Effect of Auditor Partner's Busyness on Audit Quality, Auditor Report Delays, and Capital Cost[1]

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Research Paper

INTRODUCTION

Our aim in this research is to examine the relationship between the auditor's partner's busyness and the timeliness of the auditor's report, audit quality, and capital cost. Audit report delay, defined as the time interval between the end of the year and the publication date of the auditor's report, is considered to be the most important criterion for the timeliness of financial statements (Bryant Kucher et al., 2013; Im Pink et al., 2012; Schmidt and Wilkins, 2013; Giovelli and Palmon, 1982; Clatworthy and Peele, 2016). The most common definition of audit quality, which receives more attention, is D'Angelo's (1981) definition of audit quality. He has defined audit quality as measuring and evaluating the market from the auditor's ability to discover important distortions and report the discovered distortions. The busy work of auditing leads to the possibility of mistakes and they may not be able to discover important distortions that ultimately affect the quality of auditing (Azkan, 2018). Also, the audit institute's workload reduces the effectiveness of the audit (Lenox et al., 2018). On the other hand, the busyness of the auditor's partner affects the cost of capital and will increase the cost of capital. In this way, the busy auditor is not careful enough in checking the information and financial statements and it leads to an increase in the cost of capital. In this way, despite the high workload for auditors, they will be less accurate and the quality of financial statements will decrease, which ultimately leads to the lack of trust of shareholders and creditors and the provision of company capital at

a higher cost (Kamara et al., 2009; Hu and colleagues, 2012). The auditor increases the credibility of disclosed information and financial statements, and authentic financial statements reduce contract costs (Jensen and Meckling, 1976; Watts and Zimmerman, 1986), but an audit that has a large workload However, it is not accurate enough to credit the financial statements and increases the cost of capital (Habib et al., 2018). The auditor's high workload reduces his accuracy and distracts the auditor's attention from the proceedings (Public Company Accounting Oversight Board, 2014), giving negative signals to the market, which leads to an increase in costs. Capital and risk become information (Lambert et al., 2007) and on the other hand, it increases profit management (Carmania and Lennox, 2008).

There are two different theories regarding the busyness of the auditor's partner. A group believes that the audit firm's partners will maintain the quality of the audit due to their knowledge and experience, and the auditor's report will be provided on time (Goodwin and Wu, 2016; Gol et al., 2017; Sandgren and Swanström, 2014). However, according to the theory of limited attention, contrary to this theory, they believe that when the audit partners are responsible for several tasks at the same time, they should divide their time and effort between several tasks, which reduces the quality of the audit and delays the issuance of the audit report. (De Fond and Zhang, 2014; Kenchel et al., 2013; Schmidt and Wilkins, 2013). Busy audit partners face time constraints and have to spend their time on several audit operations, which will delay the auditor's report reduce the quality of the audit, and increase the cost of capital. Also, audit institutions that issue their report late may lose their clients in the future (Singh et al., 2022; Habib et al., 2018). The problem that justifies this research is that there are many opposing and agreeing theories about the impact of the auditor's partner's busyness on the quality of the audit and the delay of the auditor's report. Since Iranian companies have to audit their annual financial statements, the results of this research can prove the impact of the auditor's partner being busy or not in the Iranian environment. Another problem is that companies do not pay attention to the workload of the auditing firm when choosing an audit firm. The findings of this research will help companies when choosing an audit firm. It will help the legislators to keep in mind that if the hypotheses are meaningful, to enact laws to limit the workload of audit institutions, the positive results of which are beneficial for the shareholders and the reporting environment of Iran. Will be. Finally, no research in Iran has investigated the impact of the auditor's partner's busyness on the delay of the auditor's report and audit quality, and this article can be a start to expand and conduct new research in the field of the auditor's partner's busyness. Shareholders, investors, and creditors make decisions based on the auditor's report. However, if the audit is not

of the required quality, it can lead to misleading the decision-makers and harming their interests. The partners of audit institutions are aware of the disadvantages of having several jobs at the same time. This research seeks to examine the question of whether the busy work of auditors and the visa partners of the auditing firm affects the timeliness of the auditor's report, the quality of the audit, and the cost of capital.

RESEARCH METHODOLOGY

The data from the audited financial statements of listed companies published on the Kodal website and the information announced by the Certified Public Accountants Association regarding the number of partners and the annual income of auditing institutions were collected manually from the website of the Certified Public Accountants Association of Iran. The data related to the number of audit institutions' work was collected from the auditor's report based on the number of companies whose financial statements were audited by the audit institution. The statistical population of this research is the companies admitted to the Tehran Stock Exchange between the years 1391 and 1400. To select the research sample, the companies that were among the financial intermediation companies, financial holdings, and investment companies, etc., in the period of the research, their financial year did not end on March 29, or their information was not available, were excluded from the research community and in Finally, the number of 165 companies admitted to the stock exchange was examined and analyzed as a research sample. Research model and measurement of variables the following models have been used to test the hypotheses:

Model (1)

$$Auad\ Lag = \beta_0 + \beta_1 APBCN + \beta_2 APBIN + \beta_3 APBMS + \beta_4 BS + \beta_5 AS \\ + \beta_6 FS + \beta_7 Opinion + \beta_8 Spse + \beta_9 Lev + \beta_{10} ROA \\ + \beta_{11} Coplex + \beta_{12} Quick + \beta_{13} MTB + \varepsilon$$

Model (2)

$$Auad\ Qul = \beta_0 + \beta_1 APBCN + \beta_2 APBIN + \beta_3 APBMS + \beta_4 BS + \beta_5 AS \\ + \beta_6 FS + \beta_7 Opinion + \beta_8 Spse + \beta_9 Lev + \beta_{10} ROA \\ + \beta_{11} Coplex + \beta_{12} Quick + \beta_{13} MTB + \varepsilon$$

Model (3)

$$COEC = \beta_0 + \beta_1 APBCN + \beta_2 APBIN + \beta_3 APBMS + \beta_4 BS + \beta_5 AS \\ + \beta_6 FS + \beta_7 Opinion + \beta_8 Spse + \beta_9 Lev + \beta_{10} ROA \\ + \beta_{11} Coplex + \beta_{12} Quick + \beta_{13} MTB + \varepsilon$$

INDEPENDENT VARIABLE

Auditor partner busyness (APB): To measure auditor partner busyness from three alternative variables: the ratio of the number of audit work of

the institution to the number of partners of the institution (APBCN), the ratio of the logarithm of the income of the audit institution to the number of partners of the audit institution (APBIN) (Mohammad Rezaei and Gol) 2017; Singh et al., 2020) and market share ratio (APBMS): If the auditor's share of the market based on assets is more than 20%, the number 1 is given, and if it is less, the number 0 is given (Singh et al. colleagues, 2020). The number of audit work has been obtained from the number of listed companies whose financial statements have been audited by auditing institutions, the number of partners of each institution and the income of auditing institutions have been obtained from the official accountant's community website.

DEPENDENT BARIABLES

Aud Lag: the logarithm of the number of days between the end of the financial year and the publication of the auditor's report (Reeve and Rooh, 2007, Singh et al., 2020) Audit quality (Aud Qul): according to Mashayikhi et al.'s research (2017), taking into account the absolute value of discretionary accruals, it is calculated using the adjusted model of Jones (1991) during the following steps:

$$TA_{i,t} = (\Delta CA_{i,t} - \Delta CL_{i,t} - \Delta STDEBT_{i,t} - DEPN_{i,t})$$

TA total accruals of company i in year t; ΔCA changes in current assets of company i between years t and t-1; ΔCL changes in company i's current liabilities between years t and t-1; $\Delta CASH$ changes in cash of company i see years t and t-1; $\Delta TBETDS$ changes in short-term liabilities of company i between years t and t-1; $PNED$ cost of depreciation of tangible and intangible assets of the company per year. A regression model is estimated separately for each year of the industry from the adjusted Jones model to measure audit quality that can be identified from discretionary accruals:

The absolute value of the value obtained from the following relationship is considered as an inverse index of audit quality (Badavarnehandi and Taghizadeh Khanqah, 2013):

$$DA_{i,t} = TA_{i,t} - NDA_{i,t}$$

Capital cost (CE): will be measured from Stone's (2004) relationship as follows (Habib et al., 2018; Stone, 2004):

$$CE = \sqrt{\frac{eps_{t+1} - eps_t}{p_t}}$$

CE cost of capital, EPSt+1 dividend next year, EPSt dividend this year, Pt stock price at the end of July this year.

It is necessary to explain, if the profit per share in the next year is less than the current year, the sub-radical becomes negative. The data that had this condition were excluded from the research observations.

CONTROL VARIABLES

The size of the board of directors (BS): the number of members of the board of directors, Firm size (FS): logarithm of company assets, Auditor size (AS): if the auditor is a corporate auditor of the auditing organization, the number is 1, and if it is other auditing institutions, the number is zero. Auditor's opinion (Opinion): If the auditor's opinion is adjusted, the number 1 and if it is acceptable, the number 0. Auditor's Expertise (Spce): To measure the auditor's expertise, the market share ratio criterion is used according to the following relationship (Palm Rose, 1986):

$$\frac{Specific\ for\ the\ first\ industry\ in\ the\ audit\ of\ the\ Total\ Asset\ Owners\ Institute}{its\ industry\ in\ the\ Total\ Asset\ Owners}$$

Auditing institutions whose market share is greater than the following ratio are assigned a number of one, and if it is less, a number of zero is assigned:

$$\frac{1}{Industry\ in\ the\ company's\ inventory} * \frac{1}{2}$$

Financial leverage (Lev): is the ratio of debt to assets, return on assets (ROA): is the ratio of net profit to assets, Complexity of the company (Complex): is the sum of inventory and accounts receivable divided by total assets (Singh et al., 2022), Quick ratio: current assets minus inventory) divided by current liabilities. Market-to-book ratio (MTB): The ratio of the stock's market value to its book value.

DISCUSSION AND CONCLUSIO

Based on the theory of limited attention, audit partners who are in charge of several audit tasks at the same time, on the one hand, lead to a delay in the issuance of the audit report, and on the other hand, reduce the accuracy of the audit firm's partners, which leads to a decrease in quality. will be audited. The delay of the auditor's report and the reduction of audit quality have negative consequences for audit institutions, including the loss of clients and audit reputation. Our goal in this research is to investigate the impact of the auditor's partner's busyness on the delay of the auditor's report and the reduction of audit quality. To test the hypotheses, we used the data of 165 companies during the years 1391 to 1400. By testing the hypotheses, we obtained the following results:

The findings of the first hypothesis indicate the existence of a positive relationship between the workload of the auditor's partner and the delay of

the auditor's report. That is, the busier the auditor's partner is, the further the auditor's report is issued. As we expected and it was said in theory, the auditor's partner's busy work makes the auditor unable to issue the report on time. Abbott et al. (2012) and Singh et al. (2022) concluded in their research that the auditor's partner's busyness causes the auditor's report to be delayed.

By testing the second hypothesis, we concluded that the workload of the auditor's partner has a negative and significant relationship with audit quality. In other words, the workload of the auditor's partner reduces the quality of the audit. Auditors who are in charge of several tasks at the same time, their accuracy decreases and they cannot discover the distortions that occurred in the financial statements, which results in a decrease in the quality of the audit. Singh et al. (2022) and Lai et al. (2018) also obtained similar results.

With the findings of the third hypothesis, we conclude that the busyness of the auditor's partner has a negative and significant relationship with the cost of capital. In other words, the busyness of the auditor's partner increases the cost of capital. In justification, it should be said that, as we predicted, the workload of the auditor and, the carelessness of the auditor, further cause the creditors to distrust the financial statements, and this causes the company to spend more for financing and capital. suffer In their research, Habib et al. (2018) concluded that the busyness of the auditor's partner increases the cost of capital.

Audit institutions should keep in mind that a large workload will delay the report and reduce the audit quality, and they should accept audits of companies and new work within their capacity and resources. Legislators should pass laws so that the workload of audit partners does not exceed a certain limit. When choosing an audit firm, companies should pay attention to the workload and busyness of the partners.

Researchers are advised to examine other consequences such as the risk of lawsuits and loss of customers.

The only limitation of this research is the collection of data on the number of employees of auditing institutions, which makes it difficult to access information on the number of non-audit jobs or non-listed companies.

Keywords: Auditor's Partner's Preoccupation, Audit Quality, Auditor's Report Delay, Capital Cost.
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