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## THE RELATIONSHIP AUDITOR' S OPINION WITH EARNING RESPONSE COEFFICIENT AND EARNING FORECAST

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**RESUMEN:** Hoy en día, debido a la expansión de la actividad económica, el desarrollo de los mercados financieros y estimular la inversión en los mercados de capitales Especialmente Bolsa por personas naturales y jurídicas, La herramienta más importante para tomar las decisiones correctas y obtener el uso esperado y óptimo de recursos financieros, El acceso a información precisa y oportuna y análisis es el más preciso y realista. Usuarios de información financiera, incluyendo información de que sus decisiones son consideradas Información relacionada con beneficios corporativos. La principal investigación tiene como objetivo investigar la relación entre la opinión del auditor con una tasa de respuesta de la ganancia y su error de pronóstico de ganancias. Con la selección de una muestra de 590 vista (año / empresa) para 118 empresas de sociedades cotizadas en la Bolsa de Teherán durante los años 2010 a 2014; Y con la ayuda de pruebas estadísticas de las hipótesis se pusieron a prueba. Los resultados indican que la opinión del auditor está asociada con el beneficio del coeficiente de respuesta y el error de pronóstico de ganancias.

**Palabras clave:** Opinión de los auditores, pronóstico de ganancias, Compañías de Bolsa, coeficiente de respuesta al resultado.

**ABSTRACT:** Today, due to the expansion of economic activity, development of financial markets and stimulate investment in capital markets Especiallyly Stock Exchange by natural and legal persons, The most important tool to make the right decisions and gain expected and optimum use of financial resources, access to accurate and timely information and analysis is the most accurate and realistic. Users of financial information, including information that their decisions are considered Information related to corporate profits. Leading research aims to investigate the relationship between the auditor's opinion with a response rate of profit and its profit forecast error. With selecting a sample of 590 view (year/company) for 118 companies of listed companies in Tehran Stock Exchange during the years 2010 to 2014; and with the help of statistical tests of hypotheses were tested. The results indicate that the auditor's opinion is associated with response coefficient profit and profit forecast error.

**Key words:** Auditor's opinion, earnings forecast, Stock Exchange Companies, earnings response coefficient.

## 1. INTRODUCTION

One of the main cornerstones in economic development in state and private sectors will inevitably be an easy access to outstanding and comparable information which help the investors, creditors, government and other related users to decide on their purchasing, selling, preservation of their shares, giving loans, evaluation of managers' performance and many of other sections. These sections are in deep need for valid, plain and related and up to minute financial information. Investors are inclined to invest on an economical businesses whenever they feel they can access to required information and trust on these information. Creditors do not provide them with financial sources without enough information on the monetary status and financial performance of a given company. The government needs required information in this field as well to decide on macro and micro levels (Shoorvarzy, 2012).

While lots of financial scandals have occurred on international level and throughout the world in recent years, like Enron, World Com, Telecom and many others which have brought with them some uneasiness on the financial reporting quality, for these situations an independent auditor can play a critical role in the process of reporting and the validity of it (Watts, 1990). Although it is the manager of the company who is eligible to provide financial statements, many of auditors are accused for these scandals. For instance, in Enron case, the auditor was charged for scandal as the head manager (senior manager) was accused for it. Actually the auditor of the company (Artur Andersen) was also accused for his negligence for not disclosing and uncovering the frauds. In this case there is a general consensus that such infamies are the result of a kind of dependency of auditor and the low quality of his auditing. In the wake of these events - which in economical literature is referred as failures of auditing-legislators and those who codify some standards for auditing and accounting have endeavored to make laws in order to improve the present state of affairs (Li, 2007).

The investors rely mainly on the numerical data reported by the auditor on account of not allowing to analyze directly the exact profit of the company themselves. To protect the validity of the reported numbers (data) and figures, the auditors should ensure their company that what they have gathered of presented numbers are in line with (correspond) conventional standards of accounting. This will result in a kind of trustworthy among the investors to the financial data which are provided by the auditors. In this way the critical role of auditor becomes clear

(Abdel-Khalik, 1988); (Teoh,1993).

In view of the fact that an auditor would be a qualified and knowledgeable individual having the required specialty and professional skills, it is expected that his report would be useful for the users and can help them to analyze the quality of information and finally decide on allocating economic resources for different sectors whereby influence these sectors. To this end, the present research is going to analyze the impact of the auditor's opinion as a variable of profit response coefficient and forecasting of the errors and then to analyze the development of the company and the profit of per share for the companies in Tehran Stock Exchange. It is a fact that impact of the auditor's opinion is not a clear-cut (unclear) variable, as the coefficient of profit response and the forecast of profit error are in this case. Hopefully the results of this research would help the investors of capital market to decide logically on their related affairs.

## 2. STATEMENT OF THE PROBLEM

Appropriate decision-making for investing in economical units (firms) requires it to have an access to financial information which could be feasibly analyzed and compared. Therefore, having valid information, related experience and understandable knowledge is one of the cornerstones in the development of economical field for every country. The most prominent of fundamental preconditions in encouraging the creditors and investors is to provided enough and related information on financial affairs in order to decide on their purchasing, maintenance and selling of their shares, evaluating the managers' performance, their responsiveness and grant credits to economical firms as well (Shoorvarzy, 2012).

The coefficient of return response measures an unexpected return of market to react against the company which has issued the securities. In other words, earning response coefficient determines the reaction or sensitivity of the market to the earnings announcement estimated by regression slope coefficient between the uncommon returns and unexpected profits (Scott, 2003).

Investors take into account the reported financial data. This happens because they do not access easily and directly to the data of companies. The information contained in all financial reports include profit forecasting which companies are obliged to provide for users of them. Profit forecasting and the extent of their validity is one of the strategies in decreasing the level of information among managers, chief shareholders, and potential investors (Kordestani,

2009).

As income statements are the most common means in transferring the financial information to the users other than the related company, and because of being the main accessible channel and common factor in all financial reports, it is expected that such reported information will help to improve the capital status of the company and reflect in a way that it provides the information needs of a wide range of stakeholders and those who are engaged in these affairs and are eager to follow such financial information. In these situations, auditing plays an important role in determining the extent of information validity. The core purpose of auditor here will be to clear all mal information based on the theoretical foundations whereby enhance its dependence and pave the way for using those information in line with proper economic decisions.

Earning response coefficient and its prediction error are qualitative features in earning accounting which are based on related accounting information and investors and users of financial statements use them in their future profit estimation and calculating cash flows. To this end, in the present study the researcher will deal with the relation of auditor's opinion and the earning response coefficient as well as the probability of its forecasting error in accepted companies in Tehran Stock Exchange.

### **3. THE SIGNIFICANCE OF THE STUDY**

The board of financial accounting standards has obliged managers of (the management of companies) companies to announce the profit per share, and present an outlook of the company through figuring out the predicted profit per share to the stakeholders. These help the investor to have a better perspective of related information of the company or cooperation and to decide properly. The significance of the forecasted profit depends mainly on the extent of deviance from real or actual value. In other words, the more accurate and exact careful forecasting will result in less deviation. Researches indicate that market tries to fulfill the expectations of shareholders and react whenever is needed and when those expectations are not met by different factors, anything may happen and change the situation. In cases where the profit per share extends beyond the predefined expectations, the market will be optimistic and takes it as a good news. Nevertheless, if the profit is less than what is expected, the position and financial capacity of the company will lower and decrease vice-versa. A host of studies indicate that in business organizations with a weak performance

greater errors may occur in forecasting of profit (Soltani, 2013).

Moreover, as one of preconditions which in developing financial markets like Tehran Stock Exchange is the necessity of joining small and large investors to the market which result in collecting the extra cash flows in the market, it is necessary to inform investors that all their decisions are made based on published financial information related to the company. This will ensure the investors to rely on the company and join to market with more confidence. Meanwhile it should be added that insufficient researches on financial reports will result in an uncertainty and doubt in market reaction which in turn would cause investors have a fear to enter the market. One branch of research on the market reactions is to study on bad or good news related to the contents of financial reports. These kinds of news is the consequence of a difference between the expectations of the investors and real situations of information in reported statements which make the investors to revise their decisions. However, the main issue is a difference or variety in these reactions from one company to the other one. Here the investors and accountants try to have a better understanding on the extent of the effect and usefulness of accounting information which in turn enriches the usefulness of financial statements presented by companies.

It should be noted that in order to preserve the public resources there should be reliable reporting documented and timely of operations and financial soundness of public joint stock companies as well. An acceptable and documentary presentation of accounting information along with proper financial reporting will help the market to allocate and deploy its resources efficiently. These regular accounting processes done annually by qualified audits dependently can be protected in its best way. In this way those who are involved in economic activities and are busy with great companies such as stockholders, creditors, government and economic analyzers can decide efficiently based on an independent auditors' opinions. Moreover, investors and stockholders are in deep need to forecast the value of their shares in future. It is quite clear that determining the value is dependent to the extent of company power and less errors in forecasting as well as its stability in coming years. Companies showing a positive earning response coefficient as well as less prediction errors are most favored by the investors and the investors find them more suitable. For this reason what the auditor reports in his independent auditing and the profit rate are of critical importance in proper decision making.

Hopefully the present research will help the readers to enrich their knowledge and decision making. Moreover to protect the public interest it requires to provide reliable and timely financial reports of proper financial operations in public stock companies. It should be added that true information achieved through proper accounting and financial reporting will help the authorities allocate sufficient resources to economy of society, and deploy them based on sound foundations. In this way public interest will be provided through regular and annual auditing of an independent auditor who is qualified enough in this field. The reports of an independent auditor will help those who are involved in economic activities as well as the individuals busy with large companies. Meanwhile shareholders, managers, creditors, governments and economic analysts will benefit from such reports in order to make their decisions efficiently based on independent auditor's report. Moreover, investors need to consider the reports to purchase their shares preferably. Shareholder expects to estimate their share profits for coming years and forecast the error and the extent of its stability in the future. Those companies which experience positive earnings response coefficient and low prediction error are more favored by investors, they prefer to invest in what they have seen profitable. For this very reason the opinion of an independent audit on reports and the estimated profit figures are of critical importance for investors and in order to make their decisions more efficiently.

The present research will hopefully help those who are involved in economical carrier and can be a guide for any reader who is interested in this field to make proper decisions. As a practical guideline for research, this inquiry can be applied for estimating earnings response coefficients and presenting more accurate procedures in predicting different types of forecasting.

#### **4. REVIEW OF LITERATURE**

##### *4.1. Earnings response coefficient*

In their research, Khajavi and Hosseini Nia studied the relationship between the time range of auditor's accounting and the position of the company in business activities as well as the amount of its earnings response coefficients for the companies which were listed on Tehran Stock Exchange. The researchers concluded that there is a negative meaningful relation between auditor tenure and earnings response coefficients. This means that a longer accounting by auditor lessens the earnings response coefficient but there was not any meaningful relationship between the size of an audited firm and its

earnings response coefficient (Khajavi, 2014).

In another research Shoorvarzy and Afrooz Manesh studied the effect of accounting standards on earnings response coefficients. The statistical sample for this inquiry included 107 active companies in Tehran Stock Exchange. Earnings response coefficients were studied for two times; a five year period before the implementation of accounting standards (1996 to 2000 years) and a second five years after the implementation of accounting standards (2001 to 2005 years). They proposed a hypothesis and provide a test of correlation analysis and analysis of variance. The results of the research suggested that there was a significant difference between the reaction rate of profits of the corporation before and after the implementation of accounting standards (Shoorvarzy, 2011).

Nikumaram et al. in a research titled "The Significance of Qualitative Characteristics and Theoretical Concepts of Financial Reporting in Evaluating Earnings Quality" studied 91 companies listed on the Tehran Stock Exchange during 1999 to 2006. They concluded that earnings response coefficient and the significance of earning explanation in companies' portfolio with high earnings quality did not show a great difference between portfolio of companies with low earnings quality. The research findings showed that in their decision making the users of accounting information preferred more on the extent of the reliability of earning information than the very quality of them (Nikumaram, 2010).

Okolie investigated the relationship between auditing quality and earnings response coefficients. The results of his study showed that there was a significant relationship between the quality of auditing and earnings response coefficient (Okolie, 2014).

In another research Malek and Saidin studied the relationship between auditor substitution and its impact on earnings response coefficient. The results of their study indicated that in companies which auditors are substituted the earnings response coefficient were more significant than firms in which no change of auditor occurred for a long period of time (Malek, 2014).

Barth researched on the relationship between ongoing increase in earnings with earnings response coefficient. The findings of the research indicated that the companies with a sustained increase in earnings experienced a higher earnings response coefficient (Barth,1999).

Du and Zhou in their study compared US and China companies to find out the relationship between the size of an audited company with its earnings response coefficient. The results of their study suggested that companies which were audited by great auditing firms the earnings response coefficients was significant in comparison with other companies. Which had not benefited from auditors of great firms. However, the inquiry showed that this relationship for audited companies of China was not significant (Du, 2014).

#### 4.2. Earnings Forecasting

Mehrani and Hesarzadeh studied the relationship between earnings volatility and the possibility of predicting earnings in a paradigm of short and long-term. The researchers presupposed the significant role of inverse / opposite relationship between earnings volatility and the possibility of predicting. The results showed that in one hand predicting profits at interval plays an important role in forecasting future earnings and in the other hand the stability of earnings plays a key role in analyzing the relationship between volatility and the possibility of predicting. In the case of short time analysis, the research evidences showed that profits with low volatility were forecasted feasibly than high volatile profits which were less stable. On the contrary, where we do not consider the fluctuations in earnings, profits positioned on upper levels can be forecasted effectively. Moreover, in less frequent volatility of cash flows it is possible to carry out profit forecast operating efficiently in comparison to more frequent cash flow operating (Mehrani, 2016).

Hashi et al. in their research known as "The impact of Auditing 340 Standards on the Quality the Anticipated profit" carried out on 86 sample companies during the years of 2013-2017 concluded that implementation of auditing standards section 340 did not decrease forecasting errors and no change occurs in stock prices as well. But if such auditing standard is implemented, the frequency of profit forecasting will decrease in comparison to what happened before (Hashi, 2009).

Using a cross-sectional and integrated procedure, Kordestani and Baqeri examined the relationship between EVA<sup>1</sup> and cash flow with their earnings forecast. Cross-sectional results showed a negative relationship between earnings forecast and the changed percentage in economic added value. Also

a negative relationship between earnings forecast and operating profit was observed. Moreover, a negative correlation between earnings forecast operating profit was experienced. Findings of the research showed that there did not exist any association between CVA<sup>2</sup> and earnings forecast in one hand and no relationship between operating cash flow and earnings forecast in the other hand. The results of integrated methods revealed a positive relationship between earnings forecast and the variance percentage in the economic added value. However a significant correlation between the cash added value and earnings forecast was observed, but the two variables of operating profit and cash flow did not show any significant relationship with the dependent variable earnings forecast (Kordestani, 2009).

Gong et al. carried out a research on the relationship between profit forecasting error and accruals. Following management forecasting procedure, the reported studies stressed on focusing the accrual and provided evidences in which accruals were manipulated in order to lower earnings forecast error. From a different angle, Gong and his colleagues studied the relationship between the current year accruals and management earnings forecast for the ongoing year. They argued that in cases of uncertain operating environment, any estimation by management of the future company's business is not perfect. As improper estimation affects both the process of creating accruals and future profit forecasting, they assumed that in cases where accruals are high / low, management forecasting of earnings bear with them an optimistic and pessimistic results. The empirical results of this study confirmed that there existed a positive relationship between earnings forecasting and accruals. This study defines and measures operationally the uncertainty in the operating environment and management flexibility for the use of accruals. Actually this is the main difference of the present study with similar researches conducted in in our country (Gong, 2009).

Lee et al. researched on the impact of being conservative and the extent of precision on profit forecasting in a few of Australian companies from 1991 to 1998 in their first being offered publicly. The results indicated that the predictions carried out by large enterprises (six big enterprises) were more accurate than those companies in which auditing were held by other less experienced firms.

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<sup>1</sup> - Economic Value Added

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<sup>2</sup> - Cash Value Added

Moreover, the results indicated that there was an opposite meaningful relationship between optimistic predictions and the use of services of large auditing enterprises (Lee, 2006).

Machuga and Staden carried out two separate studies; they concluded that added value has a significant relationship with earning forecasting and price ratio (P / E) per share (Machuga, 2006), (Van Staden,2002).

### 5. RESEARCH HYPOTHESES

- A) The auditor's opinion has a meaningful impact on earnings response coefficients.
- B) The auditor's opinion affects meaningfully on earnings forecasting error.

### 6. RESEARCH VARIABLES AND MEASUREMENT METHODS

In Table 1 we can show the variables.

#### 6.1. Independent variable

OPINION: If the auditor has an accepted opinion, its value is equal to one (1) otherwise this value will be zero (0).

#### 6.2. The dependent variable

ERC: Is the regression coefficient per share in which a return reaction of shares is estimated based on earning changes (Kohlbeck, 2008).

EF: It can be defined as the absolute value of the difference between the earning of actual shares and estimated earnings (Kohlbeck, 2008).

In this study, to standardize the process of forecasting earnings error, the researcher has used Roger J. Best and Ranold Best which had been used in 2002 (Equation 1).

$$EF = \frac{YEPS_{t-1} - FORE_{t-1}}{P_{t-1}} \quad (1)$$

Where,

t-1 = Is meant as fiscal year before the announcement of return for per share.

Table 1. Variables

Symbol	Variables	Variable	Description	Source
		type		
OPINION				The auditor's report and
			If the auditor has expressed an appropriate opinion, the value will be (1) otherwise a zero value (0) would be expected.	attached notes to
	Auditor's report	Independent		financial statements
ERC	Earnings response coefficient	Dependent	Market reaction to changes of earnings per share	Profit and Loss Statement
	Earnings forecast	Dependent	Differences between actual earnings per share forecast earnings per share	Profit and Loss Statement
MV	The value of equities owned		Represents the market value of the Company's shareholder equities which is used to control the size of the company.	Profit and Loss
	by shareholders in the market	Control		Statement
MB	The ratio of market value to book value of shareholders rights		Represents the ratio of market value to book value of equity which is used to Control the rate of growth opportunities.	
		Control		Balance sheet
CEPS	Growth in earnings per share		Earnings per share is equal to the profit owned by common shareholders divided by the number of capital shares	Profit and Loss Statement
		Control		
Size	size of the company	Control	Criteria for labeling large or small companies ;it is equal to the logarithm of total assets	Balance sheet

YEPSt-1 = Real and achieved income for the year t-1.  
 FOREt-1 = The median income forecasting which could be observed and accessed for the last month of the fiscal year t-1.  
 Pt-1 = Is defined as the stock price on the last day of the fiscal year t-1.

### 6.2.1. Control variables

MV: Is regarded as market value for shareholders' equity of the company; it represents market value of shareholders which is used to control the economic and business activities of the company.

MB: Is the growth rate which indicates the ratio of market value to book value of equity which is used to control the rate of growth opportunities.

Size: Represents as the company size which is equal to the logarithm of its total assets.

GEPS: Is the growth of earnings per share; it is defined as the earning of per share equals to the return of ordinary shareholders divided by number of capital interests.

$$EPS_1 - EPS_0 \quad (2)$$

$$GEPS = \frac{EPS_1 - EPS_0}{EPS_0} \quad (3)$$

$EPS_1$  = Actual earnings per share at the end of the current fiscal year (Equation 2).

$EPS_0$  = Actual earnings per share at the end year before the current fiscal year (Equation 3).

## 7. METHODOLOGY

The present study was an applied research in which a descriptive method was used for data regression analysis. A cause-effect procedure was followed to examine what had happened in the past, this quasi-experimental research had tried to confirm provided information based on the real evidences.

To testify the hypotheses, the research used historical information; actually it was a quasi-experimental research. The method of research was to determine the correlation coefficient and a retrospective use of information. Correlational studies included all studies in which the researchers tried to determine the relationship between different variables using correlation coefficient regression model. This model used with the least panel squares.

## 8. HYPOTHESIS TESTING MODELS

### 8.1. Model Hypothesis 1

$$(ERC_{i,t}) = \alpha_0 + \alpha_1 OPINION_{i,t} + \alpha_2 MV_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 MB_{i,t} + \alpha_5 GEPS_{i,t} + \varepsilon_{i,t} \quad (4)$$

ERC= earnings response coefficient (Equation 4)

Opinion= auditor opinion

MV= market value

Size= the extent of companies business operations

MB= growth business opportunities

GEPS= growth per share

### 8.2. Model Hypothesis 2

$$(EF_{i,t}) = \alpha_0 + \alpha_1 OPINION_{i,t} + \alpha_2 MV_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 MB_{i,t} + \alpha_5 GEPS_{i,t} + \varepsilon_{i,t} \quad (5)$$

EF= earnings forecasting (Equation 5)

Opinion= auditor opinion

MV= market value

Size= business activities of the company

MB= growth opportunities for the company

GEPS= growth per share

## 9. THE POPULATION AND THE SAMPLE SIZE

It is quite clear that in order to do any effective research, the availability of information is a critical factor for which fortunately there are sufficient sources for inquiry in our country. Companies which are accepted in Tehran Stock Exchange have provided enough data to research in this field, they are easily accessed as well.

The target population included all companies listed in Tehran Stock Exchange for 5 years which covered 2010 to 2014; these companies were recorded based on their unique financial statements. To this end, 590 cases out of 118 companies listed in Tehran Stock Exchange were selected.

## 10. DATA COLLECTION METHOD

Theoretical data for the research was collected through the study of library books, journals, theses, scientific databases, and by searching the Internet. More data was gathered through field observation that included information extracted from the financial statements of the companies. Data was defined based on selected model of the research. For this purpose, the financial statements of accepted companies in Tehran Stock Exchange and more documents of other companies along with information contained in the center of information system of

Tehran Stock Exchange were used. The data contained the total debt, assets and net profit of the selected companies which were collected through audited financial statements. CDs related to financial information and financial statements of listed companies in exchange as well as the information system of the Stock Exchange were also considered as the documentary evidences for the study. Finally, data were transferred to an excel spreadsheet and then necessary calculations were done and the provided information was transferred to the analysis software of Eviews.

### 11. DESCRIPTIVE STATISTICS:

The method of analyzing data is cross-sectional from one year to the other one. In this research to testify the hypotheses, a multivariate linear regression method was used. To describe the collected data some statistical devices of central tendency and distribution such as mean, median, maximum, minimum, standard deviation and skewness as well were used.

Table 2: Describes the parameters of variables

Variables	Number	Average	Middle	Maximum	At least	Standard deviation	Skewness
OPINION	590	0.483	0	1	0	0.5	0.068
Earnings response coefficient	590	-0.005	0.000	5.675	-3.138	0.453	4.396
Earnings forecast	590	827.268	75.996	52925.84	-161.912	3423.622	10.802
The market value of equity	590	188098.8	111950	4354700	-1038497	305853.1	5.8
size of the company	590	14.07	13.838	19.009	11.23	1.31	1.003
growth opportunity	590	0.975	0.551	11.371	0.0035	1.181	2.783
Growth in earnings per share	590	1.494	-0.51	718.328	-669.406	59.08	0.771

It can be observed that in table 2 the first column shows the characteristics of research variables, the second column shows the total number of data for all research variables which equals with 590 companies for given years and the third column shows the average of each variable separately which in this case the average of auditor's opinion equals to 0.483. The seventh column expresses standard deviation of variables which in this case the standard deviation of auditor's opinion is around the mean 0.500.

### 12. DATA ANALYSIS AND HYPOTHESIS TESTING

#### 12.1. The first hypothesis: The auditor's opinion has an impact on Earnings response coefficients.

##### A) Identification Tests of Regression

Before estimating the model, it must be determined whether the method of data analysis is an integrated method of Ordinary Least Squares (OLS regression) or a panel method. If the data panel method is accepted it should be specified that for the present research whether the model of fixed effects or random effects should be applied. Therefore, in this study to evaluate the process of compilation Limer F test was used. In cases where the researcher wants to examine fixed or random effects Hausman test panel is preferred.

However, if the level of meaningfulness of error is less than 0.05, the preferred method of panel data method with fixed effects would be considered otherwise an integrated data model with random effects methods will be appropriate. Based on the results shown in Table 3, it can be observed that the significance level for the F test and Hausman in the corresponding model is less than 0.05. There existed fewer errors and therefore the preferred model should be a regression one due to having the least numbers of squares showing fixed effects.

Table 3. Results of Determination Test on Regression Model

Test	Value statistics	Level of freedom	meaningful	The result (proper)
F Limer	2.21253	-117.467	0/0000	Panel model
Hausman	22.6794	5	0.0004	Model with fixed effects

##### B) Appropriate Tests for Regression model

After determining the type of regression model, it is time to determine exactly the regression model. The researcher has used from the accepted and generalized test models proposed by Wooldridge and Wald generalized to investigate and identify the correlation of error terms and heterogeneous variance.

The error terms in the regression model process is defined as the amount of difference between the actual values of the dependent variable and values



provided through applying regression model to the dependent variable. The statements must be independent from each other and have a constant variance. The presence of these conditions guarantees the results of the adjusted regression model. In Wooldridge and Wald generalized tests, if significant level of error is higher than 0.05, it could be said that there is not any problem in autocorrelation and heterogeneity. As it can be seen in Table 4, the significant amount of testing Wooldridge of error is less than 0.05, so the problem is the existence of autocorrelation and where a significant amount of error is less 0.05 the existence of heterogeneity of variance is observed. Therefore, the model finds its proper function by using Estimated Generalized Least-Squares (EGLS) to eliminate the present inconsistency.

Table 4. Results Occasion Regression Tests

Test	Value statistics	Level of freedom	Meaningful	The result ( the right )
Wooldridge	121.004	-1.117	0	There autocorrelation
Wald generalized	3.1	118	0	Anisotropy variance

### 12.2. Regression Model and Analysis:

According to the results of the above tests, the model for studying should be fitted as a regression with the least square panels having fixed effects. The model above is presented in Table 5.

As it can be seen, the meaningful amount of the mode is equal to 0.000 which is less than 0.05 errors, so it can be claimed with 95% percent of confidence that;

"Adjusted regression through regression method shows the least squares having random effects is meaningful"

### 12.3. Analysis of the Second Hypothesis:

Through the second hypothesis of the research the relationship between the auditor's opinion and earnings response coefficients is investigated. The hypothesis was as follows:

"Earnings response coefficients were associated with the auditor's opinion." The results of the model are summarized in Table 6.

Given that the t-statistic related to the audit opinion is equal to -4.124195 and its significance is also equal to 0.0000 which is less than 0.05 of error, thus the second hypothesis is accepted by 95%.

Table 5. results of the model

Conventional Model: Least-squares Regression with Fixed Effects				
variable	Estimation	The standard deviation	Value Statistics t	meaningful
OPINION	-0.0391	0.009484	-4.124195	0/0000
MV				
SIZE				
MB				
GEPS				
C				
MV				
SIZE	-0.092	0.008516	-10.80711	0/0000
MB	-0.0079	0.003555	-2.227347	0.0264
GEPS	-3.37	5.61	-0.600827	0.5482
C	1.32447	0.121751	10.87846	0/0000
Adjusted Coefficient		0.69979		
Durbin - Watson Statistics		1.597853		
Value Statistics t		12.25379		
meaningful		0/000000		

Table 6. analysis of the Second hypothesis based on the Second Model by Dependent Variable

Earnings Response Coefficient					
variable	Estimation	The standard deviation	Value Statistic t	meaningful	The result
OPINION	-0.0391	0.009484	-4.1242	0	Confirm hypothesis

**12.4. The Second hypothesis: The auditor's opinion has an impact on earnings forecasting error**

*A) Determining Tests for Regression type*

As was seen for the first hypothesis, here again in order to determine the type of regression model, F Limer and Hausman tests should be used, the results of which are given in Table 7.

Based on the results shown in the table the significance level for test statistics F, in corresponding model shows a level less than 0.05. Thus the model should be fitted on its least panel squares regression. Also according to the results Hausman test, it is observed that corresponding meaningfulness based on this model shows an error higher than 0.05. Therefore, it is recommended that the given model should be fitted via random effects model.

*Table 7. Results of Diagnostic Tests of Regression model.*

Test	Value statistics	Degrees of freedom	Meaningful	The result (the right)
F Limer	3.09751	-117,467	0	Panel model
Hausman	2.15439	5	0.8274	Model with random effects

*B) Fitting Tests for Regression Model:*

In this hypothesis in order to determine the fitness of regression model Wooldridge tests and probability ratio is used. The results are shown in Table 8.

Based on the results given table it can be observed that a significant level in Wooldridge test is less than 0.05. This in turn shows that there exists an autocorrelation problem significance level for probability ratio test is less than 0.05. Consequently this indicates a kind of heterogeneity of variance. In order to resolve the present autocorrelation and heterogeneity in variance fitting EGLS method should be used.

*Table 8. Results of Appropriate Tests for Regression Model.*

Test	Value statistics	Degrees of freedom	Meaningful	The result (the right)
Wooldridge	5.667	-1,117	0.0189	Autocorrelation occurrence
probability ratio	2629.35	117	0	Occurrence of heterogeneity

*C) Fitting of Regression Model and its Analysis:*

According to the results of the above tests, the research model is a fitted regression one with the least panel squares and random effects. The fitting results of used model are presented in Table 9.

As can be seen, level of significant is equal to 0.000 which is less than 0.05 errors. So with a confidence of 95% it can be claimed that;

"Fitted regression through least panel squares regression method having random effects on the model is significant."

*D) Analysis on the second Hypothesis:*

In the second hypothesis of the research the relationship between the auditor's opinion and earnings forecasting error is investigated. The hypothesis is stated as:

"There is a meaningful relationship between the auditor's opinion and profit forecasting error."

The results of the model are summarized as:

Given that the t-statistic related to the auditor's opinion is equal to -2.212954 and its significance equals to 0.0276 which is less than 0.05 of error level, the second hypothesis is accepted by 95%.

**13. RESEARCH FINDINGS**

*13.1. The Results of the First Hypothesis*

The first hypothesis reads that there can be a meaningful relationship between earnings response coefficient and auditor's opinion. According to the results of T-statistic there is a low significant level on the auditor's opinion. As a result the first hypothesis is confirmed. It means that the auditor's opinion has a significant relationship with the earnings response coefficient.

### 13.2. The results of the second hypothesis

The second hypothesis states that auditor's opinion has a meaningful relationship with earnings forecasting error. According to the results provided through applying T-statistic on the auditor's opinion, it is concluded that its significance is lower than a meaningful level. As a result the second hypothesis is confirmed. It means that the auditor's opinion has a significant relationship with the earnings response coefficient.

Table 9. Fitting Results of Research Model

Fitting Model A Regression Model with the Least- panel squares Having Random Effects				
variable	Estimation	The standard deviation	Value Statistics t	meaningful
OPINION	-716.63	323.8341	-2.212954	0.0276
MV				
SIZE				
MB				
GEPS				
C				
MV	-568.77	189.7222	-2.9979	0.0029
SIZE	0.00015	0.000234	0.64267	0.5209
MB	-334.76	195.8637	-1.709131	0.0883
GEPS	-0.9813	1.850337	-0.530334	0.5962
C	9819.26	3152.257	3.114994	0.002
Adjusted Coefficient		0.090693		
Durbin - Watson Statistics		1.522		
Value Statistics t		6.867948		
meaningful		0		

Table 10. Analysis of the second hypothesis based on the second model with Earnings forecasting error as a dependent variable

variable	Estimation	The standard deviation	Value Statistics t	meaningful	The result
OPINION	-716.63	323.8341	-2.21295	0.0276	Confirm hypothesis

## 14. DISCUSSION AND CONCLUSION

The results of this study reveals that those accepted auditing reports in which all critical parameters of accounting standards are applied properly have a meaningful relationship with the coefficient of profit response and earning forecasting error as well. It means that they do not allow any manipulation in financial statements as such their reliability can be questioned which in turn help the users of financial statements to decide properly on their economic affairs. The reason behind it is that the investors and financial theorists take into account the factor of profit as the main criteria of company evaluation. In fact they are inclined more on estimating the earnings rate of the company in order to decide on protecting or selling their shares. Thus through forecasting the profit they can have a better understanding of the company. It should be noted that as much as deviation of forecasting is nearer to reality, the significance of prediction becomes more prevalent. In other words, the users of financial statements are eager to study their given company in order to produce cash flows and to be certain on the status of it. Also the investors try to focus on the financial position and the performance of the company as well as the cash flows of their firms through estimating the profit response coefficient which in turn shows the capability of profit factor in making clear any probable return changes. This happens when the coefficient is high; it means that the return changes of shares increase and its quality does as well. Moreover any decline in the management of profit forecasting error which is a mandatory disclosure gives information on the expected earning of the company. Having disclosed proper information with fewer errors to the users will have a significant impact on the price of stock.

Moreover, given the undeniable role of auditors in upgrading financial reporting, the task of and accreditation by auditors in developing accountability and confirmation of accounting information is a critical responsibility in reflecting the usefulness of information for decision-making. But the most important function of an auditor is an evaluation of general director since the principle of a company is a

manager and the owner of shares of the company at the same time. Therefore, the separation of ownership from management is a critical step in auditing process. Having an authority on the company and its related theories such as representation theory, stakeholder theory and financial statements need to accounted completely. Auditing the relevance and accountability of financial statements result in added value for them. It means that the given investors will be able to forecast confidently the predetermined profit and error coefficient of which will be less than before.

## 15. PRACTICAL SUGGESTIONS

According to the results of the study emphasize that the relation between the auditor's report and earnings response coefficient profit forecast error auditors recommended since the audit of financial statements judgment plays a very important role and always auditor in the audit process with complex situations and expenditures. Therefore, the auditor is expected in all ethical judgments and decisions used to prevent damage to the community.

Given the existence of a significant relationship with the auditor's opinion Earnings Response Coefficient auditors recommended freshmen earnings forecasts by companies more accurately estimate because investors generally using this criterion, buys and maintenance of the stock drawn.

According to the results to investors and analysts recommended when the analysis of accounting information, predict more accurately assess the Manager especially for companies that operate in an uncertain business environment audit reports are provided with the strap.

Investors, analysts and other stakeholders is recommended in addition to forecasting models used, Factors that affect the accuracy of predicting profits will be considered.

The results of this research to investors is emphasized at the time of his decisions when buying stocks of companies, audit firms audited reports of the company are available and pay attention.

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