AUDITOR CONSERVATISM AND EARNINGS MANAGEMENT: EVIDENCE FROM TUNISIA

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Abstract

The aim of this paper is to examine the effect of the type of audit opinions on the earnings management measured by the discretionary accruals in the Tunisian capital market context. In particular, we investigate whether abnormal accruals are influenced by modified audit opinions. We find that the probability to manage earnings management to the decrease is related to the issuance modified audit opinion and the presence of No-Big Four auditors.

Keywords: auditors, earnings management, Tunisia

1. Introduction

The annual financial statements constitute a synthesis of the activity of firm exploitable by the outside. They serve to the different actors in an optics of assessment, or decision making (shareholders, managers, State and the other public authorities and bankers). Thus, these statements must be established in the respect of principles of regularity and sincerity (Hatfield and al., 2009). However being given that they are considered a product of management, the latitude of which they arrange can let hover a doubt on the sincerity of communicated information, illustrated especially by the notion of the creative accounting (Stolowy, 2000).

The importance to arrange some reliable data on the accounts annuals explains the necessity to resort to an external auditor, who warns the earnings management.

However, since the recent financial scandals, several shapes of earnings management adopted by firms to camouflage their real financial situation of these last. Him in spring that the auditor can be brought to certify the improper accounts, under the effect of pressures of their auditees. These conditions increase the degree of the doubt on the quality of audited financial statements.

Otherwise, These recriminations also dragged a discount in question important of the quality of services provided by the external auditors that are called, in principle, to give of mannered objective, exact and precise the financial information to the profit of investors (Lin and Fraser, 2008).

The Enron business is only a good example, has been accused to have used various methods of earnings management.

In the wake of the collapse of Enron and Andersen, several questions were raised about Enron’s accounting and the behavior of its auditors, among those the survey of Krishnan and al. (2007) treats if ex-Andersen’s clients received more conservative treatment by their new auditors. They found that auditors were less likely to issue going concern modified audit opinions to small clients who switched from Andersen than to their existing clients. In the same way, Cahan and Zhang (2006) and Lobo and Zhou (2006) report lower discretionary accruals for ex-Andersen clients compared to other clients, suggesting that ex-Andersen clients were treated more conservatively by their new auditors.

Thus, the new laws carrying on the auditor’s role increased following the financial scandals and accountants (Sarbanes-Oxley law to the United States, law of the financial safety in France and in Tunisia). They established some more coercive rules therefore on the different aspects of the independence of the external auditor screw to screw of their client. The issue of auditor independence is of serious concern to regulators, investors, creditors and the general public.

In these conditions, the auditor is held to resist pressures of managers, and to express his independent opinion on the financial statements prepared by management which should help to reduce the information asymmetry between the company and its potential investors.

However, in the setting of interest divergences between shareholders and managers (or between creditors and managers), a negative opinion rendered by auditor is often interpreted like a discount in reason of the leader management. To avoid this situation can affect their reputation, managers can exercise pressures on their external auditors, in order to bring them to formulate unqualified opinions. He sacrifices, therefore, the quality of his audit opinion to the profit of his personal interest, in order to preserve his mandate, under light of the theory of the

It incites the auditors to prefer of choices conservative accountants. Thus, income-increasing accruals are somewhat more likely to result in reporting conservatism than income-decreasing accruals. Indeed, several recent papers test the hypothesis that earnings management increases the likelihood of receiving a modified audit opinion (Francis and Krishnan, 1999; Bartavo and al., 2000; Johl and al., 2007; Francis and Wang, 2008 and Cameran and al., 2008). These authors use accounting accruals as proxy of the audit quality. In general, these papers posit that modified audit opinions should be a function of accounting accruals.

But then, are little the previous studies that use the type of audit opinion as proxy of the audit quality, mainly in anglo-saxon countries (Butler and al., 2004; Chen and al., 2005; Brown and al., 2006; Hunt and Lulseged, 2007 and Charito and al., 2007). The majority of these works corroborates the existence of a negative relation between the earnings management and the modified audit opinions at the time of, it seems applicable to fear the possible interaction between the type of audit opinion and the discretionary accruals in an emergent country as Tunisia.

Otherwise, a study led in the tunisian context proves to be crucial, in order to study the real capacity of the external auditor to resist pressures of managers, to express his independent opinion, being given that his nomination decided by the Annual General Meeting, depends managers who solicited him the most often.

Thus, in this study, we seek evidence of the type of audit opinion affect the earnings management measured by the discretionary accruals.

The remainder of the paper is organized as follows. The second section discusses the opinion/accruals relation. In the third section the legal context of auditing in Tunisia is presented. The fourth section details our sampling methodology. The fifth section reports and discusses the results, and the final section contains the conclusions of the study.

2. The effect of the auditor’s conservative behavior on the earnings management: theoretical study synthesis

The extant literature (Jensen and Meckling, 1976 and Watts and Zimmerman, 1983) suggests that auditing is an important means of mitigating agency conflict between managers and outside shareholders. Auditing is a monitoring device for the shareholders because auditors would report detected material misstatements in audited financial statements. Auditing is also a bonding device of the managers who engage auditors to signal to the shareholders that they will not behave opportunistically. In short, auditing reduces the information asymmetry between shareholders and managers, and increases the creditability of financial statements.

Following such an agency cost argument, several studies (Francis and Krishnan, 1999; Bartavo and al., 2000 and Johl and al., 2007) argue that modified audit opinions are influenced by more pervasive earnings management. In essence, these studies test the hypothesis that earnings management increases the likelihood of receiving a modified audit opinion. Among those, the study of Francis and Krishnan (1999), it presents evidence of conservative auditor behaviour by examining the relationship between the issuance of modified audit reports and the reported level of accruals for a large sample of United States publicly listed companies. Specifically, Francis and Krishnan (1999) find that auditors of firms reporting high levels of accruals are more likely to issue modified audit reports for asset realisation uncertainties and for going concern problems than auditors of low accrual firms, even after controlling for client-specific and market risk variables. However, they also find that their results only apply for the Big Six group of auditors. They conclude that this latter finding is consistent with the argument that Big Six auditors have greater reputation capital at risk and, therefore, greater incentives for acting conservatively.

As for, Bartov and al. (2000) show that the association between audit opinion and abnormal accruals is negative. Their results appear to be due to severely distressed firms (with going concern opinions), rather than due to firms engaging in extreme earnings management. In the vein of Bartov and al. (2000), Johl and al. (2007) examine auditor reporting behaviour in the presence of aggressive earnings management in the context Malaysia. They find that Big Five auditors in Malaysia appear to issue modified audit reports more frequently than their No-Big Five counterparts when high levels of abnormal accruals are present.

However, Butler and al. (2004) regress discretionary accruals on audit opinion type. They examine whether certain modified audit opinions (scope limitations, departures from Generally Accepted Accounting Principles (GAAP)) are associated with discretionary accruals. They find that the documented relation between modified opinions and abnormal accruals rests with companies that have going concern opinions. These firms have large negative accruals that are likely due to severe financial distress. Overall, they find no evidence to support inferences in previous research that firms receiving modified audit opinions manage earnings more than those receiving clean opinions.

In addition, Butler and al. (2004) show that abnormal accruals are more negative for going concern companies audited by the Big Five than for those audited by the No-Big Five would support the auditor conservatism explanation. If accruals are not different for Big Five versus No-Big Five audited going concern companies, or if accruals are more
negative for going concern companies audited by the No-Big Five, then the relation between accruals and troubled firms is less likely due to auditor conservatism.

On the same American market, Lai (2003) shows that after the Act, auditors are more likely to issue modified audit opinion to their clients and their clients are more likely to be associated with lower discretionary accruals. Thus, using the issue of modified audit opinion and the provision of discretionary accruals as measures of auditor independence, their results suggest a positive association of the passing of the Act and improvement of auditor independence. Their results corroborate with those of Ashbaugh and al. (2003), Chung and Kallapur (2003), Cahan and Zhang (2006) and Krishnan and al. (2007).

In a context of financial distress, Hunt and Lulseged (2007) examine the link between client size and two outputs of the audit process, abnormal accruals and the going concern report. Their study supplements Reynolds and Francis (2000) by extending their analysis to the clients of No-Big Five auditors, a relatively small but important and growing segment of the audit market. Otherwise, Reynolds and Francis (2000) find that larger clients of Big Five auditors have lower levels of accruals compared to otherwise similar smaller clients and potentially financial distressed larger clients of Big Five auditors are more likely to receive a going concern opinion. However, their results cannot be generalized to the clients of the No-Big 5 auditors that are excluded from the study because on the one hand, there is a difference in the quality of audits that Big 5 and No-Big 5 auditors provide. So, Big 5 auditors offer higher quality audits [better trained employees and use technology that allows them to better detect errors and irregularities (DeAngelo, 1981 and Craswell and al., 2002), protection of the high reputation (DeAngelo, 1981)]. On the other hand, there are differences in the underlying characteristics of clients of Big 5 and No-Big 5 auditors that might influence the clients’ incentives for earnings management and the likelihood of a clients’ bankruptcy (cash flows, size, leverage and financial health) (Craswell and al., 1995 and Krishnan and Schauer, 2000).

Hunt and Lulseged (2007) find that No-Big 5 auditors, like Big 5 auditors do not allow their larger clients greater leeway to manage earnings. In addition, they find that larger clients are at least as likely, if not more likely, to receive a going concern report as are otherwise similar smaller clients.

Still in the same financial distress context, and in the same furrow of ideas, Charito and al. (2007) examine the earnings behaviour of managers during the distressed period by looking at sources of abnormal accruals prior to the bankruptcy-filing year, for 859 United States bankruptcy-filing firms over the period 1986-2004. Their Results show that managers of highly distressed firms shift earnings downwards prior to the bankruptcy filing. They specified that one of factors that explains this result is qualified audit opinions exert pressure on managers to follow more conservative earnings behaviour during the distressed period.

In sum, the theoretical development whole exposed above permits us to show the role of auditors in the process of improvement of the quality of the financial information distributed to the external users. In particular, auditors are susceptible to attenuate the earnings management. For it, he seems desirable to reinforce their independence and to assure the control of the quality of their work. Arrangements foreseen by the law of the financial safety of October 2005 go in this sense.

Thus, in the setting of the following section we explore this track of research on the basis of a sample of the Tunisian firms.

For it, we consider to test the validity of our hypotheses:

Hypothesis 1.1. Firms with qualified audit report will be more susceptible to manage the discretionary accruals to the decrease that those with unqualified audit report.

Hypothesis 1.2. Firms with qualified audit report will be more susceptible to manage the discretionary accruals to the decrease audited by Big Four audit firms that those audited by No-Big Four.

3. Framework of auditing in Tunisia

In Tunisia, the auditor’s mission was organised by the code of commerce published in 1959. In order to improve the quality of the audits several laws were promulgated in 1982, 1988 and 2000. Indeed, the law of 1982 is characterised by a real entrance of the legal audit in the economic environment. This law carried the creation of the Tunisian Institute of Certified Public Accountants. For the 1984-1999 period, this Institute published standards on accounting and auditing. However, these standards presented serious insufficiencies and hiatuses that pushed auditors to use the international standards as referential complementary. More lately, another law was promulgated in 1988. The objective of this law was to improve the function and work of Tunisian’s auditors, who are held to express audit opinion in all independence.

Besides, National Standards on Auditing n°7 and n°15 of the Tunisian Institute of Certified Public Accountants and International Standards on Auditing n°700 and n°701 of the International Federation of Accountants put in evidence the importance of the opinion paragraph expressed by the statutory auditors, since it sums up findings of the audit mission. They stipulate that the expression used by the auditor to formulate his opinion must be simple and don’t vary an exercise to the other. They define the different categories possible of the audit opinions.
Otherwise, according to the National Standard on Auditing, the auditor concludes expressly either to the unqualified opinion, either to qualified opinion, and either to disclaimer. An unqualified opinion is one that states the financial statements to which it relates give a true and fair view of the client’s financial affairs.

As for the International Standard on Auditing, the ISA 700 treated the standard audit report where the audit opinion is unqualified. The ISA 701 treated the modified audit report. In this case audit opinions are three categories according to circumstances: qualified opinion, adverse opinion and disclaimer.

In short, the code of commerce, which was issued in 1959, was modified in 2000. It was transformed to the code of commercial companies. This modification entailed several innovations for the accounting profession. These innovations are dealing with: (a) auditor’s designation for all commercial companies, (b) improvement of tools used by independent auditors in their mission and (c) date and presentation of auditor’s report.

We develop our methodology of the empiric research adopted, to know sample data, model, variables and their measures, and in short our found results.

4. Research methodology

The aim of this paper is to study the relation between modified audit opinions and abnormal accruals, while controlling the effect of other exogenous factors. With this intention, we will detail our sampling methodology.

4.1. Sample data

We attempt to collect and classify the 435 audit reports of 137 Tunisian firms from 2002 to 2007 as having 311 unqualified opinions, 123 qualified opinions and only one case of disclaimer.

The accounting variables are determined from the financial statements and data bound to the audit are determined from the audit reports. These data were obtained from the council of financial market bulletin.

For the 123 qualified opinions, we clear 8 types of qualifications: non conformity with accounting principles, error or irregularity, scope limitations of an audit, absence of provisions, insufficiency of provisions, absence of follow-up rigorous of engagements out balance, failing of the system of the internal control and going concern.

Of the 435 audit opinions, 247 relate to utilities and financial firms that we eliminate because of inherent differences associated with accounting accruals for these firms. We lead to a final sample of 53 no-financial firms and 188 audit reports for the 2002-2007 period.

1 In 2002, the Tunisian Institute of Certified Public Accountants adopted the international standard on auditing, elaborated and published by the international federation of accountants (IFAC) and committed to distribute them close to its members. The IFAC elaborated several recommendations and instructions about ethics, formation of the accountants and audit reports. Among these recommendations, guideline No. 13 “The Auditor’s Report on Financial Statements” was issued in 1983. The motivation for issuing the guideline was to promote the reader’s understanding and help to measure uniformity in the form and content of auditor’s report. After several years of revision works, the publication of the standard ISA 700 “The Auditor’s Report on Financial Statements” (IFAC, 1994) was approved in 1994.

2 National Standard on Auditing n°15 of the Tunisian Institute of Certified Public Accountants “The report of the independent auditor on the financial statements” and National Standard on Auditing n°7 of the Tunisian Institute of Certified Public Accountants “Diligences of the statutory auditors concerning the report on the social accounts”.

3 International Standard on Auditing n° 700 of the International Federation of Accountants “The auditor’s report (independent) on financial statements” and International Standard on Auditing n° 701 of the International Federation of Accountants “Modifications brought to the content of the auditor's report (independent)”.

<table>
<thead>
<tr>
<th>Years</th>
<th>Unqualified opinions</th>
<th>Qualified opinions</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Big Four</td>
<td>No</td>
<td>Big Four</td>
</tr>
<tr>
<td>2002</td>
<td>5</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>2003</td>
<td>8</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>2004</td>
<td>6</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>2005</td>
<td>5</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>2006</td>
<td>7</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>2007</td>
<td>5</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Totals</td>
<td>36</td>
<td>96</td>
<td>20</td>
</tr>
</tbody>
</table>

Results of this table show that the majority of audit reports in Tunisia is unqualified (70.21%), on the one hand, and are on the other hand audited by No-Big 4 auditors. It can be explained by the fact that the majority of the economic cloth in Tunisia is formed by the small and averages enterprises, these last generally choose that their financial statements are audited by No-Big 4 auditors.
4.2. Empirical model

The general model used to determine which factors influence the abnormal accruals is as follows:

\[ ABAC_{it} = \alpha + \beta_1 \text{AUOP}_{it} + \beta_2 \text{BIG4}_{it} + \beta_3 \text{FISI}_{it} + \beta_4 \text{CURR}_{it} + \varepsilon_{it} \]

Where

- ABAC: abnormal accruals.
- AUOP: audit opinion is the variable of interest, variable dummy who takes the value one if the firm receives modified audit opinion and zero otherwise (Leventis and al., 2005; Ballesta and Garcia-Meca, 2005; Davidson III and al., 2006 and Al-Thuneibat and al., 2008). However, some authors replace the audit opinion variable with variables corresponding to the audit opinion categories (Soltani, 2002 in France; Butler and al., 2004 to the United States and Pucheta and al., 2004 in Spain).

- BIG4: reputation of the auditor (audit firm size) is the variable dummy who takes the value one if a Big 4 audit firm and zero otherwise. Based on prior research, we expect abnormal accruals to be negatively related to the Big Four audit firms. So a negative Big 4 coefficient would suggest that Big 4 auditors don’t permit their larger clients to manage earnings (Johl and al., 2007; Hunt and Lulseged, 2007 and Cameran and al., 2008).

- FISI: natural logarithm of total assets.
- CURR: current assets to current liabilities ratio.

In order to clear determinants of accounting manipulations, we appraise coefficients of the multivariate regression in data of Panel on the software STATA 10.

4.2.1. Dependent variable: Measuring discretionary accruals

Abnormal accruals (ABAC) represent part of total accruals that is more susceptible to manipulation by managers and are frequently used in prior studies as a proxy for earnings management (Jones, 1991 and DeFond and Jiambalvo, 1994).

Abnormal accruals are the difference between total accruals and non-discretionary accruals. Total accruals are the difference between operating income and cash flows from operations. No-discretionary accruals are the expected (or predicted) portion of total accruals in Jones model modified that regresses total accruals on changes in revenue, gross property plant and equipment, and return on assets (Kothari and al., 2005).

We define the following model of accruals:

\[ \text{ACCR}_{it} = \alpha + \beta_1 \text{REVE}_{it} + \beta_2 \text{GPPE}_{it} + \beta_3 \text{ROA}_{it} + \varepsilon_i + \varepsilon_{it} \]

Where

- ACCE_{it}: total accruals for sample firm i for year t.
- REVE_{it}: change in net revenues for sample firm i for year t.
- GPPE_{it}: gross property, plant, and equipment for sample firm i for year t.
- ROA_{it}: return on assets for sample firm i for year t.
- \( \varepsilon_i \): unexpected portion of total accruals for sample firm i for year t.

The residuals \( \varepsilon_{it} \) from this equation are the discretionary accruals.

4.2.2. Independent variables

To proceed to a distinction between the qualified audit opinion categories, being given that the number of modified audit opinions is weak (29.79%) of the final sample.

\[ \text{BIG4}_{it} = \alpha + \beta \text{FISI}_{it} + \beta_2 \text{CURR}_{it} + \varepsilon_{it} \]

In our Tunisian context, we are not going to proceed to a distinction between the qualified audit opinion categories, being given that the number of modified audit opinions is weak (29.79%) of the final sample.

5. Empirical results and analysis

5.1. Univariate results

Table 2 presents the descriptive statistics for dependent and independent variables.

<table>
<thead>
<tr>
<th>variables</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABAC</td>
<td>167</td>
<td>-1.420</td>
<td>1.900</td>
<td>-2.410</td>
<td>1.690</td>
</tr>
<tr>
<td>AUOP</td>
<td>192</td>
<td>.307</td>
<td>.462</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIG4</td>
<td>202</td>
<td>.262</td>
<td>.441</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FISI</td>
<td>232</td>
<td>17.310</td>
<td>1.346</td>
<td>12.646</td>
<td>21.269</td>
</tr>
<tr>
<td>CURR</td>
<td>214</td>
<td>2.057</td>
<td>2.573</td>
<td>.002</td>
<td>14.718</td>
</tr>
</tbody>
</table>

According to table 2, we can advance that on average the discretionary accruals are negative (-1.420). It means that the average of the earnings management detected is to the decrease. Besides, the information about abnormal accruals is available for 167 firms-years. Let’s note also that a third (26.20%)
observations present Big Four auditors. The standard deviation of the measurement of audit opinions and audit firms enables us to note that these variables vary slightly inside our sample. Nevertheless, the standard deviation of ratio current makes it possible to notice that this indicator is very volatile compared to the other variables of the study. A multicollinearity problem is also likely to exist when explanatory variables correlate significantly with each other. Multicollinearity in our data set was investigated by the correlation matrix and Variance Inflator Factor (VIF).

Table 3. The correlation matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>ABAC</th>
<th>AUOP</th>
<th>BIG4</th>
<th>FISI</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABAC</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUOP</td>
<td>-1.1306</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIG4</td>
<td>0.0566</td>
<td>0.0810</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>FISI</td>
<td>-0.2138</td>
<td>0.0029</td>
<td>0.1853</td>
<td>1.0000</td>
</tr>
<tr>
<td>CURR</td>
<td>0.0327</td>
<td>-0.2890</td>
<td>0.0611</td>
<td>-0.0840</td>
</tr>
</tbody>
</table>

The correlation matrix of the variables of the sample is shown in table 3. Most of the coefficients of correlation are small, no correlation exceeds the value of .290. It seems to us that the multicollinearity is not a problem while interpreting results of regression, the big value of correlation is -.289 represents the correlation between AUOP and CURR.

Table 4 shows that the VIF of all the variables is lower than 5, from where there are no problem of multicolinearity. Nevertheless, it proves to be interesting to carry out a multivariate analysis taking of account the simultaneous effect of the various studied variables.

5.2. Multivariate analysis

According to results of our model, the statistical Wald Chi two to 4 degree of liberty is the order of 12.460, either a level of significance is equal to .0143 lower to 5%. We reject the joint hypothesis, we keep so the presence of individual effect in the following of our work.

The evaluation of our model under data of Panel suggests some previous tests, as the test of Hausman (1978). It serves to discriminate the fixed effect/random effect. The statistical of Chi two to 4 degree of liberty is the order of 1.710, either a level of significance of .789 superior to 5%. Thus, we keep the random effect.

In order to arrive to the best results, the question of the heteroskedasticity, the autocorrelation and the normality of residues in the setting of data in Panel is addressed. Indeed, while using the Breusch-Pagan (1980) test, the statistical of Chi two is the order of .930, either a level of significance of a value of .334 superior to 5%, imply that the model doesn't endure the problem of heteroskedasticity. While using the test of Ramsey, we notice that the model endures the problem of correlation and dependence between terms of mistakes.

And in short the distribution of residues is no normal, according to tests of distribution (Skewness and Kurtosis).

Being given that conditions of OLS are not verified, the least square method generalized (GLS) seems thus most suitable, in the following of our work.

Table 4. VIF

<table>
<thead>
<tr>
<th>Variables</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUOP</td>
<td>1.190</td>
<td>.843</td>
</tr>
<tr>
<td>BIG4</td>
<td>1.060</td>
<td>.946</td>
</tr>
<tr>
<td>FISI</td>
<td>1.270</td>
<td>.790</td>
</tr>
<tr>
<td>CURR</td>
<td>1.150</td>
<td>.871</td>
</tr>
</tbody>
</table>

Mean VIF =1.170

Table 5. Results of estimation

| Variables | Coefficients | Std. error | Z      | P>|Z|  | Expected sign | Found sign |
|-----------|--------------|------------|--------|-----|-----------------|------------|
| AUOP      | -6.310       | 3.390      | -1.860 | .063 | (-)             | (-)        |
| BIG4      | 5.090        | 3.480      | 1.460  | .144 | (+)             | (+)        |
| FISI      | -3.360       | 1.110      | -3.030 | .002 | (+)             | (+)        |
| CURR      | -28.387      | 60.912     | -0.470 | .641 | (-)             | (-)        |
| CONST     | 5.800        | 1.940      | 2.990  | .003 | (+)             | (+)        |

Table 5 presents the estimation results for our model. Consistent with our first hypothesis, the coefficient on modified audit opinion is negative and statistically significant with p-value of .063. Otherwise, the tunisian firms exercise of accounting manipulations. This phenomenon of the earnings management seems then to us very rife in Tunisia, where the shareholding is concentrated, the level of the investor protection is relatively middle and the little developed stock market, on the one hand. On the
other hand, firms with modified audit reports tend to have lower abnormal accruals, that is to say, income decreasing accruals reflect a conservative application of Generally Accepted Accounting Principles (GAAP) by managers. Indeed, the conservative external auditors don’t accept material misstatements of in audited financial. Consistent with Butler and al. (2004), Hunt and Lulseged (2007) and Charito and al. (2007) in a context of financial distress. They find that firms receive going concern opinions have negative accounting accruals.

The coefficient for Audit firm size is positive but statistically insignificant. In other terms, discretionary accruals are positively related to auditor type, indicating that clients of Big 4 auditors have higher discretionary accruals, contrary to our second hypothesis. This result finds his justification in the tunisian context, being given that nearly the two third of audit firms are No-Big four. These last are less heedful to detect mistakes and irregularities accountants, and therefore, the discretion in earnings management is permitted, due to a concern about losing the significant fees. For the control variables, the coefficient on FISI is negative and statistically significant (p<0.01). Indeed, As in Beasley, Carcello and Hermanson (2000) and Cameran and al. (2008), Larger firms tend to have lower accruals. Current ratio has a negative coefficient and not significantly different from zero, contrary to the predictions of Butler and al. (2004), Uang and al. (2006) and Caramanis and Lennox (2008). They find that accruals are managed to the decrease for firms in financial distress with unqualified opinion and those with going concern opinions.

6. Summary and conclusions

The objective of our research was to examine the impact of the audit opinion given out on the earnings management measured by the discretionary accruals, while controlling the effect of certain exogenous factors (auditee size and ratio of liquidity). For tending towards our objective of research, we derived and tested our model in the context of data in Panel, on a sample of 188 audit reports for the 2002-2007 period.

The most significant findings are that the probability to manage earnings management to the decrease is related to the issuance modified audit opinion and the presence of No Big 4 auditors. Otherwise, firms of which audit opinions are qualified manage the abnormal accruals more negative and more meaningful that those with unqualified audit opinions. In addition, we can advanced that the inefficiency of Big Four auditors in the reduction of accounting manipulations done by managers, to our sense can explain himself by the economic business reality, that proves that ties of friendship become knotted between managers and auditors. In the setting of this script, appeared the law of the financial safety in October 2005, the major objectives of this law is to reinforce the independence of auditors screw to screw of the auditee, and is to protect investors by improving the accuracy and reliability of corporate disclosures and to restore investors’confidence in the integrity of firms’ financial reporting. More explicitly, the auditor must be more conservative when he give out audit opinion on the financial statement prepared by management, in case where the result of seems to them over-valued.

Our study is subject to some limitations. We note that our survey is restricted to the type of audit opinion, we encourage future research to proceed a distinction between the qualified audit opinion categories.

This work may be of interest to market regulators, institutional bodies, investors and large audit firms, because the audit report is often the only mean of communication observable between auditors and all users of financial statements. Additional research could extend the results to other mechanisms that improve the quality of information communicated: audit committees and internal governance mechanisms such as the size of the board of directors.

References

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