The impact of corporate governance and external auditing on compliance to mandatory disclosure requirements in Tehran stock exchange listed firms

Mohsen Fatehi, Nasrin khodabakhshi, Adel shahvalizadeh
Ardabil Branch, Islamic Azad University, Ardabil, Iran.

ABSTRACT
The corporate governance has many advantages for developing countries such as Iran. In developing countries, it helps to achieve sustainable growth rate and stability in the national economy and deepens the capital market and increases savings. In addition, it can increase the rate of investment, the interests of minority shareholders and growth in the private sector by creating a competitive capabilities, to help finance projects, income and employment opportunities will be created. Auditing is regular process (systematic) to collect and impartial assessment of evidence for claims management in relation to the economic activities and events, in order to determine the claims or statements with predetermined criteria and report the results to stakeholders. The mandatory disclosure process, the directors of the laws and regulations of the Stock Exchange, trade law and accepted accounting standards require that all information in the financial statements and notes attached to disclose. In this study we sought to examine the impact of corporate governance and independent auditing are mandatory disclosure requirements. In this study, we sought to examine factors affecting Governance disclosure and corporate governance are for major listed companies in Tehran stock exchange during the years 1387 to 1392 sampling systematic elimination of the restriction inherent in the screening and the number of remaining companies to test research hypotheses 113 in 678 view the collection. The results show that the effect of corporate governance on mandatory disclosure requirements, but does not affect the external auditing on mandatory disclosure requirements.

INTRODUCTION
Cod bury known as the father of corporate governance, corporate governance is introduced as a system in which companies are directed and controlled, In fact, it is associated with the system, responsibilities, control systems and decisions at the highest levels of the organization knows. [6]

In addition, separation of duties, Chairman and Managing Director, as well as the performance of outside board members added. Outside board members are reputable and successful people who are interested in developing your reputation and good name. Most of the members are experts in control and decisions are also very skilled. This people haven’t the executive responsibilities in the company and do not receive salaries [5]. Stiglitz [7] first argued that one of the important ways to control and track benefits and increase the by the management structure cumulative shareholders (increasing institutional ownership). External auditors are people that are working in audit institutions and based on the contract between the company or organization with these institutions, financial and accounting operations business units based on accounting principles are examined and report to the General Assembly of Shareholders will provide. [8]

Disclosure of accounting to reflect the entity's financial information in the annual reports. If a disclosure by regulations source and state of laws are required Said the mandatory disclosure.

Statement of Problem:
Corporate ownership through stock ownership, significant influence over the control method of the company. Thus, the owners of the company's management was delegated to managers and stock exchange...
markets was formed. [2]. Since the responsibilities of board required members are to have a close relationship with the Managing Director, therefore, it is expected as overseeing the executive management deliberately held be outside board members. Therefore outside board members an important role in solving the problems agency between managers and owners on the one side and on the one side entitled in line making interests of shareholders with executives. [9].

Is change the rules of corporate governance and independent audit of compliance with mandatory disclosure requirements are affected?

Corporate governance First of all, the life of the enterprise in the long term, targeted and tries to protect the interests of shareholders against the management of the organization. Two purpose of corporate governance include: Reduce risk the enterprise and improve the long-term efficiency organization. [10].

Corporate governance classified to the internal and external organizational system. At the time of Asian crisis, corporate governance in these countries instead of outside the organization more in group were located internal organization. Johnson et al [12] emphasized the importance of the legal system in East Asia in Crisis and demonstrated the weaknesses of the legal institutions of corporate governance on the amount of depreciation and stock market downturn on the impact of the Asian crisis have. The phrase outside the organization refers to. Debt financing systems and operation of the company. In this system, large companies controlled by directors and owned by Shareholders outside the organization or are private shareholders. This situation led to the separation of management from ownership that Berlin and Means [11] was introduced. Disclosure reflect the entity's financial information in the financial statements that is usually offered yearly. A good disclosure, improves analysts earnings forecast accuracy next year. Companies disclosed either mandatory or optional information [13].

Auditing as an independent professional, an important duty for the accredited financial reports for the users of financial information, is responsible. Therefore, independent auditing can be a signal for investors Comments audit compliance mandatory disclosure requirements will increase and improve the corporate governance will result in greater compliance disclosure requirements.

Iranian companies are trying to improve corporate governance and independent audit quality. The effects of these regulatory changes, we influence corporate governance and independent audits on mandatory disclosure requirements will review.

The importance of research:

The main purpose of the disclosure, informed the analysts and investors about the amount and timing of future cash flows, that this disclosure to analysts and investors to help predict future earnings. Research that has been done shows that a good disclosure, analysts earnings forecast accuracy improves next year. [13].

The main goal corporate governance determines the correct control and supervision between Shareholders, board of directors and executive officers is to reduce agency costs. Good corporate governance, the board and management should encourage companies follow to target that benefit the company and its Shareholders. The main mission of the independent auditor, independent opinion on the annual financial statements of the organization. Independent auditing can be seen as a signal for investors. Comments independent audit compliance mandatory disclosure requirements will increase and improve the corporate governance will result in greater compliance disclosure requirements.

McConnell and Servaes [14] positive relationship between firm performance and the level of institutional ownership and major external owners have observed. Jae-Seung, Jun-koo. and Kyung-Suh [15] reached the following results: better management resulted in better corporate governance and attention to their stakeholders and value of company a positive relationship with corporate governance.

Balling, Holm, Poulsen [16] are useful corporate governance ratings to investors in were examined. They hypothesized that the information asymmetry by the disclosure requirements in relation to the governance structure is not entirely corrected. Thus it seems that the value of the services provided by the company ranking information for investors, with the assumption justified. Singh & Gaur [17] show that business groups, lower profitability from independent companies show. Accordingly, the impact of corporate governance and independent auditing of compliance with mandatory disclosure requirements has received much attention.

Karagiorgos, Drogalas, Christodoulou, and Pazarskis [20] conducted a study entitled "auditing as an effective instrument for corporate governance" did. This research was conducted through an extensive review of the literature and the results showed that the internal audit plays a key role in implementing efficient and effective corporate governance.

Heitzman, S., Wasley, C. and Zimmerman, J [19] The impact of threshold of significance and incentives for managers to the process disclosure examine the cost of advertising. Three period of disclosure, soon mandated disclosure, voluntary disclosure soon and period mandatory-voluntary disclosure should be evaluated. The results showed that the process disclosure of information affecting motive mandatory (significance threshold) and explains the motivations for voluntary disclosure the process cost more of advertising. Drogalas et al [20], the relationship between internal audit and corporate govern theoretically investigated and concluded that
effective corporate govern companies in developing countries is important because it can lead to management excellence.

Conceptual model

Conceptual model is presented in the following diagram:

![Diagram](https://via.placeholder.com/150)

Operating research model:

\[ MDI_{it} = \alpha + b_1 \text{Board} + b_2 \text{CRH} + b_3 \text{P} \]

- Independence the Board of Directors = Board
- Institutional shareholders = CRH
- Audit Report Type = P
- Index of mandatory disclosure requirements = MDI

To measure the rate of corporate govern used as follows:

Independent variables:
- the Board of Directors independence: the ratio of non-executive directors be the duty the Board of Directors
  \[ \text{the Board of Directors independence} = \frac{\text{non-executive directors}}{\text{duty directors}} \]

Institutional shareholders: in the research investments institute or other companies who hold ordinary shares of other companies, called institutional shareholders. To calculate the percentage of institutional shareholders in the company's the number of shares, shareholders institutional on the total number of ordinary shares at the beginning of the split. In other words:
- Percentage of institutional shareholders CRH =
- Number of ordinary shares held by investment companies and commercial
- \( m = \) The total number of ordinary shares at beginning of period

\[ CRH = \frac{n}{m} \]

External auditors index:
- Audit Report Type: This variable is a dummy variable with value one and zero is shown. Amount zero if the report conditional to audit report amount one if the report accepted to audit report is used.
- Dependent variable Mandatory disclosure requirements index:
  - If the mandatory disclosure requirements is used. And if they do not adhere amount of zero is used.

Control variable:
- To reduce the other factors on the dependent variables are used the control variables as follows:
- Growth company: in this research for the calculation company growth from the ratio market value to book value of common stock will be used as follows:
  \[ GROWTH = \frac{MV}{BV} \]
  - MV equal to the market value of common stock and \( BV \) equal to the book value of company common stock.
  - \( \text{lev}_{t} \): Financial Leverage
  - Which obtained by dividing the debt to assets of the company.
  - \( \text{size} \): size of company
  - From natural logarithm of company assets obtained.
Sampling and sample size is used to determine the sample size from the system at elimination of that companies that have the following requirements to be accepted Statistics society.

1. The companies are part of the companies in the Tehran Stock Exchange.
2. Before 1387 companies must be listed in Tehran Stock Exchange.
3. From 1387 until 1392 the required information is available.
4. In order to comply with the same reporting date and remove seasonal effects, leading to the end of their fiscal years the calendar.
5. Companies part of the banks and financial institutions (investment companies, financial intermediation, holding and leasing) are not.

Research hypotheses

Corporate governance mechanisms and external audit affected disclosure requirements mandated of listed companies in the Tehran stock exchange.

Secondary hypotheses:
1. The external audit on the mandatory disclosure requirements for listed companies in Tehran Stock Exchange has a positive impact.
2. The mechanisms of corporate governance with disclosure requirements mandated to the companies listed in Tehran Stock Exchange has a positive impact.

Research Objectives:
The main objectives: Corporate governance and external audit affected disclosure requirements mandated of listed companies in Tehran stock exchange.

Secondary objectives:
1. The use from independent audit on mandatory disclosure requirements of listed companies in Tehran stock exchange affected.
2. The corporate governance mechanisms on mandatory disclosure requirements for listed companies in Tehran stock exchange affected.

Research method:

This study was a descriptive and correlational. And in terms purpose of type the applied research. In terms of time can be considered retrospective study design. The study statistical population of all listed companies in Tehran Stock Exchange in various industry groups. In this research test the hypothesis Because of dependent variable is dual, logistic regression method used. Statistically methods used in this research is panel data methods. Then test for the significance of the model and independent variables were significant explained. Finally, after describing how to test for the decision about to reject or accept the hypothesis of the research are as follows. It should be noted in this study to analyze the data Spss and EVIEWS software is used.

The estimated results hypotheses:

Estimation results hypotheses 1-1:

Hypothesis 1-1 says: corporate governance mechanisms on mandatory disclosure requirements for listed companies in Tehran Stock Exchange has a positive impact. According to Table (1) If the significance level is less than 0.05% fixed effects will be accepted and otherwise random effects will be accepted. Based on the results obtained we will realize that random effects for our test is suitable and so random effects will be accepted.

According to Table (1) Due to that the significant level of institutional ownership is less than 0.05, we can conclude that institutional ownership has a significant impact on corporate disclosure requirements but the ratio of non-executive directors be the Directors duty on comply with the disclosure requirements of the Company does not have significant influence. According to the results of the other control variables can be seen that none of the control variables also do not have significant impact on mandatory disclosure requirements.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Statistic Z</th>
<th>sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional ownership</td>
<td>0.2594924</td>
<td>1.05</td>
<td>0.042</td>
</tr>
<tr>
<td>the ratio of non-executive directors</td>
<td>0.0000889</td>
<td>0.43</td>
<td>0.152</td>
</tr>
<tr>
<td>be the Directors duty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.2930063</td>
<td>-1.09</td>
<td>0.275</td>
</tr>
<tr>
<td>Company growth</td>
<td>0.0362889</td>
<td>0.86</td>
<td>0.391</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.0335973</td>
<td>1.31</td>
<td>0.189</td>
</tr>
</tbody>
</table>
Estimation results hypotheses 1-2:

Hypothesis 1-2 says: an independent audit on mandatory disclosure requirements for listed companies in Tehran Stock Exchange has a positive impact.

According to the results of Table 2 the significance level is more than 0.05, so the conclusion is reached that the random effects is suitable for our test, so random effects will be accepted.

Conclusion:

Results secondary hypothesis 1-1:

Results of secondary hypothesis 1-1 indicated that institutional ownership has a significant impact on mandatory disclosure requirements. The presence of institutional investors may be change the behavior of earnings management companies and also affect the disclosure of information. This is the result of regulatory activity that comes their institutional investors in the company. Institutional investors to use their abilities to monitor on management and the performance of the company depends on the amount invested. Whatever higher level of investment is in...
On the other hand investors have greater incentive to monitor management activity is relative to investors because when the shares owned by institutions increased, leaving the company has a high cost because the major stock sales discount is usually required. On the other hand, the major stock amount is very significant monetary value. In case remain passive institutional investors in the regulatory process, he exposed more losses than other investors will be highly motivated control. As one of the important ways for manipulating information - non-disclosure of some information is therefore institutional owners emphasize on full disclosure of information.

Results 2-1:secondary hypothesis
Results 2-1:secondary hypothesis how that independence of the board has a significant impact on mandatory disclosure requirements.

The Board members will have more discretion in carrying out their duties. Since the responsibilities of the members of the Board shall have a close relationship with the Managing Director, it is expected to monitor the executive management board is responsible for the outside. Thus, expected relative independence of the board is a significant effect on mandated disclosure, but in this study was not found this effect. In the research results were expressed that ownership institution on mandatory disclosure requirements have a significant effect but the ratio of non-executive directors be the Directors duty do not effect on mandatory disclosure requirements. Since coefficient of institutional ownership as specified in the regression is more than the ratio of non-executive directors be the Directors duty, thus we can said that corporate governance has a significant effect on mandatory disclosure requirements.

Second hypothesis:
Findings of the second hypothesis showed that the independent audit or no significant effect on mandatory disclosure. Auditing as an independent professional, an important duty for the accredited financial reports for the users of financial information, is responsible. Type text or a website address or translate a document.

The final product audit, is audit report. In recent years, despite the conflict of interest between shareholders and managers, the type of audit opinion is the particular importance. According to the efficient market hypothesis, in this kind of market information has been disclosed to the speed on stock price affect thus managers have conflicts of interests with shareholders, and since the disclosure of financial statement scan quickly affect on stock price. Note that managers to audit opinion on the good or the bad news are watching. Because type of good comments on the market can if for shareholders be pleasant to increase the stock price and if it will not be pleasant the stock price will fall. The aims could be consistent with the signaling. According to the signaling theory weak performance management, message and a negative signal to market securities are transferred. In addition, the disclosure of information with reliably degree lower than the performance of the managers of rational expectations theory and logic dictates that reduce the economic value of the securities. On this basis managers always feel threatened and therefore from motivation to avoid such reactions are the market. So try in the way they were even with additional disclosure items auditor's opinion regarding the financial statements quality to appropriate results of this research was not indicate.

Suggestionoffer from the results to the Stock Exchange:
According to the research findings, which said that corporate governance mandatory disclosure be effective it is suggested that stock Exchange corporate governance in developing mechanisms to accurately separate the duties Executive Directors of Chairman and Vice-Chairman the focused on and the regulatory role of outside directors companies as factors influencing to pay attention.

Auditors:
According to the results, which stated that external audit is not impact on mandatory disclosure therefore is suggested that audit firms with more training to their staff in their efforts to reduce this weaknesses.

Creditors and investors:
According to the results, which said that corporate governance has a significant impact on mandatory disclosure therefore is suggested when financed and investment in company shares of the proper case the situation corporate governance, ensuring the company.

REFERENCES