



The impact of audit systems methods on cash management and the distribution of profits for companies listed in the Iraqi Stock Exchange.

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ABSTRACT

the research aims to show the impact of the audit systems followed by the administration on how to manage cash as well as how to manage the distribution of profits, by following the best audit methods to help the administration achieve the highest quality of cash management and profit distribution. The following hypotheses have been put forward: (the characteristics of the auditing institution affect the management of benefits earnings) and (the characteristics of the auditing institution affect the management of cash earnings). The research sample was a group of Iraqi companies listed on the Iraq Stock Exchange for the period from 2015 to 2018. The researchers designed a questionnaire for the practical framework and its results were statistically analyzed to prove the research hypotheses. The conclusions were reached, the most important of which is the important and effective role played by the audit institution in reducing profits management due to its negative impact on the management of the distribution of accumulated profits and cash management

key words: audit systems, cash management, distribution of profits, audit systems

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Introduction

In recent years, volatile economic conditions have affected companies and caused the issue of financial reporting in companies and its related issues in managerial decisions to be very significant. Research has shown that managers manage earnings through a variety of motivations (DeFond & Jiambalvo, 1994; Heally & Wahlen, 1999; Baker et al., 2009). Due to the problems of information asymmetry resulting from earnings management, which leads to a reduction in the value of shareholders, both market participants and policymakers are concerned about earnings management (Teoh et al., 1998; Levitt, 2007). There are two ways to change a manager's behaviour by reducing information asymmetry: one is reducing information asymmetry directly through incentives and the other is to indirectly reduce information asymmetry through monitoring. Given there is potential for earnings management in companies, the need for mechanisms to control this issue is required. In this regard, effective corporate governance can reduce the possibility of managerial opportunism (Johnson & Waidi, 2013; Anis, 2014). The company's management system through external and internal mechanisms can lead to effective management, reduce the problems of information asymmetry and increase shareholders trust. Corporate leadership mechanisms are tools for the shareholders who seek to reduce agency costs by changing the behavior of the managers they represent (Kanagaretnam Tenamet et al., 2007; Chen and et al., 2007). In this regard, auditors as external control mechanisms of corporate governance can play an important role in raising awareness of this issue for stakeholders. Auditors can limit conflicts of interest between people within and outside the organization through quality audits and reduce information asymmetries and agency costs. According to the statement of Fundamental Concepts of Auditing

published by the American Accountants Association, the characteristics required for auditing are subject to the conditions that give rise to the need for auditing and the process that meets the requirement. Acquiring the qualifications of a successful auditor depends on having different characteristics in the fundamental issues of the accounting profession (professional and ethical competence), having a vision, having an overview, improving social skills, decision-making power, leadership and communication skills of auditors (Anderson, 2011). The characteristic of an auditor can be divided into two groups: individual characteristics and structural characteristics (Jannesari, 1391). Personal characteristics are the ones that are somewhat unique to the auditing profession, some of the auditor's characteristics are delegated directly to him via external users of the information. These characteristics include the "option" and "acceptance".

Considering the role and importance of an auditor and the nature of the auditory characteristics in the field of earnings, the effect of the auditor's characteristics on the types of earnings management is examined in this study, and securities and developers of accounting and auditing standards are considered the most genuine users of the study. Providing information about the characteristics of the auditor and its relationship with earnings management in investable companies can help diverse user groups to make appropriate decisions. In this research, earnings management is considered in two aspects, including accrued earnings management and cash earnings management. Furthermore, the characteristics of the auditor include age, competitiveness, independence, number of partners, rank in the Society of Certified Public Accountants, the rank in the stock exchange, turnover,

size, and expertise in the industry and the tenure of the audit institution.

2_ Research Problem

What is the extent of the impact of audit systems on limiting the manipulation of the company's earnings management in the area of accruals and cash activities?

3_ Research objective

The research aims to show the impact of the audit institution on cash management and how to distribute profits, by achieving the highest possible quality of audit methods to eliminate manipulation, as well as assisting management in managing cash and distributing profits correctly and sustainably.

4_ Research Hypothesis

Managers can manage earnings in two ways: one is earnings management through accruals, which is done by selecting accounting strategies through accruals (Holland & Ramsey, 2003) and the other is earnings management through cash activities, which is done by changing the nature or level of economic activities to achieve earnings goals (Roychawdari, 2006).

Earnings management based on cash activities arises in a variety of ways, including manipulating optional costs, (Roychawdari, 2006) overproduction, (Thomas & Zhang, 2002) selling price discounts, (Bou, 2008) and changing the time to sell assets (Gani, 2010). Due to the problems of information asymmetry caused by earnings management that can reduce the value of shareholders, both market participants and policymakers are concerned with earnings management because of the problems of information asymmetry caused by earnings management that can reduce shareholder value (Neo et al., 1998). Independent auditors in the organization can reduce information asymmetries between managers and shareholders. (Jones, 2011).

Independent auditors, as an effective monitoring mechanism, can identify problems such as inefficient operation caused by ethical problems. This issue can prevent the damage caused by opportunistic behavior and other problems. (Lou & Maa, 2016). According to the Statement of Fundamental Concept of the American Accounting Association, the auditor's characteristics are subject to the circumstances which give rise to the need for the audit as well as the process that meets the requirement. There is some evidence that auditor characteristics affect the management of earnings through accruals (Reguera Alvar Edo et al., 2019; Alzoubi, 2018). There is some evidence regarding the effect of auditor characteristics on earnings management through accruals; in other studies, there is also evidence of the effect of auditor characteristics on earnings management through cash earnings (Ismail & vitaro., 2016; Vachon Chi et al., 2011).

Given the basis of studies in previous research on the role of the auditor and the characteristics of auditors in the context of the occurrence of various types of earnings management, it is important to study this issue. Thus, the research hypotheses are generally as follows:

4_1 Research Hypotheses:

1. Characteristics of the audit institution affect accruals earnings management.
2. Characteristics of the audit institution affect cash earnings management.

4-2 Research Variables

To examine the relationships among variables in the context of research parables, the following explanations related to the research variables, their components and how to measure each is provided: X dependent variables, DAit: earnings management through accruals; the measurement according to Dicho & Dichef

(2002) model is as follows: the rest of the
 $TACC_{it} = a + \beta_{11}/Ait-1 + \beta_{2CFOit-1} + \beta_{3CFOit} + \beta_{4CFOit+1} + \epsilon_{it}$

TACC_{it}: total accruals to the total assets of the first period.

CFO_{it-1}: operating cash flow of the previous year to the total assets of the first period.

CFO_{it}: Current year's operating cash flow to the total assets of the first year period.

CFO_{it+1}: The following year's operating cash flow to the total assets of the first period.

1/Ait-1: The inverse of the sum of the first assets of the first period is added to the model to control the size of the company and reduce the error in inequality.

ABCFO_{it}: Cash earnings management due to abnormal operating cash flow; measured according to Roychowdhury's model(2006) is as follows:

The rest of the model is obtained as an unusual operating cash flow.

$CFO_{it}/Ait-1 = a + \beta_{11}/Ait-1 + \beta_{2Sit}/Ait-1 + \beta_{3\Delta Sit}/Ait-1 + \epsilon_{it}$

CF_{it}: Net operating cash flow, ΔSit: Changes in net sales revenue in the current year, (Sit=sit- -1ΔSit).

1/Ait -1: The inverse of the sum of the first assets of the period is added to the model to control the size of the company and to reduce the heterogeneity of variance error.

ABPROD_{it}: Cash earnings management resulting from abnormal production costs, measured according to the Roychowdhury model (2006) is as follows:

The remainder of the model is obtained as abnormal production costs.

$PROD_{it}/Ait-1 = a + \beta_{11}/Ait-1 + \beta_{2Sit}/Ait-1 + \beta_{3\Delta Sit}/Ait-1 + \beta_{4\Delta Sit-1}/Ait-1 + \epsilon_{it}$

PROD_{it}: Cost of manufactured goods during the interval (PROD_{it} = COGS_{it} ± ΔINV_{it}).

COGS_{it}: Cost of manufactured goods sold.

ΔINV_{it}: Inventory changes. Sit net income of goods sold. ΔSit: Changes in net sales revenue current year. (Sit = -1 ΔSit – Sit)

ΔSit: Changes in net sales revenue previous year. (Sit= -1ΔSit – Sit)'

1/Ait -1: Inverse of total assets of the first period; to control the size of the company

model is obtained as anomalous accruals and reduce error variance heterogeneity added to the model.

ADBISEXP_{it}: Cash earnings management due to unintentional discretionary expenses; it is measured accordingly to the

Roychowdhury(2006) as follows while the rest of the model is obtained as an unusual optional cost.

$DISEXP_{it}/Ait-1 = a + \beta_{11}/Ait-1 + \beta_{2Sit-1}/Ait-1 + \epsilon_{it}$

DISEXP_{it}: Optional costs (office costs, general and sales costs).

Sit-1: Inverse the sum of the assets of the first period to control the size of the company and reduce the error variance disorder is added to the model.

X independent variables (characteristics of the audit institution) AFit: characteristics of the auditor based on ten criteria analyzed as follows:

AAGE_{it}: the life of the audit institution from the time of establishment until that year.

ACOMP_{it}: competitiveness of the audit institution, the ratio of the total of each audit institution in the total income of the audit institutions that are members of the Society of the Accountants Certified Public Accountants in the same year.

AIND_{it}: independence of the audit institution; the ratio of the total revenue of an audit institution in a given year to the total revenue of that audit institution in the same year.

APART_{it}: number of partners of the audit institution; the number of partners of the audit institution that audited the firm.

ARNKCPA_{it}: ranking of the audit institution in the community; according to the qualitative ranking of the audit institutions by the Society Certified Public Accountants.

ARNKTSE_{it}: the ranking of the audit institution in the stock market based on the ranking of the audit institutions by the Iraqi Stock Exchange and Securities Organization.

AROT_{it}: turnover of the audit institution; as long as the audit institution changes it is one, otherwise it is zero.

ASIZE_{it}: the size of the audit institution; the logarithm of each audit institution in each

ASPEC_{it}: the specialty of the audit institution. The ratio of the total revenue of the audited companies of a particular industry by the auditor to the total revenue of the companies in that industry.

ATEN_{it}: the tenure of the audit institution is the number of consecutive years of auditing the company by a particular audit institution.

X control variables, GROWTH_{it}: company sales growth. Average sales growth of the last three years (Chen et al., 2010).

CFO_{it}: cash flow operation of the company.

CFCO_{it}: operating cash flow of the company, the ratio of operating cash flow to total assets (Chin et al., 2010; ALZOBI & LIN, 2018).

Lose_{it}: loss of the company; in case there is a loss, it is against one, otherwise, it is against zero (Wang & Lin, 2013).

SIZE_{it}: the size of the company; the natural logarithm of a company's market value (Chen et al., 2010).

MBit_{it}: growth of the company; the ratio of the value of the common market to book value (Chen et al., 2010; Alzoubi, 2018; Reguer Alvarado et al., 2019).

ROA_{it}: return assets of the company; the ratio of the operating earnings to total assets (Alzoubi, 2018; Reguera Alvarado et al., 2019).

INF_{k,t}: the inflation rate; the percentage of changes in the consumer price index listed on the central bank website. (Namazi & Rezaie, 1391).

FRMAGE_{i,t}:

life of a company; the natural logarithm of the years of admission to the stock exchange. (Vang & Lin, 2013; Alzoubi, 2018).

OWNER_{i,t}: institutional shareholders, percentage of ownership of institutional shareholders. (Vang & Lin, 2013; Alzoubi, 2018).

- BRDIND_{i,t}: independence of the board of directors; the ratio of the non-executive board to all board of directors. (Alzoubi, 2018).

year.

5_ Sample Research

The statistical population of the research includes the companies listed on the Iraqi Stock Exchange and the research period is from 2015 to 2018.

6_ Research models

Considering the thematic importance of the research to measure the impact of the ten characteristics of the auditor on the types of earnings management, the general framework of multivariate regression models of the research are stated below while considering the role of one-way control variables:

- The first hypothesis model is

$$DA_{it} = a + \beta_1 AFit + \beta_2 GROWTH_{it} + \beta_3 CFO_{it} + \beta_4 LOSS_{it} + \beta_5 SIZE_{it} + \beta_6 MBit + \beta_7 ROA_{it} + \beta_8 INF_{it} + \beta_9 FRMAGE_{it} + \beta_{10} OWNER_{it} + \beta_{11} BRDIND_{it} + \epsilon_{it}$$

- The second hypothesis model is

$$ABDISEXP_{it} = a + \beta_1 AFit + \beta_2 GROWTH_{it} + \beta_3 CFO_{it} + \beta_4 LOSS_{it} + \beta_5 SIZE_{it} + \beta_6 Mbit$$

$$+ \beta_7 ROA_{it} + \beta_8 INF_{it} + \beta_9 FRMAGE_{it} + \beta_{10} OWNER_{it} + \beta_{11} BRDIND_{it} + \epsilon_{it}$$

7_ Theoretical Foundations

One of the important topics of financial reporting considered in various studies is the issue of earnings management. Degeorge et al. (1999) define earnings management as the manipulation of earnings by management to achieve the expected level of earnings for certain decisions, such as analysts predictions or previous earnings estimates to

predict future earnings. According to Healey and Wahlen, earnings management occurs when managers use their judgment in financial statements and manipulate the structure of transactions to change financial reporting. Earnings management is done to mislead some stakeholders about the company's economic performance or to influence the results of contracts that depend on the reported accounting figures. Research shows that managers manage earnings through a variety of motivations (Dechow & Jiambalvo, 1994; Healey & Whalen, 1999; Baker et al., 2009). Managers use two methods to manage earnings. It can either happen in the form of earnings management through accruals by choosing accounting strategies and valuing accruals (Jones, 1991) or earnings management through cash activities by changing the nature or level of economic activities such as advertising, research and development as well as training to reach earnings goals. (Roychavdari, 2006). Evidence shows that after the application of Sarbanes Oxley Law accounting earnings management has shifted to cash earnings management due to the difficulties in identifying cash earnings management by auditors and stock market regulators (Commeffordet et al., 2016). Earnings management through accrual happens through changing accounting methods and estimations when reporting an event in the financial statement. The method directs the accounting earnings in a certain direction without leaving any cash effects. The basis of earnings management in this method is accruals. Intentional manipulation of cash activities takes place in earnings management through cash activities to change the reported earnings in a certain direction done by changing the activity schedule or trading structure (Dechow et al., 1996). Roy Chowdhury (2006) lists three types of earnings management tools through

cash activities, including sales manipulation and overproduction. Sales manipulation refers to the acceleration of sales by granting discounts or appropriate credit terms for the purpose increase current earnings. This type of manipulation can potentially reduce the value of the company by manipulating cash activities in the current period so that earnings rise may have a negative impact on future cash flows. Another type of earnings management through cash activities involves reducing optional costs. Optional costs, such as research and development, advertising and maintenance, are usually reported as an expense during the period; therefore, company managers can reduce reported costs and increase earnings by reducing optional costs.

Provided that managers reduce optional costs to estimate iodine targets, they ought to report unusually low costs. Another type of cash management is overproduction. Having overproduction, the overhead cost can be multiplied by the number of production units. As a result, the fixed cost per unit decreases, the production cost per unit decreases and the earnings margin increases. As a result, companies incur the costs of producing and maintaining overproduced items, which are not recoverable through the sales of the current period. Thus, operating cash flow becomes lower than normal. The separation of ownership from management is associated with agency problems and information asymmetry between managers and shareholders which requires oversight by accountants. Independent auditors are responsible for accounting corporate financial statements to comply with generally accepted accounting principles; therefore, the accreditation performed by auditors can ensure the accuracy of the company's financial statements. (Elsoby, 2018). After the separation of management from ownership, the need for reliable and transparent financial information

increased sharply. (Bushman&smith,2001). Given the issue of management separation from ownership, the discussion of corporate statements of companies is essential(Hasasigane, 2005).

One of the corporate governance mechanisms to improve the reliability and transparency of financial information is auditing via independent auditors yet the quality of the audit varies from one auditor to another. The quality of audit is one of the most controversial issues between researchers and legislators. Companies try to mark the market by choosing audit institutions whose work is of higher quality as well as accrediting financial statements, gaining the trust of users in the lack of earnings management. One of the indicators to evaluate the services of an auditor is a good reputation, background and size of the auditor(DeAngelo, 1981;Chenet al.,2005). Senior auditors can monitor and detect managers opportunistic behaviors (Brian et al.,2013). Large audit institutions are more independent, so they audit with greater quality (Deanjello,1981). Davidson & Neo (1993) stated that larger auditors (with a brand) have more oversight power than smaller auditors (without a brand). Another characteristic of a quality auditor is the accounting expertise in the industry. Auditing companies with special experience in the industry can achieve appropriate audit quality by utilizing specialized knowledge in the relevant industry and applying audit programs appropriate to that industry (Chin &Chi,2009).The results of some studies reveal that companies whose auditor is an industry expert have a lower level of management of optional accruals than companies whose auditor is not an industry expert (Balsam et al.,2003; Yuan et al.,2016). Furthermore, auditor independence is an important characteristic of the auditor. In the most existing definitions, there are two dimensions to independence: one is cash

governance and related theories such as agency theory, stockholder theory, etc., the need to review and audit the financial (esoteric) independence, and the other is an apparent independence cash (esoteric). Independence means the lack of mental inclination to perform audit operations. Apparent independence is the avoidance of circumstances that show the auditor in a conflict of obvious interests with the client (Alina & Vedonish,2006). Provided users of financial information do not consider auditors to be independent of clients they will never trust the information they have audited(Ansari et al., 2013). The issue of auditor rotation is one of the important characteristics of an auditor, especially about its independence. Audit institution rotation is always one of the potential ways to improve audit quality. In recent years, following the growing role of auditors in the capital market is growing more highlighted, more attention is absorbed. (Harris,2012). The tenure of the auditor is also one of the important issues to be considered in this regard. One view is that by increasing the tenure of the audit institution, the auditor's independence decreases over time, a process which can lead to a loss of motivation and diminish the auditors' purpose in the long run; having a close relationship with management causes this issue(Gul et al.,2007). On the other hand, opponents of reducing audit independence with auditing for a long time believe that auditors can gain better knowledge and experience about their clients. As a result, this experience can increase the quality of the audit(Manry et al.,2008). Previous studies on the impact of the competition in the audit market on audit quality often show the consistent effect of audit market focus on audit quality. Bounet al.(2012) found that the focus of the auditing market was associated with a higher probability of realizing the earnings projected by analysts. These studies showed

that there is a positive relationship between audit market focus and the quality of accruals, however, the US government accountability office, warned of the potential and adverse effects of the audit market whose focus is on audit quality(2003-2008). Based on previous research,therelationship :

between audit market focus and audit quality is not clear. Kalapour et al.(2010) and Newton et al.(2013) argued that greater focus on the audit market would lead to economies of scale and reduced audit costs; thus, auditors would focus more on audit quality. Nonetheless, according to the opposite argument, Boon et al.(2012) believe that auditors in centralized audit markets have little incentive to improve the quality of their services. This issue is likely to lead to their over-confidence and the result is the weakening in the quality of the audit. Qualitative ranking of audit institutions is another issue with the discussion of auditor characteristics. Due to the inactivity of major international audit institutions in Iran, the issue of ranking audit institutions in Iran was raised. Accordingly, trusted stock exchange institutions are classified into four categories by Exchange and Securities Organization. Based on this ranking, first-tier audit institutions are likely to have a higher quality of auditing than trusted auditors in other groups; hence, first-tier audit institutions are allowed to audit major business owners. According to the evaluation criteria of the Exchange and Securities Organization, (Mohammad Rezaie& Yahyaie, 2017) can be predicted that the first-class trusted audit institutions should have experienced and sufficient human resources (staff and audit partners), a large number of customers and more independence. The Exchange and Securities Organization proposed ranking as a criterion for distinguishing the quality of auditors in the country yet whether the first class trusted audit institutions have a higher audit quality than the audit institutions of

other groups are a question that seems not to be answered yet. Another issue raised in recent years is the ranking of audit institutions by the Society of Certified Public Accountants. The society of Certified Public Accountants divides its institution member into four groups based on quality control scores. Group A audit institutions are the ones with the highest quality control scores, while group D audit institutions have the lowest quality scores. Another criterion for the auditor is the number of partners of the audit institution. According to the approvals of the Iraqi Stock Exchange and Securities Organization, items such as the number of partners, composition and percentage of ownership of the partners, useful work experience of partners in the auditing profession after obtaining a bachelor's degree, partners' useful work experience in the auditing profession after obtaining a certified accountant, retention of partners in the audit institution, educational background of partners, participation of partners in activities outside the firm (such as university teaching, participation in workgroups, professional committees, society, exchange, writing books, presenting articles), membership in domestic and international professional associations was measured in the evaluation of audit institutions.

Focusing on the abovementioned theoretical foundations, the relationship between the characteristics of the auditor and different aspects of earnings management is investigated in this study.

The management faced a problem in the audit process through a conflict of interest between shareholders and management, and this was evident in the agency theory and the problems that faced the application of this theory. The management theory was defined according to Investopedia, Retrieved 8-3-2017:(Agency theory is a principle that is used to explain and resolve issues in the relationship between business principals and

their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents).

Various proponents of agency theory have proposed ways to resolve disputes between agents and principals. This is termed "reducing agency loss." Agency loss is the amount that the principal contends was lost due to the agent acting contrary to the principal's interests. The traditional example of the contribution of agency theory to management accounting relates to the principle of control ability, where the managerial accounting auditor focuses on evaluating employee performance through the use of performance measures if it is possible to significantly influence the performance measure. Because of the dependence of the rule in the design of performance systems on the principle of informatics, DEMSKI demonstrated in 1978 and 1982 that the evaluation of administrative performance must be based on the concept of the ability to conditional control and that control in terms of the traditional definition of it is not necessary and is not considered sufficient to provide a useful performance measure.

7_1 The most important reasons that urge an effective audit system are (Zabar Malika2016):

The first reason: is to find out which of the individuals in carrying out the work and to verify that they are aware of what should be done. Small errors may not be significant, but their cumulative effect over time. It negatively affects achievement. For example, if the company sells products through requests that it transmits by phone if it takes more time to receive the request than planned - this means an increase in cost and a decrease in profit.

The second reason: which shows the importance of oversight is related to the current variables facing organizations, managers. This dynamic characteristic of the internal and external environment shows the importance of the relationship between planning and auditing, where managers set goals and plans that require time to implement them, and during the period in which these goals are implemented, many changes occur in the organization and the environment. In which you work, and some of these changes require a modification in the company's plans or make these unrealistic goals. Thus, we find that well-designed control helps the manager to forecast, monitor and modify plans and goals to suit these changes.

The third reason: the complexity of organizations and their large size at present, as well as the multiplicity of products and markets, which makes administrative control a vital matter. The smaller the organization, the manager could observe the activities himself, but with the large size and field of activity, the managers responsible for the overall performance and the manager cannot monitor himself all activities and changes in circumstances and decide what adjustments are necessary - this shows the need for a formal regulatory system.

7_2 The methods of manipulation adopted in the monetary activities practiced by the management (Falih and Jamil, 2011):

1. Traded investments: manipulating the valuation prices of the securities portfolio and manipulating the

Classification of traded investments, as well as unjustified reductions in provisions prices, drop.

2. Cash: manipulation of cash accounts by not disclosing restricted monetary items and manipulating

exchange rates when translating monetary items available from foreign currencies, plus

3. Accounts Receivable: Manipulating the classification of receivables and not revealing bad debts.

4. Inventory: manipulating inventory valuation and pricing methods, to increase operating cash flows

In addition to the inventory statements including stagnant or damaged goods and an unjustified change in

Inventory pricing method.

Collect cash as quickly as possible with the decision not to reinvest.

7_3 There are six essential features or characteristics of auditing are:

- Systematic process.
- Three-party relationship.
- Subject matter.
- Evidence.
- Established criteria.
- Opinion.



Figure (1) Essential features of auditing (The source prepared by the researchers)

8_ Literature Review

Reguera Alvarado et al., (2019) showed that the size of the auditor normally has a positive effect and in the financial crisis a negative effect on earnings management. The auditor's expertise in the industry normally hurts earnings management yet in times of financial crisis does not affect earnings management. Rajpal& Jean (2018) found that fees paid to auditors for non-audit services have a negative impact on earnings

management, however, auditors' expertise in the industry, as well as the auditor's size, has no significant impact on earning management. Alzoubi (2018) showed that the tenure, size, expertise and independence of the auditor reduce earnings management. Lopes (2018) showed that in companies audited by large audit institutions, the level of earnings management is significantly lower than other companies. Shawn et al. (2016) found that the size of an audit institution has no impact on earnings

management yet has a negative effect on cash management. Ismail and Witamo (2016) showed that audit quality has a positive effect on the relationship between cash flow management through abnormal production costs and stock returns. Inaam et al. (2012) showed that institutional ownership only has a positive effect on earnings management in the business sector. Additionally, the interaction of the history of the audit institution and institutional ownership only in the business sector has a significant effect on earnings management yet no significant effect was observed in the industrial sector. Newman & Willekens (2012) found that as competitive pressure increased for the audit institution through competitors in the auditing industry, the likelihood of a comment being discontinued and the quality of accrued earnings diminished. Inaam et al. (2012) showed that specialist industrial auditors and senior auditors are associated with a lower level of accrued earnings management. Besides, there is a positive significant relationship between the senior auditor and cash management of earnings. In addition, they found that increasing the auditor's tenure was not related to cash management of earnings and earnings of accruals. Wuchunchi et al. (2011) found that industry specialist auditors and senior auditors, limit cash earnings management, however, high-end auditors have a positive relationship with cash management and changing the auditor can lead to fewer earnings management. Chi et al. (2011) found that the industrial specialty of the auditor, auditor salary, size of the auditor and long-term turnover of the auditor is associated with increased cash flow management. Kallapur et al. (2019) found that increasing competition of audit institutions improves the quality of accruals (reducing earnings). Meers et al. (2003) found that earnings management reduces with the tension of the auditor's tenure; the auditor's influence over management increases and the possibility of manipulating

al.(2016) found that audit size and auditor expertise have negative effects on earnings management. Kouaib& Jarbou(2014) showed that the city has a negative significant effect on earnings management. Furthermore, the interaction of audit history accruals is reduced with changing the auditor.

Vadie Nogabi et al. (2019) found when industrial specialist auditors interact effectively with the audit committee, there is a possibility to reduce earnings management yet when the audit committee interacts effectively with the tenure, there is the possibility for reduced earnings management and the size of audit institution also has a significant effect on the relationship between the effectiveness of the audit committee and earnings management. Farhad Yanderabi et al. (2018) showed that the auditor's expertise in the industry has a significant negative effect on discretionary accruals and also the interaction of auditor's expertise in the industry and institutional ownership has a significant negative impact on discretionary accruals. Darabi&Azhdari (2018) found that the relationship between audit turnover and audit rating with cash management is significant. Fattah Yanalchi & Fazel Dehkourdi (2018) showed that auditor independence and size of audit institution has a positive and a negative relationship with accrual-based earnings management and cash return management, respectively. Bandarian et al.(2018) showed that the quality of auditing (size) continuity of auditor selection, (tenure), institutional ownership reduces the earnings management of accruals.

Hamidian et al. (2018) found that the expertise auditor of industry and its interactive effect with the auditor's long term (more than four years) will be able to discover earnings management by changing the classification of companies listed on the Iraqi Stock Exchange and Securities; nonetheless, the auditor's comment does not

affect the discovery and control of the instrument. Pakmaram & Bahrisales (2017) found that the size of the audit institution does not affect the manipulation of cash activities through abnormal discretionary costs and abnormal discretionary operating. Ahmadi (2017) showed that by changing the auditor, manipulation of cash activities is reduced. Piabnama & khligkhiavi (2017) showed that there is no significant relationship between the ranking of reputable audit institutions and earnings management. Sadidet al.(1395) showed that qualitative ranking and audit institution turnover have a significant positive relationship with earning management through optional accruals. Vakilifard et al.(2016) found that in large companies, the auditor's five-year tenure is more likely to reduce discretionary accruals. Aghai & Nazemi Ardakani (2012) found that companies with their auditor as industrial specialists have lower optional accruals. Mojtehdzadeh et al.(2012) found that there is a reverse relationship between the size of the audit institution and earnings management. Namazi et al,(2011) found that companies whose auditor is an industry expert had lower discretionary accruals. Mojtehdzadeh et al.(2012)found that there is an inverse relationship between the size of the audit institution and earnings management. Namazi et al. (2011) found that there is no significant relationship between earnings management and auditor size; nonetheless, there is a significant positive relationship between earnings management and auditor tenure. Etemadi et al.(2019) found that companies whose auditor is an industry expert have a higher level of cash management of earnings through sales manipulation compared to other companies.

9_ Research Methodology

A study is a form of applied research since knowledge of the test results of the relationship between variables can be a good

cash flows. Hasasiganeh et al. (2017)found companies that are audited by large corporations have fewer earnings management yet no evidence was found on the relationship between audit quality and cash flow management. Shahabi & Ramazan platform for financial and economic analysis. The present study is considered descriptive research. Since the situation of companies is described and analyzed without the intervention of the researcher in this study, it is an event based on inductive- deductive reasoning.

Conducting the study requires the use of descriptive and inferential statistical analysis. In this research, documentary and library methods are used to collect information and data, which includes the use of dissertation and scientific articles from internet databases, auditors' reports, board reports and stock market information of the listed companies, which is valid in the Iraqi Stock Exchange through databases. The collected data were transferred to Excel software and after ensuring their accuracy to achieve the final data, calculations were performed and they got ready for analysis. Testing research hypotheses requires the use of multivariable performed using ivory software.

10_ Research Findings

10_1 Descriptive Statistics

Descriptive statistics of variables include central indicators(mean and median), dispersion (the highest, lowest, and standard deviation) and distribution (skewness and elongation). The result of descriptive statistics of the whole sample is presented in table 1. The number of scrutinized observations according to the selected sample includes723 company per year observation.

10_2 Testing regression models pattern selection to test research hypotheses

The results of regression models test related to hypotheses are presented in table2, the models. Additionally, according to F-Limer statistics of Chow test and the significance of its statistics, which is less than the error rate of 5% error level, the models should be performed in a combined method, according to Kaido statistics of Hausman's test and its significance, which is less than 5% error level, the model test should be performed using the fixed effects method.

Table No. 2-test results of model , related to hypotheses

Model	Test	statistic	quantity	significance	results
First hypothesis	Chaw	FLimer	4/22	0/0000	Combined data
	Hausman	Kaido	740/78	0/0000	fixed effects
	White	F	11/05	0/0000	Error variance Heterogeneity (generalized least squares)
	Pagan method	LaGrange	5856/3	0/0000	Self- correction errors.(first interval of the dependent variables)
Second hypothesis	Chaw	F Limer	1/19	0027/0	combineddata
	Hausman	Kaido	120/8	0/0000	fixed effects
	White	F	19/19	0/0000	Error variance Heterogeneity

respectively. According to the F-statistics of the White test and the significantly less than the error rate of 5%, there is an error variance inequality, and to solve the problem, the generalized least squares

method is used instead of the ordinary least squares method, so that the models are tested. Since the significant level of the LaGrange, coefficient of the test – Pagan method is less than the error level of 5%, there is a problem of correlation among the errors,

In order to solve this problem, the first interval of the dependent variable is used in

					(generalized least squares)
	Pagan method	LaGrange	5732/3	0/9999	Self-correction errors. (first interval of the dependent variables)

10_3Hypothesis Test Results

Table No. 1 the results of the descriptive statistics of research variables.

Type of variables	Variable name	Number of views	Average	median	maximum	lowest	Standard deviation
Dependent variables	Accrued earning management	723	% 8	%48	%80	% 001	78
	Cash earnings management	723	% 7	% 6	% 83	% 002	48
	Audit life	723	18/33	15	48/18	1	11/74
	Competitiveness of the audit institution	723	% 1	% 08	% 5	% 006	% 07
	Independence of the audit institution	723	% 45	% 21	% 23	% 019	%32
	Number of partners of the firm	723	5/60	4	20	2	4/25

Source: findings of the study.

Independent

variables

	Audit institution ranking in public	723	1/27	1	4	1	0/56
	Audit institution in stock exchange	723	1/41	1	4	0	0/71
	Audit institution turnover	723	0/15	0/15	1	0	0//001
	Audit institution size	723	24/068	23/04	25/89	21/12	0/81
	Specialty of institution	723	0/125	0/13	0/05	0/01	0/2
	Institution management time	723	1/95	2	4	1	1/01
Control variables	Sales growth of the institution	723	0/19	0/15	1/49	-0/48	0/28
	Cash flow issue	723	0/12	0/11	0/94	-0/42	0/14
	Loss of the company	723	6/51	5/89	1	0	0/001
	Size of the company	723	24/58	21/409	32/973	23/91	1/48
	Growth of the company	723	3/001	2/52	95/33	-75/66	6/82
	Assets return	723	0/124	0/12	0/68	-0/78	0/16
	Rate of inflation	723	0/19	0/16	0/34	0/95	0/97
	Life of the company	723	2/75	2/77	3/74	1/31	0/48
	Accruals shareholders	723	0/71	9/73	0/98	0/00	0/23
	Independence of the board	723	0/65	0/6	0/00001	0/99	0/2

Source: findings of the study:

10_3_1 Results of the first hypotheses test

According to table 3, results of the first hypotheses test showed that among the components considered for auditor's characteristics the effect of the auditing firm's independence on the management of accrued earnings according to T- statistics (2.21) and its significance (0/027), which is

less than the 5% error level, is significant and negative. The effect of the audit institution's rating according to the qualitative ranking of the Society of Certified Public Accountants on the management of earnings is significant and positive due to T-statistics(91.2) and its significance (0.0037)which is less than the error level of 5%. The effect of the auditing firm's turn on the management of accruals

earnings, according to the T-statistic (2.29), and its significance which is less than the 5 % error level, is significant and positive.

Table NO.3–test results of the first hypothesis(variable dependent: earning management based on accruals).

TYPE OF VARIABLES	VARIABLE NAME	ACCRUALS EARNINGS MANAGENENT		
		COEFFICIENT	T STATISTIC	SIGNIFICA NT
Independent variables	Y intercept	0/31	0/26	0/22
	Audit institution life	0/00008	0/44	0/65
	Competitiveness of institution	0/31	0/45	0/65
	Independent of the firm	-0/29	-0/21	0/02
	Number of partners	0/0003	0/66	0/51
	Institutional ranking in the community	0/0082	2/91	-/0037
	Auditing firm rank in the Stock Exchange	0/0082	2/91	0/0037
	rotation of the audit firm	-0/0052	-1/66	-/96
	Size of the audit firm	-0/017	-1/90	-/05
	Specialty of auditing firm	0/01	0/98	0/32
	Tenure of the auditing firm	0/002	1/49	0/014
Control variables	Sales growth of the company	0/016	2/045	0/041
	Operating cash flow	-0/025	-1/51	0/12
	Loss of the company	0/02	3/79	0/0002
	Size of the company	-0/0003	-0/072	0/94
	Growth of the company	-0/0005	-2/13	0/03
	Return on assets of the company	-0/009	-0/35	0/76
	Rate of inflation	-0/02	-0/58	0/43
	Life of the company	-0/02	-0/84	0/43
	Accruals shareholders	-0/010	-1/12	0/21
	Independent of the board	-0/01	-0/88	0/33

Furthermore, according to table 3, the effect of the size of audit institution on the management of the earnings ability of accruals is significant and negative considering the T- statistic(-1/66) and its significance(0/096), which is higher than

5% error level yet less than 10% error level. However, the life of audit institutions, the competitiveness of the audit institution, the number of partners, the specialization of the audit institution in the industry and the tenure of the audit

institution have no significant impact on the management of accruals, given the significance of T statistics.

Table No. 4 – test results of second hypothesis (dependent variable: cash flow management).

Type of variables	NAME OF VARIABLE	Cash Earnings Management		
		coefficient	T statistic	
INDEPENDENT VARIABLES	... of origin	0/670	2/78	0//005
	Age of audit institution	0/0007	2/27	0/23
	Competitive power of institution	2/24	2/94	0/003
	Independence of the audit institution	-0/09	-0/92	0/35
	Number of partners of the institution	0/0003	1/21	0/22
	Audit institution rank in the community	-/0002	-0/67	0/93
	Audit institution rank in the stock exchange	0/001	0/62	0/52
	Rotation of the audit institution	-0/003	-0/71	0/48
	Size of the audit institution	-0/02	-2/76	0/006
	Tenure of the audit institution	0/001	0/64	0/52
CONTROL VARIABLES	Sales growth of the company	-0/0009	-0/11	0/9
	Company operating cash flow	0/04	0/85	0/39
	Company losses	0//005	1/23	0/24
	Size of the company	0/005	1/35	0/85
	Growth of the company	0/000004	0/01	0/98
	Return of the assets	-0/02	-0/35	0/76
	Rate of inflation	-0/02	-0/58	0/54
	Age of the company	-0/02	-0/84	0/43
	Institutional shareholders	-0/010	-1/12	0/21
	Independent of the board	-0/01	-0/88	0/33

10_3_2 Results of testing the second hypothesis

Based on Table 4, the results of the testing the second hypothesis reveal the fact that the effect of the lifelong of the audit institution on cash earnings management is significant and positive among all the other considered components for auditor

characteristics based on T-Statistics (2.27) and its significance (0.023) which is less than error level of 5%. The effect of competitiveness of audit institute on cash earnings management is significant and positive based on T-Statistics (2.94) and its significance is (0.003) which is less than the error level of 5%. The effect of the size of an audit institute on cash earnings

management is significant and negative based on T-Statistics (-2.76) and its significance (0.006) which is less than the error level of 5%. Meanwhile, the independence of audit institute, the number of partners in the audit institute, the rank of audit institute in the Society of Certified Public Accountants, the rank of the audit institute in Stock Exchange, turnover of the audit institute, expertise of the audit institute and tenure of the audit institute based on the insignificance of their T-Statistics on cash earnings management have no significant effect.

Additionally, based on Table 4, the other results of testing the model reveals the fact that control variables of firm sales growth, operational cash flow of the firm, loss of the firm, size of the firm, growth of the firm, return on firm assets, the inflation rate, age of the firm, fundamental shareholders and independence of the board have no significant effect on cash earnings management based on the insignificance of T-Statistics.

11_ Conclusions and Recommendations

11_1 Conclusions:

Based on the tested relationships between the auditor's characteristics and accrued earnings management, the findings indicate that independence, the rank of the audit institution in the stock exchange and size of the firm have a negative impact, however, the rank in the community of verified public accountants and audit institution rotation has a positive impact on earnings management. Items have accruals; other characteristics of the audit institute do not affect the management of earnings from accruals. The lack of the impact of the lifelong of audit institution is consistent with Kouaib&Jarbouibstudy(2014). The lack of

the impact of the audit institution competitiveness contradicts with Newman& Wilkinsstudy (2012). The negative impact of the independence of the audit institution is in accordance with the Al-Zoabi project and contradicts with the study of Fattahi Naftchi &Dehkourdi (1397). The positive effect of the audit institution's ranking in the Society of Certified Public Accountants in accordance with the study of Sadadi et al. (1395). The impact of the audit institution's ranking on the certified public accountant community is inconsistent with the study of Payamnama & Kalig Kheyavi (1396). The positive effect of the audit institution's rotation is in accordance with the study of Sadadi et al.(2018). Contrary to the study of Reguera et al., and contrary to the study of Mobarez et al.,(1395). The negative impact of the size of the audit institution is in accordance with the study of Alzoubi, Lopez, Hasyeganeh et al.,(1396)and contrary to the study of Reguera et al.,(2019).

Fatahinafchi& Dehkourdi(1397).andNazi et al., (1390).The lack of impact of audit institution expertise according to the research of Rajil &Jane (2018), Fatahi & Dehkourdi(1397), and contrary to the research of regular et al.,(2019), and Agaie &NazemiArdakani(1391), the lack of effect of the tenure of the audit institution is in accordance with the research of Inamo et al.,(2012) and Vadie Nogabi et al. (1398)and contrary to the study of Reguera et al. (2019), Alzoubi(2018), Bandarian et al.(1397).Vakilifard et al.(1395)and Namazi et al. (1390).

Based on the tested relationships between the characteristics of the auditor and cash earnings management, the findings indicate that the age and completeness of the audit institute have a positive effect, however, the size of the audit institute has

a negative impact on divided cash management. The negative effect of the size of audit institutions in accordance with the study of Sawnnet al. (2016). Fatahi Nafchi & Dehkourdi (1397) is contrary to the research of Inam et al.(2012) and Pakmaram &Bahrissales (1396).

Since the purpose of employing independent auditors in the corporate governance debate is specifically to reduce agency problems and to prevent opportunistic behaviours on the side of managers from occurring in the reporting of earnings, it is expected that audit criteria can be both effective in terms of audit quality and auditor characteristics.

The evidence of the study generally indicates that only the size of the audit institute can play this role due to the negative impact on the types of earnings management in all the models under consideration; in another word, the larger audit institutions have a greater ability to reduce accrued earnings management in the companies under review. The argument is that large audit firms have more independence and more auditing quality(Deanjello,1981). Furthermore, such large audit institutions have the ability to monitor and detect the opportunistic behavior of managers.

According to the results obtained in this study, the independence of the audit institute also played an effective role in reducing earnings management due to its negative impact on accrued earnings management and cash management. Consequently, it can be expected that increasing the independence of audit institutions within the framework of professional ethics of auditing will reduce the representation problems resulting from management actions to manipulate earnings. A decrease in the score of quality control and a decrease in audit quality are

associated. According to the results of the present study, the quality of auditing by the Society of Certified Public Accountants, due to the impact on accrued earnings management has played an effective role in reducing earnings management. Auditors with more tenure are able to gain better knowledge and experience about their clients as well. Such an experience can cause an increase in audit quality(Manryet al., 2008). According to the results obtained in this study, the turnover of audit institutes has a positive effect on accrued earnings management. It may be argued that a lack of prior knowledge of the client in the first year has a negative effect on audit quality due to the auditor's turnover (American Association of Auditors,1997; Securities and Exchange Commission,2000, US National audit Office, 2003)and this has increased the likelihood of profit by company managers. According to the results of the present study, even though the competitiveness of the audit institution did not have an effect on accrual earnings management, it had a positive effect on cash earnings management which is in line with the US Court of Auditor's(2008) warning about the potential and inverse impact of the audit market focus on audit quality.

According to Boone et al., (2012) auditors are less motivated to improve the quality of their services in centralized audit markets, which is likely to lead to overconfidence in them, which in turn weakens audit quality and increases the chances of earnings management. Evidence of the present study also shows that the number of partners in the audit institute has no effect on accrual earnings management and cash activities management in none of the models. It seems that the quantity of the partners of the audit institution may not be an

effective factor in evaluating the role of audit institution in preventing earnings management; in this regard, it is better to pay attention to the quality aspects of the partners, including academic and professional records of audit institution.

11_2 Recommendations:

Due to the importance of the control mechanism and the role of audit accreditation in the field of corporate governance, it is recommended that auditors adhere to professional ethics, maintain independence, and exercise professional care, pay attention to professional competence and increase professional knowledge and experience provide audit services with the right quality as the outcome of the audit by quality auditors with the desired characteristics provides the grounds for stakeholders to confide in the reported financial information of the companies and this issue can bring appropriate decisions for these groups. Besides, owing to the importance of the independent auditor's effectiveness in limiting earnings management of companies which could be the basis for problems due to conflict of interest between managers and owners as well as other stakeholders.

Finally, since this study does not focus on the role played by audit committees and internal auditors as other intra-organizational observatory criteria, the researchers are recommended to take cases such as doing additional research focusing on functional effectiveness and characteristics of the audit committee along with the characteristics of the auditor to prevent earnings management as well as additional research focusing on the effectiveness of internal controls and based on control weaknesses along with the auditor's features to reduce profit

management, it is suggested that the pillars of accounting and auditing standards, the auditing organization and the Society of Certified Public Accountants have continuous quality control of audit institutes and take the professional improvement and professional competence of such institutes into consideration while doing the process of auditing. Additionally, encourage companies to employ efficient and effective independent auditors in their audit work. According to the results of the present study, it is suggested that in general, audit institutions with shorter life long, more independence, less competition focus, more appropriate quality rating rank in the Community of Certified Public Accountants and larger size be used to prevent the occurrence of earnings management in surveyed companies as, according to the study results, the use of such audit institutions lead to a reduction in some aspects of earnings management. Focusing on criteria of independence, quality control and size of audit institutes reminds the importance of aspects of audit quality in observing management into consideration so that other aspects of the topic are studied.

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