



Audit warning test on the financial reporting quality

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ABSTRACT

Audit profession is one of the most structured and disciplined profession in the world. Due to the type and nature of its provided services, it has special creditand reliability. Therefore, this research aimed to study the audit warning effect on the financial reporting quality of auditors working in audit organizations. This study is practical in goal and descriptive-analytical in data gathering. The statistical population of the study is auditors working in audit organization in Tehran, 155 of whom were selected as the sample of this research and the sampling method was non-probability. The data collection tool of the study is questionnaire. Smart PLS and Spss were used to analyze the data from the questionnaire. The results of hypothesis tests indicated that audit warning has significant positive effect on the dimensions of the financial reporting quality. Therefore, to reinforce the auditors' financial reporting quality, it is suggested that directors of the audit organizations pay special attention to reinforce warning, mental norms and perceived behavioral control in their auditors.

Keywords: financial reporting quality, audit warning, the planned behavior theory, auditor.

1. Introduction

In today's tightly intertwined business world, accounting and audit firms keep pace with this competitive environment by expanding their operations worldwide due to globalization. At the time of this research, the Big Four audit firms were standing tall and were located in more than 150 countries with over 700 offices, with a market share above 50 percent in most countries. However, increased globalization and operations worldwide come with their challenges and concerns. The Public Company Accounting Oversight Board (PCAOB) has identified many examples of inadequate auditing during inspections of affiliates. To address this kind of multinational audit deficiency, audit firms have grown into large international networks encompassing dozens of national members or affiliates with common branding to mitigate the reverse effects of globalization. These networks have policies that are supposed to coordinate the development and enforcement of a given audit firm's global strategies, standards, policies, and governance to ensure consistency and continuity of audits delivered across their local offices throughout the world. Failure to comply with corporate guidelines and controlling mechanisms between international audit firms and their affiliates can result in an erroneous identification of audit risks, overlooked earnings management practices, higher litigation costs, and loss of reputation for audit firms. However, depending only on uniform accounting and auditing rules and methodologies and expecting the same output is nothing more than an illusion, as the same regulatory structures may produce very different outcomes even at the same firm (Acar, 2023). In recent years, not observing to the code of professional conduct, trusteeship and ethical principles has led to several financial scandals. In analyzing of these scandals, some have described the human nature as opportunistic and inattentive to ethics, using the economical basic assumptions. Others consider the wane of ethical values in the society as the reason of trample of ethical standards. In this regard, researchers have tried to identify the factors that play preventive role in such disasters. Warning has been proposed as one of the most important monitoring mechanisms in preventing financial scandals in firms including accounting firms (Harachgani et al. 2017).

In recent years, financial scandals of large firms around the world, which were resulted from

the phenomenon of fraud and wrongdoing in financial reporting, not only have imposed huge losses to the firms and their stockholders, but also have tarnished the trust on the transparency of financial information and its reliability, because despite being aware of financial and operational information, these firms didn't take any action in warning in this regard (Tran et al., 2021). Evidence suggests that audit persons are less inclined to warn about their colleagues and this influences the financial reporting quality. Toffler and Ringold (2003) indicated that none of the audit firm's employees have warned about the released documents on the recommendation of the audit responsible partner (Chen et al., 2017). Finally this factor has led to the fluctuation and weakness of the financial reporting quality. Since warning is an act of voluntary disclosure of the information related to the illegal cases or other wrongdoings, whether real or suspected or predicted, which were under the organization control, and this disclosure is made by the one who has authorized access to data and information, and if the person doesn't do this voluntary duty and not providing that information to the external entities which have the correction potential of such actions, this can lead to the weakness in the financial reporting (Pourali and Dadashi, 2014). Of course, in this regard, the person's attention to the noble and ethical values should be taken into account, because the more a person adheres to noble and ethical values, the warning possibility is more reinforced in the person and this can lead to improving the financial reporting quality (Kashanipoor et al. 2018). Financial reporting quality is one of the variables that has special importance in behavioral-financial area and in most firms this financial reporting duty is by the audit committee. Since its debut in 1940s, audit committee has played an important role in managing companies' affairs and in last two decades, following the scandals of large companies, its importance has increased in shadow of the corporate governance principles (Cheng et al., 2017). Through supervising on the financial reporting process including internal control system and the use of accepted accounting principles and supervising on the independent audit performance and internal auditor, this committee has caused to decrease the intentional and unintentional mistakes in the accounting measurements and financially important disclosure cases as well as fraud and the management illegal actions (Melian-Alzola et

al,2020). This committee increases the quality of information directly through supervising on financial reporting. Also high quality information and strong controls can lead to increase the investors' trust and confidence in the quality of reporting and the efficiency of the financial markets

(Lari Dasht Bayazand Oradi, 2016). There have been always concerns about the quality of presented financial reports, and the global experience also indicates that in absence of written and structured mechanisms, it is simplistic to get high quality information. High quality information moreover should be reliable, relevant and timely, it should be properly distributed and lead to reduce the information asymmetry. Therefore, in recent years, legislators have passed several laws to create mentioned mechanisms to upgrade the financial reporting quality (Bazrafshan et al. 2015). As the financial reporting quality has been always interesting topic for the board, stockholders, researchers and the professional accounting themselves, in recent years the wave of the accounting scandals have occurred in international financial community has led to increase the questions and concerns about the financial reporting quality. Financial reporting is the final product of the financial accounting process, presenting financial information to various users including internal users and users outside the commercial unit, in the form of accounting reports (Akeju et al., 2017).

The Conceptual Framework for Financial Reporting states that the primary objective of financial reporting is to "provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity". In this concept, earnings information is frequently cited among the factors that affect FRQ, and market participants' decision-making process. However, earnings have also been used to achieve organizational outcomes or mislead stakeholders about an enterprise's performance. As stated in the widely accepted definition by Healy and Wahlen (1999, 368), "earnings management occurs when managers use judgment in financial reporting or structuring transactions to alter financial reports to mislead some stakeholders about the underlying business of the company or to influence contractual outcomes that depend on reported accounting numbers." The literature on earnings management (EM) is vast and still growing, as many

questions are yet to be explained. For decades, EM literature has focused on the existence and nature of accounting manipulation, incentives, and the constraints or consequences of EM practices. Furthermore, several cross-country studies have examined differences in EM practices worldwide (Acar, 2023). International and national Conceptual Frameworks (CF) for reporting define assets, liabilities, income, expenses, and other core elements. Informally, the conceptual frameworks set forth principles of transaction effect element recognition, measurement and presentation, and guide the development of hundreds of international and national accounting and Financial Reporting Standards (FRS). FRS in turn specify rules for diverse types and contexts of transactions and their effect recognition, categorization, measurement, and disclosure. One should realize that FRS have a major impact on enterprises and society at large, compared to other social standards and laws (Blums and Weigand. 2023). As the need of stockholders, investors and other beneficiaries to the financial information and the importance of timely financial reporting in order to meet this need, which has an effective role in financial reporting quality, so according to the theoretical studies and of background searching, audit warning is one of most effective factors in the financial reporting quality.

Audit warning is one of the components that has the ability to influence on the financial reporting quality. The audit profession is one of the most difficult and disciplined professions in the world. Due to the kind and nature of its provided services, it has special credit and reliability, too. Continuation of this credit and reliability and its reinforcement also depends on the intellectual and practical adherence of the profession members to its behavioral and ethical criteria. But in the recent years, not observing to the code of professional conduct, trusteeship and ethical principles has led to several financial scandals. In this regard, researchers have tried to identify the factors that play preventive role in such disasters (Beigi Harachgani et al. 2017). Observing ethical behaviors and values is one of the components that can reinforce audit warning. Ethical behavior can be considered as a producer of behavioral values in organizations. Organizations which have high ethical behavior, have better performance and this kind of behavior level has led to desirability of the organization financial activity and other activities, and

helps to the productivity of the organization, and in this regard the organization employees also try to show ethical behaviors with more motivation (Licsandru & Chi, 2017). Warning is one of the ethical behaviors approach which has been proposed as an important monitoring mechanism in preventing of the occurrence of the financial scandals in firms including accounting firms. Professional conduct code requires that auditors should do their work completely and flawlessly and report any actual or suspected wrongdoings. But the recent financial scandals, have questioned the reliability of the professional code in preventing of such scandals in order to protecting public interests (Gunn & Michas, 2018).

The importance of warning is revealed when there is collusion between the employers and the supervisor and the audit partners. Moreover, firms may put under pressure the audit staffs regarding the time they give them, and enforce them to employ illegal audit process or to write untrue in the audit worksheets. Evidence suggests that audit firms have an increasing tendency to disobey the rules and support entrepreneurs in publishing financial statements containing violation (Kalelkar, 2017). Such a matter obligates the audit staffs to work hard to protect the profession and public interests through warning about their colleagues wrongdoings. The consequence of nondisclosure of the wrongdoings to the public, is hidden damage in the whole will affect the audit firms and profession. Despite the wide range of examples about the warning benefits, and the legislator supports as a social unit from the discovery of unethical and illegal behaviors, warning has also imposed costs to the individuals and organizations. These costs consist of downgrading and social exclusion for individuals, hidden losses for firms and tarnishing the auditors reputation (Beigi Harachgani et al. 2017).

In this regard, some of researchers suggest that warning for audit reports should not be considered as a non-compulsory act, since providing high quality financial reports has been considered as a compulsion, therefore audit warning should be also as a compulsion to increase the financial reporting quality. But meantime what is clear is that auditors have a few options after observing the wrongdoing. First, they besilent, second, warn through organizational inside channels, third, warn through organizational outside channels, and the last, leave the organization. Selecting

each of these options is related to some factors including ethical values, personal values, individual's perception of responsibility, leading styles of the organization, board members and audit committee (Kashanipour et al. 2019). This research investigates the impact of audit warning on financial reporting quality and the researchers intend to study the impact of audit warning on the dimensions of accounting, i.e., the quality of identification and measurement of transactions, the quality of identification and measurement of the properties and loans, the quality of presentation and disclosure of the components of the financial statements and the qualitative characteristics of the information. Therefore, this article is arranged in five general parts. In the first section the article introduction is presented, then a review of the theoretical bases are studied. After that the research method is studied. In the findings section the steps of analyzing and modeling of the equations are explained. At the end, the conclusion and discussion is presented.

Theoretical bases

High quality audit is one of the most important issues in today's audit operations. While the quality of the firms' financial data is one of the points that depends on their audit quality (Pourali et al., 2021). Based on the economic theory increasing the information content of the profit leads to decrease the information asymmetry and lower costs of firms' capital (Legoria et al., 2018). According to Darabi and Moradloo (2011) profit has information content if it is transparent and of high quality; so that in terms of theoretical bases, it can be expected that audit is close related to the information content of the profit. Moreover, high quality audit can affect on the information content of the profit through reducing the internal control weaknesses. On the one hand, the gap between the expectations that exists public thoughts about the auditor's role and the society expectations about the meaning of the audit in practice, has led to many concerns about the audit quality; thus it can be noticed that the audited financial data reliability has been decreased. While, in another hand the relevance of the audited data has been increased; so the need of extensive studies in the area of the audit quality and internal controls and their relation to the information content of the profit is needed. In addition, the conditions in Iran is different than other developed countries same as America; as the Stocks Exchange of

Tehran is not comparable with the Stocks Exchange of New York in terms of information efficiency. Some of the conducted researches indicate very poor information efficiency of the Stocks Exchange of Tehran (Keshtkar et al. 2019).

Audit reporting quality means how much of major distortions in financial statements an auditor identifies and reports, and reduces the asymmetry of information between the management and stockholders, and protects the stockholders' rights. The size of the audit firm can be used as a proxy for perceiving the audit quality and most of past studies on the audit quality, emphasize on the size of the audit firms as the audit quality proxy, for example, according to the research, the size of the audit firm has a direct relation with the audit quality (Amiri et al. 2020). Financial reporting is not just a final product, but also it is a process composed of several components, that many factors affect on the financial reporting quality, also financial reporting affects on various factors. Management capabilities and abilities play an important role in determining the financial reporting quality. Since they manage enforcement of the accounting principles and preparation of the financial statements, directors can perceive the financial situations. Directors can also influence on and improve the financial reporting quality according to their perceptions, attitudes and roles in line with internal control as the communication channels for directors and auditors (García-Meca et al, 2017). Audit warning is one of the factors that can cause to reinforce the financial reporting quality. How the audit committee impact on the financial reporting is explained by the agency theory. It is believed that the two main causes of the agency problems are, conflicting interests and different attitudes of the owner and management towards the risk. This conflict arises from the asymmetry of information between owners and directors. To reach the goal, management accountability, decision-making and activities should be monitored. Close monitoring is possible when the owners themselves can actively monitor on this process. But due to the high costs and in some cases due to lack of expertise and knowledge, they can not be actively involved in this process. However, due to its commitment to the stockholders, the board has to design and deploy the monitoring mechanisms (Li & Luo, 2017). DeZort et al. (2002) argue that in order to deal with the problem arising from agency relation, the

board has to accept the supervisory role of the monitoring CEO and other directors, approve the firm's strategy and evaluate the internal controls system. The board usually employs an expert group to monitor on the management activities on its behalf. Audit committee is a sub-committee under the corporate governance framework to which the board assigns some of monitoring responsibilities. Dechow et al. (2008) showed that the level and intensity of the agency problem is lower in those firms where the audit committees are more effective in terms of composition and performance. Therefore, in general, it can be said that stockholders, due to the corporate governance structure limitation and other limitations, are not able to monitor and control the director (Mao et al, 2018). The director also needs auditors' certificate in order to play his/her stewardship role. From the other side, efficiency, effectiveness and independence of the auditor requires another institution such as audit committee. Indeed, stockholders through the mechanism of determining the firm's board, indirectly monitor the director performance and the director plays his/her accountability responsibility by confirming and evaluating the auditor (Bazrafshan et al. 2015).

It can be said that increasing the financial reporting quality leads to increase the investment efficiency and the financial structure of the firm and also users and decision-makers themselves can rely on the financial reporting as an important information source and this leads to proper investment and optimal allocation of resources. One of the financial reporting goals is to facilitate the optimal allocation of resources in the economy and the most important aspects of this role is improvement of investment decisions for users and decision-makers. Also increasing the financial transparency, has a potential for decreasing the problem of the investment inefficiency, and it can be said that a logical and direct relationship is established between the financial reporting quality and investment efficiency. Indeed, it can be said that it will bring significant economical consequences (Mohammad Rezaei et al, 2018). The role of financial reporting is in the field of the firms' productivity and investment. Investors of firms can effectively invest in projects and it reduces the investment in unnecessary cases. Therefore, when there is information asymmetry, firms and companies may face the financial restrictions, and it leads to low investment. Focusing on this approach, it can be said that more profit

(Houcinel&ChakibKolsi, 2017). The audit quality has been one of the most important areas of the audit archival studies in the past decades. Conceptual nature and its relationship with the financial reporting quality has led to misunderstanding of this concept and its evaluating way. De Fund and Zhang(2014) have defined the audit quality as more confidence in the financial reporting quality. In another word, in addition to accommodating the financial statements to the accounting standards, the auditor should be able to provide reasonable and honest confidence from their accommodation of the information related to the infrastructure economic activities of the firm. Two main and important factors for a high quality audit are, the demand for a high quality audit and the risk of legal claims. Therefore, it is important to pay attention to the research environment in audit quality researches (Mohammadrezaii&Faraji, 2019).

In order to identify several concepts and factors that are effective on the financial reporting quality of various studies have been conducted by researchers; to discover the relationships between the audit quality and other variables. In their researchs, accounting scientists, have confirmed the high quality of audit as a main factor that increases the information credibility of the financial statements and in this line they have mentioned the audit warning as one of the most important factors that can affect on the financial reporting (Vadiei et al. 2018). The major fraud in the financial reporting of the firms like Tayco , Martha Stewart, Adelphia, World Com and, in recent years, Enron, and the great bank fraud in Iran, have had a destructive effect on large number of minor stockholders, employees, creditors and other market beneficiaries. The most of these scandals and other same organizational wrongdoings, have been disclosed by the people inside the organization who are called "warners". There is no debate that no professional conduct code can issue an instruction for any case. Thus, it needs to look beyond the professional conduct code and consider other criteria like warning as a voluntary act to prevent the future financial scandals and protect public interests. Inclusion of the word warning (disclosure) into the world anti-fraud and anti-corruption literature is derived from the method used by the British police forces in informing their colleagues about criminals. Based on an old tradition, when they face with a criminal in the city, they blew on their whistles as they chase him/her, by which

they inform their colleagues, to arrest the criminal by cooperation. According to Nir&Mikli (1985), warning means to disclose the illegal, unethical and illegitimate activities carried on in the organization, by the current and former members of the organization, to the individuals or organizations who are able to influence on such activities. Another description of warning is provided by Job (1999). According to this description, warning is an intentional, optional (other than legal requirements) disclosure act of illegal actions, or other occurred, suspected or expected wrongdoings under the organization control, by an individual who has authorized access to that organization data and information, and providing it to the external entities, which has the ability to reform such actions (Paula et al, 2017). According to Allinet al. (2013) Job's definition (1999) of warning considers only the external reporting aspect of warning and disregards the internal disclosure. But Nir&Mikli (1985) description of warning includes both internal and external aspects. Warning in the audit area is, a voluntary act based on which the auditor, regardless of the existing legal standards and requirements, reports unethical behaviors committed by the financial employees to any internal or external entities that has the ability to reform such wrongdoings. According to aforementioned cases, it can be expected that warning as an ethical act has a prominent role in preventing of the financial scandals. Thus, identifying and better perceiving the factors which related to warning are considered an important field for research, and by identifying variables that encourage warning or prevent it, some factors can be introduced that will have significant role in preventing of the potential damages resulted of the organizational wrongdoings. Warning about the organizational wrongdoings, is placed in the field of the business ethics. Organizational wrongdoings includes illegal, unethical and illegitimate activities which harm both internal and external beneficiaries of the organization. For instance, fraud in providing financial information leads to loss the investors, creditors and customers (external individuals of the organization). Also the employee who sees not observing the security issues and hides or undiscloses it; endangers security of other employees (the internal individuals of the organization). A warner who discloses a wrongdoing as soon as observing it, can prevent extensive losses which will affect countless of the market beneficiaries. Researchers have shown that

warning can be one of the most important control mechanisms in the organization and, through disclosure of the potential warners, can bring many benefits to the members of the organization and other beneficiaries in the society (Singh et al,2019). Auditors warning about the organizational wrongdoings, can lead to decrease the financial scandals. There is a high probability that auditors, due to the authorized access to the employer's information, obtain evidence of the organizational wrongdoings before others; thus auditors as the potential warner are expected that disclose any wrongdoing in line the

public benefits. In the following, according to the theoretical framework, a model is presented in the form of figure (1)

According to the presented model in this research and by adapted from the research literature four hypotheses have been proposed in this research which investigate the impact of audit warning on the quality of identification and measurement of transactions, quality of identification and measurement of properties and liabilities, the quality of disclosure and presentation of the financial statements and the qualitative attributes of information.

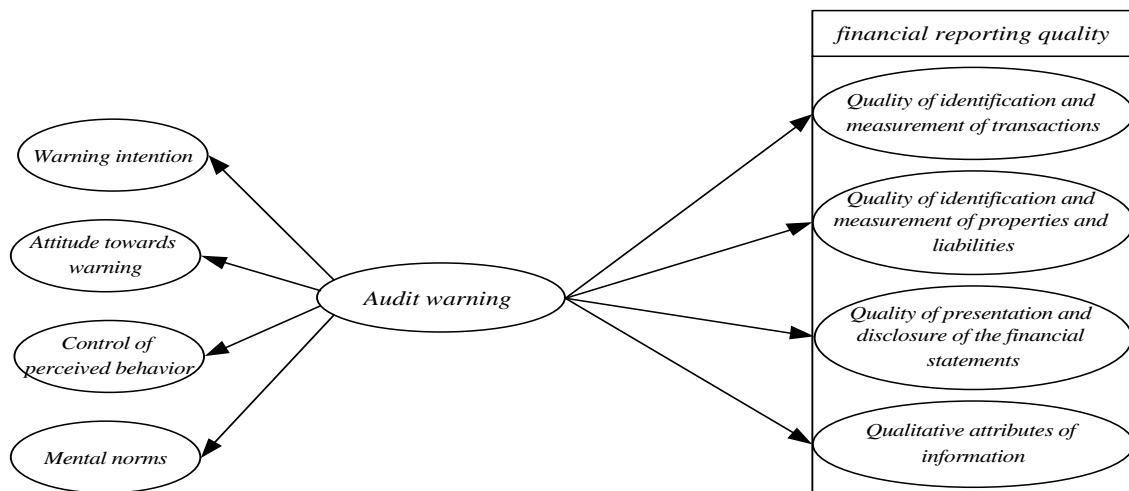


Figure1. Conceptual model of research

Methodology of research

This research is considered descriptive-research, in term of practical goal, nature and method. Also from the information gathering point of view, it is a survey research. The statistical population of this research is the auditors working in the audit organizations of Tehran, 155 of whom were selected as the research sample and the sampling method was the non-probability. In this research structural equations modeling has been used to determine the sample size, and obtained results are presented in Table (1).

In order to prevent of returning questionnaires, 10 percent more than sample size of questionnaires has been distributed, among 170 questionnaires which were sent to people, 157 questionnaires were returned to the researcher and two questionnaires were uncompleted,

finally 155 questionnaires was considered as the analysis base. Data collection method is field type in this research, and data collection tool is questionnaire. To investigate the validity in this research content and construct validity were used. The questions of the questionnaire were revised and reformed by respected supervisors and advisors. In the reliability section also Cronbach's alpha coefficient and combined reliability coefficient were used, which results were confirmed. Smart PLS and Spss softwares were used to analyze the data resulted from collecting the questionnaire. Characteristics of the research questionnaire from the point of of the number of questions were presented in table (2):

Table (1) determining the sample size through structural equations modeling

Value	Item
0.33	Considered effect size for test
0.9	Second step of power of the test
5	Number of variables of the research model both endogenous and exogenous
54	Number of questions of questionnaire
0.05	Error rate
149	Minimum sample size

Table (2) Information of the research questionnaire

Resources	Line of question	Number of question	Variable
Park & Plincinsap (2009) and Kashanipor et al. (2019)	3 – 1	3	Warning intention
Park & Plincinsap (2009) and Kashanipor et al. (2019)	4_ 8	5	Attitude towards warning
Park & Plincinsap (2009) and Kashanipor et al. (2019)	12 – 9	4	Mental norms
Park & Plincinsap (2009) and Kashanipor et al. (2019)	16 – 13	4	Control of perceived behavior
Rahmani et al (2020)	21 - 17	5	Quality of identification and measurement of transactions
Rahmani et al (2020)	27 – 22	6	Quality of identification and measurement of properties and liabilities
Rahmani et al (2020)	34 – 28	7	Quality of presentation and disclosure of the financial statements
Rahmani et al (2020)	54 – 35	20	Qualitative attributes of information

Finding of research

Descriptive statistics

In this research 155 respondents responded to the questionnaire, five questions of which were related to the demographic part. Among the respondents 141 were female and 14 were male. Identifying demographic characteristics of sample, is useful because it helps to study the general characteristics of the society and its general characteristics are specified to other researchers. In addition, this recognition leads us to use this information in generalizing the results to other societies, or designing questions of the future researches for other societies. Results of this section are summarized in table (3):

Statistical description of the research variables is presented in the following. In this section central indicators are studied. Central indicators, dispersion indicators and distribution shape indicators of the variables are described in this section. Central

indicators are indicators which determine the tendency rate to the center of data. Any numerical criteria which is representative of the center of data collection, is called central indicator. We call dispersion indicators which are numerical determinants of the data dispersion rate, dispersion indicators. Distribution shape indicators are also needed to describe the data to introduce other indicators which determine the symmetry or asymmetry of them. If the distribution frequency diagram of the data is almost symmetry, it can be said that the distribution frequency of a community from which the data collected, has a symmetrical distribution. In such distributions the mean, mode and median are almost coincided, usually the most standard frequency curve, is the standard distribution curve which has special beauty in term of symmetry and elongation .

Table (3) Demographic characteristics of the respondents

Number	Experience	Number	Education	Number	Age	Number	Sex
3	Under 10 years	21	BA	5	Under 35	141	Male
19	Between 10 to 15 years	117	MA	48	Between 35 to 40	14	Female
57	Between 15 to 20 years	17	Dr	36	40 to 45	155	Total

Number	Experience	Number	Education	Number	Age	Number	Sex
60	Between 20 to 25 years	155	Total	13	45 to 50	Number	Marriage
16	Over 25 years			42	Over 50	6	Single
155	Total			155	Total	149	Married
						155	Total

Table (4) Statistical description of the research criteria

Variance	Standard deviation	Mean	Max	Min	Number	Variable
0.884	0.94003	4.2323	5	1	155	Warning intention
0.6	0.77446	4.2503	5	1.4	155	Attitude towards warning
0.399	0.632	3.7139	4.92	1.74	155	Audit warning
0.845	0.91926	3.8903	5	1.25	155	Mental norms
0.328	0.57302	3.7813	4.85	1.85	155	Qualitative characteristics of information
0.752	0.86729	3.9484	5	1	155	Control of perceived behavior
0.685	0.82762	3.6396	5	1	155	Quality of presentation and disclosure of the financial statements
0.783	0.88502	3.6495	5	1	155	Quality of identification and measurement of properties and liabilities
1.081	1.03991	3.6258	5	1	155	Quality of identification and measurement of transactions

4.2. Confirmatory factor analysis

In this section each question significance of the questionnaire has been checked through Investigating the factor loading and significant numbers. In order to confirmatory factor analysis, standard estimation models and significant numbers have been studied in this section. Table (5) shows findings of confirmatory factor analysis of sub- criteria.

According to the results of table (5) it is observed that all the sub- criteria are significant, since the related factor loadings are greater than 0.5 and significant numbers also are greater than 1.96, therefore the

constructs of the model have truly ability of measuring the research variables. Indeed, confirmatory factor analysis of the model constructs shows that considered questions to measure the research variables are designed correctly and can measure various aspects of the studied variables. To study the confirmatory factor analysis in addition to the number of factor loading and significance, significant levels have been studied too, and all values of this indicator have been obtained less than 5 percent, which shows the significance of the questionnaire constructs.

Table (5) Factor loadings and significant numbers of the research sub- criteria

Result	Significance level	Factor loading	Questions	Result	Significance level	significant number	Factor loading	Questions
Confirm	0.000	0.573	28	Confirm	0.000	60.664	0.918	1
Confirm	0.000	0.742	29	Confirm	0.000	15.727	0.838	2
Confirm	0.000	0.813	30	Confirm	0.000	41.258	0.894	3
Confirm	0.000	0.877	31	Confirm	0.000	11.728	0.723	4
Confirm	0.000	0.889	32	Confirm	0.000	22.969	0.862	5
Confirm	0.000	0.843	33	Confirm	0.000	9.992	0.677	6
Confirm	0.000	0.816	34	Confirm	0.000	13.423	0.784	7
Confirm	0.000	0.523	35	Confirm	0.000	26.983	0.781	8
Confirm	0.000	0.684	36	Confirm	0.000	41.631	0.858	9
Confirm	0.000	0.629	37	Confirm	0.000	31.705	0.861	10
Confirm	0.000	0.767	38	Confirm	0.000	47.057	0.875	11
Confirm	0.000	0.840	39	Confirm	0.000	19.942	0.813	12
Confirm	0.000	0.841	40	Confirm	0.000	29.007	0.831	13

Result	Significance level	Factor loading	Questions	Result	Significance level	significant number	Factor loading	Questions
Confirm	0.000	0.652	41	Confirm	0.000	19.036	0.795	14
Confirm	0.000	0.521	42	Confirm	0.000	26.897	0.838	15
Confirm	0.000	0.585	43	Confirm	0.000	44.274	0.887	16
Confirm	0.000	0.556	44	Confirm	0.000	23.245	0.814bl	17
Confirm	0.000	0.599	45	Confirm	0.000	55.357	0.910	18
Confirm	0.000	0.527	46	Confirm	0.000	21.881	0.832	19
Confirm	0.000	0.625hl	47	Confirm	0.000	13.923	0.791	20
Confirm	0.000	0.712	48	Confirm	0.000	49.123	0.914	21
Confirm	0.000	0.638	49	Confirm	0.000	7.183	0.615	22
Confirm	0.000	0.763	50	Confirm	0.000	10.428	0.713	23
Confirm	0.000	0.841	51	Confirm	0.000	9.368	0.715	24
Confirm	0.000	0.684	52	Confirm	0.000	69.690	0.848	25
Confirm	0.000	0.562	53	Confirm	0.000	36.328	0.849	26
Confirm	0.000	0.641	54	Confirm	0.000	23.464	0.809	27

3.4. Study of validity and reliability

According to the data analysis algorithm in the minimum of the partial squares method, after measuring the factor loading questions, it is time to calculate and report Cronbach's alpha coefficient and reliability of the composite constructs. Composite reliability coefficient or structural reliability coefficient: is a factor that can be used to evaluate the reliability of internal compatibility of the reflective models. Values of this coefficient are also between 0 to 1 variable that values greater than 0.7 are accepted and less than 0.6 are evaluated undesirable. Cronbach's alpha coefficient is another factor that can be used to evaluate the reliability of internal compatibility of the reflective models. Values of this coefficient is also varied between 0 and 1 that values greater than 0.7 are accepted and less than 0.6 are evaluated undesirable. It should be noted that in the case of variables which have less question, 0.6 is introduced as the limit of Cronbach's alpha coefficient. The next criterion for investigating the fitness of the measurement models is, convergent validity, which studies the rate of correlation of each construct with its own questions. Convergent validity, shows the high correlation of the indicators of a construct in comparison with the correlation of the indicators of other construct, which should be evaluated in reflective models. In order to evaluate the convergent validity, average variance extracted (AVE) is used. Value of this coefficient varies from 0 to 1 and values higher than 0.4 is accepted. Divergent validity is the next criterion to examine of the fitness of measurement models which covers two issues: 1) comparison of the correlation rate between

indicators of a construct with that construct against the indicators correlation with other constructs; 2) comparison of the correlation rate of a construct with its indicators against correlation of that construct with other constructs. In the minimum of partial squares method divergent validity is calculated by two ways: cross-loading and the Fronell-Larker Criterion. The second way, the Fronell-Larker Criterion was used, which is the relation rate of a construct with its indicators in comparison with that construct relation with other constructs. Divergent validity will be an acceptable model when the construct interacts with its indicators more than other constructs (i.e. the number displayed on the diameter of this matrix should be greater than other numbers in its column). Based on the above table, it can be found that the correlation rate of items of each research variable with its construct, is higher than the correlation rate of these items with other constructs (they are greater than other numbers in the same row); then the Fronell and Larker matrix is studied. Based on this matrix, if its main diameter is greater than the numbers on its left and bottom, since all variables have this mode, we can enter other steps of fitness of the structural model.

Table (6) Results of convergent validity and reliability evaluation

Variables of the research model	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Warning intention	0.860	0.915	0.782
Attitude towards warning	0.823	0.877	0.590
Audit warning	0.938	0.946	0.523
Mental norms	0.861	0.905	0.705
Quality characteristics of information	0.840	0.831	0.479
Conceived behavior control	0.875	0.914	0.728
Quality of representation and disclosure of the financial statements	0.904	0.924	0.638
Quality of identification and measurement of properties and liabilities	0.869	0.892	0.581
Quality of identification and measurement of transactions	0.909	0.931	0.729

Table (7) Measurement matrix of divergent validity by Fronell and Larker method

	Warning intention	Attitude towards warning	Audit warning	Mental norms	Qualitative characteristics	Behavioral control	Quality providing	Properties and liabilities	Measurement of transactions
Warning intention	0.884								
Attitude towards warning	0.778	0.768							
Audit warning	0.809	0.918	0.723						
Mental norm	0.508	0.727	0.867	0.839					
Qualitative characteristics	0.604	0.769	0.893	0.891	0.529				
Behavioral control	0.622	0.691	0.883	0.730	0.810	0.853			
Quality providing	0.518	0.602	0.753	0.691	0.792	0.783	0.799		
Properties and liability	0.467	0.509	0.578	0.525	0.722	0.506	0.735	0.762	
Measurement of transactions	0.395	0.420	0.446	0.379	0.616	0.364	0.433	0.680	0.854

4.4. Analysis of the research hypotheses

To Analyze the research hypotheses in this technique, two models are used. One of these models, is the standard estimation mode. The standard estimation mode are homogenized coefficients, that is, their measures are unified and there is possible to compare them. If this value is considered between its related latent and evident variables, they are equal to correlation coefficients or factor loadings (in doing confirmatory factor analysis), and if it is considered between two latent variables, are the same coefficients of the route or regression standardized betas. The factor loadings model in the standard estimation mode shows the impact rate of each variable and item in explanation of the variance scores of the variable or the main factor. In standard estimation mode, there is possible to compare the observed variables that explain the latent variables. Results of the confirmatory factor analysis of the variables showed that the measurement model of the variables is appropriate and all numbers and parameters of the model are significant. Results of the measurement model indicate that there are positive and significant correlations between the variables of the

model. According to the figure (1) factor loadings of each question of the research can be seen. The value of explanation coefficient is a number between zero and one, that as closer it is to one, greater is the explanation value of variance.

Other model, is the model in the mode of significant numbers. In this mode, the estimation model is called the estimation coefficients. The model in the mode of t coefficients or significant mode shows the values of t statistic, which is used to judge about the relations significance. In this way if the values of t statistic are between +1.96 and -1.96, coefficients are not significant and lead to reject the research hypotheses and if are out of this limit, they are significant. Figure (2) shows the significance of the coefficients and parameters obtained from the model, which all the obtained coefficients are significant. Confirmation or rejection base on the research hypotheses, is investigation of the model in the mode of significant coefficients.

According to the results from two models, the results of the research hypotheses are presented in table (8).

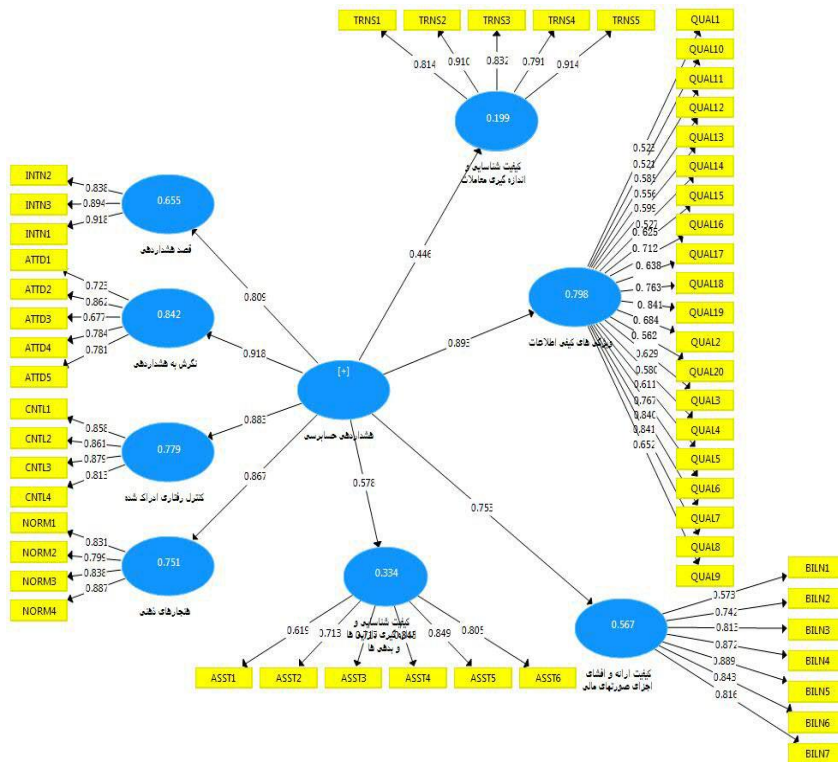


Figure 1. Research model in the standard estimation mode

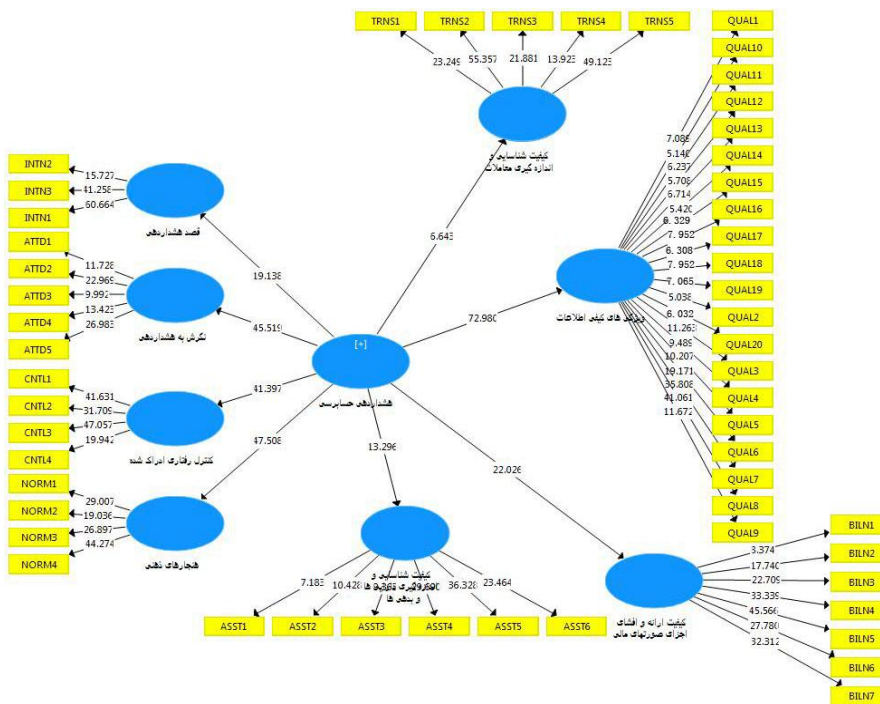


Figure 2. Research model in the significant numbers mode

Table (8)Result of the research hypotheses

Hypothesis	Coefficient of rout	Statistic T	Significance	Result
Audit warning affects on the quality of identification and measurement of transactions	0.446	6.643	Sig<0.05	Confirm
Audit warning affects on the quality of identification and measurement of properties and liabilities	0.578	13.296	Sig< 0.05	Confirm
Audit warning affects on the quality of presentation and disclosure of the financial statements	0.753	72.980	Sig< 0.05	Confirm
Audit warning affects on the qualitative characteristics of information	0.893	22.028	Sig< 0.05	Confirm

According to the results from testing the research hypotheses, all hypotheses are in 95% confidence level, thus it can be claimed that audit warning has positive and significant impact on the financial reporting quality of auditors working in auditing organizations. In table (9) also the coefficients of determination of the effective variables of the model are presented.

Table (9)coefficients of determination of the effective variables of the model

Effective variables	Coefficient of determination
Warning intention	0.653
Attitude towards warning	0.841
Mental norms	0.749
Qualitative characteristics of information	0.796
Perceived behavioral control	0.778
Quality of representation and disclosure of the financial statements	0.564
Quality of identification and measurement of properties and liabilities	0.329
Quality of identification and measurement of transactions	0.194

The obtained coefficients of determination for the model variables, except the quality of identification and measurement of transactions, have high intensity, thus it can be said that the explanation rate of the model is in appropriate level.

Conclusion and discussion

Audit warnings can have a significant impact on the quality of financial reporting. An audit warning is a message from an auditor to a client indicating that there are potential problems with the financial statements or the accounting practices used to prepare

them. When an auditor issues an audit warning, it typically means that there are material misstatements or deficiencies in internal controls that need to be addressed. The impact of audit warnings on the quality of financial reporting depends on how the client responds to them. If the client takes the audit warning seriously and makes the necessary corrections, it can result in improvements to the quality of financial reporting. By addressing the issues identified by the auditor, the financial statements become more accurate and reliable, which can increase investor confidence and improve decision-making. On the other hand, if the client ignores or disputes the audit warning, it can undermine the quality of financial reporting. Ignoring the warning can lead to the perpetuation of accounting errors or misstatements, which can have serious consequences for the financial health of the organization. Additionally, if the auditor's warnings are consistently ignored, it can damage the auditor's reputation and credibility, making it difficult for them to work with the organization in the future. In summary, audit warnings can have a significant impact on the quality of financial reporting depending on how they are addressed by the client. If taken seriously and acted upon promptly, they can lead to improvements in financial reporting. However, if ignored or disputed, they can undermine the quality of financial reporting and damage the reputation of both the client and the auditor.

Audit warnings can have a significant impact on audit quality. Here are some ways that audit warnings can affect audit quality:

- ✓ Increase scrutiny: When an auditor issues an audit warning, it signals to the client that there are potential problems with the financial statements or the accounting practices used to prepare them. This can increase scrutiny on the part of both the auditor and the client, which

can lead to a more thorough and comprehensive audit.

- ✓ **Improve communication:** Audit warnings can improve communication between the auditor and the client. The warning provides an opportunity for the auditor to clearly communicate their concerns and recommendations, and for the client to ask questions and seek clarification.
- ✓ **Identify weaknesses in internal controls:** Audit warnings can help to identify weaknesses in the client's internal controls. By identifying deficiencies in internal controls, the auditor can help the client to improve their control environment, which can lead to more accurate and reliable financial reporting.
- ✓ **Enhance audit documentation:** Audit warnings can enhance the quality of audit documentation. The warning provides a clear record of the issues identified by the auditor, the recommendations made, and the client's response. This can help to ensure that the audit documentation is comprehensive and accurate.
- ✓ **Increase auditor independence:** Audit warnings can help to increase auditor independence. By identifying potential problems and providing recommendations for improvement, the auditor is fulfilling their responsibility to provide an independent assessment of the client's financial reporting.
- ✓ **In summary,** audit warnings can have a positive impact on audit quality by increasing scrutiny, improving communication, identifying weaknesses in internal controls, enhancing audit documentation, and increasing auditor independence. However, the effectiveness of audit warnings depends on how they are communicated, the quality of the recommendations provided, and how the client responds to them.

As the fast evolutions and increasing the competition capabilities of the firms and organizations in today's world, the performance desirability of each of working components of the organization and sum of it can be important as the success measurement criterion of an organization for the managers, and using it they can evaluate the existent situation of the organization strategic plans and study of the working components and launch to improve the efficiency of them. In

many modern organizations, expansion of competition, has led to the top management focus on obtaining and maintaining the appropriate situation in the market. Managers have found that many organizational systems which are expected to be useful in developing operations, move in opposite of the organization goals and lead to backwardness. The quality of the audit reports and financial performance is a useful tool to reform these systems and guide the organization to its goals and provide this accountability tool based on reliable information and the quality of correct financial reports. In addition to handling the financial statements and giving comment in the principles framework and conditions of the financial audit, performance audit should be obligated. Therefore, it is required that auditors evaluate the quality of management decisions while using professional services in different fields, and provide their conclusions and reformatory propositions to improve the management as much as possible. Audit reporting quality means how much major distortions of the financial statements an auditor identifies and reports, and reduces the information asymmetry between management and stockholders and protects the stockholders' rights. According to the results from testing of the research hypotheses, it is specified that audit warning has positive and significant impact on the quality of identification and measurement of transactions, quality of identification and measurement of properties and liabilities, quality of presentation and disclosure of the financial statements and qualitative characteristics of information. Study of conducted researches about warning, indicates that these researches have been mostly done with emphasis on the personality and behavioral dimensions and without attention to other related areas. In one hand, as the type and complicated process of this kind of decision about warning, considering all effective components is so important. According to the auditing environment in Iran, identifying a model and determining the effective factors for evaluating audit warning can resolve many related problems, and on the other hand, by reinforcing the dimensions and components of the auditors' warning, we can help auditing profession. Here are some suggestions to improve the effectiveness of audit warnings:

- ✓ **Clearly communicate the issues:** The audit warning should clearly and concisely communicate the issues identified by the

auditor. The warning should explain why the issues are important and what the potential consequences are if they are not addressed.

- ✓ Provide specific recommendations: In addition to identifying the issues, the audit warning should also provide specific recommendations for how to address them. The recommendations should be practical and actionable, and should take into account the client's unique circumstances.
- ✓ Use plain language: The audit warning should be written in plain language that is easy for the client to understand. Avoid technical jargon or overly complex explanations that may confuse or intimidate the client.
- ✓ Provide supporting evidence: The audit warning should be supported by evidence, such as documentation or calculations, that clearly demonstrates the nature and scope of the issues identified. This can help to build credibility and persuade the client to take the warning seriously.
- ✓ Follow up: After issuing the audit warning, the auditor should follow up with the client to ensure that the issues have been addressed. This can help to ensure that the warning is taken seriously and that the necessary corrective actions are taken in a timely manner.
- ✓ Consider the client's perspective: When issuing an audit warning, it's important to consider the client's perspective and to be sensitive to their concerns. The auditor should take the time to explain the reasons for the warning and to listen to the client's feedback and concerns.
- ✓ By following these suggestions, auditors can improve the effectiveness of audit warnings and increase the likelihood that they will be taken seriously by clients. Additionally, by improving the quality of financial reporting, audit warnings can help to increase investor confidence and promote transparency in financial markets.

Finally, it should be acknowledged that every research has some limitations, that this research is not free of limitation, too. Demographic variables including: education, expertise and experience are factors which can impact on the financial reporting quality, that the impact of these factors has not been considered in the

research, so it is suggested that in the future researches, variables including education, expertise and experience are added to the research model as the moderating variables and their role is investigated. Another factor that affects the quality of reporting is the profit management role, which is not considered in this research, and can act as an effective variable. Therefore, it is suggested that in the future researches, the profit management is added to the research model as a mediating variable and its role is investigated.

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