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The Effect of Corporate Governance Mechanisms on Audit Quality by Explaining the Intermediary Function of Auditor's Behavioral Components

Hossein Badiei
Ph.D. Candidate, Department of Accounting, Allameh Tabataba'i University, Tehran, Iran
Badiei@iau.ac.ir

Yahya Hasas Yeganeh
Faculty Member, Department of Accounting, Allameh Tabataba'i University, Tehran, Iran
(Corresponding Author)
Yahya_yeganeh@yahoo.com

Ali Saghafi
Faculty Member, Department of Accounting, Allameh Tabataba'i University, Tehran, Iran
Saghafi@atu.ac.ir

Jafar Babajani
Faculty Member, Department of Accounting, Allameh Tabataba'i University, Tehran, Iran
Babajani@atu.ac.ir

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ABSTRACT

The purpose of this study was to investigate the structural pattern of the effect of corporate governance mechanisms (internal organization) on audit quality considering the role of the intermediary variable of behavioral components of auditors. The statistical population of this research is independent auditors and auditors working in audit firms. A sample of 395 people was selected by simple random sampling method. In this research, the correlation coefficient, hierarchical regression and Structural Equation Modeling (SEM) were used for statistical analysis. The results of the correlation test and hierarchical regression model confirm the role of auditors' behavioural components in the relationship between corporate governance mechanisms and audit quality as mediators. Then, by adapting the research data and conceptual model, structural equation model was fitted to examine the effect of auditors ' behavioural factors as an intermediary variable. Finally, the significant effect of corporate governance mechanisms on audit quality was demonstrated by explaining the mediating role of auditors' behavioural components.

Keywords: Audit quality, Behavioural components of auditors, Corporate Governance mechanisms, Structural Equation Modeling (SEM)

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1. Introduction

In this research, we have tried to focus on the impact of corporate governance on audit quality with regard to the role of mediating the behavioural components of auditors. In recent years, non-observance of professional ethics, trust, and ethics has led to several financial scandals. Enron, Worldcom, Adelphia, Tyco, Martha Stewart and Parmalat are companies that have unethical and nonprofit procedures. Another moral slippage has also been reported in the industry of joint venture funds and in the primary mortgage industry, although unethical behaviour in the primary mortgage industry has contributed to global problems (Donaldson, 2005). Copeland (2005) argues that although the impact of non-legal behaviours and moral slurs may be low, the collapse of the world's largest companies leads to a loss of hundreds of billions of dollars in shareholder value. Also, these scandals destroy the credibility and reputation of hundreds of thousands of people who spent their time on lending and doing the right thing. In analyzing these events, some people, using fundamental economic assumptions, have expressed human nature as opportunistic and ignorant of morality. Others see the decline of ethical values in society as a reason to undermine ethical standards (Eatemadi & Dianti Dilami, 2009).

Sama and Shoaf (2008) argue that the culture of an institution is one of the factors influencing the behaviour of individuals within the organization. If the culture governing the institute is not appropriate, it will lead to problems in leadership. For example, in the case of Arthur Anderson, the culture of the institute has been charged.

The need to establish a culture and ethical behaviour has been so great that many major organizations have responded to the legal and environmental pressures by establishing ethical cultures in organizations. Professional and ethical behaviour is considered necessary by auditors, educated people, supervisory boards, legislatures, and homeowners (Weaver et al., 1999). If the ethical culture was created and the auditors behaved responsibly, the unethical behaviour of American companies would not lead to the failures and scandals of the early 21st century. Some scholars believe that organizational culture is one of the things that leaders of organizations need to consider. The collapse of Arthur Anderson is an opportunity to cultivate a moral culture by leaders (Jenkins et al., 2008).

2. Literature Review

An important study of areas related to the level of commitment and ethical inference of auditors was carried out by Lord and Dezvert in 2001. Unlike McNair, they used the "Case Study" method at the time of the sample test. The researchers hypothesised that subordination pressure and adaptive pressure played an important role in auditor behaviour led to an incorrect audit process, and emphasized that auditors who are subject to subversive pressure have higher levels of deviations than those who are subject to compliance pressure. Another assumption was that the research was related to social influence and levels of organizational and professional commitment. The level of tolerance for distortions is higher for auditors who, under the social influence, have less degree of professional and organizational commitment. The statistical sample of this study consisted of 171 members of the audit team of one of the international accounting firms in the United States. Subjects were provided with an error in asset valuation. After reviewing the subject, they were asked to answer two questionnaires: one related to organizational commitment and the other to a professional commitment. The result was that subordination pressure along with the orders of senior auditors led auditors to stop auditing that their content is incorrect. But on the pressure of compliance, the results and analyses showed that there is no significant effect of this pressure on the auditor's behaviour. It also concluded that when social influence is on the job, the effects of organizational and professional commitment disappear dramatically.

Time budget is an important management tool in many audit planning. Unusual temporal budgeting will lead to several problems, the most important of which are stress, loss of motivation for auditors, and recourse to doing things, including the elimination of some of the audit procedures from the program secretly, the failure to perform standardized and reliant auditing procedures. Much to the client's explanation. Such behaviours, which are caused by unconventional temporal pressure, can have a negative or negative impact on the quality of audit work, directly or indirectly (Karami et al., 2016).

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Research Background

Lightner et al. (1982) published a study on the behaviour of auditors that linked the consequences of such behaviour to social, moral and motivational factors. Unlike the previous one, the researchers used the questionnaire method to analyze the results. This study was conducted solely to determine the causes of unclaimed time (UCT). Researchers in this study analyzed specific factors that led to UCT. These factors were classified into three groups of five independent variables: motivation, moral factors (individual approval in not registering actual claims), and variables determined by location (supervisors' requests, the feasibility of meeting budgets, actual position). The sample population comprised 1016 responses to the questionnaire from three of the eight National Accounting Standards in the United States. This large sample was divided into two groups. The first group (506 responsive) was used to discover the relationship between the variables that were reciprocal validation and the second group (510 respondents) was used to test the compatibility of the findings of the first group. The least squares (OLS) method was used to analyze the results of the survey. The results showed that "the possibility of meeting budgets" is the best explanatory variable leading to the UCT. This was due to the perception of accountants and their reluctance to become inefficient, trying to maintain good customer service and doing a significant amount of work. The variable "Feasibility of meeting budgets" was related to the normative beliefs of employees and their willingness to refuse to report less behavioural work [demanded hours].

In 2004, Kouram et al. analyzed the decline in audit quality (RAQ) by two factors: the time pressure and the risk of false reports. They hypothesized that there was a negative relationship between RAQ and the risk of false reports. The 106 experienced auditors employed in the five largest audit firms in Australia comprised the statistical community of this study. The case filed about a hypothetical manufacturing company with plans for timing and audit tests, and a section for studying two possible RAQ positions were given as follows: 1) Accepting suspicious audit evidence and evidence, and 2) Reducing a sample. selected. The results showed that accepting suspect documents was directly influenced by the time budget pressure variable but did not apply to the risk of false reports. But to minimize the sample, the risk factor has a contingent effect. In other words, when there is little risk in false reports, auditors tend to minimize the sample. As a result of the above analysis, Korm et al. Showed that auditors do not have the same effect on RAQ behaviours (accepting suspicious documents and shrinking sample selection).

The effect of senior auditors plays a major role in ruining the image of the audit profession (Herrbach, 2001). He formulates a hypothesis that behavioural quality reductions lead to negligent behaviour. He chose elements of psychological contracts (human environment, rights, education, authority and control) between auditors and their respective institutions. Dependent variables Defined by quality control by senior auditors and independent variables are elements of psychological contracts between auditors and audit firms. In addition, Herrbach analyzed non-professional behaviour against the following factors: control authority, training, rights, less time reporting and emotional commitment. He used the questionnaire methodology with a community of 170 auditors working in a large audit firm in France. He concludes that all psychological elements, except for rights, have a negative relationship with the increasing quality of audit behaviour. As these variables rise, degradation behaviour decreases. The study was conducted on a sample of senior auditors working in one of the French audit firms.

Mashayekhi et al. (2013) developed a model of audit quality based on environmental characteristics and conditions governing the audit profession in Iran to provide a model for audit quality. This research, which, based on the opinion of expert auditors and capital market experts on the factors affecting the quality of audit, has been used in exploratory research, which is based on the field-based theorizing approach. According to the results of this study, the commitment of partners to audit quality is the most important factor affecting the level of work and the audit firm, which if accompanied by knowledge, experience and facilities, and adopting the necessary strategies can lead to the quality of audit To be Also, factors such as "the effectiveness of the quality control system in the profession, the status of formal accreditation, the demand for audit quality, the effectiveness of the response of the auditor, the status of audit institutions in the profession, the proportion of the number of audit firms and the labor market, the amount of support institutions against replacement And the "pressure at

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the professional level", "the size and structure of the institution, the reputation and credibility of the firm and partners, the expertise of the auditor in the industry, the proportion of audit fees to work, the staff and partner's shelf life, the period of tenure, time pressure and complexity of business and transactions "At the level of the institute and the audit work, they are known as intervening factors that Influence the audit.

3. Methodology

This research investigates the effect of corporate governance mechanisms on audit quality by explaining the role of mediating the behavioural components of auditors in active companies of the Tehran Stock Exchange. The current research is categorized based on purpose, is a type of applied research. According to the method, field research is descriptive. The statistical population of this study consists of independent auditors and auditors working in audit firms in 2018. In this study,

In this research, data collection was done in the field. At this stage, data are collected through questionnaires. This questionnaire was designed by referring to a questionnaire designed by Rabih Nahmeh et al., 2016, which was developed by applying the opinions of experts and experts in localization and using a 5-point Likert Scale to answer the questionnaire questions. One of the important features of this scale is to expand the scope of accountability selection and provide more options for that. The validity of the questionnaire was confirmed by the opinion of the professors and experts, and its reliability was confirmed by calculating the Cronbach's alpha (0.824) for a prototype.

Also, to determine the sample size according to the statistical society (auditing companies and independent auditors), the volume of which is finite and finite, simple sampling without placement was used. Due to the equal chance of all individuals, sampling was done using simple random sampling method. In view of the limited number of members of society, using the Cochran formula, the sample size for the model was determined 384. Considering the possibility of deleting some of the questionnaires due to possible defects, 395 questionnaires were completed by independent auditors and auditors working in the audit firms and collected.

To assess the effect of auditors' behavioural factors on the audit quality of companies operating in Tehran Stock Exchange based on Structural Equation Modeling (SEM), the effect of corporate governance on the behavioural factors of auditors was analyzed, and then their impact on the audit quality of the following model was based on Rabih Nehmeh et al., 2016 used.

In order to estimate the above model and analyze the relationships between variables, SPSS software, Smart-PLS using the collected data was used. One of the strongest and most suitable methods for analyzing behavioural sciences research is Structural Equation Modeling (SEM) because the nature of such topics is multivariate and cannot be solved by a two-variable method. This methodology or methodology is a complex mathematical and statistical compilation of multiple multivariate regressions that are compiled in a complex system to analyze complex phenomena.

Research hypotheses

The research hypothesis is as follows: "Corporate Governance has a significant effect on the quality of the audit, considering the role of the intermediate variable of the behavioural components of the auditors."

Given this hypothesis, the conceptual model and research variables are as follows:

- Independent variable: corporate governance
- Dependent variable: Audit quality
- Mediating variable: Behavioural components of auditors

Auditor's Behavioural Components: A set of beliefs that relate to ethical issues, especially in the profession, which are examined in this research through time, time pressure, and performance evaluation process.

Time budget: One of the factors of behavioural factors that was determined by questions 9 to 16 of the questionnaire.

Time pressure: One of the factors of behavioural factors that was determined by questions 17 to 22 of the questionnaire.

Performance evaluation process: One of the factors of behavioural factors that was determined by questionnaire 23 to 26 of the questionnaire.

Corporate Governance: its impact was directly and indirectly assessed on the quality of the audit, and

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based on the basic principles and questions 1 to 8 questionnaires were determined.

Audit quality: Market implication of the possibility that the auditor first discovers, in the first instance, cases of material misstatement in the financial statements or the accounting system of the client, and subsequently reports the detected distortion.

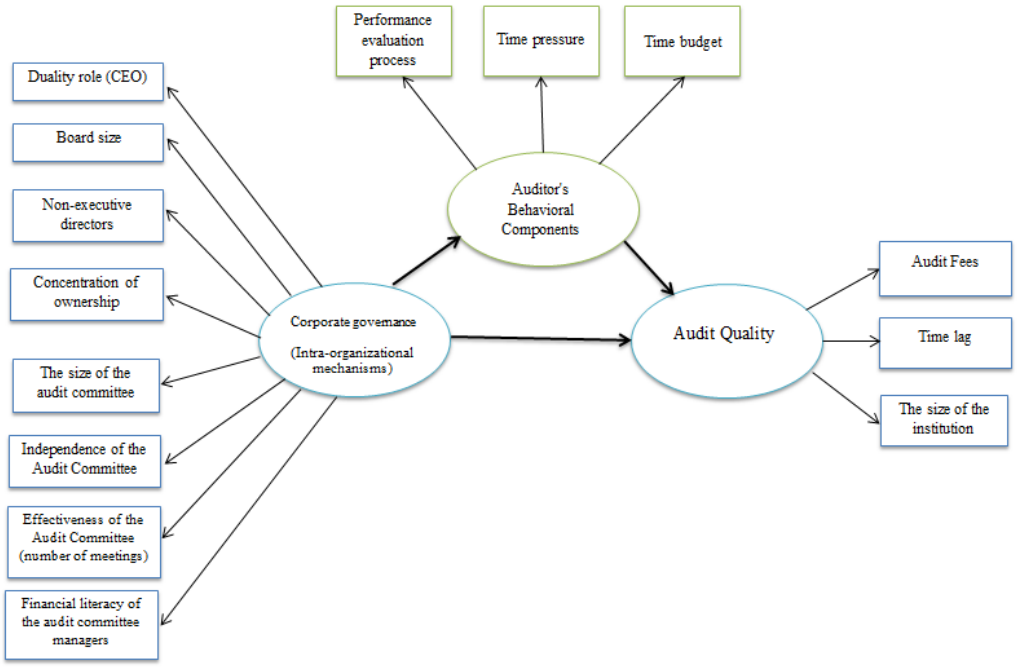


Figure 1: Conceptual Model of Research

4. Results

The research hypothesis is as follows:

"Corporate governance has a significant impact on the quality of the audit, considering the role of mediating the behavioural components of auditors."

To investigate this hypothesis, Baron and Kenny's hierarchical regression has been used due to the mediator variable (Aiken & West, 1991). In this method, the regression model is fitted twice, which is entered at the first stage of the corporate governance variable, and in the second rank, the variables of corporate governance and the behavioural components of the auditors have been introduced. It should be noted that in both cases the dependent variable is the quality of the audit.

First, we compute the correlation coefficient between the variables of the research and examine the relationships between the variables. The results are as follows:

Table 1: Correlation matrix of research variables

variable		Corporate governance	Auditor's Behavioural Components	Audit Quality
Corporate governance	Correlation Coefficient			
	P-value			
Auditor's Behavioural Components	Correlation Coefficient	0.457		
	P-value	***0.0001		
Audit Quality	Correlation Coefficient	0.344	0.780	
	P-value	***0.0001	***0.0001	

*** Significant at 5% level

Research findings

The table above shows the correlation coefficient of the research variables. In examining relationships, there is a significant relationship between corporate governance and audit quality and behavioural

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components of auditors. The results of fitting the hierarchical regression are as follows:

Table 2: Model fit results

Rank	r^2	F-value	P – Value
First	0.123	12.561	0.0001
Second	0.440	17.802	0.0001

Reference: Research Findings

Independent Variable First Order: Corporate Governance
Second-order Independent Variables: Corporate Governance and Auditor's Behavioural Components
Dependent variable: Audit quality

Table 3: The coefficients of the hierarchical regression model

Rank	Variable	β	Statistics t	P – Value
First	fixed the model	0.990	5.440	0.0001
	Corporate Governance	0.436	5.890	0.0001
Second	fixed the model	1.043	5.998	0.0001
	Corporate Governance	0.212	4.120	0.0001
	Auditor's Behavioural Components	0.355	5.089	0.0001

Dependent variable: Audit quality
Reference: Research findings

To test the effect of corporate governance on audit quality, hierarchical regression was used based on the mediating role of auditors' behavioural components.
In order for the variable to have a mediator role, it must have the following conditions:

1) There is a significant correlation between the mediator variable and the independent variable.
2) There is a significant correlation between the mediator variable and the dependent variable.
3) By examining the effect of the mediating variable, the relationship between the independent variable and the dependent variable will be weakened (Sarmad, 1999).

The matrix table shows the correlation between corporate governance variables and audit quality and auditors 'behavioural components. There is a significant correlation between the mediator variable and the independent variable, ie, auditors' behavioural components and corporate governance. Also, this table shows that there is a significant correlation between the mediating variable and the dependent variable, the auditors' behavioural components and audit quality.

Table 2 also shows that the corporate governance variable alone explains 12.3% of the audit quality variance in the first place, and in the second line, corporate governance and the behavioural components of the auditors, a total of 44% of the variance in audit quality is explained. The entry of the mediating variable, ie, the behavioural components of the auditors, significantly increases the coefficient of the regression equation.

Table 3 of the coefficients of the hierarchical regression model also shows that in the first place, the corporate governance regression coefficient on the audit quality is 0.436, and with the entry of the mediating variable, ie, the behavioural factors of the auditors in the second rank, the corporate governance regression coefficient on the audit quality with the value of 0.212 Significantly decreases. Therefore, it can be concluded that the behavioural components of auditors have a mediating role in the relationship between corporate governance and audit quality. Therefore, the main hypothesis can be accepted:
The main hypothesis: "Corporate governance has a significant impact on the quality of the audit, given the intermediary role of the auditors' behavioural components."

Study of the structural model of research

This technique is, in fact, a comprehensive and strong multivariate analysis of multiple regression that tests a set of regression equations simultaneously. In other words, the general linear model is expanded.

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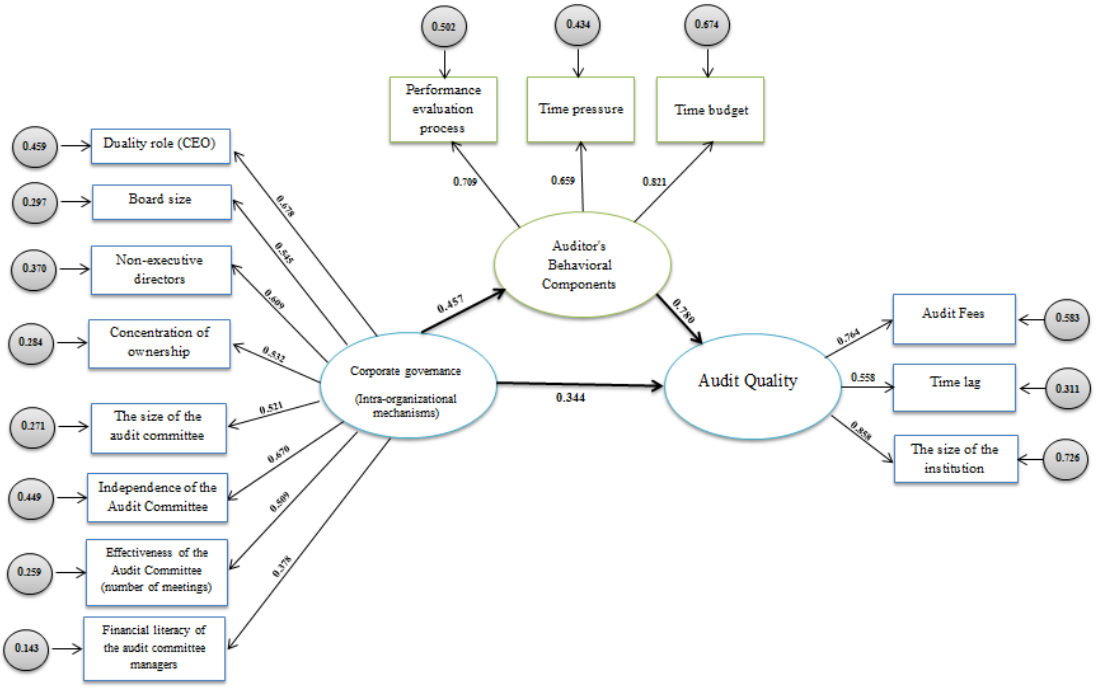


Figure 2. Structural analysis of the model

The previous diagram depicts the corporate governance structure structural equilibrium on audit quality by explaining the role of the intermediary of the auditors' behavioural components. The following table also shows the calculated coefficients in the model:

Table 4: Table of causal coefficients

variable		effect	Causal coefficient
Corporate Governance	Audit Quality	Direct	0.344
Corporate Governance	Auditor's Behavioural Components	Direct	0.457
Auditor's Behavioural Components	Audit Quality	Direct	0.780
Corporate Governance	Audit Quality	Indirect	0.356
Corporate Governance	Audit Quality	total	0.700

5. Conclusion

In response to the question of this research, "How many corporate governance mechanisms have a significant effect on the quality of the audit, given the role of the intermediary of the auditors' behavioural components?" It can be noted that corporate governance mechanisms alone in the first place explain a lower percentage of the variance in audit quality and in the second line, the mechanisms of corporate governance and the behavioural components of auditors generally account for a greater percentage of the variance in audit quality, that is, the entry of variables The intermediary of the behavioural components of the auditors increases the coefficient of determination by the regression equation significantly. Also, the results of the hierarchical regression test show that in the first place, the regression coefficient of corporate governance mechanisms on the audit quality is positive and significant and with the entry of the mediating variable, ie, the behavioural components of the auditors, in the second order, the coefficient of the second regression of the corporate governance

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mechanisms is on Audit quality is significantly reduced.

In order to investigate the effect of auditors' behavioural factors as an intermediary variable and adapt research data and conceptual model, structural equation model was fitted among organizational mechanisms of corporate governance, role duality (CEO), independence of the audit committee and non-executive directors Respectively, have the highest load factor, respectively. Also, according to independent auditors and auditors working in audit firms, factor load for auditors' behavioural components is related to time budget, performance evaluation process and time pressure. Regarding the dependent variable (audit quality) based on the conceptual model of research, the largest factor burden is the size of the institution and the lowest factor load is the time lag.

Finally, the study of the effect of corporate governance mechanisms on audit quality with the effect of intermediary role of auditors' behavioural factors showed that the direct causal factor of corporate governance mechanisms on audit quality is less than its indirect causal factor with the role of mediating the behavioural components of auditors. These results show that the indirect causal factor is considered more important than the direct causal factor, considering the variable of the behavioural components of the auditors as an intermediary, which is consistent with the result of the hierarchical regression. Therefore, it can be concluded that corporate governance mechanisms have a significant effect on audit quality due to the intermediary role of auditors' behavioural components.

In line with the research objectives and the results of testing the hypothesis of this section, it can be said that planners should have a special focus on corporate governance mechanisms and behavioural factors of auditors in order to increase the quality of the audit. Accordingly, the following suggestions are presented:

A: Proposals based on research results

1. Given the fact that the dichotomy of the CEO's role is the most factor in the intra-organizational mechanisms of corporate governance, and since Chang & Sun (2008) research has shown that after financial scandals, investors noticed that the duality of the role The CEO may threaten the board's trustee's role in monitoring financial reporting and potentially increase the risk of the decision maker's final decision on financial reporting, so it is recommended that companies avoid duplication of managerial roles as far as possible.

2. Regarding the independence of the audit committee after dichotomy, the role of the CEO is the most important factor in the intra-corporate governance mechanisms of corporations, and as Verlaminck and Sarna (2015) concluded in their study that the independence of the audit committee increased the quality of the audit Gets Because the audit committee is a new control mechanism in financial reporting, and if an independent and effective audit committee exists, audit quality will be improved due to effective monitoring of the corporate financial reporting process. Therefore, it is recommended that companies pay special attention to the independence of their audit committee.

3- Since non-executive directors after the two above-mentioned variables have the greatest factor in the intra-organizational mechanisms of corporate governance, companies are recommended to use executive boards in the composition of the board of directors to increase their accountability and accountability.

B: Suggestions for future research

Considering the importance of the issue of audit quality, corporate governance mechanisms and behavioural factors of auditors, it seems that conducting other researches with consideration of other aspects and factors influencing the quality of audit can be useful and solvent with the following suggestions: :

1. Except for the factors studied in this research, other factors influencing the quality of the audit are investigated.

2- Using other internal corporate governance mechanisms of corporate governance such as internal controls, risk management, appointments, rewards, etc., and their impact test along with auditors' behavioural components on audit quality.

3- Using external organizational mechanisms of corporate governance and their impact test along with auditors' behavioural elements on audit quality.

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