

Auditors' View of the Statement of Cash Flows Auditing¹

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INTRODUCTION

In recent years, the use of the cash flow statement has increased rapidly (Nguyen and Nguyen, 2020: 87). This issue highlights the importance of adequate auditing of the cash flow statement to reduce agency costs and increase the credibility of this financial statement. Therefore, this study was conducted to investigate the audit process of cash flow statements by certified auditors of the stock exchange in Iran. Information asymmetry in agency relationships can potentially lead to two types of agency problems, namely moral hazard, and adverse selection. Moral hazard is related to the agent's lack of effort, and in the case of the cash flow statement audit in particular, if the auditor lacks effort to accurately audit the cash flow statement, then moral hazard arises. Therefore, this study focuses solely on the problem of moral hazard during the audit of the cash flow statement. To conceptualize how moral hazard can appear in the performance of auditors, their goals and responsibilities are examined. Among the published studies, the study that is directly related to the audit of this primary financial statement is very limited. Therefore, to contribute to the existing knowledge, this study tries to explore the importance of the cash flow statement in general and some of its elements in particular in Iran by surveying the auditors' point of view on the audit performance of the cash flow statement. Also, a more detailed exploration of the auditors' opinions about the importance of the cash flow statement and its comparison with

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other financial statements is likely to increase our knowledge about the performance of auditing financial statements of listed companies in Iran. In other words, in this research, with a change of perspective on the agency problem (which usually considers the relationship between managers and owners); This time, auditors as agents in conducting supervision are subjected to a behavioral study.

MATERIALS AND METHODS

Since exploratory surveys are used to find fundamental facts and get familiar with the phenomenon under investigation (Nazari et al., 2006: 430), the main research method in this study is a survey. A survey of target people in the auditor community is a correct method for this study; because it is thought that their subjective perceptions can be related to the consequences of a larger being. In other words, auditors' subjective perceptions affect their behaviors, and those behaviors also have real consequences for professional communities and organizations. The studied population consists of 820 auditors working in 69 audit institutes trusted by the Securities and Exchange Organization, and considering the importance of returning questionnaires, 450 questionnaires were sent to the audit institutes to reach the required sample size. To conduct the survey, a structured questionnaire was used that asks the auditors about the importance of the cash flow statement, the amount of auditing of its detailed components, and the use of specific financial ratios related to cash flow in evaluating the continuity of the business. To increase the response rate, the questionnaires were implemented electronically on the sample. Finally, 291 usable questionnaires were returned and used in the analysis. In this study, according to random sampling, statistical methods developed around random samples are used to provide strong evidence in the analysis of findings.

RESULTS AND DISCUSSION

The most important finding of the present study is that the statement of cash flows is the least important part of the set of financial statements from the auditors' point of view. This is consistent with the previous research results of Arola (2015: 166), which showed that certified auditors in Finland consider the statement of cash flows as the least important part of financial statements. Hanini and Abdullatif (2013: 129) also found that auditors in Jordan consider the statement of cash flows only somewhat important. The results of the first and second hypothesis tests show that more than 67% of auditors spend the least amount of time on cash flows during the annual independent audit of a company, compared to all sections of financial statements, and less than half of the auditors during the audit. Annually, a company uses financial ratios based on cash flows to evaluate

the assumption of going concerned; It is in line with Mills and Yamamura (1998: 53-54) who noted that auditors do not take sufficient advantage of the information provided in the cash flow statement, possibly due to the lack of emphasis in audit training on the cash flow statement; And they devote less time to auditing the cash flow statement than the statement of financial position and Statement profit or loss and other comprehensive income. The findings of the third and fourth hypotheses test also indicate that less than half of Iranian auditors during the annual audit of a company pay attention to the selected issues of compliance of the statement of cash flows with accounting standards (for example, presenting cash payments relating to capacity acquisitions correctly or omitting material non-cash transactions). This neglect can reduce the qualitative characteristics of reliability (Faithful representation) and comparability of this basic financial statement.

CONCLUSION

The findings show that the auditors do not consider the statement of cash flows important and related to their audit and do not make enough effort to audit its multiple elements. Therefore, the statement of cash flows in Iran may not be audited like other parts of financial statements. It is a fact that people act based on their perceptions (Nazari et al., 2006: 429); therefore, the present study considers the auditors' perception of the statement of cash flows as the least important part of the financial statement as a possible reason for the moral hazard discovered among auditors. The possible reasons for the reported findings are auditors' limited awareness of the importance and relevance of cash flow statement information and that auditors consider other information more important than cash flows for their audit. Also, the argument that audit fees are generally low in Iran may be a possible explanation for these findings. If auditors are willing to compromise their audit quality as a result of cost-cutting measures due to low fees, efforts to audit the statement of cash flows may be compromised relative to the audit of the statement of financial position or Statement of profit or loss. This is probably because recent financial statements involve more subjective and professional judgment compared to statements of cash flows (Zimbelman et al., 2012; 83). These findings are almost in contradiction with many other international studies that have investigated the importance of the statement of cash flows from the perspective of users (e.g. Miranda-López and Nichols, 2012). The findings that show that auditors do not consider the statement of cash flows to be very important suggest the possibility that while investors and other users consider this financial statement to be very important and useful, auditors are still lagging in this regard and they need basic and continuous professional training about it.

In any case, such results are important to improve the quality of financial reporting; because the auditors' point of view may also influence the point of view of the preparers and spread the moral hazard among them. Auditors who spend the least amount of time on the statement of cash flows during the audit; may send the message to preparers that they don't need to put much effort into preparing it. As the findings of Arola (2015: 166), have shown that in Finland, financial statement preparers, in addition to auditors, consider cash flow statements as the least important part of financial statements. Failure to audit the cash flow statement may lead to negative consequences in the financial markets. This undermines the ability of users to assess the future and going concerns of a business entity. In particular, users will be less able to predict the entity's future cash flows or assess its liquidity due to the lower reliability of the published information. In addition, the lack of effort by auditors increases the possibility of manipulation of cash flow statements by preparers to the detriment of users who base their financial decisions on these statements. The practical implications of the research results include the need to educate auditors more about the importance of the statement of cash flows and the importance of auditing and its adequate analysis. This may be achieved in part by continuing professional training of auditors in the latest methods of cash flow statement analysis and auditing.

Keywords: Audit, Moral hazard, Statement of Cash Flows, Agency Theory.

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