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Mehran Jorjani

*Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran.*

Mehdi Safari Gerayeli

*Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran., mehdi.safari83@yahoo.com*

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The findings of current study not only extend the extant theoretical literature concerning the stock price volatility in developing countries including emerging capital market of Iran, but also help investors, capital market and audit profession regulators to make informed decisions.

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auditor tenure; auditor industry specialization; stock return volatility.



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Mehran Jorjani<sup>1</sup> and Mehdi Safari Gerayli<sup>2</sup> \* (Corresponding author)

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**JEL Classification:** M42, M48.

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<sup>1</sup> Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran.

<sup>2</sup> Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran.

Tel: +989395898912 E-mail: [Mehdi.safari83@yahoo.com](mailto:Mehdi.safari83@yahoo.com).

\*(Corresponding author)

## 1. Introduction

Firm-specific information is conveyed to financial markets by Stock prices. In this regard, Roll (1988) states that a great amount of the inconsistency in stock returns can be informed by firm-specific information. Firm-specific information is composed of public information, for example, financial reporting, which is straightforwardly included in stock prices, and private information, which is accumulated by investors and therefore included in stock prices through cognizant business (Su et al., 2016). Although auditors are prominent in the production of trustworthy financial reports, unexpectedly few studies have scrutinized auditors' impact on stock price idiosyncratic volatility. For example, the first empirical evidence on the role of auditors in stock price idiosyncratic volatility is presented by Gul, Kim, and Qiu (2010). They confirm that, in the Chinese market, stock price idiosyncratic volatility is augmented by international Big 4 auditors.

Based on the literature available, with the increase of auditor tenure, because of auditor's familiarity and better understanding of the business operations, accounting systems and reporting issues and thus, the improvement of audit quality, the quality of companies' financial reporting and audited financial statements is increased. Therefore, investors, will have less uncertainty in investment decisions and in forecasting returns, which will, in turn, reduce the volatility of stock returns (Su et al., 2016). In addition, recent empirical evidence (Stanley & Deseret, 2007; Lim and Tan, 2010) shows that the use of auditors specializing in the client's industry, enhances the relationship between the length of auditor tenure and the quality of financial reporting. However, this issue has been overlooked in most Iranian Studies, and there is a gap in accounting and auditing literature which is the motive for this study. Hence, this study sought to answer these questions: firstly, is there a significant relationship between the length of auditor tenure and stock returns volatility? Secondly, can the use of auditors specializing in industry influence this relationship? While the findings of the present study can extend the theoretical principles of the previous research, they can also be used by investors and capital market participants, auditing market regulators and other users of accounting information.

The rest of the paper is organized as follows. The next section contains a brief description of Auditing in Iran. Section 3 includes the review of relevant literature and states the main research hypotheses. Section 4 describes the data selection procedure and provides details on the methodological framework of this paper. Section 5 illustrates the empirical results and, finally, the last section is dedicated to concluding remarks.

## 2. The History of Auditing in Iran

The first time that auditing was taken into consideration in Iranian laws dates back to the year 1932 when the Trade Law was ratified. Through this law, the general assembly of each corporation was instructed to select one or more auditors from its own shareholders, or from outside their organization, so that the selected auditor, through auditing the accounts and sourced documents, should present a report about the firm's general conditions and also about the financial statements prepared by management to the general assembly of owners. Though based on the above necessity, it was the duty of the general assembly of firms, which were seemingly established in the form of corporations after this law was ratified, to select one or more "auditor" to do the auditing of their firms, the performance of auditing by professionally qualified and registered auditors as would be recognized in most developed economies, did not really occur at this point.

The law for using the services of competent accountants for the auditing of tax was first proposed in the income tax law of 1949. Despite the existence of this clear and obvious legal decision to form and establish a professional source for accounting, no noticeable steps were taken. After the law of direct taxes was passed in 1966, the assembly of faithful auditors nearly lost their legal support. Based on this law, a "Center for Formal Accountants" should first be established before formal accountants are appointed and introduced. Rules for how to select formal accountants were ratified in 1967 and the Center's articles were passed in 1972, after which formal accountants took the responsibility of auditing the account books, profit and loss statements, and the balance sheet of challengers (companies who challenged or appealed against their tax assessment) after their tax was levied, in referring cases. In conjunction with the performance of deeds regarding the development of a professional system of accountants for using the services of specialized accountants in tax auditing cases, the Amendment to Trade Law (regarding corporations), was ratified in 1968. This amendment obliged Public Corporations to add the statement of formal accountants to the firm's statement of profit and loss and its balance sheet. Consequently, the issue of auditing public corporations found a place in Trade Law. Nevertheless, the assumption was that the duties of auditing and legal auditors were distinct and separable. However, due to the fact that the responsibilities for auditing predicted in the amendment to Trade Law was put on the shoulders of formal accountants, in most corporations some qualified accountants are selected to work as legal auditors and simultaneously undertake these two seemingly distinct responsibilities. Between 1966 and 1978, some other laws were also ratified with respect to auditing and auditing institutes. These laws made auditing obligatory. For instance, based on the regulations of the Tehran Stock Exchange, only the stocks of firms whose accounts are audited by auditing institutes accepted by the Stock Allowance Board are approved for listing.

In 1983, the topic for the combination of auditing institutes in the general sector was proposed and the Law for the establishment of an Auditing Organization was ratified. After the legal articles of the Auditing Organization were ratified in 1987, the auditing institutes existing in the public sector were combined (merged) to form the so-called "Auditing Organization". In 1993, the law for "using the services of specialists and competent professionals as formal accountants" was passed in the Islamic Consultative Assembly. Based on this law, government is allowed utilize the services of formal accountants when needed. In the above law, it is predicted that for the arrangement of affairs and promoting the professions of accounting and auditing, and also in order to have supervision for what formal accountants do, the institute of Iran's "Formal Accountants community" should be established. In early 1996, for the execution of regulations passed to assign the qualification of formal accountants, the Minister of Finance and Economy introduced a ten-member board, seven of whom were responsible for determining appropriate qualifications for formal accountants. The remaining three members were delegated to work as the first formal accountants and constitutional board of Iran's Formal Accountants Community. They were asked to prepare the Articles of the above-mentioned Community within six months to refer to cabinet members for final ratification. The articles were arranged as determined and the rule was ratified by cabinet members in 1999. Moreover, in 1999, regulations for how to use the services and statements of formal accountants and auditing institutes were scrutinized. To this end, the laws of using the services of specialists and qualified professionals as formal accountants were compiled by the Ministry of Finance and Economy, with the association of a

group of experts and other authorities. Then, the compiled regulations were presented to the honorable members of cabinet for final ratification, which occurred in 2000.

### **3. Theoretical Foundations and Hypothesis Development**

In line with the extension of competition in the audit profession, audit firms have found the need to providing high quality services. In order to compete on a basis other than remuneration, audit firms are looking to differentiate their services from their competitors. One of the aspects where audit firms are trying to distinguish themselves from other institutions is the quality of audit services provided (Su et al., 2016). Audit quality is a concept for which different definitions have been provided. DeAngelo (1981) defines the quality of an audit based on two possibilities: First, can the auditor detect important misstatements in the client's accounting system? Secondly, can the auditor report the misstatements? The possibility that the auditor can detect important misstatements depends on the auditor's competence, and the possibility that the auditor reports the important misstatements discovered, depends on the auditor's independence (Pauline, 2007). Since audit quality is not directly visible, different criteria for measuring it have been introduced. Among these criteria, auditor tenure and auditor's specialization in industry can be referred to as "specialization" (Symonic & Stein, 1996; Su et al., 2016).

#### **3.1 Auditor Tenure**

There are two important theories about auditor tenure. The first one states that auditor tenure gradually reduces auditor independence, which, in turn, can result in the auditor losing motivation and the fading of the auditor's focus on audit objectives. This would consequently, ruin audit quality (Gal et al., 2007). On the other hand, opponents of auditor's independence reduction believe that with the lengthening of auditor tenure, the auditor will be able to gain better knowledge and experience regarding their clients, and therefore, this experience may enhance audit quality (Manry et al. 2008).

Based on the above reasoning, Pierre and Anderson (1984) found that the probability of lawsuits against auditors increases in the early years of their auditing work. Johnson et al (2002) also showed that discretionary accruals during the early years of auditing tenure are higher than towards the end of an auditor's tenure. Walker et al (2001) also concluded that the audit failure rate is less wherever there is a long connection between auditor and employer. Gall et al (2009) showed that earnings quality in the early years of the audit tenure is low. Nagy and Karselo (2004) found that the risk of fraudulent reporting in the early years of auditor tenure is higher.

In addition, Gall et al (2010) found that companies which are audited by higher quality audit firms, experience lower volatility in their stock returns. Similarly, Su et al (2016) also demonstrated that with the increase of auditor tenure, because of auditor's familiarity and better understanding of the business operations, accounting systems and reporting issues improved, and thus, there was an improvement of audit quality. The quality of companies' financial reporting and audited financial statements was enhanced and, therefore, investors will experience less uncertainty in investment decisions and forecasting return with long auditor tenure, which in turn, reduces the volatility of stock returns. Therefore, the first hypothesis is as follows:

H1: there is a significant negative relationship between auditor tenure and the volatility of stock returns.

### 3.2 Auditor's Industry Expertise

In addition to the length of auditor tenure, auditor industry specialization is one of the criteria that is widely used in the literature to assess the quality of the audit. Industry expertise is meant to be the experience and operational and educational skills achieved through auditing in a particular industry; this knowledge, increases the probability of detection of important errors and misstatements in the financial statements by auditors (Luvenson et al., 2007; Wise & Omari, 2010). Krishnan (2003) examined the relationship between auditor's industry specialization and discretionary accruals and found a negative relationship between these two variables. Also, Chouair (2002) showed that firms audited by auditors specializing in industry have lower levels of information asymmetry. Fernando et al (2010) believed that auditors specializing in employers' industries, have considerable awareness and insight regarding business operations, and accounting procedures in the industry that enabled them to present higher quality audit services to the client. Based on this reasoning, Stanley and Desert (2007) and Lim and Tan (2010) found that the use of auditors specializing in the client's industry, enhances the relationship between the length of auditor tenure and the quality of financial reporting. Similarly, Su et al (2016) also provided evidence that the auditor's industry expertise affects the relationship between auditor tenure and the volatility stocks. Accordingly, the second hypothesis is formulated as follows:

H2: using auditors specializing in the client's industry moderates the relationship between auditor tenure and the volatility of stock returns.

### 3.3. Literature Review

Myers et al. (2003) in their study, in 1999 to 2002-, examined 255 companies. they showed that long-term cooperation between the auditor and the client reduces the dispersion in the distribution of discretionary accruals. Gal et al (2009) scrutinized the relationship between auditor tenure and the quality of their audit. They concluded that the relationship between shorter tenure and earnings quality is much weaker when the audit is conducted by an auditor who is expert in the industry. Gal et al (2010) examined the impact of Ownership Structure and audit quality on stock price volatility in Chinese companies. They selected a sample of 1142 Chinese companies from 1996 to 2003. The results showed that by increasing foreign ownership and audit quality, the volatility of stock prices declines. Lim and Tan (2010) studied the moderating effect of auditor's industry expertise on the relationship between auditor tenure and audit quality. The sample included 12,783 companies between 2000 and 2005. In this study, accruals quality was used to evaluate the audit quality. The results showed that the use of auditors specializing in industry enhanced the relationship between auditor tenure and audit quality. Ragupal and Vnkatachalam (2011) assessed the effect of the quality of financial reporting on the volatility of stock returns. The results demonstrated that the quality of financial reporting, reduces the volatility of stock returns. Kurnyady et al (2014) studied the relationship between corporate governance quality and the volatility of stock returns in the Capital Market of New Zealand. The sample consisted of 385 companies in the years 2004 to 2008.

Using multiple regression models, their findings indicated that companies with higher quality corporate governance experienced less volatility of stock returns. Su et al (2016) examined the relationship between auditor tenure and companies' stock return volatility and the impact of auditor industry specialization on the relationship between them, in a sample of 19,259 companies in the US Exchange Market between the years 2003 to 2012. The results showed that

there is a significant negative relationship between the length of auditor tenure and the volatility of stock returns. In addition, they found that the use of auditors specializing in the client's industry intensified the relationship between the length of auditor tenure and the volatility of stock returns. Hassas Yeganeh et al, (2012 or 1391 in Iran's calendar) examined the effect of auditor industry specialization in 117 companies listed in the Tehran Stock Exchange during the period of (Iranian calendar) 1380 to 1389. The results showed that there is no significant difference between the content of accrual and cash components of earnings in companies with auditors specializing in industry and that of other companies. Vakili Fard and Mehran Jouri (2014 or in Iranian format, 1393) scrutinized the relationship between auditor tenure and conservative accounting in a sample of 49 companies in the Tehran Stock Exchange during the period 1385 to 1389. The results of the research hypothesis suggests that there is a significant positive relationship between auditor tenure and accounting conservatism in all companies investigated.

#### 4. Methodology

##### 4-1-Sample selection

The statistical population is composed of all companies listed on the Tehran Stock Exchange from 2011 to 2015. The Sample includes all companies that have the following conditions:

- Companies whose incurred date at the Tehran Stock Exchange was before the end of the 2011 and were in the list until the end of 2015.
- To enhance comparability, the company's fiscal year must be ended in December.
- Their financial year and activities were not changed during the mentioned period.
- They must not be among investment and intermediation firms (investment companies were not placed in the population of the present study due to the differences in the nature of their activities).
- The duration of the interruption of trading in the company must not be more than 6 months during the mentioned period.

After applying the above limitations, 95 companies were selected as the sample of this study.

##### 4-2-Variables measurement

In order to test the research hypotheses, the models used by Su et al. (2016) were employed which are adjusted according to the environmental conditions of Iran. The mentioned models are as follows:

$$VOL_{i,t} = \beta_0 + \beta_1 TENURE_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROE_{i,t} + \beta_5 AGE_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$VOL_{i,t} = \beta_0 + \beta_1 TENURE_{i,t} + \beta_2 SPEC_{i,t} + \beta_3 TENURE_{i,t} * SPEC_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 ROE_{i,t} + \beta_7 AGE_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where:

##### 4-2-1-Dependent Variable

The dependent variable of the study is the volatility of stock returns. the standard deviation of daily stock returns is used to measure the volatility of stock returns which is consistent with Kurnyady et al. (2014) and Sue et al (2016). It is calculated by the following equation:

$$Vol_{i,t} = \sqrt{\frac{1}{D_{it}-1} \sum_1^{D_{it}} (R_i - \bar{R})^2}$$



Where:

Voli, t: stock return volatility of company i in year t;

R<sub>i</sub>: daily stock returns of company i in which if  $P_t$  is the final price of the day t, then:

$$R_i = \frac{P_t - P_{t-1}}{P_{t-1}}$$

D<sub>it</sub>: the number of days of the year for which the daily stock returns of company i is calculated.

#### 4.2.2. Independent Variable

The independent variable of this study is auditor tenure which is measured as the number of consecutive years of the auditor-client relationship.

#### 4.2.3- Moderating Variable

Moderating variable used in this study, is the industry-specialist auditor (SPEC) for its measurement the Palm Rose (1986) model was used. In this model, the institutions whose market share (MS<sub>ik</sub>) is true in the following equation are considered as industry-specialists:

$$MS_{ik} > \frac{1}{N_K} \times \frac{1}{2}$$

where

N<sub>K</sub>: the number of firms in industry k. to measure the market share of audit firm i in industry k, the following equation is proposed:

$$MS_{ik} = \frac{\sum_{j=1}^{J_{ik}} TA_{ijk}}{\sum_{i=1}^{I_k} \sum_{j=1}^{J_{ik}} TA_{ijk}}$$

where

TA<sub>i,t,k</sub> : is the total assets of client firm j in industry k which is audited by audit firm i. i=1,2,...,I: audit firm index, j=1,2,...,J: client's index, k=1,2,...,K: client's industry, I<sub>k</sub>: number of audit firm in industry k and J<sub>k</sub>: the number of clients audited by audit firm j in industry k. as such, if the client is audited by an industry specialist audit firm, it takes the value of 1, 0 otherwise.

#### 4.2.4- Control Variables:

**Firm size (SIZE):** The present research uses the log of corporate annual net sales to measure the firm size.

**Financial leverage (LEV):** Financial leverage is measured as dividing total debt by total assets.

**Profitability (ROE):** return on equity is adopted as a measure of profitability which is calculated by dividing net income by the market value of equity.

**Firm Age (AGE):** the number of years since the firm first appears in stock exchanges.

Since the panel data are superior to time-series and cross-sectional models with respect to the number of observations, there is a low probability of collinearity among variables, bias reduction in estimation and heterogeneity of variance (Gujarati, 2009), the multivariate regression model based on panel data was employed to test the research hypothesis.

## 5- Empirical results

### 5.1. Descriptive statistics

Table (1) shows the descriptive statistics, including some central tendency and dispersion variables for a sample of 475 firm-year observation in the time period of 2011 to 2015.

**Table 1. Descriptive statistics for all variables**

Variables	N	Mean	Median	Minimum	Maximum	Std. Deviation
<i>VOL</i>	475	3.051	2.622	0.319	17.204	2.866
<i>TENURE</i>	475	4.634	4	1	13	4.069
<i>SPEC</i>	475	0.463	0	0	1	0.485
<i>SIZE</i>	475	12.215	12.016	9.865	14.563	0.684
<i>LEV</i>	475	0.621	0.619	0.091	1.508	0.226
<i>ROE</i>	475	0.194	0.191	-0.133	0.644	0.151
<i>AGE</i>	475	42	45	14	58	9.733

**Notes:** *VOL* the standard deviation of daily stock returns ; *TENURE* - number of consecutive years of the auditor-client relationship; *SPEC* - 1 if the company is audited by an industry specialist audit firm , 0 otherwise; *SIZE* - log of firm’s total sales; *LEV*- Leverage measured as the ratio of total debt to total assets; *ROE* - return on equity defined as net income to market value of equity ; *AGE* - Firm Age.

As seen in this figure, about 48 percent of the sample companies have been audited by the industry-specialist auditors. In addition, on average, about 62% of the assets of the companies is financed from debts. net income of companies is on average equivalent of 19% of market value of their equity.

**5.2. Regressions results**

F-limer is first used to clarify whether the collected data are pooled or panel. According to the results presented in table 2, the significance level of the F-limer for either models is less than 0.05. Therefore, panel data were used to estimate the research models.

**Table 2 - The results of F-limer for the research models**

Model	F-statistics	Result
Model (1)	11.109**	panel data method
Model (2)	11.415**	panel data method

**Notes:** \*\* and \* denote significance at the 0.01 and 0.05 levels, respectively .

To explore the type of panel data (fixed or random effect methods), the Hausman test is used. As indicated in table 3, the models have to be estimated via fixed effects method.

**Table 3- the results of Hausman test**

Model	Chi - Square Statistics	Result
Model (1)	12.793*	fixed effects method
Model (2)	16.188*	fixed effects method

**Notes:** \*\* and \* denote significance at the 0.01 and 0.05 levels, respectively .

Moreover, to test whether the error terms have the skewness and kurtosis matching a normal distribution, Jarque-Bera test was used. Since the results of Jarque-Bera test for the research models are greater than 0.05, the normal distribution of the error terms, was confirmed. The

results of likelihood ratio (LR) test, which is conducted to examine the heteroscedasticity among error terms, suggest a heteroscedasticity among them. To eliminate this problem, the Generalized Least Square method was employed to estimate the research models. Also, to ensure the lack of multicollinearity among the explanatory variables, the multicollinearity test was undertaken using variance inflation factor (VIF). The results pointed to the lack of multicollinearity among the mentioned variables since the values of the test were lower than 10. Finally, as indicated in table 4, Durbin-Watson test was used to establish if there is a serial autocorrelation among the error terms of the models. The results of testing the first hypothesis is illustrated in Table 4.

**Table 4 - The Results of the First Hypothesis**

Variable	Expected Sign	Coefficient	Std. Error	t-Statistic
<i>C</i>	?	-0.136**	0.032	-4.143
<i>TENURE</i>	-	-0.093**	0.029	-3.256
<i>SIZE</i>	-	-0.018*	0.007	-2.117
<i>LEV</i>	+	0.065**	0.017	3.713
<i>ROE</i>	-	-0.022	0.021	-1.094
<i>AGE</i>	-	-0.071	0.211	-0.336
<i>F-stat.</i>	7.926**		Durbin-Watson stat	1.977
<i>R<sup>2</sup></i>	0.608		Adjusted R <sup>2</sup>	0.574

**Notes:** \*\* and \* denote significance at the 0.01 and 0.05 levels, respectively. *TENURE* - number of consecutive years of the auditor-client relationship; *SIZE* - log of firm's total sales; *LEV*- Leverage measured as the ratio of total debt to total assets; *ROE* - return on equity defined as net income to market value of equity ; *AGE* - Firm Age.

The F statistic and its significance level, reflects that the fitted regression model is significant at 5 percent level. The adjusted R<sup>2</sup> of the estimated model shows that about 57 percent of changes in the stock return volatility is explained by the independent and control variables of the model. In addition, the results of Durbin-Watson statistics also confirm the lack of autocorrelation among the error terms of regression model. As indicated in the above table, the estimated coefficient and t-statistics of the variable of *TENURE* are negative and significant at 0.05 level, which shows that there is a significant negative relationship between the auditor tenure and the volatility of stock returns. Therefore, the first hypothesis is accepted at 0.05 level. The results of testing the second hypothesis is illustrated in Table 5.

**Table 5 - The Results of the Second Hypothesis**

Variable	Expected Sign	Coefficient	Std. Error	t-Statistic
<i>C</i>	?	-0.048*	0.019	-2.442
<i>TENURE</i>	-	-0.135**	0.034	-3.895
<i>SPEC</i>	-	-0.024	0.016	-1.505
<i>TENURE*SPEC</i>	+/-	-0.029	0.057	-0.514
<i>SIZE</i>	-	-0.017*	0.008	-2.031
<i>LEV</i>	+	0.055**	0.021	2.757
<i>ROE</i>	-	-0.037	0.022	-1.672
<i>AGE</i>	-	-0.019	0.237	-0.081

<i>F-stat.</i>	8.103**	Durbin-Watson stat	1.958
<i>R</i> <sup>2</sup>	0.624	Adjusted <i>R</i> <sup>2</sup>	0.595

*Notes:* \*\* and \* denote significance at the 0.01 and 0.05 levels, respectively. TENURE - number of consecutive years of the auditor-client relationship; SPEC - 1 if the company is audited by an industry specialist audit firm, 0 otherwise; SIZE - log of firm's total sales; LEV- Leverage measured as the ratio of total debt to total assets; ROE - return on equity defined as net income to market value of equity ; AGE - Firm Age.

By Looking at F statistic and its significance level, it can be found that the fitted regression model is significant at 5 percent level. The adjusted *R*<sup>2</sup> indicates that the independent and control variables of the model explain about 59 percent of changes in the volatility of stock returns. As seen in this table, the estimated coefficient and t-statistics relating to the interaction variable *TENURE* \* *SPEC* is positive but not statistically significant. Thus, the second hypothesis is rejected at the 5% level.

## 6. Conclusion

The main objective of this study was to investigate the relationship between auditor tenure and stock return volatility and to study the moderating effect of auditor's industry specialization on the relationship between them in companies listed in the Tehran Stock Exchange.

For this purpose, a sample of 95 companies listed on the Tehran Stock Exchange during the period 2011 to 2015 was selected and two hypotheses were formulated. The first hypothesis test results showed that there is a significant negative relationship between auditor tenure and the volatility of stock returns. Confirming this hypothesis illustrates that with the increase of auditor tenure, because of auditor's familiarity with, and better understanding of, the business operations, accounting systems and reporting issues and thus, the improvement of audit quality, the quality of companies' financial reporting and audited financial statements is increased. Therefore, investors, will have less uncertainty in investment decisions and forecasting returns, which in turn, reduces the volatility of stock returns. Results obtained in this study are in line with the findings of Gall et al. (2010) and Sue et al (2016) in that there is a negative relationship between the length of auditor tenure and the company's stock return volatility. The second hypothesis analyzed the impact of auditors specializing in clients' industries on the relationship between auditor tenure and the volatility of stock returns. The results of testing this hypothesis suggest that auditor industry specialization does not have a significant effect on this relationship.

However, based on the existing theoretical foundations, it was expected that the use of auditors specializing in the client's industry intensifies the negative relationship between the length of auditor tenure and the volatility of stock returns. But the results did not confirm the existence of such a relationship. The possible reasons for this would be the use of different definitions for measuring the industry-specialist auditor in various studies. In addition, the differences between the environment in Iran and other countries could be a possible reason for this inconsistency. Based on the findings, it is suggested to investors and capital market participants that in making investment decisions, besides financial variables, they pay attention to auditor tenure as a factor affecting the volatility of stock returns. Furthermore, the framers of the provisions of the audit market, including the Society of Certified Public Accountants and Auditing Organization are recommended to suggest that the mandatory rotation period of audit firms increase to 5 years or more, so that the audit quality improves and, therefore, the volatility

of stock returns is reduced. Some of the important issues that can be examined in future research include:

1. The moderating effect of auditor reputation on the relationship between auditor tenure with the company's stock return volatility.
2. The effect of the length of auditor tenure on the cost of equity.

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