers, financial analysts, and investors have mostly focused on corporates' reported earnings. Managers are benefited by maintaining earnings growing trend, so their remuneration depends on the amount of corporate earnings. Earnings quality assessment helps financial statement users to judge and correctly evaluate the current period and future earnings. There is no single definition of earnings quality, but it is a rather relative concept that depends on views and attitudes.

Profit and loss reporting of entity is one of the essential information that accountants provide. The users can have a perspective on entity performance and its prospects based on the reported earnings figure.

On the other hand, given that estimations and evaluations have a significant place in accounting, this factor can be used as a tool for bias calculations and allow earnings manipulation by management. Given the importance of earnings from the users' perspective, accountants and investment management practitioners have considered earnings quality issues. Evaluating the earnings quality will help users correctly judge and evaluate current and future earnings (Seyyed Ali Khani, 2012).

According to Iranian auditing standards, the purpose of audit financial statements is that the auditor can comment on whether the financial statements have been prepared in all important aspects by accounting standards or not. Therefore, the audit report is a valid indicator to measure the quality of information and compliance of the reports rendered with accepted accounting practices (Auditing Standards, 2007).

In recent years, corporate governance has been suggested as an effective strategy in increasing financial reporting quality. Various empirical research results also indicate that a favorable corporate governance system leads to earnings quality increase. However, identifying the mechanisms that can enhance earnings quality and reduce current interest conflict between stakeholders is of particular importance. A good corporate governance system can meet these.

Earnings, in accounting terms, equal income and costs; in economics, it has different meanings. It is directly related to income and inversely to loss, following broader concepts of earnings, accounting earnings, earnings reporting objectives, accounting earnings strengths and weaknesses, the concept of earnings quality, and the importance of earnings quality.

2.1. Earnings concepts:

Hendrixen and Van Breda (1992) propose earnings at three theoretical levels:

A. The concept of earnings at the structural level

B. The concept of earnings at the behavioral or practical level

C. The concept of earnings at the interpretive level

2.2. Accounting earnings

Capital market activities need an accurate understanding of the entity to allocate its financial resources optimally. So, they are always looking for entity-related information to make an accurate decision according to it.

"Financial reporting is one of the information resources of those who take economic decisions about the entity. People using financial information must combine the information provided by financial reporting with relevant information from other resources to be able to make appropriate decisions (FASB, 1978, paragraph 22)."

Generally speaking, the purpose of measuring earnings in determining an entity's status as a result of operations performed over a given period and to what extent it has improved. The comprehensive definition of earnings provided by the Accounting Standards Board (1999) is as follows: "Earnings are derived from changes in equity or changes in the net assets of a business over a financial period. To be more precise, earnings are the result of all changes in equity's right over a period, exceptions to the changes arising from capital owners' investing and distributing interests among them."

2.3. Definition of audit

The audit is a systematic and regulates process to impartially collect and evaluate the evidence related to economic activities and events to determine the compliance degree of claims (statements) with the predetermined criteria and reporting the results to the stakeholders (Accountants Committee of America, 1973, quoted by Hassas Yeganeh and Maghsoudi, 2011). This definition is deliberately presented comprehensively to encompass different types of audits. Some terms of this definition need further explanation. A regular and systematic process indicates that the audit is based on accurate planning. Accurate planning involves impartially collecting and evaluating evidence.

The word "assertion" in auditing has a particular meaning and refers to explicit or implicit management opinions embodied in financial statements, documents, or systems. The purpose of auditors in comparing the evidence collected with claims related to economic activities and events determines the extent to which these claims comply with predetermined criteria.

The last important phrase, i.e., reporting the results to the stakeholders, indicates the type of report that auditors prepare for the stakeholders. Stakeholders can include shareholders, creditors, employees, suppliers of materials and goods, government agencies, stock exchanges, and other groups (American Accountants Association Committee, 1973).

2.4. Corporate governance

This word has been defined in various ways by organizations or committees per their ideological interests (Abutpanje, 2009: 158). The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development in 2001 stated corporate governance as follows: The structure of relationships and responsibilities in determining a core group including stakeholders, board members, and CEOs to better promote of competitive performance needed to achieve the primary goals of the partnership (Hassas Yeghane, 2007).

Corporate governance in Iran is the laws, regulations, structures, processes, cultures, and systems that achieve accountability, transparency, justice, and stakeholders' rights.

Hope et al., 1998, write about research did in Oxford about corporate governance explanation as follows: Corporate governance outlines the internal organization, the structure of corporate power, how to perform the board's duties, corporate ownership structure, and the mutual relationships between shareholders and other stakeholders, especially corporate workforce and its creditors. Robert Mangez and Nell Mino defined corporate governance in 1995 as to how every society determines the direction of corporate movement or, in other words, it is the relationship between different groups in determining the orientation and the performance of corporate. The main groups include shareholders, CEOs, the board, and other groups, including employees, customers, salespeople, creditors, and the community (Hassas Yeganeh, 2007).

Corporate governance is essential for the following reasons:

* It provides a framework for building a long-term trust between corporates and foreign capital providers.

*Bringing strategic thinking to corporate by appointing managers who share new experiences and ideas.

*Managing and overseeing global risk facing that makes corporate logical.

*By dividing the decision-making process, it limits the reliance on senior managers and their responsibility (Sina Qods, 2009).

3. Theoretical and empirical background of research

Dechow and Dichev (2002) examined the relationship between earnings accruals quality and its continence. It is based on the fact that although commitment accounting recognizes incomes and costs in the courses of realization and tolerance, regardless of the time of receive and cash payment, it causes the entity's exact measurement. Using accruals needs measurement and estimation and if there is a mistake in these estimates, accruals quality and then earnings quality decreases. For example, by identifying earnings through sales, the receivable amount is estimated and registered. The amount will likely be received in the future is not equal to the amount recorded. Their research has been based on a theory that the profitability amount of accruals decreases based on different restrictions, like a mistake in estimations. Palpoet al. (2000) refers to a mistake in estimation as a factor that decreases commitment accounting quality and discusses that accuracy in estimations is based on corporate characteristics, like complexities of trading and environmental predictability where corporate activates in it. Researchers in this study chose the number of 1,725 corporates from 1987 to 1999, including 15234 corporates. We used residual estimation of capital changing regression inflows based on cash flows from past, current, and future periods to determine earnings quality index:

$$\Delta \mathrm{WC_t} = \mathrm{b_0} + \mathrm{b_1 CFO_{t-1}} + \mathrm{b_2 CFO_t} + \mathrm{b_3 CFO_{t+1}} + \mathrm{e}$$

Then, the standard deviation of residual amounts was computed and used as the earnings quality index. It means that high deviation showed low earnings quality. The results showed that there was a positive relationship between earnings accruals and their continuity. This research is necessary because it shows that the amount of mistake in estimating accruals is systematically related to corporate characteristics like the length of the activity cycle and the range of corporate activities. It also indicates that accruals quality and then earnings quality has a converse relationship with accruals amount, corporate activity cycle length, the incidence of loss incorporate, sale standard deviation, and cash flow. Also, accruals have a positive relationship with corporate size. The main point is that these characteristics can be easily seen or used to determine earnings accruals quality.

Kevin and Wiki (2008) showed that corporates with low earnings quality allocate their resources less to capital assets. Also, the results suggest that corporates with low earnings quality have a low output rate.

Tsipouridou and Spathis (2014) divided the auditor’s opinion into two parts based on the activity’s continuity and financial characteristics. The first part observed that the auditor’s opinion is not related to earnings management. In the second part, they concluded that this year’s opinion is done based on the auditor’s opinion in the previous year. Regarding this, the manager can make earnings management and, therefore, significantly impact the auditor’s opinion in the current year.

Miko &Kamardin (2015) found that the audit committee and quality would help to reduce earnings management.

Janakiraman and Radhakrishnan (2015) found that improving corporate governance quality and competition in the product market reduces earnings prediction mistake amount significantly by management.

Vichitsarawong and Pornupatham (2015) showed that audit opinion's impact on corporates' profitability is different, and corporates with contingent audit reports have less profitability than corporates with unqualified audits reports.

Anthony and George (2016) found a positive and significant relationship between investors’ conservatism and earnings management in financial crisis conditions.

Lennox, Wu, and Zhang (2016) showed a direct relationship between the number of contingent audit report clauses and earnings quality, which means that as the number of contingent audit report clauses increases, earnings quality also increases.

Ricarta (2016) showed that audit reports from the managers and experts in state-owned corporates” assembly affairs viewpoint are effective on prepared information value through accounting and the information quality offered in state-owned corporates' financial statements.

Moosavi (2017) showed that creditors, stakeholders, and investors in financial decisions rely on audit reports, and these have increased the quality of financial statements. But they were not successful in increasing some qualitative traits, like financial statements of caution, completeness of information, timeliness information, understandability of information, and recognizing trade contents.

Molkyan (2018) showed that audit reports actual information and the analysis of information gathered from questionnaires. It can be seen that most of the audit clauses are repeatedly included in the audit reports within five years, and general assemblies of shareholders as it deserves do not pay attention to the audit reports. They also do not execute the board of directors to eliminate the problematic cases and decide regardless of the audit report.

Alipoor (2018) showed that the impact of service and the independent audit report on strengthening social relations between government and people, establishing justice, improving the behavioral culture of the society, tax, improving the system, reducing the cost of financing, strengthening the culture of investment and increasing national saving rate and preventing main fluctuations of the stock price. There is no significant disagreement between the independent government and private audits of different groups. Still, there is a significant relationship between audit information system establishment, internal audit, and accounting principles.

4. Research Methodology

Accounting researchers fall into the positivist research group; because accounting researchers usually assume that concepts and facts exist objectively in the outside world. They research with a variety of measurable statistical and observational methods. They consciously or unconsciously believe in examiner and tester independence of each other, although this technique has often been increasingly criticized in accounting researches (Aghaii et al., 2010). Regardless of the pathology of these researches, the present study falls into the category of positivist approaches. It is practical in terms of the correlation method and purpose. The present study is also among accounting descriptive research since this paper describes what is or describes current conditions without interference (and not with specific requirements and recommendations) and since the value judgments in it are pale.

In this research, the sample was selected through the systematic elimination method of a statistical population. As such, the sample consists of all companies existed in the statistical population that meets the following criteria:

1.It has been listed in stock prior to the 2011 fiscal year. Although the research period is from 2012 to 2018, information is needed a year before calculating the earnings quality variable.

2. They have not been released from the stock until 2018.

3. Required information about the corporation is available from 2012 to 2018.

4. During the fiscal years of 2012-2018, the financial year has not been changed.

5. They are not included in investment corporations, banks, insurances, and financial intermediation.

6. Their financial year ends at the end of March.

Table 1: The number of exemplary corporates

Numbers	Selection Description
460	Corporates listed on the Tehran Stock Exchange by the end of 2018
71	Corporates are listed in stock during the research period
92	Corporates their fiscal year does not end in March during the temporal research domain.
97	Corporates changed in the temporal research domain of the fiscal year.
65	Corporates engaged in investment and financial intermediation during the temporal research domain.
49	Corporates went out of stock during the temporal research domain.
86	Selected corporates

This study has four main hypotheses:

Hypothesis 1: The type of audit opinion affects earnings quality.

Hypothesis 2: Corporate governance quality affects the interaction between audit opinion and earnings quality.

Hypothesis 3: The type of audit opinion varies in corporations with strong and weak corporate governance.

Hypothesis 4: Earnings quality varies in corporations with strong and weak corporate governance.

The classical regression method and the joint effects model and its assumptions have been used to test the hypotheses. Its required data have been collected through the sample corporate financial statements. Eviews9 statistical software was used to analyze research model data. Using these statistical soft wares and to test the research hypotheses, basic assumptions of the multivariate regression model, binary logistic regression, testing the significance of the research model, the significance of independent variables, and the correlation coefficient of the model was also investigated.

Before testing the research hypotheses, the research variables are summarized in tables (2) and (3). These tables contain indicators to describe the research variables. These indices include central indices, dispersion indices, and distribution shape indices.

Table 2: Descriptive indices of quantitative research variables

Variable	Mean	Standard deviation	Minimum	Maximum
earnings quality (EQ)	-0.063	0.091	-1.092	-4.150
Quality corporate governance (QCG)	2.987	1.129	0.000	6.000
Corporate size (SIZE)	13.134	1.493	9.454	18.453
Financial leverage (LEV)	0.636	0.271	0.017	0.960
Growth chance (GROWTH)	2.430	5.926	0.089	10.696
Accruals (ACC)	0.019	0.153	4.756	0.653

The results of Table (2) show that the dependent variable mean of earnings quality and the independent variable of corporate governance quality were -0.063 and 2.987, respectively. Control variables mean corporate size, financial leverage, growth chance, accruals were 13/134, 0/636, 2/430, and 0/019, respectively. The difference between the largest and smallest data and the mean and standard deviation of variables indicates that data distribution is logical.

Table 3: Indicators describing research nominal variables

Variable		Symbol	Number	Measuring	Percent
Audit Report	Depended	AR	816	Unqualified Report (1)	66.54
				Qualified Report (0)	33.46
Controlled	Corporate	LOSS	816	corporates at a loss(1)	14.83
					85.17
				corporates at a profit (0)	

The results of Table (3) show that 66.54% of sample corporates have an Unqualified report, 33.46% a qualified report, and 14.83% have reported a loss.

4.1. Testing research hypotheses

Hypothesis 1: The type of audit report affects earnings quality.

This hypothesis is confirmed if the independent variable coefficient is at the 95% level of confidence and significance. According to the classical regression statistical assumptions test results, the above models are estimated using the multivariate linear regression method. The model estimation results are shown in Table (4).

The F-Limer test was used to select the data analysis model and the use of Pooled or Panel data. After confirming the research variables' reliability, the type of model was selected by the F-Limer test. The F-Limer test determines whether the model used is Panel or Pooled. If the Cross-Section F- statistic is less than the 5% level of significance, the selected model type is Panel, and if it is more than the 5% level of significance, the type of model chosen will be pooled. If the Pooled model is selected, the work is complete, and we will continue with it. Still, if the Panel model is selected, then the appropriate model, namely the fixed effects (FEM) or random effects (REM), should be selected in the next step through the Hausman test. If, in the previous step, the F-Limer test results indicate the use of the Panel model, the appropriate method should be selected through the Hausman test. If the Cross-Section Random statistic is less than the 5% level of significance, the effects method is fixed (FEM), and if it is more than the 5% level of significance, then the random-effects method (REM) is selected. Therefore, bounded data have been used to test the model of this hypothesis. The results of the Watson camera test indicate that the model of this hypothesis has no autocorrelation problem. In examining coefficients significant according to the effects of Table (4), since the probability of t-statistic for the independent variable coefficient of audit report type is less than the 5%, then the significant effect of audit report type on earnings quality at 95% level of confidence is confirmed. Therefore, this hypothesis's model based on the audit report type on earnings quality at the 95% confidence level is confirmed. Thus, based on the analysis of the first research hypothesis model, it can be concluded that the type of audit report has a significant effect on earnings quality. Also, the control variable's significant effect to be lost was observed on the earnings quality of the dependent variable.

Table 4: Test results of the first hypothesis

Variables	coefficient	t- statistics	t- probability
Constant coefficient	-0.035	-3.227	3640010
Audit report type	0.008	4.200	0.000
The size of corporate	-0.002	-0.367	0.714
Return on equity	7.840	0.079	0.937
To be loser	-0.035	-4.504	0.000
Financial Leverage	-0.003	-0.973	0.331
Sales growth	0.002	1.318	0.187
Accruals	0.032	1.426	0.154
Statistics-F Limer	0.525 (Pooled)		
Statistics – Hausman	- -		
D-W statistics	1.880		
Determination coefficient	0.100		
The adjusted coefficient of determination	0.092		
F- statistics	12.852		
The significance of the model	0.000		

Hypothesis 2: Corporate governance quality modifies the interaction between audit opinion type and earnings quality. Testing this hypothesis is confirmed if the confidence level's moderating coefficient variable is 95% and significant. According to the classical regression statistical assumptions test results, the above models are estimated using the multivariate linear regression method. The model estimation results are shown in table (5).

In examining the models' significance, given that the probability amount of F-statistic in the model is less than 1% (0.000), the whole model's significance is confirmed with 99% confidence. The model determination coefficient also shows that the model's variables explain 16.1% of dependent variable variations of earnings quality. The F-Limer test was conducted to select the data analysis model and use Panel or Pooled data. After confirming the reliability of the research variables, the model type was selected through the F-Limer test. The F-Limer test determines whether the model used is Panel or Pooled. If the Cross-Section of F-statistic is less than the 5% level of significance, the type of selected model is Panel, and if it is more than the 5% level of significance, the kind of model selected will be Pooled. If the Pooled model is selected, the work is complete, and we continue with it. But if the Panel model is selected, then in the next step through the Hausman test, the appropriate model, namely the fixed effects (FEM) or random effects (REM) should be chosen. If, in the previous step, the F-Limer test results indicate the use of the Panel model, the appropriate model should be selected through the Hausman test. If the Cross-Section Random statistic is less than a 5% level of significance, fixed effects of the method (FEM), and if it is more than a 5% level of significance, the random effect method (REM) is selected. Therefore, bounded data have been used to test the model of this hypothesis. The results of the Watson camera test indicate that the model of this hypothesis has no autocorrelation problem.

Table 5: Test results of the second hypothesis

Variables	Coefficient	t- statistics	t- probability
fixed coefficient	-0.033	-0.908	0.364
Audit report type	-0.005	-0.504	0.613
corporate governance quality	-0.007	-1.663	0.096
Interaction between audit report type and corporate governance quality	0.006	0.491	0.623
The size of corporate	-0.006	-0.234	0.814
Equity Returns	-0.002	-0.088	0.929
To be lost	-0.052	-4.641	0.000
Financial Leverage	0.007	2.413	0.015
Sales growth	0.004	2.765	0.009
Accruals	0.012	1.666	0.095
F-Limer statistics	0.518 (Pooled)		
Hausman- Statistics	- -		
D-W statistics	2.178		
Determination coefficient	0.161		
The adjusted coefficient of determination	0.129		
F- statistics	2.178		
The significance of the model	0.000		

According to the results of Table (5), in examining the significance of coefficients, since the probability of t-statistic for moderating variable coefficient, the interaction of audit report type and corporate governance quality is greater than 5%. The significant effect of corporate governance quality is not confirmed on the interaction between audit report type and earnings quality at a 95% level of confidence. Therefore, this hypothesis's model based on the effect of corporate governance quality is rejected on the interaction between audit report type and earnings quality at the 95% level of confidence. According to the analysis related to the second research hypothesis model, it can be concluded that corporate governance quality has no significant effect on the interaction between audit report type and earnings quality. The significant effect of controlling variables such as loss, financial leverage, sales growth, and accruals was observed on the earnings quality dependent variable.

Hypothesis 3: The type of audit opinion is different incorporated with strong and weak corporate governance.

This hypothesis is confirmed if the coefficient of independent variables is significant at 99%, 95%, and 90% confidence levels. According to the classical regression statistical assumptions test results, the above models are estimated using the multivariate linear regression method. The model results are shown in Table (6).

Table 6: Test results of the third hypothesis

Hypotheses	Corporates with strong corporate governance			Corporates with weak corporate governance
variables	**coefficient**	**t- probability**	**coefficient**	**t- probability**
Fixed variables	0.154	0.558	-0.040	0.892
Corporate governance quality	0.143	0.000***	0.297	0.000***
Corporate size	-0.005	0.757	-0.007	0.970
Equity Returns	0.056	0.130	-0. 025	0.527
To be loss	0.147	0.079*	-0.100	0.282
Financial leverage	0.227	0.049**	-0.003	0.973
Sale growth	0.004	0.950	0.006	0.189
Accruals	0.355	0.085*	-0.315	0.153
F- Limer statistics Hausman statistics	0.678 (Pooled) - (-)			0.024 (Panel) 0.306 (REM)
D-W statistics	2.052			1.761
Determination coefficient	0.128			0.129
The adjusted coefficient of determination	0.104			0.107
F- statistics	5.493			5.609
The significance of the model	0.000			0.000

***Significance level with 99% confidence **Significance level with 95% confidence
*Significance level with 90% confidence

In examining the significance of models given that the probability amount of F-statistic in both models is less than 1% (0.000), then the significance of all models is confirmed with 99% confidence. The coefficient determination of the model also indicates that respectively 10.4% and 10.7% of dependent variables changes of the audit report type are explained by the model’s variables.

In this study, the F-Limer test has been used to select the data analysis model and use Panel or Pooled data. After confirming the study variables' reliability in the previous steps, the model was selected through the F-Limer test. The F-Limer test determines whether the model used is Panel or Pooled. If the Cross-Section F- statistic is less than a 5% level of significance, the selected model type is Panel, and if it is more than a 5% level of significance, the type selected model will be pooled. If the Pooled model is selected, the work is complete, and we continue with it. Still, if the Panel model is selected, then the appropriate model, namely the fixed effect (FEM) or random effect (REM), should be selected through the Hausman test in the next step. If, in the previous step, the F-Limer test results indicate the use of the Panel model, the appropriate method should be selected through the Hausman test. If the Cross-Section random statistic is less than a 5% level of significance, the effective method is fixed (FEM). Suppose it is more than a 5% level of significance. Therefore, to test the first model of this hypothesis. Table (6) results in examining the significant coefficients since the probability of t-statistic for the independent variable coefficient of corporate governance quality in corporations with strong and weak corporate governance is less than 5%. This variable's significant effect on the audit report type variable is confirmed at a 95% confidence level. Therefore, the third hypothesis regarding audit opinion incorporates different strong and weak corporate governance is rejected. Thus, based on the third hypothesis’s analysis, it can be concluded that the type of audit opinion incorporated with strong and weak corporate governance is not different.

Hypothesis 4: Earnings quality varies in corporations with strong and weak corporate governance.

Testing this hypothesis is confirmed if the coefficients of independent variables are significant at 99%, 95%, and 90% confidence level. According to the classical regression statistical assumptions test results, the above models are estimated using the multivariate linear regression method. The model estimation results are shown in Table (7).

Table 7: Test results of the fourth hypothesis

Hypotheses		Corporates with strong corporate governance		Corporates with weak corporate governance
variables	**Coefficient**	**Probability- t**	**coefficient**	**Probability- t**
Fixed coefficient	-0.014	0.809	0.039	0.443
Corporate governance quality	-0.016	0.016**	-0.012	0.184
Corporate size	0.001	0.782	-0.005	0.130
Equity Returns	-0.042	0.024**	-0.031	0.050**
To be loss	-0.002	0.784	0.004	0.543
Financial leverage	0.004	0.865	-0.009	0.593
Sale growth	0.004	0.814	0.001	0.836
Accruals	0.106	0.019**	0.086	0.024***
F Limer – statistics Hausman- statistics			0.816 (Pooled) - (-)	0.458 (Pooled) - (-)
D-W statistics			1.964	2.004
Determination coefficient			0.100	0.077
The adjusted coefficient of determination			0.076	0.052
F- statistics			4.158	3.118
The significance of the model			0.000	0.003

***Significance level with 99% confidence **Significance level with 95% confidence
*Significance level with 90% confidence

In examining the models' significance, the probability value of F- statistic in both models is less than 1% (000.). All models' significance is confirmed with 99% confidence. The model's coefficient determination also indicates that respectively 7.6% and 7.7% of changes independent variables of earnings quality are explained by the model's variables.

F-Limer test has been conducted to select a data analysis model and use Panel or Pooled data. After confirming the research variables' reliability in the previous steps, the type of model was selected through the F-Limer test. The F-Limer test determines whether the model used is Panel or Pooled. If the Cross-Section F- statistic is less than a 5% level of significance, the selected model type is Panel, and if it is more than a 5% level of significance, it is Pooled. If the Pooled model is selected, the work is complete, and we will continue with it, but if the Panel model is selected, then the appropriate model, namely FEM or FEM effects, should be selected through the Husman test. If, in the previous step, the F-Limer test results indicate the use of the Panel model, the appropriate model should be selected through the Hausman test. If the Cross-Section Random statistic is less than a 5% level of significance, the effects method is fixed (FEM), and if it is more than a 5% level of significance, the random effects method (REM) is selected.

According to the results of Table (7) in examining the significant coefficients, since the probability of t-statistic for the independent variable of corporate governance quality in corporations with strong corporate governance is less than 5% and in corporations with weak corporate governance is greater than 5%. This variable’s significant effect is confirmed on earnings quality variable at a 95% level of confidence in corporate with strong corporate governance. It is not confirmed in corporations with weak corporate governance. Therefore, the fourth hypothesis is confirmed based on earnings quality that is different incorporated with strong and weak corporate governance. Thus, based on the fourth research hypothesis’s analysis, it can be concluded that earnings quality in corporations with strong and weak corporate governance is different.

5. Conclusion

Based on the effect of audit report type on earnings quality. So, according to the analysis of the first research hypothesis model, it can be concluded that the audit report type has a significant effect on earnings quality. Therefore, this hypothesis’s results are in line with Vichitsarawong and Pornupatham (2015) findings.

According to the analysis of the first research hypothesis model, it can be concluded that corporate governance quality has no significant effect on the interaction between audit report type and earnings quality. So, this hypothesis’s results are not in line with Habib and Jiang’s (2015) findings and Vichitsarawong and Pornupatham (2015). Since no research has been conducted in Iran on the relationship between variables, comparing the country's research results is impossible.

According to the analysis of the third research hypothesis, it can be concluded that the type of audit statement incorporates strong and weak corporate governance is not different. This hypothesis’s results are not in line with Habib and Jiang's (2015) findings and Vichitsarawong and Pornupatham (2015). Since no research has been conducted in Iran on the relationship between variables, the research results’ comparison is not possible.

According to the analysis of the fourth research hypothesis, it can be concluded that earnings quality in corporations with strong and weak corporate governance is different.

This hypothesis’s results align with Habib and Jiang’s (2015) findings and Vichitsarawong and Pornupatham (2015). Since no research has been conducted in Iran on the relationship between variables, comparing Iran's research results is impossible.

In general, it is suggested to creditors, investors, and other stakeholders to pay more attention to corporate governance quality and notice it in their decision- making models. Based on the research's theoretical foundations, corporate shareholders are advised not to be indifferent to corporate governance and audit opinion type because it can influence audit opinion type.

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