

**THE EFFECT OF INFORMATION ASYMMETRY ON THE
RELATIONSHIP BETWEEN INFORMATION COMPLEXITY AND
AUDIT QUALITY**

Reza Motevali*

*Master of Accounting,
Central Tehran Branch,
Islamic Azad University,
Tehran, IRAN

DOI: 10.5958/2249-7307.2023.00005.1

ABSTRACT

In general, the opportunistic behavior that is sometimes used to inform the favorable situation of companies in companies with complex transactions with related parties and more business diversity than other companies is one of the important tools to limit such behaviors. Can be considered audit quality. Accordingly, in this research, the impact of information asymmetry on the relationship between information complexity and audit quality has been investigated. In this research, the number of 118 companies admitted to the Tehran Stock Exchange in the period of 2017-2021 has been examined. In order to test the hypotheses, logistic regression models were used, the findings of the research show that the complexity of information (transactions with related parties and business diversity) has a positive and significant effect on expertise in the auditing industry. Information asymmetry has a negative and significant effect on the relationship between information complexity and expertise in the auditing industry.

KEYWORDS: *Related Party Transactions, Business Diversification, Audit Industry Expertise, and Information Asymmetry.*

REFERENCES

1. Aghaei, Parvin. (2002). "Effective factors on audit quality from the point of view of independent auditors and users of audit services". Master's thesis. Al-Zahra University
2. Assawer Elaouda. Anis Jarbouib. (2018). Auditor specialization, accounting information quality and investment efficiency. *Research in International Business and Finance* 42 (2017) 616–629
3. Cassell, C. A., Giroux, G. A., Myers, L. A., & Omer, T. C. (2012). The effect of corporate governance on auditor-client realignments. *Auditing: A Journal of Practice & Theory*, 31(2), 167e188.
4. Chen, J., Hong, H., Stein, J. (2015). Forecasting Crashes: Trading Volume, Past Returns, and Conditional Skewness in Stock Prices. *Journal of Financial Economics* 61:345–381.
5. Choi, J. H., Kim, J. B., Qiu, A. A., & Zang, Y. (2012). Geographic proximity between auditor and client: How does it impact audit quality? *Auditing: A Journal of Practice & Theory*, 31(2), 43e72.

6. Datta, S., M, Iskandar-Datta., and V. Singh. (2012). Product Market Power, Industry Structure, and Corporate Earnings Management. *Journal of Banking and Finance*, 37(8): 3273-3285.
7. Denis, D. J., Denis, D. K., & Sarin, A. (1997). Agency problems, equity ownership, and corporate diversification. *The Journal of Finance*, 52(1), 135e160.
8. Fama, E.F. and Jensen, M.C. (1983). Separation of Ownership and Control. *Journal of Law and Economic*, 26: 327-349.
9. Francis, J. R., Richard, C., & Vanstraelen, A. (2009). Assessing France's joint audit requirement: Are two heads better than one? *Auditing: A Journal of Practice & Theory*, 28(2), 35e63.
10. Giroud, X., and H. Mueller. (2008). Corporate Governance, Product Market Competition, and Equity Prices. ECGI -Finance Working Paper No. 219/2008.
11. Habib, A., Jiang, H., & Zhou, D. (2015). Related-party transactions and audit fees: Evidence from China. *Journal of International Accounting Research*, 14(1), 59e83.
12. Harris, M., Kriebel, C. H., & Raviv, A. (1982). Asymmetric information, incentives and intra firm resource allocation. *Management Science*, 28(6), 604e620.
13. Hutton, A., Marcus, A., Tehranian, H., (2020). Opaque financial reports, R2, and crash risk. *Journal of Financial Economics* 94: 67-86.
14. Jian, M., & Wong, T. J. (2010). Propping through related party transactions. *Review of Accounting Studies*, 15, 70e105.
15. Jiraporn, P., Kim, Y. S., & Mathur, I. (2008). Does corporate diversification exacerbate or mitigate earnings management? An empirical analysis. *International Review of Financial Analysis*, 17(5), 1087e1109.
16. Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *The Journal of Finance*, 55(2), 867e891.
17. Lakonishok, J., & Lee, I. (2001). Are insider trades informative? *Review of Financial Studies*, 14(1), 79e111.
18. Lee, C. L., & Yan, S. M. (2012). Organizational complexity and auditor quality. *Corporate Governance: An International Review*, 20(4), 352e368.
19. Myerson, R. B. (1982). Optimal coordination mechanisms in generalized principal- agent preambles. *Journal of Mathematical Economics*, 10 (1). 68e71.
20. Namazi, Mohammad; Bayazidi, Anwar; Jabarzadeh, Saeed. (2011). "Investigating the relationship between audit quality and profit management of companies listed on the Tehran Stock Exchange". *Spring third year accounting research*. No. 9. pp. 1-18
21. Peterson, J. (2012). Endogenous Firm Efficiency in a Cournot Principal-Agent Model. *Journal of Economic Theory*, 59: 445-450.
22. Public Company Accounting Oversight Board (PCAOB). (June 10, 2014). Rel. No. 2014-002 on auditing standard No. 18d related parties. Paragraph 14, available at: <http://pcaobus.org/Rules/Rulemaking/Pages/Docket038.aspx>.
23. Salehi, Allah Karam. Shahrukh Bozur Mehrian. Hossein Janat Makan (2016). "Investigation of the effect of the complexity of accounting information on the delay in providing audited financial statements and information asymmetry with an emphasis on

the role of audit quality". Scientific-research journal of financial accounting knowledge. Period 4. Number (3). Series 14. pp. 116-87

- 24.** Shun Hung, Yu-Chen Cheng. (2020). The impact of information complexity on audit failures from corporate fraud: Individual auditor level analysis. Received in revised form.