Corporate Governance and Financial Restatement in Companies Listed in Tehran Stock Exchange (TSE)

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ABSTRACT
Considering the current magnificent increase in the incidence of the restatements in capital market, encourage the researchers to study the causes and consequences of restatements. However, among of these factors, the role of corporate governance mechanism attracted more attention. This paper seeks to examine the relationship between of the corporate governance and the financial restatement in the companies listed in Tehran Stock Exchange (TSE). This study evaluates the effects of various independent variables on the financial restatement using a logistic regression analysis approach for 111 companies over a 10 year period (2001-2010). The results indicate that the boards of director independent and auditor tenure are negative significant with financial restatements. Also, the results show that the audit type and the change number of the boards of director are associated with financial restatements positively. However, the empirical evidence indicates that CEO change, CEO tenure, institutional ownership, and the size of the boards of director do not have significant impact on the likelihood of financial restatement. Overall, the results presented in the paper indicate that the week corporate governance can increase financial restatement and decrease financial statement quality probability.

Keywords: Corporate Governance, Restated Earnings Quality, Audit Type, The Boards of Direct Independent and Financial Restatement.

Introduction
Financial statements are easy and cheap tool to assessing performance for many of stakeholders. According to statement of financial accounting concepts No. 8, the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity (FASB, 2010). One of the important qualitative characteristics of financial information is reliability. The reliability of a measure rests on the
faithfulness with which it represents what it purports to represent, coupled with an assurance for the user (FASB, 2010). Then, information asymmetry declines. It seems that the current impressive increase in the number of the restatements causes to decrease the reliability of financial statements. A financial statement restatement occurs when a company, either voluntarily or involuntarily, revises public financial information that was previously reported. Being a rewrite of the company’s history, an earnings restatement suggests that the formerly filed financial statement lacks reliability (Zhiyang, 2004). Some researchers such as Kordestani et al (2010) explain the aim of many restatements in Iran context is correction of misstatements. Restatement by correction unintentional errors may concern the investors about recurrence and also about manipulation of financial statements. Therefore, restatement of financial statements leads to increase the investors’ unreliability, risk and information asymmetry (Palmrose and Scholz, 2004). Financial restatements may be due to company characteristics, ownership structure and corporate governance (Zhang, 2012). In prior studies of accounting restatements such as Argawal and Chadha (2005) and Baber et al (2007) accept that weak corporate governance is at least partially answerable for financial reporting errors that declare ultimately as accounting restatements. Corporate governance is the mechanism to ensure an effective control and balance system, so that management acts in accordance with shareholders’ interests. Thus, corporate governance performs as a tool to discipline, scrutinize, and monitor management (Abdullah et al, 2011). The general purpose of this research is to examine the relation between corporate governance and earnings restatements. This study addresses two research questions. First, do the corporate governance mechanisms associate to earnings restatement? Second, do the corporate governance mechanisms affect the quality of restated earnings? The results of this research reveal some corporate governance mechanisms decrease the earning restatements and improve the quality of financial statements. Our paper contributes to the restatements literature by showing that the corporate governance is associated with an incidence of financial restatements in an emerging market and in compare with prior studies, we study the more variables of corporate governance. Our paper also contributes to the restatements literature by examine the role of corporate governance on the quality of earnings restatements in capital market which is not investigate so far. The results of this study determine the solutions to improve the financial statements quality. Moreover, these results are useful to practitioners in capital market and legislators. Also, when these results compare to other research in developed market, we can to recognize the difference of Tehran Stock Exchange as a developing capital market. We organize the paper as follows. The next section explains the economic environment in Iran. Section 3 describes literature review. Section 4 presents hypothesis development. Section 5 presents sample selection. Section 6 shows research design. Section 7 discusses the empirical results of this study. Finally, Section 8 concludes the paper.

Economic Environment in Iran

Tehran Stock Exchange (TSE)

By approved the Stock Exchange Act in 1967, the Tehran Stock Exchange was established as a small center for trading corporate and government bonds. During
the 1970s, Iran’s economy was experiencing a booming period as a result of high oil prices. This led to the release of suppressed demands for equities. In response to this high demand, the government would actively grant shares of 28 companies that would either belong to the government or were privately owned by families. This supply and demand cycle caused the market to reach its peak exactly before the 1979 revolution. In 1989, the government decided to privatize many of its state-owned industries. This affected the TSE’s operation as one of the main tools to achieve this goal. According to article 44 of the Islamic Republic constitution, the government should only assume the role of a policy maker rather than the direct owning and managing of its firms and industries. In compliance with this constitutional article, many state-owned firms have recently been privatized using the Tehran Stock Exchange and many more are expected to follow suit (Tehran Stock Market, 2009). In recent years, the TSE has evolved into an exciting and growing marketplace for many investors. Now there are more than 460 companies in the TSE investors' trade-in securities hall. The new Capital Market Law was passed in November 2005, forty years since the establishment of the TSE. Under the new law, TSE would be restructured and incorporated in the private investment. (Ali Ahmadi et al, 2013).

Audit Organization (AO) and Iranian Association of Certified Public Accountants

Audit Organization, founded in 1987, is a governmental institution. It takes the accountability of accounting and auditing in Iran. The organization is a part of Ministry of Economic Affairs and Finance, and contains Accounting and Auditing Standards Setting Committees which are legal authorities to set accounting and auditing procedures. Governmental firms and most other organizations with public ownership is audit by Audit Organization (AO). Audit Organization is by far the biggest auditor firm in Iran (Farajzade and Makarem, 2011).

Invoking a bill ratified by parliament, Iranian Association of Certified Public Accountants (IACPA) was established in 2001. Based on act, government is permitted to use professional services of certified public accountants. Only IACPA members are let to establish audit firms. Currently, auditing of governmental companies is mostly carried out by AO and other entities are audited by other audit firms. According to TSE regulations, all listed companies are required to prepare audited financial reports confirmed by reliable auditors (Farajzade and Makarem, 2011).

Literature Review

In this section, several related studies are reviewed on corporate government characteristics and financial restatements. Baber et al (2012) examine the association between internal and external corporate government characteristics and financial accounting restatements during the period 1997 to 2005. They find that that is associate between governance measures and the probability of financial accounting restatement also change during the period. Abbott et al (2012) study the female board presence and the likelihood of financial restatement in between years 1997 to 2002. They argue that the female board presence in meetings lead to maintain the mental independence and hence, increase the ability of the board to monitor financial reporting. The results suggest that is relationship between the presence of at
least one woman the board and a lower probabilities of restatement.

Junrui and Chen (2011) investigates the relationship between ownership structure and financial restatement in Chinese listed firm in between years 2005 to 2009. The finding shows firms with higher state shareholdings are easier to restate. The results indicate that firms with higher trading shareholdings have a smaller probability to restate and legal person and institutional shareholdings can't restrain financial restatement significantly.

Zhizhong et al., (2011) examine the effect of corporate governance on financial restatement in China during the period of 2002 to 2006. They consider the restatements resulted in performance-related accounting errors. They find the strong internal and outside governance can decrease the misstatements. The internal governance indexes in this study are the board and audit committee with higher percentage of outside directors and the outside governance indexes are big stockholders and independent auditor from Big 4.

Abdullah et al., (2010) investigate the role of corporate governance in financial restatements in Malaysia. The period of this research is 2002 - 2005. They organized a control group including non-restating firms to compare. They find by increasing the institutional ownership decrease the financial restatement. But there isn't any relation between the board independence, managerial ownership and CEO duality.

Chen and Hsieh (2010) examine the association between changes in board characteristics and earnings restatements in Taiwan Stock Exchange. The findings indicate that firms with independent directors have the lower incidence of and firms with boards dominated by the chief executive officer (CEO) tends to have a higher occurrence of earnings restatements.

Nabar et al., (2009) study the changes of corporate governance indexes in companies that restate the financial statements. They conclude before misstatement and until the time of restatement, probably members of the board of directors and audit committees are less independence. Therefore, the restatements with the aim of irregularities correction don't related to corporate governance.

Baber et al., (2007) investigates the relationship between accounting restatements and corporate governance characteristics in publicly-traded U.S. firms during 1997 to 2002. The main results indicate that most internal governance variables such as audit committee has a financial expert, board size, CEO-chair separation, the CEO’s equity incentives, ownership structure (equity ownership of the CEO, the board, and large block holders), an independent director serves as the board chair, and the extent of the interlocked or “busy” directors are unrelated with the financial restatements. In contrast, other results indicate that measures of external governance are reliably and consistently related to accounting restatements and hence, the probability of an accounting restatement is increase for firms where legal and contractual provisions restrict shareholder rights or discourage takeovers.

Aier et al., (2005) address whether the characteristics of chief financial officers are related with accounting restatements. They use a Logit model to examine the above question in during the period 1997-2002. The results suggest that the financial expertise of CFO is negatively associated with accounting restatement and CFO have more work experience is significantly less likely to restate their earnings.
Agrawal and Chadha (2005) study the relation between corporate governance mechanisms and earnings restatement in US. Their results indicate the independence of boards and audit committees don’t significantly associated with restatement. But in companies with independent and financial expert members on board of director, probably earnings restatements is lower than other companies; Because these members help to choose the financial reporting practices of company.

**Hypothesis Development**

Financial statements are an important mechanism to convey firm specific information to dispersed shareholders. Considering General Accepted Accounting Principles (GAAP), restatement includes the two main categories. First, restatement is as a result of changes in accounting principles and second, is as a result of accounting errors (Callen et al., 2003). The prior studies such as plumlee and yohn (2010) indicate that underlying cause of restatements has attributed to one of following four causes: (1) an internal company error, (2) intentional manipulation, (3) transaction complexity and (4) some of characteristic of the accounting standards. These causes showed that restatement in financial statement can arises from internal and external process in firms. This process applied in firms by using the corporate governance mechanism. The corporate governance mechanism includes the system by which organizations are directed and controlled and hence, it forms to implement the internal and external process and policy. The quality of financial statements can be affected by the agent involvement of the company in preparing financial statements, as well as corporate governance mechanisms. The US General Accounting Office (GAO) (2002) believes that financial restatements to a certain extent reflect the weakness of corporate governance (Zhizhong et al., 2011). Since earnings restatements provide direct evidence of material misstatements in prior financial statements, the corporate governance mechanism can serve a monitoring role in constraining the occurrence of earnings restatements (Chen and Hsieh, 2010). Also, firms that restate their financial information may convey to the capital market that their originally disclosed financial information lacks transparency, completeness, and reliability, thereby leading financial information users to make incorrect decisions (Flanagan et al. 2008).

Several studies have assumed that the financial restatements can be prevented or restrained by strong corporate governance, for instance, a responsible board which would act in shareholders' interests and oversee the preparation of financial reports (Zhizhong et al., 2011). Hence, we expect that corporate governance mechanism is useful to avoid from the financial statements misrepresentation and lead to decrease in restatement and increase in financial statement quality. Based on the above discussion and empirical studies examine the relationship between the corporate governance (i.e. board and audit characteristics and institutional ownership) and financial restatements, we proposed the following hypotheses:

H1: The relationship of institutional ownership with earnings restatements is significant.

H2: The relationship of audit type with earnings restatements is significant.

H3: The relationship of audit tenure with earnings restatements is significant.
H4: The relationship of size of the board of directors with earnings restatements is significant.
H5: The relationship of independent of the board of directors with earnings restatements is significant.
H6: The relationship of change numbers of members on the board of directors with earnings restatements is significant.
H7: The relationship of change of members on the board of directors with earnings restatements is significant.
H8: The relationship of tenure of chief executive officer (CEO) with earnings restatements is significant.
H9: The relationship of change of chief executive officer (CEO) with earnings restatements is significant.

Given the hypotheses presented the above, we used the quality of earnings restatement as other independent variable for the test of hypotheses.

Sample Selection

The population of this study covers all companies listed on the main board and the second board listed in Tehran Stock Exchange (TSE) across the period from 2001 to 2010. The sample selection criteria are:
- The end of fiscal year is March 2001;
- The end of fiscal year aren't change over the period of 2001-2010;
- Their basic operations aren't investment, insurance and banking;
- Book value of assets aren't negative;
- Data is available in this period.
Considering to the above criteria, final sample included 111 firms.

Research Methodology

In this paper we used the logistic regression model for the test of hypotheses presented in H1-H9. This model is applied in prior studies such as Zhizhong et al (2011) and Abdullah et al (2010). The dependent variables are the earnings restatements and the earnings restatements quality. Also, the independent variables is corporate governance structure include the institutional ownership, the characteristics of boards and audit. Corporate governance variables and financial data are collected from the sample company’s annual report and Data stream.

\[ ER_y = \alpha_0 + \alpha_1 \text{INO}_y + \alpha_2 \text{NBD}_y + \alpha_3 \text{ID}_y + \alpha_4 \text{CBD}_y + \alpha_5 \text{CNBD}_y + \alpha_6 \text{TC}_y + \alpha_7 \text{CC}_y + \alpha_8 \text{AT}_y + \alpha_9 \text{TA}_y + \epsilon_y \]  
\[ ERQ_y = \alpha_0 + \alpha_1 \text{INO}_y + \alpha_2 \text{NBD}_y + \alpha_3 \text{ID}_y + \alpha_4 \text{CBD}_y + \alpha_5 \text{CNBD}_y + \alpha_6 \text{TC}_y + \alpha_7 \text{CC}_y + \alpha_8 \text{AT}_y + \alpha_9 \text{TA}_y + \epsilon_y \]  

Where \( ER \) is an indicator variable that equals 1 for earnings statement restatements firms and 0 for other firms, \( ERQ \) is the quality of earnings restatements, \( \text{INO} \) is institutional ownership that is measured as the cumulative shareholdings (in percentage of shares) of legal investors, \( \text{NBD} \) is the numbers of the board of directors, \( \text{ID} \) is the proportion of independent members on the board of directors, \( \text{CBD} \) is the change of members on the board of directors that equal 1 for the change of members and 0 otherwise, \( \text{CNBD} \) is the change number of members on the board of director that is measured as the sum of change number of members as compared with year ago, \( \text{TC} \) is the tenure of chief executive officer (CEO), \( \text{CC} \) is an indicator variable that equal 1 for the change of chief executive officer (CEO) and 0 otherwise, \( \text{AT} \) is the dummy variable of audit type that equal 1 for firms audited by government audit (audit organization (AO)) and 0 other firms and \( \text{TA} \) is audit tenure. In this paper we are measure the
quality of earnings restatements as follow. First, we calculate the absolute of the difference between actual reported earnings in prior year and the restated earnings in current year (i.e. $|Earnings_{t-1} - Earnings_{Reestments,t}|$) and then, we find the median number. Second, with regard to the median number, we divide to the sample the two parts. Finally, we set the dummy variable for earnings restatements quality that equal 1 for the firms that absolute of the difference have less than the number median and 0 for other firms. These steps are repeated in every year.

### Results

Descriptive statistics of variables are showed in Tables 1. These results indicate the number of earnings restatements is high in the capital market of Iran. Also, the number of clients audited by Audit Organization has decreased, continuously. On the other word, the share of private audit firms in audit market has increased.

**Table 1. Descriptive Statistics of Variables**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of observations</th>
<th>Number of earnings restatements</th>
<th>Number of clients in sample audited by Audit Organization</th>
<th>Number of changes in Board of Directors</th>
<th>Number of changes in CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>109</td>
<td>71</td>
<td>63</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>2002</td>
<td>108</td>
<td>77</td>
<td>58</td>
<td>62</td>
<td>27</td>
</tr>
<tr>
<td>2003</td>
<td>109</td>
<td>75</td>
<td>46</td>
<td>65</td>
<td>24</td>
</tr>
<tr>
<td>2004</td>
<td>106</td>
<td>68</td>
<td>35</td>
<td>71</td>
<td>29</td>
</tr>
<tr>
<td>2005</td>
<td>107</td>
<td>72</td>
<td>32</td>
<td>59</td>
<td>23</td>
</tr>
<tr>
<td>2006</td>
<td>108</td>
<td>72</td>
<td>29</td>
<td>69</td>
<td>25</td>
</tr>
<tr>
<td>2007</td>
<td>111</td>
<td>75</td>
<td>29</td>
<td>75</td>
<td>32</td>
</tr>
<tr>
<td>2008</td>
<td>107</td>
<td>62</td>
<td>27</td>
<td>73</td>
<td>27</td>
</tr>
<tr>
<td>2009</td>
<td>104</td>
<td>67</td>
<td>24</td>
<td>61</td>
<td>30</td>
</tr>
<tr>
<td>2010</td>
<td>111</td>
<td>67</td>
<td>26</td>
<td>77</td>
<td>30</td>
</tr>
</tbody>
</table>

The first model tests whether the corporate governance variables related to earnings restatements. The results of this model estimation presented in Table 2. The coefficients of institutional ownership, numbers of the board of directors, the proportion of independent members on the board of directors, the change of members on the board of director, the change number of members on the board of director, tenure of chief executive officer (CEO), the change of chief executive officer (CEO), the type of audit firm and auditor tenure as the corporate governance variables respectively are -0.36, -0.11, -0.92, 0.14, 0.23, 0.005, 0.23, 0.62 and -0.11. The Wald-statistics for these variables respectively are 1.13, 0.33, 4.90, 0.25, 12.38 0.01, 0.84, 8.72 and 9.42. The Wald-statistics show the members independence of board of director and auditor tenure has negative and significant relation to earnings restatements. But the change number of members on the board of director and type of audit firm are positively associated with restatement of income statement. Odds Ratios indicate with increasing the auditor tenure and the independence of board of director, probably earnings restatements decrease and with increasing the change number of members on the board of director and for the clients audited by audit organization increase the likelihood of earnings restatements.
Table 2. Logit regression of earnings restatements on corporate governance

\[
ER_y = \alpha_0 + \alpha_1 INO_y + \alpha_2 NBD_y + \alpha_3 ID_y + \alpha_4 CBD_y + \alpha_5 CNBD_y + \alpha_6 TC_y + \alpha_7 CC_y + \alpha_8 AT_y + \alpha_9 TA_y + \varepsilon_y
\]

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Wald-statistics</th>
<th>p-value</th>
<th>Exp</th>
<th>Chi2-statistics (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>INO</td>
<td>-0.36</td>
<td>1.13</td>
<td>0.28</td>
<td>0.69</td>
<td></td>
</tr>
<tr>
<td>NBD</td>
<td>-0.11</td>
<td>0.33</td>
<td>0.56</td>
<td>0.89</td>
<td></td>
</tr>
<tr>
<td>ID</td>
<td>-0.92</td>
<td>4.90</td>
<td>0.05</td>
<td>0.49</td>
<td></td>
</tr>
<tr>
<td>CBD</td>
<td>0.14</td>
<td>0.25</td>
<td>0.61</td>
<td>1.15</td>
<td></td>
</tr>
<tr>
<td>CNBD</td>
<td>0.23</td>
<td>12.38</td>
<td>0.000</td>
<td>1.27</td>
<td></td>
</tr>
<tr>
<td>TC</td>
<td>0.005</td>
<td>0.01</td>
<td>0.92</td>
<td>1.01</td>
<td></td>
</tr>
<tr>
<td>CC</td>
<td>0.23</td>
<td>0.84</td>
<td>0.35</td>
<td>1.27</td>
<td></td>
</tr>
<tr>
<td>AT</td>
<td>0.62</td>
<td>8.72</td>
<td>0.000</td>
<td>1.87</td>
<td></td>
</tr>
<tr>
<td>TA</td>
<td>-0.11</td>
<td>9.42</td>
<td>0.000</td>
<td>0.89</td>
<td></td>
</tr>
</tbody>
</table>

Cox & Snell R-squared 0.07

The results obtained from estimation of model (2), which examines the effect of corporate governance variables on restated earnings quality, are presented in Table 3. The coefficients of institutional ownership, size of the board of directors, independent directors, change of members on the board of directors, change number of members on the board of director, tenure of chief executive officer (CEO), the change of chief executive officer (CEO), type of audit firm and auditor tenure as the corporate governance variables respectively are 0.45, 0.14, 0.80, 0.07, -0.15, -0.07, -0.48, -0.52 and 0.06. The Wald-statistics for these variables respectively are 0.82, 2.25, 0.08, 5.46, 1.87, 6.02, 7.19 and 3.98. The Wald-statistics reveal the change number of members on the board of director, the change of chief executive officer (CEO) and auditor type are negatively and significantly associated with restated earnings quality. Auditor tenure has positive relation to restated earnings quality. Also, Odds Ratios show that with more the change number of members on the board of director, the change of chief executive officer (CEO) and auditor type is decrease the restated earnings quality (indirect relationship) and with the more auditor tenure is increase the restated earnings quality (direct relationship).

Table 3. Logit regression of earnings restatements quality on corporate governance

\[
ERQ_y = \alpha_0 + \alpha_1 INO_y + \alpha_2 NBD_y + \alpha_3 ID_y + \alpha_4 CBD_y + \alpha_5 CNBD_y + \alpha_6 TC_y + \alpha_7 CC_y + \alpha_8 AT_y + \alpha_9 TA_y + \varepsilon_y
\]

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Wald-statistics</th>
<th>p-value</th>
<th>Exp</th>
<th>Chi2-statistics (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>INO</td>
<td>0.45</td>
<td>0.82</td>
<td>0.11</td>
<td>0.54</td>
<td></td>
</tr>
<tr>
<td>NBD</td>
<td>0.14</td>
<td>0.62</td>
<td>0.42</td>
<td>1.15</td>
<td></td>
</tr>
<tr>
<td>ID</td>
<td>0.80</td>
<td>2.25</td>
<td>0.13</td>
<td>2.27</td>
<td></td>
</tr>
<tr>
<td>CBD</td>
<td>0.07</td>
<td>0.08</td>
<td>0.76</td>
<td>1.08</td>
<td></td>
</tr>
<tr>
<td>CNBD</td>
<td>-0.15</td>
<td>5.46</td>
<td>0.01</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>TC</td>
<td>-0.07</td>
<td>1.87</td>
<td>0.17</td>
<td>0.92</td>
<td></td>
</tr>
<tr>
<td>CC</td>
<td>-0.48</td>
<td>6.02</td>
<td>0.01</td>
<td>0.61</td>
<td></td>
</tr>
<tr>
<td>AT</td>
<td>-0.52</td>
<td>7.19</td>
<td>0.007</td>
<td>0.59</td>
<td></td>
</tr>
<tr>
<td>TA</td>
<td>0.06</td>
<td>3.98</td>
<td>0.05</td>
<td>1.49</td>
<td></td>
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</tbody>
</table>

Cox & Snell R-squared 0.07
Conclusion and remarks

Corporate governance has been the one of subjects of interest to researchers in past three decades. Corporate governance as the one of regulatory mechanism attempts to maintain the stakeholder interests. The role of corporate governance on reliability, transparency and subsequently in capital market is considerable in different aspects. The purpose of this study is the role of corporate governance on earnings restatements of companies listed in Tehran Stock Exchange (TSE). Restatements of financial statements by affecting on information reliability can influence the quality of information presented in financial statements. Decreasing reliability of information cause uncertainty of practitioners in capital market and then affects the prices stock. In this study some of corporate governance variables such as institutional ownership, size of the board of directors, independent the board of director, the change of members on the board of director, the change number of members on the board of director, tenure of chief executive officer (CEO), the change of chief executive officer (CEO), the type of audit firm and auditor tenure, are used. The results indicate that between independent members on the board of director and auditor tenure to earnings restatement are negative and significant relations. Also, the change number of members on the board of director and audit type are positively and significantly associated with earnings restatement. On the other word, with increasing independence of members on the board of director and auditor tenure probably earnings restatement decrease. Versus, with increasing the change number of members on the board of director and in the companies audited by audit organization probably earnings restatement increase. These results are consistent with the result of Zhizhong et al (2011), Abdullah et al (2010) and Agrawal and chadha (2005). The another results suggest that increase the change number of members on the board of director, the change of chief executive officer (CEO) and the type of audit firm decline the restated earnings quality. The reason of the negative relation between auditor tenure and earnings restatement is that increasing the auditor tenure help to more familiar to operation and practices of client. Therefore, misstatements are discovered timely and the less misstatements transfer to future periods. Nevertheless, if the auditor tenure becomes too long, auditor independence and quality of financial statements decline. The negative relationship between independent the board of director and earnings restatements are explained that increasing independence of members on the board of director decrease agency problem and managers' opportunistic behavior and at last decrease the earnings restatements and hence, increase the quality of disclosed information. The positive relation between auditor type and earnings restatements indicate that methods applied by Audit Organization couldn't discover accounting misstatements timely and correct them in the same period. On the other hand, private audit firms because of less independence and concern about missing their clients may avoid restatement of financial statements and correct the misstatements and cause the pseudo quality of financial statements. Therefore, in both status information quality presented to users decrease. In general, the results of this study reveal that corporate governance can affect the earnings restatements, that is, the weak
corporate governance may increase the restatements and decrease the quality of financial statements. Therefore, companies by reinforcing the corporate governance, probably can decline restatements and increase certainty of practitioners to accounting information quality. Also, legislators by passing the regulations for reinforcing corporate governance can help to improvement of financial statements and making decisions of practitioners in capital market.

References


