



Financial Restatements on Auditors' Job Mental Pressure: A Test of Tournament Incentives Theory

Farhan Bengoriz

Department of Accounting, Kish International Branch, Islamic Azad University, Kish Island, Iran

Negar Khosravipoor

Department of Accounting, South Tehran Branch, Islamic Azad University, Tehran, Iran

(Correspond Author)

neg.khosravipoor@yahoo.com

Nurooz Noroolahzadeh

Department of Accounting, South Tehran Branch, Islamic Azad University, Tehran, Iran

Submit: 26/9/2020 Accept: 10/11/2020

ABSTRACT

According to the agency theory, in order to reduce the agency conflicts and problems, the appropriate control mechanisms must be adopted so that the CEO steps towards the shareholders' interests and helps them to improve the transparency of financial reporting and reduce the financial restatement. Under this condition, in addition to increase the level of transparency and decision making power of the shareholders and investors, the auditors' mental pressure level regarding the corporate financial performance is also increased. This causes that the reports can be presented more timely without the need for yearly financial restatements. The purpose of the present research is to study the effect of financial restatements on auditors' job mental pressure by mediating the CEO's tournament incentives. A total of 97 companies in Tehran Stock Exchange were surveyed between the years of 2014-2018. In order to test and analyze the research hypotheses, multiple regression relying on testing classic hypotheses was used. The results showed that financial restatement has a positive and significant effect on auditors' job mental pressure. Also it was found that the CEO's tournament incentives reinforce negatively the positive effect of financial restatement on auditors' job mental pressure.

Keywords:

Financial Restatements, Auditors' Job Mental Pressure, Tournament Incentives

1. Introduction

Paying compensation to CEOs as a part of their remuneration is one of the proposed methods to motivate them and one of the common tools to align their perspectives and performance to increase the wealth of the shareholders (Bebchuk et al., 2011; 2012; Henderson & Fredrickson, 2001:98). From the theoretical perspective, it is expected that the cash compensation paid to the CEOs is based on their performance. It means aligning the CEOs' performance with the interests for shareholders encourages them (Zhang et al., 2018:2). In fact, the CEO's tournament incentives can be divided into two groups: (1) interpersonal competitions of the managers within the company, that is, the perceived differences of the CEO with other managers within the company; (2) The CEO competition with other CEOs from other active companies in an industry (Bognanno, 2001:293; Kale et al, 2009: 1480; Lazear & Rosen, 1981:843; Eriksson, 1999: 263). In other words, from the conceptual perspective and based on behavioral-motivational theories like the activist conditional theory, it can be stated that the compensation received by the corporate CEO plays a main role as a stimulus. This makes him responsive to the shareholder expectations (Khajavi & Shokrollahi, 2017:59). Such incentives have a positive effect on the performance of the corporate CEOs. The decrease of the corporate financial restatements as a quality measure of the corporate financial reporting is one of the positive consequences (Zhang et al., 2018:3). In other words, according to the audit standards, financial restatement is considered as an ambiguity criterion because the corporates try to present the misleading reports by omitting and manipulating results (Palmrose & Scholz, 2004:142). The underlying assumption in this research is to increase the auditor mental pressure when he faces with the demand of the employer to present financial restatement. The issue weakens the relationship between the employers and the auditors. In fact, restatement, whether based on the previous years or based on the nature of the accounts and the auditor's insight, leads to the increased auditor mental pressure because of their commitment to the shareholders. Financial restatement is an event which attracts the attention of investors, because the important financial restatement creates ambiguity in the auditor's ability to provide reliable financial information. It also leads to inappropriate performance

of auditing by the auditors and increase their mental pressure before starting auditing. Since the financial restatement raises doubts about the honesty of management, adequacy of the corporate internal controls, the CEO decision making and etc., the tournament incentives can be considered as an important factor in controlling the corporates' financial restatements and indirectly a factor in reducing the auditor's mental pressure. It should be noted that the auditor's mental pressure is a multidimensional issue that is divided into both internal and external divisions. The internal division depends on individual characteristics and the external division depends on environmental properties in which the auditor is engaged. Thus, financial restatement as an external factor can play a role as a stimulus to put more mental pressure on the auditor and this, in turn, increases the risk of auditing reviews. So the present research tries to answer the question that to what extent does the tournament incentive in the CEO influence the impact of restatement on the auditor mental pressure?

2. Literature Review

2.1. Financial Restatement

Although the financial restatement is not a new event, the number of the corporate earnings restatements have increased dramatically in recent years due to the aggressive behaviors, chaos and fraud in accounting. So the financial restatement has attracted the attention of many investors, analysts and policy makers (Wu, 2002:3). Earnings restatement and other financial information of the corporates from the previous years are necessary when there are errors in arithmetic calculations, using incorrect accounting procedures and misinterpretation and ignoring the facts when preparing financial statements (Lev, 2003:29). Gertsen et al., (2006) divide the financial restatement based on management intention and distortion degree of the information relevance. According to this, if the degree of distortion is not significant and the managers don't have any bad intention, this restatement can be considered as harmless lies. But when the degree of distortion is significant and there is no bad intention in the management, this is called "deception". This kind of restatement due to the decline in the corporate performance, probably changes expectations about the future predictions but it doesn't harm the corporate financial reports. If the restatement indicates a low

level of deliberate distortion. It is considered trivial as an accounting trick. This case doesn't change the expectations about the future prediction but decreases the investors' trust in the accuracy of the corporate future financial statements and it makes the market uncertain about the corporate forecasts. Finally the most serious kind of restatement is fraud that includes significant and deliberate distortion of financial statements. In this case, both the corporate reputation and the future forecasts about the future financial statements will be decreased. Financial restatement can be divided into three groups based on its reasons (Khajavi & Ghadirian Arani, 2015:56).

- 1) Restatement due to the issues relating to identification of revenues and expenses.
- 2) Restatement due to the issues relating to identification of assets, debts and reserves.
- 3) Restatement due to the issues relating to classification of the financial statements' items.

The incentives for meaningful financial restatement are also classified into three groups: the first group is motivation of the companies which have problems in profitability and liquidity. The companies are more likely to commit fraud and deliberate mistakes to improve financial results. The second group is motivation of the companies which tend to meet the market expectations by committing fraud and deliberate mistakes. The third group is motivation arising from some contracts such as the compensation contracts relying on the corporate performance and equity (Palmrose, Z, V & Scholz, 2004:140).

2.2. Tournament Incentives Theory

"Motivation" is a gerund rooted from the verb "motivate". It means "instigation", "encouragement" and "the reason for something". According to the definition, motivation means stimulating a person to do something to achieve his/her desired goals. The human, before any conscious action, has an intention and incentive. It is the motivation that drives human behavior (Pourzamani & Tarazian, 2016:57). Motivation is a general term that sometimes refers to people's needs, desires, or inner abilities (Huang & Boateng, 2017: 1460). Motivation is the reason for behavior. In other words, no one shows any behavior without a drive or motive. In fact, motivation refers to an inner state or a shortage and deprivation that makes a person to do things. What matters in methods of

creating motivation is that by giving a sense of ownership to the managers and pay them according to the proper procedure, we try to create the required and sufficient motivation in them to perform better their job (Chen et al., 2011:1178). The financial tools that help executives share the corporate ownership and motivate them to achieve higher returns for the shareholders' interests by reducing and expanding the size of the firm include: stock purchase plan as leverage, extra cash payment plan, extra cash pay to the external shareholders, redemption of shares, public offering part of the shares, transferring the corporate shares to the employees through retirement plan and etc. With a closer look, we can find that there are a variety of strategies to motivate the managers (Bloom & Michel, 2002:35). So the question always raises that what methods are appropriate in creating motivation among the executives that increase their efforts to achieve more returns. Capitalism focuses on the increased wealth of the shareholders; so it should be noted that the efficiency of the firms' executives is very important and by encouraging them, we can accelerate the increase of wealth (Conyon & He, 2011:1161). One of the criteria for creating motivation is the CEO compensation. One of the benefits of reviewing senior managers' compensation and the wealth of the shareholders in long-term, is to reduce the problem related to the managers' settlement. Financial and economic experts often believe that the compensation plans and sharing managers in the corporate ownership have economic benefits and lead to the increased wealth of the shareholders. On the other hand, inconsistent theories that such plans benefit managers at the expense of the shareholders have been proposed by researchers (Brockman et al., 2010:1125).

2.3. Auditors' Job Mental Pressure

Since the early 20 Century, with the development of industrialization and information, the job mental pressure became an important issue in the domains of psychological, sociology and behavioral sciences (Janssen, 2001:1040). In 1930, the term of "mental pressure" was proposed for the first time by Hunse Seeleh, the famous Austrian psychologist. By following the school of behaviorism, he refers to "mental pressure" based on the Stimulus-Response theory and considers it a kind of physical and mental need of human which causes a person's specific

responses in mental pressureful situations (Jones et al., 2010:25). Over time and with development of theoretical perspectives based on environmental changes, the issue of “mental pressure” became more serious, in so far as today, it has a negative consequence on job performance and physical and mental health of a person (Jusoh et al., 2008:123). In fact, the mental pressure affects a person because of the internal and external reasons. It is a complicated experience for a person that while it can be harmful, it is sometimes necessary (Morgan et al., 2002). In a comprehensive definition, International Institute for Occupational Safety and Health defines “job mental pressure” as a mental and physical harmful response that occurs when job requirements do not match the abilities, support resources, and needs of the employed person (Elstad & Vabo, 2008:79). The mental pressure that the employed persons encounter in the workplace has different reasons which among these the job mental pressure can be considered as a consequence of internal and external occupational factors and also as a determining factor for the health and life quality and the performance of the job roles. In other words, the job mental pressure can be caused by the following factors: mismatch with the job duties (Elovainio et al., 2015); ignoring the emotional and psychological needs (Willemse et al., 2012); few opportunities for decision making (Hinderer et al., 2015) and undesirable safety condition in the workplace (Elstad & Vabo, 2008); high workload (Soobaroyen & Chengabroyan, 2006); shift work; poor communication at work and many other reasons.

By combining different interpretations about job mental pressure in this research, the job mental pressure is defined as a series of psychological, physiological and behavioral responses which affect the performance of a person constantly or in the short-term (Xu, 1999:69). In auditing, it is mainly defined as a conflict between the limited audit resources and the high workload in a limited period (Lopez & Peters, 2012: 141). According to the Job Demand-Control Model proposed by Karasek (1979), the issue of job mental pressure that is widely used in management and psychology includes two main aspects: (1) job expectations; (2) job control. The researcher argues that the impact of the job mental pressure depends on interaction between the workload and the level of both job expectations and job controls. He suggests that job expectations refer to the hardness and high workload

such as amount of work, time and role conflict. While job control is defined as a person’s response to his/her job needs such as tolerance strategies and rest mechanisms (Yan & Xie, 2017:307). The previous research on this model showed that there was a positive relationship between the job mental pressure and the intensity of job expectations and a negative relationship between the job mental pressure and the job control (Landsbergis, 1998:218; Fletcher & Jones, 1993:320). Moreover, the job control can improve the job satisfaction and the job performance (Dwyer & Ganster, 1991:597). In terms of auditing, the auditors’ job expectations (mental pressure factors) include several aspects such as: time pressure; workload; cost control; performance evaluation in regard to the responsibilities and the existence of social expectations. In terms of job expectations, the ability of an auditor’s job control (control strategies) usually includes time planning, adjustment of the audit plan and etc. Thus the general impact depends on effectiveness of auditor’s job control over his job duties and any inconsistency in auditors’ abilities in the job control leads to job mental pressure among them.

2.4. Research background

Zhang et al., (2018) carried out a research under the title of “*The effect of tournament incentives on financial restatement: Evidence from China*”. In this research, the companies listed in China Stock Exchange were investigated during the years of 2008-2015. The results of the research showed that the CEO’s tournament incentive has a negative and significant effect on financial restatements and reinforces the tenure negatively while the appointment of a new CEO within the company affects the relationship between the tournament incentive and the financial restatement positively. Jia (2018) performed a research under the title of “*Tournament incentives and audit fees*”. The research performed on USA Stock Exchange during the years of 2000-2013. The results showed that there is a positive and significant relationship between the CEO’s tournament incentives and the audit fees and replacing CEO reinforces the association of the CEO’s tournament incentives and the audit fees. The results of the research provide useful information about the relationship between the corporate compensation policies, evaluation of the auditors’ risk and pricing decision as well as economic

outcomes of the performance-based tournament incentives for the researchers. On the other hand, Dutta et al., (2018) conducted a research under the title of “*identification of factors affecting financial restatement using data mining techniques*”. The research performed during the years of 2001-2014. The results of the research showed that the CEOs’ incentive characteristics, performance characteristics and capital market characteristics due to the lack of efficient controls, are considered main factors affecting the corporates’ financial restatements. Agoglia et al., (2010) suggest that the job mental pressure due to high workload and time pressure on auditors are considered two important and effective factors on mental pressure. These mental pressureful factors, regardless of their negative impacts on efficiency and quality of audit work, can apply a severe physical and mental harms on individuals. Moradi and Ghadrian Arani (2014) carried out a research under the title of “*Managerial overconfidence and financial restatement*”. In this research, 138 companies were investigated during the years of 2007-2013. The results showed that the managerial overconfidence has no significant correlation with the financial restatements and their intensity. In other words, this behavioral characteristic of the management doesn’t affect the event of important financial restatement and its intensity. Heydari (2014) carried out a research under the title of “To investigate the relationship between the financial restatements and the independent auditors’ changes. Using the companies listed in the Stock Exchange during the years of 2003- 2012 and the elimination-based sampling method, he tested hypotheses using the logistic regression. The results showed that there is no significant relationship between the financial restatements and the auditors’ replacement. Moreover, according to the findings of the research, there is a significant relationship between the importance of the financial restatement and the independent auditors’ change. According to the results, if the quality of the corporate governance is high, a significant relationship is seen between the independent auditor’s change and the financial restatement. The results also showed that the negative stock returns about date of restatement is higher depending on how important it is.

2.5. Hypotheses Development

Restatements are kind of awareness and public approval about the issue that the financial restatements have not been prepared according to Accounting Standards. They present the most obvious evidences about the inaccurate accounting (Palmrose et al., 2004). Restatement reduces the investors’ trust to financial reporting and in turn decreases the investment efficiency. For this reason, both the stock exchange and financial analysts, evaluate carefully the financial restatement. Financial restatement not only has negative consequences but it also has a negative impact on processes and while reducing the quality of financial reporting, it affects the process of auditing financial statements, a process which may affect the auditor selection, audit fees and auditor statement (Stanley & Dezoort, 2007). Financial restatements are performed due to the presence of error, fraud or distortion by the owners. Not only the owners who committed this mistake are questioned but the auditor’s inability in auditing is one of the reason for these errors. Accordingly, the auditor’s mental pressure can continue even after the end of the statement and delivering audit reports and affects the future performances of auditors. On the other hand, the financial restatements give this message to auditors that the previous performances of the owners lead to more sensitivities to the reviews and it causes to increase the pressure on auditors. Thus the first hypothesis of the research states that:

❖ **Hypothesis 1:** Financial restatement has a significant effect on auditors’ job mental pressure.

The incentive tournament is considered as an implicit method to stimulate managers’ performance that causes positive consequences in corporates’ performances (Lin & Lu, 2009:155). In fact using financial incentives can create tournament incentives among the managers to make more efforts for the interests of the shareholders (Eriksson, 1999). Bloom & Michel (2002) state that the CEO’s tournament incentives can be considered as an inhibitor for managers’ opportunistic behaviors that finally result in the corporate financial restatement. On the other hand, Gomulya & Bocker (2014) suggest that the lack of internal incentives among the CEOs as decision makers at the top of company, is considered a main reason for financial restatements. So they proposed the issue of stimulating the CEO tournament incentives

which can help to improve operational efficiency and effectiveness of managerial decisions. It also helps to reduce financial restatements and the tendency to manipulate financial performance (Zhang et al., 2018: 4). Since the financial restatement affects the auditor's mentality about the honesty and trust of the employer, the mental pressure for reviewing professional performances in auditors is increased. The existence of tournament incentives can be considered as a factor to improve the corporate regulatory legitimacy. Through capacity-building and the improvement of managers' internal capabilities based on compensation while reducing financial restatement as one of criteria for the corporate transparency, it leads to increase the level of auditors' confidence to the owners' performances. Thus the second hypothesis of the research states that:

❖ **Hypothesis 2:** The effect of financial restatement on auditors' job mental pressure is moderated by tournament incentive.

3. Methodology

It is an applied research in terms of its purpose and a post- event quasi-experimental research in terms of its method in collecting data. The research has been carried out in the area of positive accounting using the multivariate regression method and the econometric models. The statistical population in this research includes the companies listed in Tehran Stock Exchange during the years of 2014-2018. The sample selected in the research includes the companies with the following conditions:

- 1) The companies that date of their admission in the Stock Exchange was before 2014 and by the end of 2018.
- 2) Their fiscal year ends by the end of March.
- 3) During the aforementioned years, they did not change the activity or the fiscal year.
- 4) They are not a member of the investment firms and the financial intermediaries (investment companies were not included in the statistical population due to the difference in the nature of activity with other companies).
- 5) The interruption length of transactions in the companies during the aforementioned period, is not longer than 6 months.

After applying the above limitations, a number of 97 companies were selected as the research sample. The data of present research was derived from the

statistical and visual archives ' CDs of Tehran Stock Exchange, Websites of Tehran Stock Exchange and other related databases and also from Rahavard Novin software. Final analysis of the collected data was performed using the econometric software Eviews.

3.1. Research Variables

3.1.1. Dependent variable

3.1.1.1. Auditors' Job Mental Pressure

In this research, according to Yan & Xie (2017), the job mental pressure is the number of auditing firms by an auditor given the number of owners and the commercial complexity of any company. Below Equation is used to calculate the job mental pressure of the auditor:

$$WS = \frac{\sum_i^m \sum_{j=1}^n TA_{ij}}{m}$$

Where: **WS**= the mean job mental pressure in two or three auditors who are auditing the financial statement of company j. **TA_{ij}**= natural logarithm of total assets of company j audited by the auditor i

n= total audited companies by the auditor i in fiscal year. **m**= number of auditors' signatures of company j, in most cases two auditors are responsible for auditing financial statements of a company (m=2). In some cases, three auditors may be responsible for auditing the corporate financial statements (m=3).

3.1.2. Independent variable

3.1.2.1. Financial Restatement

In order to measure this variable according to Zhang et al., (2018), two-dimensional criteria 0 and 1 is used, such that if the company performs financial restatement, it takes value '1' and otherwise "0".

3.1.3. Moderating variable:

3.1.3.1. Tournament Incentives

In order to measure this variable according to Liao et al., (2009); Lin & Lu (2009), the natural logarithm of compensation gap is used.

$$\text{Tournament incentive}_{it} = \text{Natural logarithm of compensation gap}_{it}$$

Natural logarithm of compensation gap in company i in time t

In order to calculate natural logarithm of gap, the following equation is used:

$$\text{Compensation gap}_{it} = \text{CEO compensation}_{it} - \text{CEO compensation}_{it-1}$$

3.1.4. Control variables

In this research, the audit firms-related variables are considered as control variable. In order to evaluate

characteristics of the audit firm according to the research of Lajmi & Gana (2011), we use the criteria such as the auditor size (BIG), auditor opinion (AUDOPIN), auditor lag (AUDLAG), audit specialization (AUDSPEC), audit tenure (AUDTEN). For this reason, in order to define the research variables, the following table is used:

Table (1) Measurement of variables related to audit firms

variable	Symbol	Method of measurement
Auditor size	BIG	In order to measure this variable, we use 0 and 1. If the audit firm is under the control of the Stock Exchange, we use 1, otherwise 0
Auditor opinion	AUDOPIN	We use 0 and 1. If the firm receives accepted statement without explanatory clause, we use 1, otherwise 0.
Audit lag	AUDLAG	This variable is calculated based on the distance between the end of fiscal year and the date of reporting.
Audit specialization	AUDSPEC	We use 0 and 1. If the auditor is an expert, we use 1, otherwise 0.
Audit tenure	AUDTEN	We use 0 and 1. If the auditor has audited the financial statements of a company over the past three years, we use 1, otherwise 0.

3.2. Research Model

In the present research, given the research nature and purpose, we use the following model to test the research hypotheses.

$$WS_{it} = a_0 + a_1REST_{it} + a_2Tournament\ incentive_{it} + \alpha_3REST_{it} \times Tournament\ incentive_{it} + BIG_{it} + \alpha_3AUDOPIN_{it} + \alpha_4AUDLAG_{it} + \alpha_5AUDSPEC_{it} + a_6AUDTEN_{it} + \epsilon_{it}$$

the tested variables including some central indexes and distribution for a sample consisting of 485 firms- year observed in an interval of 2014-2018.

As shown in this table, the mean auditor mental pressure to audit the corporate financial statements is 60.232 that indicates that to what extent this job is mental pressureful for auditors. Also, the mean descriptive statistics of auditors’ statements shows that, 18.1 percent of the auditors’ statement was acceptable without any explanatory clause and 41.6 percent of auditors were responsible for auditing the corporate financial statement over the past three years. Given the financial restatements are measured by 0 and 1, we use frequently distribution to explain the corporates’ financial restatement.

4. Results

4.1. Descriptive Statistics

In order to evaluate general characteristics of the variables, as well as estimate model and their exact analysis, familiarizing with descriptive statistics is required. Table (2) shows the descriptive statistics of

Table (2) Descriptive Statistics of the research variables

variable	observations	mean	median	minimum	maximum	Standard deviation
Auditor’s mental pressure	485	60.232	58.163	19.099	188.778	39.011
Tournament incentive	485	16.811	16.452	15.607	18.197	1.025
Auditor size	485	0.293	0	0	1	0.439
Auditor opinion	485	0.181	0.174	0	1	0.093
Audit lag	485	44.26	62	17	118	9.22
Audit specialization	485	0.527	1	0	1	0.496
Audit tenure	485	0.416	0.404	0	1	0.463

Table (3) Frequency of restatement based on total observations

Total		No existing (0)		Existing (1)		Variables
percent	number	percent	number	percent	number	
100	485	59.38	288	40.61	197	Financial restatements

According to the results, it was found that, 40.61% of the firms performed financial restatements while 59.38% didn't.

4.2. Unit root test

The variability of the model variables is necessary in panel data such as time series data. If the variables are not stationary in panel data the resulting regression pattern can be a false pattern. This test is called the panel unit root test. Theoretically, root tests are units of multiple series used for panel information

structures. In all these tests, the method of checking the mana is that the mana of the series is accepted, rejecting the null hypothesis that there is a single root. In this study, the IPS method is used to investigate the mania, the results of which are shown in Table (3).

The results show that because the significance level of the test for all variables is less than 0.01, for all variables, the null hypothesis that there is a single root is rejected, and therefore at the 99% confidence level, all variables remain the same.

Table (3) Results (IPS) Test

Variable	Value of test statistics	Sign	Result
Auditor's mental pressure	0.001	-4.661	Rejection of Hypothesis H ₀
Tournament incentive	0.001	-6.294	Rejection of Hypothesis H ₀
Auditor size	0.005	-2.606	Rejection of Hypothesis H ₀
Auditor opinion	0.001	-5.557	Rejection of Hypothesis H ₀
Audit lag	0.001	-5.059	Rejection of Hypothesis H ₀
Audit specialization	0.001	-5.321	Rejection of Hypothesis H ₀
Audit tenure	0.001	-5.168	Rejection of Hypothesis H ₀

4.3. Tests of regression pre-assumption

One of the assumptions of regression equation is that the error variance is constant and it is considered as assumption of variance homogeneity. One of the tests for detecting variance heterogeneity is Breusch-Pagan test relating to "is the error variance constant or variable?" Another test is the serial autocorrelation test

among the error terms which has been considered in this research. For this purpose, we usually use the Breusch-Godfery test to detect autocorrelation. Moreover, another default regression test is normality test of error terms. One of the tests which evaluates the normality of error terms is Jarque-Bera test.

Table (4) Default Regression tests

Situation	Significance level	Statistic F / J-B	Test	Model
Acceptance of H ₀ , the existence of serial autocorrelation	0.000	11.321	Breusch-Godfery test	Research model
Rejection of H ₀ , non-existence of variance heterogeneity	0.069	2.432	Breusch-Pagan-Godfery test	
Acceptance of H ₀ , abnormal distribution of error terms	0.000	73.017	Jarque-Bera test	

4.4. Model analysis using the pooled data method

The data of the research is a pooled model. In the pooled data, we first use the F-limer test to determine “is the data pooled or panel?”. Then the Husman test is used to determine the fixed or random effects of variables for a more suitable estimation (determine the fixed or random nature of difference between the cross sections. According to the results that are shown in Table (4), the significance level of the F-Limer statistic is below 0.05 for all three models. Also the results of Husman test showed that in the research’s regression models, because the significance level is

above 5%, the random effects model is used to estimate model. It should be noted that given the models have serial autocorrelations and because the random effects model has been used to test the regression model, so there is no problem to test hypotheses because in the random effects method, the generalized least squares (EGLS) is used.

Moreover, in order to ensure that there is no problem between the explanatory variables, the collinearity test was evaluated using the variance inflation factor (VIF). The result showed that given the values of this statistic for the explanatory variables are below 10, there is no collinearity between them.

Table (5) Results of the Pooled data effects (Panel)

Selected model	Test results	Significance level	Degree of freedom	Statistic F / χ^2	Test
Panel	Rejection of H ₀	0.000	(79.120)	1.443	Fixed Effects (F-Limer)
Random	Acceptance of H ₀	0.081	5	6.545	Random Effects (Husman)

4.5. Test the research hypotheses

The results obtained from testing the hypothesis (1) and (2) are shown in Table (5).

The F-statistic value and its significance level in this table show the general significance of the fitted regression model in an error level of 1%. Also, given the moderated coefficient of determination, it is argued that about 36.7% of changes in the audit mental pressure (WS) can be explained by variables of the model. According to the result of the model test, as shown in the above table, coefficient of estimation and t-statistic of the financial restatements (REST) are positive and significant in an error level of 0.05. It indicates a positive significant effect of the financial restatement on audit mental pressure. It supports the results of the first hypothesis that “the financial restatement has a positive significant effect on job mental pressure”. Moreover, according to the second hypothesis of the research, it should be stated that the

coefficient of estimation and the t-statistic of the interaction variables (tournament incentive ×restatement) are respectively -0/094 and -4/689 that show the positive effect of financial restatements on job mental pressure moderated by tournament incentives. In other words, with the increase of the CEO’s tournament incentives, the positive effect of financial restatement on job mental pressure is moderated and negatively reinforced. In relation of control variables, it should be stated that the coefficient of estimation and the t-statistic of the variables such as auditor’s size, auditor opinion and audit lag in reporting have a positive and significant effect on auditors’ job mental pressure in an error level of 5%. While, the coefficient of estimation and the t-statistic of the auditor specialization and the audit tenure have a negative and significant effect on auditors’ job mental pressure.

Table (5) Results of hypothesis test

Dependent variable: Audit Mental Pressure (WS)				Period :2014-2018		
Observations: 485				Number of Firms Surveyed :97		
Auditor mental pressure (WS)					+/-	variable
Sig	t	Standard error	Regression coefficient			
0.001	2.521	0.042	0.106	+	intercept	
0.012	3.125	0.039	0.122	+	Financial restatement	
0.019	-3194	0.041	-0.131	-	Tournament incentive	
0.024	-4689	0.020	-0.094	-	Restatement × tournament incentive	
0.008	2.382	0.034	0.081	+	Auditor size	

Dependent variable: Audit Mental Pressure (WS)				Period :2014-2018	
Observations: 485				Number of Firms Surveyed :97	
Auditor mental pressure (WS)					variable
Sig	t	Standard error	Regression coefficient	+/-	
0.010	2.525	0.040	0.101	+	Auditor opinion
0.003	2.326	0.037	0.088	+	Audit lag
0.002	-2.666	0.036	-0.096	-	Auditor specialization
0.002	-3.304	0.023	-0.076	-	Auditor tenure
**22.39	Statistic F		0.367		R
1/87	Durbin Watson		0.346		R ²
Note: * shows statistical significance in an error level of 5%. ** shows statistical significance in an error level of 1%.					
Symbol: Auditor mental pressure (WS); Financial restatement (REST); Tournament incentive (<i>tournament incentive</i>); Auditor size (BIG); Auditor opinion (AUDOPIN); Audit lag (AUDLAG); Auditor specialization (AUDSPEC); Auditor tenure (AUDTUR); Coefficient of determination (R); Moderated coefficient of determination (R ²).					

5. Conclusion

It is stipulated in Iran Accounting Standards that the corporates are obligated to disclose profit and loss statistics and the information of balance sheet in a comparative form with the current year's statistics. Accordingly, the previous year's statistics are reviewed and classified once again in the current year and if there is a significant mistake in the nature and method of classification and also in amounts of the previous year, it should be restated (Abdoli et al., 2013). So, it can mean that there is an error or a problem that has been detected in current year provided that it arises from changes in the accounting practices. However, whatever reason it can be, because it may cause assumptions of distrust in mind, whether in the capital market or among the auditors and it causes to take more critical decisions for the company. Liu et al., (2009) believe that financial restatement is a type of weakness in auditing. Creating a climate of distrust in the capital market, lack of reliability of financial statement, trying to access information out of the Stock Market, the loss due to the wrong decisions of the financial statements' users and finally undermining the public interest of society are part of its consequences. But the mental pressure on auditors after the financial restatements which causes that the auditor is engaged in expectations and sensitivity about the company under the financial restatement, is maybe one of the important consequences which has received less attention. Although there are different levels of restatement according to the theoretical backgrounds, given the legal responsibilities of the auditor, this approach is affected by restatement. In this regard, the result of hypothesis 1 confirms that the financial restatement increases the level of auditors'

job mental pressure. As explained above, restatement is a result of negligent action or behavior or with the previous intention which is perceived as an act of distortion in expressing the facts and leads to the distrust in terms of influencing decisions in the capital market. The auditors as one of the main elements in the capital market, are not immune from the consequences of restatement in approving and not approving the corporates' performance facts, because this perception that the weakness in audit quality creates this phenomenon, makes the auditors to undergo the mental pressure arising from the accuracy and obsession in reviewing. The issue causes that their performances are affected by the financial restatement. In other words, the existence of financial restatement gives the message to auditors that the previous performances of the owners cause more sensitivities to reviewing it and it in turn leads to the increased mental pressure in the auditors because of their responsibilities. This mental pressure can reduce the audit quality and the auditor's opinion. The result of the hypothesis is in consistent with the results of Abdoli et al., (2013); Kachelmeier (2010); Hennes et al., (2010); Chang et al (2016), Woodland and Reynolds' research (2003). The result of the hypothesis 2 shows that due to the received compensations as stimulating factor in decision making, the tournament incentives increase the CEO's specialized and behavioral performances in disclosing the facts and non-distortion of the financial statements. In other words, it shows that the existence of tournament incentives in the CEO's decision makings helps him to increase the management capabilities and also increase the quality of reporting and information content available to the capital market. While reducing

financial restatement, it also increases the level of auditors' confidence toward the owners' performances so that they can review their owners' performances with more mental health. The result of the hypothesis is consistent with the research of Jia (2018); Gomulya & Bocker (2014), Zhang et al., (2018).

According to the results, it is suggested that regulatory organizations such as Securities and Exchange Organization set the rules and guidelines by reviewing regulatory regulations and the performance domains of the capital market in order to reduce the distortion in financial statements and increase the trust of the shareholders and investors and also increase the investment efficiency. Under this condition, the auditor's performances will be associated with the less mental pressure and higher quality in auditing. The control mechanisms of the corporates in the form of the corporate governance systems try to give the CEOs appropriate compensation based on evaluation of their performances. While reducing the gap of agency fees, it reduces the financial restatement by improving quality of reporting and the disclosed information contents and it in turn controls the mental pressure of auditors remarkably in evaluating the owners' performances.

References

- 1) Abdoli, M. R., Faal Ghayomi, A., Partoee, N. (2013). The effect of auditor characteristics on financial restatements. *Accounting and auditing reviews*, 20(3): 85-100. (In Persian)
- 2) Agoglia, C. P., Brazel, J. F., Hatfield, R. C., Jackson, S. B. (2010). How do audit work paper reviewers cope with the conflicting pressures of detecting misstatements and balancing client workloads? *Auditing: J. Practice Theory* 29 (2), 27-43.
- 3) Bebchuk, L. A., Cremers, K. M., & Peyer, U. C. (2011). The CEO pay slice. *Journal of Financial Economics*, 102(1), 199-221.
- 4) Bloom, M., & Michel, J. G. (2002). The relationships among organizational context, pay dispersion, and among managerial turnover. *Academy of Management Journal*, 45(1), 33-42.
- 5) Bognanno, M. L. (2001). Corporate tournaments. *J. Labor. Econ.* 19, 290-315.
- 6) Brockman, P., X. Martin, and E. Unlu. (2010). Executive compensation and the maturity structure of corporate debt. *Journal of Finance* 65 (3): 1123-1161.
- 7) Chang, W. Ch., Chen, Y. Sh., Chou, L. T. L., Ko, Ch. H. (2016). Audit Partner Disciplinary Actions and Financial Restatements, *Journal of Accounting, Finance and Business Studies*, 52(2): 286-318.
- 8) Chen, J., Ezzamel, M., & Cai, Z. (2011). Managerial power theory, tournament theory, and executive pay in China. *Journal of Corporate Finance*, 17(4), 1176-1199.
- 9) Conyon, M. J., & He, L. (2011). Executive compensation and corporate governance in China. *Journal of Corporate Finance*, 17(4), 1158-1175.
- 10) Dutta, I., Dutta, Sh., Raahemi, B. (2018). Detecting Financial Restatements Using Data Mining Techniques, *Expert Systems With Applications*, doi: 10.1016/j.eswa.2017.08.030
- 11) Dwyer, D. J., Ganster, D. W. (1991). The effects of job demand and control on employee attendance and satisfaction. *J. Org. Behav.* 12 (7), 595-608.
- 12) Elovainio M, Heponiemi T, Kuusio H, Jokela M, Aalto A-M, Pekkarinen L, et al. (2015). Job demands and job strain as risk factors for employee wellbeing in elderly care: an instrumental-variables analysis. *Eur J Public Health*;25(1):103-8.
- 13) Elstad JI, Vabø M. (2008). Job stress, sickness absence and sickness presenteeism in Nordic elderly care. *Scand J Public Health*,36(5):467-74.
- 14) Eriksson, T. (1999). Executive compensation and tournament theory: Empirical tests on Danish data. *Journal of Labor Economics*, 17(2): 262-280.
- 15) Fletcher, B. C., Jones, F. (1993). A refutation of Karasek's demand-discretion model of occupational stress with a range of dependent measures. *J. Org. Behav.* 14 (4), 319-330.
- 16) Fredrickson, J.W., Hambrick, D.C., Baumrin, S. (1988). A model of CEO dismissal. *Acad. Manage. Rev.* 13 (2), 255-270.
- 17) Gertsen, F., Van Riel C., & Berens, G. (2006). Avoiding reputation damages in financial restatements. *Long Range Planning*, 39 (3): 429-456
- 18) Gomulya, D., & Boeker, W. (2014). How firms respond to financial restatement: CEO successors and external reactions. *Academy of Management Journal*, 57(6); 1759-1785.

- 19) Heidari, M. (2014). To investigate the relationship between the financial restatement and the change of independent auditors, *Experimental Research of Accounting*, 3(4):197-215
- 20) Hennes, K. M., Leone, A. J., Miller, B. P. (2010). *Accounting Restatements and Auditor Accountability*, the University of Miami. Working paper.
- 21) Huang, W., & Boateng, A. (2017). Executive shareholding, compensation, and analyst forecast of Chinese firms. *Applied Economics*, 49(15), 1459–1472.
- 22) Janssen, O. (2001). Fairness perceptions as a moderator in the curvilinear relationships between job demands, and job performance and job satisfaction. *Acad. Manage. J.* 44 (5), 1039–1050.
- 23) Jia, N. (2018). Tournament incentives and audit fees, *Journal of Accounting and Public Policy*, <http://dx.doi.org/10.1016/j.jaccpubpol.2017.07.005>
- 24) Jones, A., III, Norman, C., & Wier, B. (2010). Healthy lifestyle as a coping mechanism for role stress in public accounting. *Behavioral Research in Accounting*, 22(1), 21-41.
- 25) Jusoh, R., Ibrahim, D. N., & Zainuddin, Y. (2008). The performance consequence of multiple performance measures usage. *International Journal of Productivity and Performance Management*, 57(2), 119-136.
- 26) Kachelmeier, S. J. (2010). Introduction to a forum on Individual Differences in Accounting Behavior. *The Accounting Review*, 85 (4): 1129-1130.
- 27) Kale, J. R., Reis, E., & Venkateswaran, A. (2009). Rank-order tournaments and incentive alignment: The effect on firm performance. *The Journal of Finance*, 64(3), 1479–1512.
- 28) Karasek, R. A. (1979). Job demands, job decision latitude, and mental strain: implications for job redesign. *Adm. Sci. Q.* 24 (2), 285–307.
- 29) Khajavi, S. h., Ghadrian, M, H. (2015). “To investigate the effect of profit quality on financial restatements”, *Accounting advances*, 7(2): 54-89. (In Persian)
- 30) Lajmi, A. and M. R. Gana (2011). “Board Characteristics and External Audit Quality: Complementary or Substitute Mechanisms? The Belgium Case”, *International Journal of Management Sciences and Business Research*, Vol. 2, No. 3, pp. 68-75.
- 31) Landsbergis, P. L. (1988). Occupational stress among health care workers: a test of the job demand-control model. *J. Org. Behav.* 9 (3), 217–239.
- 32) Lazear, E. P., & Rosen, S. (1981). Rank-order tournaments as optimum labor contracts. *Journal of Political Economy*, 89(5), 841–864.
- 33) Lev, B. (2003). Corporate earnings: Facts and fiction. *Journal of Economic Perspectives*, 17 (2), 27-50.
- 34) Liao, L., Liao, G. M., & Shen, H. B. (2009). Operating risk, promotion incentive and corporate performance. *China Industrial Economics*, 8, 119–130.
- 35) Lin, B., & Lu, R. (2009). Managerial power, compensation gap and firm performance Evidence from Chinese public listed companies. *Global Finance Journal*, 20(2):153–164.
- 36) Lo´pez, D. M., Peters, G. F. (2012). The effect of workload compression on audit quality. *Auditing: J. Practice Theory* 31 (4), 139–165.
- 37) Moradi, J, Ghadirian Arani, M, H. (2017). Management overconfidence and financial restatements, Evidence of Tehran Stock Exchange, *Journal of Shiraz University’s accounting advances*. 9(1):169-192
- 38) Morgan DG, Semchuk KM, Stewart NJ, D’Arcy C. (2002). Job strain among staff of rural nursing homes: A comparison of nurses, aides, and activity workers. *J Nurs Adm*, 32(3):152–61.
- 39) Palmrose, Z, V., Richardson, V., Scholz, S. (2004). Determinants of market reactions to restatement announcements. *Journal of Accounting and Economics*, 37(1): 1–31.
- 40) Palmrose, Z. V. & Scholz, S. (2004). The circumstances and legal consequences of non-GAAP reporting: Evidence from restatements. *Contemporary Accounting Research*, 21 (1), 139-180
- 41) Pourzamani,Z; Tarazian, A,(2016), “The interaction of asset returns and returns on securities fluctuations on CEOs’ compensation based on the growth rate of cash assets; *Accounting and Auditing reviews*, 33(1): 55-72. (In Persian)
- 42) Soobaroyen, T., Chengabroyan, C. (2006). Auditors’ perceptions of time budget pressure, premature sign offs and under-reporting of

- chargeable time: evidence from a developing country. *Int. J. Auditing* 10 (3); 201–218.
- 43) Stanley, J. D., DeZoort, F, T. (2007). Audit firm tenure and financial restatements: An analysis of industry specialization and fee effects. *Journal of Accounting and Public Policy* 26: 131–159.
- 44) Willemse BM, de Jonge J, Smit D, Depla MF, Pot AM. (2012). The moderating role of decision authority and coworker-and supervisor support on the impact of job demands in nursing homes: a cross-sectional study. *Int J Nurs Stud*; 49(7):822–33.
- 45) Woodland, A. M., & Reynolds, J. K. (2003). Restatements and audit quality. Retrieved from <http://www.aaahq.com>.
- 46) Wu, M. (2002). Earnings restatements: A Capital Market Perspective. Working Paper, Available at SSRN: <http://ssrn.com/abstract=1844265>.
- 47) Xu, C., (1999). Work stress system: mechanism, handling and management. *J. Zhejiang Normal Univ.: Social Sci.* 5, 69–73
- 48) Yan, H., Xie, Sh. (2017). How does auditors' work stress affect audit quality? Empirical evidence from the Chinese stock market, *China Journal of Accounting Research* 9; 305–319.
- 49) Zhang, H., Huang, H, J., Habib, A. (2018). The Effect of Tournament Incentives on Financial Restatements: Evidence From China, *International Journal of Accounting*, <https://doi.org/10.1016/j.intacc.2018.05.002>