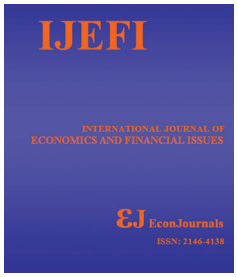

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An Investigation of the Relationship between the Audit Quality and the Cost of Equity with Sustainable Profits

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ABSTRACT

One of the items of financial statements that is considered as the evaluation criterion to performance and profitability of the profit unit is income reporting. However, calculating the net profit per unit is affected by accounting methods and estimates. Accordingly, the objective of the present research is to study the relationship between the audit quality (the audit office and the auditor tenure) and the cost of equity with sustainable profits in the companies listed on the Tehran stock exchange. For that, three hypotheses were formulated to address this issue and the data related to 127 member companies on the Tehran stock exchange were analyzed from 2010 to 2014. The regression model of the research was studied and tested through the panel data approach with fixed effects. The auditor tenure and the size of audit firm and the cost of equity are the dependent variables of research. The research method is descriptive - survey and in terms of objective and with regard to the occurrence, it is a post-incident study. The research results suggest a positive and significant relationship between the audit tenure and the audit office and the cost of equity with sustainable profits. Increasing the audit quality with regard to its impact on increasing the transparency reporting would lead to the reduction of uncertainty and information asymmetry in connection with the companies' stock and this leads to an increase in sustainable profits.

Keywords: Audit Tenure, Audit Office, Cost of Equity, Sustainable Profits
JEL Classifications: C32, O13, O47

1. INTRODUCTION

Publication of the financial reports in line with accountability of managers to users and stakeholders of a company and naturally, transparency in financial reporting are effective on the decision making process and reducing the related risks. But with regard to the gap caused by the contrast between the agency and property management, how we can make sure that if the reported information reveals true and fair accountability of the management? As a solution to avoid or minimize such a conflict, the owner can appeal to the regulatory system. Auditing the financial statements is a control mechanism to reduce asymmetric information. The independent auditors, due to validating the financial statements published by the public joint stock companies and consequently reducing the information risk, play an important role in the capital market. But following the corporate financial scandals and the financial crisis over the past two decades that led to the collapse of big companies such as Enron, Adelphi and WorldCom, the auditors and audit quality were somehow accused. In Iran after the banking fraud detection in 2011, some experts raised the claim of auditing failure (Hasas-Yeganeh et al., 2012). It is argued that the long term relationship of the auditor - auditee can lead to the auditor's negligence and failure in accomplishing his role of accrediting (Don Lee, 2010).

Today, accounting is defined as an information system and as one of the most significant information obtained from an accounting system is the information related to profit. Users of the financial statements focus their attention on the profit (Kordestani and Majdi, 2009). The accounting earning for many users of the financial statements is the key instrument for measuring the performance of companies and managers. The accounting earnings, for example, can be counted as the basis of banks accrediting to companies or of the conditions of listing the companies on the stock exchange (Zariffard and Nazemi, 2007). On the one hand, accounting is calculated under the accrual accounting system and some of the

company's revenues are calculated in cash earnings, and some are calculated for commitment and are subject to estimation of future cash flows and deferring past cash flows.

Therefore the company's revenue can be divided into two cash and accrual elements. In comparison to the cash element, the accrual element has less objectivity and consequently it is less reliable. This problem, on the one hand, derives from the accrual items involving measuring future benefits or commitments that exist currently. With regard to the mentioned points, the main question of this research is that whether the audit quality and the cost of equity can be effective on the sustainable profits? In other words, can some features including the audit tenure and the audit office be influential on the company's sustainable profits?

2. LITERATURE REVIEW

With regard to the financial scandals in the world and also in order to increase the accrediting role of auditing, on the one hand, the policy makers once more focused on the significance of the effective and efficient audit as one of the key components of the efficient capital markets and attempted to identify the motives of audit quality. The UK Financial Reporting Council, for example, in 2008 published a report entitled "Audit Quality Framework." Also the Australian treasury published a report on the "audit quality in Australia - a strategic review" in 2010 (Hasas-Yeganeh et al., 2012). On the other hand, they placed some regulatory changes on the agenda. For example, new laws, such as The Sarbanes-Oxley act was passed in the United States Congress (Almir and Seboui, 2008). Section 203 of the law requires audit firms to change their partners and managers after each 5 consecutive years of working on a client's audit unit.

Boulou et al. (2011) in a study on the qualitative characteristics of profit and cost of equity dealt with the relationship between the cost of equity and four features of interest based on the accounting data involving the quality of accruals, stability, predictability and flatness in companies on the Tehran stock exchange. The obtained results indicate that only the sustainable profits have a negative relationship with the cost of equity.

Rahmati (2013) in a research entitled "a study of the relationship between the size, tenure and the auditor's specialty in industry and stock liquidity" dealt with the relationship between these factors. Results of studying 102 companies in a time span from 2006 to 2010 showed that the size of the auditory institution has a positive relationship with stock liquidity. If the AMIHOUD criterion is used as a dependent variable, the tenure of the auditory institution will have a positive relationship with stock liquidity while the auditor's specialty in industry has no significant relationships with stock liquidity.

Omidpour and Aezami (2013) in a research dealt with identifying the type of auditor's comments using the neural networks. Results of that research represented significant findings and suggestions for different stakeholders. According to the survey results the independent and domestic auditors are recommended to use the MLP neural network to predict the type of audit report on non-audited midterm financial statements.

Dan (2010) studied the audit quality of 4 large audit institutions and the grade 2 audit firms for the time span 2003-2006. The results of their study showed that the level of abnormal accruals for clients that have been audited by four big audit institutions is similar to the clients that have been audited by the second grade auditors.

Jahankhani and Parsaeian (2011) studied whether they can attribute the differences in audit quality of four large institutions against those in four non-large institutions to the features of the client? This study takes benefit from the subjects of the audit quality, discretionary accruals, predicted cost of equity and the accuracy of the analyzer's prediction. Results show that the differences in these cases among the four large and the four non-large audit institutions comply with the specifications of clients to a large extent and particularly with the client size.

Pong Hey, Rahmati (2013) in his study reviewed the relationship between information asymmetry and the cost of common stock in companies listed on the Australian stock exchange. The results of their research indicated a positive and significant relationship between the information asymmetry and the investors' expected return. Also uncertainty in forecasting revenue led to increasing the cost of common stock capital in companies. In other words, information asymmetry and information uncertainty have led to higher costs of capital.

Abdin et al. (2014) in a research dealt with the relationship between the auditor's specialty in industry and the timeliness of audit reports. The research results showed that the companies whose auditor is the industry specialist do not have a more timely audit report in comparison to other companies whose auditor is not specialist, therefore the auditor's specialty in industry does not impact the timeliness of the audit report. Also, they concluded that the audit office would speed up the audit report.

3. RESEARCH HYPOTHESES

With regard to the theoretical foundations and the research literature mentioned above and also in order to achieve the above-mentioned goals, the following hypotheses are offered:

- There is a significant relationship between the auditor tenure and sustainable profits.
- There is a significant relationship between the audit office and sustainable profits.
- There is a significant relationship between the cost of equity and sustainable profits.

4. METHODOLOGY OF THE RESEARCH

The research methodology is a series of valid (reliable) and systematic rules, instruments and ways for studying realities, discovering unknowns and achieving solutions to problems

(Khaki, 2008). The data was related to the real companies, and the results could pave the way for decisions of capital market participants, hence the research is practical. On the other hand, because of studying the causal relationship between the dependent and independent variables of the research, it is post-incident causal in terms of performing.

This research, in terms of objectives, is practical. The research objective is practical, developing the practical knowledge in a special field. In terms of performance, it is a descriptive survey and in terms of the relationship between variables, it is of correlation type. This type of research only studies the correlation degrees and the relationship between variables and it is used when the number of acting variables tested is high; on the other hand, in this method the cause and effect relationships are not necessarily identified but it aims at determining which variables are relatively synchronous with which other variables in a positive or negative direction. And in terms of data collection, it is a quantitative research and in terms of runtime it is retrospective and the implementation logic is deductive too.

The scale used for measuring the collected data is a relative scale. The relative scale possesses all the features of distance, ordinal and nominal scales. The relative scale is the most accurate measurement scale. This scale has the value of true zero; i.e., a point in the scale that shows the complete absence of measurable features.

The statistical population of this research involves all the companies listed on the Tehran stock exchange from 2010 to 2014. Meanwhile, the sample was chosen through the systematic elimination of the population. With regard to the sample selection method leading to choosing 127 companies as the statistical population of the research, it is worth mentioning that per company during the years 2010 to 2014 had 5 series of extractable financial information in the financial statements and other related information resources.

5. INTRODUCTION TO AND DEFINITION OF VARIABLES

5.1. The Auditor Tenure

The auditor tenure in this research is regarded as an independent variable. If the auditor tenure is 5 years or more, it will accept number one and otherwise number zero.

5.2. The Audit Office

In this research, the auditors (the audit institutions) are divided into two groups. For that aim the Audit Corporate, due to the great number of employees and more archaism, is among the large auditors and other institutes are among the small auditors (small audit institutions); in this research number one is allocated to the companies being audited by the audit corporate and number zero to other institutions (Saghafi and Kordestani, 2011).

5.3. The Cost of Equity

The cost of equity is the cost of funds from the sale of stock and is usually the rate of return that the investors demand from a firm.

There are various methods to compute the cost of common stock, the most significant of which are:

- Gordon growth model
- Capital asset pricing model.

Among which, this study uses the capital asset pricing model that is as follows (Modarres and Abdollah-Zadeh, 2010):

$$R_j = R_f + \beta (R_m - R_f)$$

R_j = the expected return rate of the stock.
R_f = risk-free rate of return; (the benchmark is the provisional interest rate on the 1-year investment deposits provided by the Central Bank of the Islamic Republic of Iran).
β = the stock systemic risk.
R_m = the market portfolio return.

6. THE DEPENDENT VARIABLE

6.1. Sustainable Profits

It is one of the evaluation criteria to the quality of benefit that is calculated in the following equation

$$Earning_{t+1} = \alpha_0 + \delta_1 Earning_t + v_t$$

Where:
$Earning_t$ = the earnings prior to the long-term accruals in year t.

6.2. Control Variables

6.2.1. Size of the company

The size of the company is used as a control variable for the company's view and political costs. Size of the company ($size_{i,t}$) is the natural logarithm of the total assets of the firm i in year t (Saghafi and Kordestani, 2011).

$$size_{i,t} = Ln(A_{i,t})$$

$size_{i,t}$ = size of the company i in year t.
$Ln(A_{i,t})$ = natural logarithm of total assets of the company i in year t.

6.3. Financial Leverage

Financial leverage shows the funds that have been financed by debts. In this research for computing the leverage level of the company ($Lev_{i,t}$), total debts are divided by total assets of the company i in year t (Jahankhani and Parsaeian, 2011):

$$Lev_{i,t} = \frac{L_{i,t}}{A_{i,t}}$$

$Lev_{i,t}$ = the leverage level of the company i in year t.
$L_{i,t}$ = total debts of the company i in year t.
$A_{i,t}$ = total assets of the company i in year t.

7. DESCRIPTION AND ANALYSIS OF THE RESEARCH DATA

Description of the collected data is one of the research processes in the section of data analysis to the research, and it is important to be reported in the research. The research data were collected and categorized using the secondary information sources. Description of the statistical information and data is selected with regard to the measurement scales. Therefore this section discusses the characteristics of the statistical sample and indices related to the financial statements of members of the sample which are discussed in the two following separate sections.

8. DATA ANALYSIS AND DESCRIPTION OF THE RESEARCH VARIABLES

The statistical analysis of the research variables is used as a part of the methodology for the purpose of describing the empirical evidence on the subject of study and interpretation of the descriptive results in order to evaluate the research hypothesis. The descriptive characteristics of the phenomena under study in this study group exactly show that the statistical inference is based on parameters of the observed variables. The research variables were described and analyzed using the statistical measures of central tendency and dispersion. In general, the methods by which the collected data can be processed and summarized are the descriptive statistics. It is worth mentioning that after removing outliers and sorting data, the number of companies-years of the research variables faced a slight reduction.

The table of the descriptive data indicates the values of mean, standard deviation, minimum and maximum of each independent, dependent and control variable (Table 1). In this table, the main central index is the mean that shows the balance point and the center of gravity to distribution and is a good index to show the center of data.

Mean is the main central index and shows the data average so that if the data is regularly aligned on an axis, the mean value is placed exactly on the balance point or the gravity center of distribution. Median shows that 50% of the data is fewer than the figure in the middle of the set and 50% is greater than that. The median is used as the tendency size to the center of distributions whose shape is asymmetrical. Closeness of values of central parameters (mean, median and mode) to each other shows the symmetrical distribution of data. Standard deviation is among the scattering parameters and shows the spread extent of data. As it can be seen in Table 1, the average auditor tenure is 0.510. The mean to the variable of auditor tenure is 0.510. In general, the distribution standards are criteria that study and compare the dispersion of observations around the mean. With regard to the above table, this criterion for the auditor tenure is 0.226.

In accordance with the values provided in Tables 1-4, the average values and mean of the variable of the auditor office are respectively 0.356 and 0.341. The maximum and minimum of this variable is respectively 1 and 0.000. The descriptive statistics of the other variables are described in Table 1.

9. DETERMINATION OF THE TEST TYPE AND THE ANALYSIS METHODS

To determine the method of applying the synthetic data and detection of homogeneity or heterogeneity in them, Chow test and F Limer statistic were used. The statistical hypotheses of this test are as follows:

Null hypothesis: Pooled data

Hypothesis one: Panel data.

If the results of this test are based on applying the panel data, to estimate the research model one of the fixed effects or random-effects models should be used. For selecting one of these two models Hausman test should be performed.

Null hypothesis: Random effects

Hypothesis one: Fixed effects.

As it can be seen in Table 2, the Chow test result shows that the probability obtained for the statistic F in all the hypotheses of this research is <5%, therefore for testing this hypothesis the data in all the models are used as panels.

9.1. Hausman Test

In this test, Chi-square statistic with K degrees of freedom are used, although the achieved Chi-square was greater than the value of the table, the null hypothesis based on randomness is rejected and the fixed effects hypothesis is accepted.

In this test, the null hypothesis implies the panel data model with random effects and the alternative hypothesis implies the panel data with fixed effects. If the Hausman test statistic is greater than its critical values or if the probability (P) is smaller than 5%,

Table 1: Descriptive indices of the studied variables

Variable	Symbol	No	Mean	Median	SD	Minimum	Maximum
Auditor tenure	AT	635	0.510	0.488	0.226	0.000	1
Audit office	AO	635	0.356	0.341	0.152	0.000	1
Cost of equity	C.E		0.304	0.291	0.154	0.064	2.582
Sustainable profit	S.P	635	0.150	0.144	0.089	0.000	0.743
Financial leverage	LEV	635	0.613	0.641	0.180	0.004	1.091
Firm size	SIZE	635	12.79	12.70	0.726	5.131	16.27

SD: Standard deviation, (figures are in million Rials)

Table 2: Chow test results, for realizing the homogeneous or heterogeneous sections

Research models	F	Probability of F statistic	Chow test results
First model	4.221	0.0031	Null hypothesis is rejected
Second model	6.985	0.0000	Null hypothesis is rejected

Table 3: Hausman test results, for realizing the use of fixed or random effects

Research models	Statistic value	Statistic probability	Test results
First model	51.026	0.0000	Fixed effects
Second model	44.837	0.0011	Fixed effects

Table 4: Descriptive statistics of the first hypothesis

Model	Determination coefficient	Adjusted coefficient of determination	F statistic	Significance level	Durbin - Watson
First	0.264	0.221	52.106	0.000	1.907

the null hypothesis is rejected and the hypothesis one based on supporting the fixed effects model is supported.

According to the results derived from Hausman test for the first and second hypotheses, with regard to that with $\alpha = 0.05$ the value of Hausman statistic for the model is (51.026, 44.837) and on the other hand, $P < 0.05$, the null hypothesis is rejected. Rejection of the null hypothesis (H_0) shows that the random effects model is incompatible, so the fixed effects model should be used.

10. THE RESULTS OF THE RESEARCH HYPOTHESES

In the present research, the model estimation method is the panel data. This method is a combination of the time series data (2010-2014) and the cross-sectional data of 127 companies listed on the stock exchange. All values calculated for each of the variables of the model are in million Rials. The application used in this research is the software program Eviews 8. The estimated models were represented with regard to the hypotheses as multivariate regression models.

11. THE FIRST HYPOTHESIS TEST RESULTS AND THE MODEL USED

11.1. Testing the First Hypothesis

To test the first hypothesis, hypotheses H_0 and H_1 are as follows:

H_0: There is not a significant relationship between the auditor tenure and sustainable profits.

H_1: There is a significant relationship between the auditor tenure and sustainable profits.

The results derived from analysis of the first hypothesis using the fixed effects have been presented in Tables 4 and 5.

The key objective of this table is to represent a statistic for measuring the goodness of fit that is determined by the coefficient of determination. Coefficient of determination is a criterion for measuring the intensity of the relationship between x and y the value of which is 0.221 here. It means that the coefficient of determination is able to explain 22% of the changes in the dependent variable (sustainable profits). Serial correlation between the residuals implies the impact of observations on each other. With regard to the value of Durbin - Watson (1.907), there is not a serial correlation in data.

Table 5: Coefficients and t-statistic values

Variables	Coefficients	t-statistic	Significance	Results
Fixed variable	0.296	2.174	0.000	Significant
Auditor tenure	0.119	6.842	0.000	Significant
Firm size	0.090	4.891	0.000	Significant
Financial leverage	0.756	3.615	0.0015	Significant

Now, after the initial review and affirming the total significance of the model using F statistic, it is time to deal with studying the significance of the coefficients obtained from the T-test. The table of the significance of the regression model coefficients mentioned is as follows Table 5.

11.2. Test Results

With regard to the test results of the first model in this research, the significance of F statistic (0.000) is less than the accepted error level (5%) and the whole regression model is significant. Durbin - Watson statistic (1.907) is within the distance 1.5 to 2.5; therefore no correlation is traced between the components of the model error. Due to lower value of t-statistic (P-value) than the accepted error level for the coefficient of β_1, the test results show that there is a positive and significant relationship between the auditor tenure and sustainable profits. Therefore the hypothesis H_0 of the research can be rejected at the error level 5%. Also, the research results show that the control variables entered, the firm size and the financial leverage have a significant relationship with sustainable profits. The coefficient of determination and the adjusted coefficient of determination show that the variables entered to the regression can explain 22% of the changes of the dependent variable.

Therefore, with regard to the above-mentioned subject matters, the regression model related to the first hypothesis is written as follows:

S.P = 0/296+0/119AT+0/090SIZE+0/756LEV

Table 6: Descriptive statistics of the second hypothesis

Model	Determination coefficient	Adjusted coefficient of determination	F statistic	Significance level	Durbin - Watson
First	0.264	0.221	52.106	0.000	1.907

11.3. Overall Result

As you can see in the table, the variable of auditor tenure with coefficient 0.119 and the significance level 0.000 were entered to the model. So it can be argued that there is a significant relationship between the auditor tenure and the sustainable profit, so H_0 is rejected.

11.4. Testing the Second Hypothesis

For the second hypothesis, H_0 and H_1 are as follows:

H_0: There is not a significant relationship between the auditor office and the sustainable profit.

H_1: There is a significant relationship between the auditor office and the sustainable profit.

The results derived from analysis of the second hypothesis using the fixed effects have been presented in Tables 6 and 7.

The key objective of this table is to represent a statistic for measuring the goodness of fit that is determined by the coefficient of determination. Coefficient of determination is a criterion for measuring the intensity of the relationship between x and y the value of which is 0.221 here. It means that coefficient of determination is able to explain 22% of the changes in the dependent variable (sustainable profits). Serial correlation between the residuals implies the impact of observations on each other. With regard to the value of Durbin - Watson (1.907), there is not a serial correlation in data.

Now, after the initial review and affirming the total significance of the model using F statistics, it is time to deal with studying the significance of the coefficients obtained from the T-test. The table of the significance of the regression model coefficients mentioned is as follows Table 7.

11.5. Test Results

With regard to the results of testing the first model of the research, the significance level of F statistic (0.000) is less than the accepted error level (5%) and the whole regression model is significant. Durbin - Watson statistic (1.907) is within the distance 1.5 to 2.5; therefore no correlation is traced between the components of the model error. Due to lower value of t-statistic (P-value) than the accepted error level for the coefficient of β_2, the test results show that there is a positive and significant relationship between the auditor office and sustainable profits. Therefore the hypothesis H_0 of the research can be rejected at the error level 5%. Also, the research results show that the control variables entered, the firm size and the financial leverage have a significant and positive relationship with sustainable profits. The coefficient of determination and the adjusted coefficient of determination show that the variables entered to the regression can explain 22% of the changes of the dependent variable.

Therefore, with regard to the above-mentioned subject matters, the regression model related to the first hypothesis is written as follows:

Table 7: Coefficients and t-statistic values

Variables	Coefficients	t-statistic	Significance	Results
Fixed variable	0.296	2.174	0.000	Significant
Auditor office	0.310	4.011	0.0413	Significant
Firm size	0.090	4.891	0.0000	Significant
Financial leverage	0.756	3.615	0.0015	Significant

S.P = 0/296+0/310AO+0/090SIZE+0/756LEV

11.6. Overall Result

As you can see in the table, the variable of auditor office with coefficient 0.310 and the significance level 0.041 were entered to the model. So it can be argued that there is a significant relationship between the auditor office and the sustainable profit, so H_0 is rejected.

11.7. Testing the Third Hypothesis

For the third hypothesis, H_0 and H_1 are as follows:

H_0: There is not a significant relationship between the cost of equity and the sustainable profit.

H_1: There is a significant relationship between the cost of equity and the sustainable profit.

The results derived from analysis of the third hypothesis using the fixed effects have been presented in Tables 8 and 9.

The key objective of this table, however, is to represent a statistic for measuring the goodness of fit that is determined by the coefficient of determination. Coefficient of determination is a criterion for measuring the intensity of relationship between x and y the value of which is 0.278 here. It means that coefficient of determination is able to explain 27% of the changes in the dependent variable (sustainable profits). Serial correlation between the residuals implies the impact of observations on each other. With regard to the value of Durbin - Watson (1.839), there is not a serial correlation between the data.

Now, after the initial review and affirming the total significance of the model using F statistics, it is time to deal with studying the significance of the coefficients obtained from the T-test. The table to the significance of the regression model coefficients mentioned is as follows Table 9.

11.8. Test Results

With regard to the test results of the second model of the research, the significance level of F statistic (0.000) is less than the error level and the whole regression model is significant. Durbin - Watson statistic (1.839) is within the distance 1.5 to 2.5; therefore no correlation is traced between the components of the model error. Due to lower value of t-statistic (P-value) than

Table 8: Descriptive statistics of the third hypothesis

Model	Determination coefficient	Adjusted coefficient of determination	F statistic	Significance level	Durbin - Watson
Second	0.339	0.278	31.514	0.000	1.839

the accepted error level for the coefficient of β_1, the test results show that there is a significant relationship between the cost of equity and sustainable profits. Therefore the hypothesis H_0 of the research can be rejected at the error level 5%, it means that there is a positive and significant relationship between the cost of equity and sustainable profits. Also, the research results show that the control variables entered, the firm size and the financial leverage have a significant effect on sustainable profits. The coefficient of determination and the adjusted coefficient of determination show that the variables entered to the regression can explain 27% of the changes of the dependent variable.

Therefore, with regard to the above-mentioned subject matters, the regression model related to the first hypothesis is written as follows:

S.P = 0/824+0/611C.E+0/088SIZE+0/860LEV

11.9. Overall Result

As you can see in the table, the variable of cost of equity with coefficient 0.611 and the significance level 0.000 were entered to the model. So it can be argued that there is a significant relationship between the cost of equity and the sustainable profit, and H_0 is rejected.

11.10. Overall Results

The objective of the present research is to determine the relationship among the audit quality and cost of equity and the earnings management in the companies listed on the Tehran stock exchange. Results show that there is a weak and positive relationship between the sustainable profits and the audit office index and that relationship is statistically significant too. Positivity of this relationship implies the positive influence of the Auditing Organization as an audit institution with a good reputation on the level of earnings management in companies and weakness of this relationship implies the impact of different structures on the earnings management in companies. This shows that in the client companies where a single auditor had audited that company for several years, the level of earnings management and also its sustainability is higher if the audit tenure is to the Auditing Organization, and therefore the users of the financial statements must consider the audit tenure in their analysis and also the stock exchange must consider this problem in stock valuation of these companies. There is also a positive and significant relationship between the cost of equity and the sustainable profits that implies that the cost of capital is also one of the crucial factors in sustainability of corporate profits, and managers and investors and etc. must consider this variable in their balance sheet.

The summary of the research results has been provided in the Table 10.

Table 9: Coefficients and t-statistic values

Variables	Coefficients	t-statistic	Significance	Results
Fixed variable	0.824	6.479	0.000	Significant
Cost of equity	0.611	4.049	0.0000	Significant
Firm size	0.088	2.810	0.0016	Significant
Financial leverage	0.860	3.164	0.000	Significant

Table 10: Brief results of the influence of the independent variables on the dependent variables in the multivariate regression models

Variables	Dependent variable	Sustainability of profits	
		Relationship	Results
Independent variables	Auditor tenure	Direct	Rejection of the hypothesis
	Auditor office	Direct	Rejection of the hypothesis
	Cost of equity	Direct	Rejection of the hypothesis

12. SUGGESTIONS BASED ON THE RESEARCH RESULTS

1. With regard to the results of the first hypothesis, it is suggested that while analyzing the audited companies, the users of the financial statements consider the auditor tenure.
2. With regard to the first hypothesis, it is suggested that the Securities and Stock Exchange Organization consider the auditor tenure in pricing stocks.
3. According to the results of the second hypothesis, it is suggested that the securities and stock exchange Organization adopt laws and regulations according to which the companies listed on the stock exchange can use different auditors in auditing the financial statements over the years.
4. With regard to the results of the third research hypothesis, it is suggested that in computing the capital cost of economic units that the cost of equity is one of its components, in addition to various factors affecting the cost of capital, the feature of sustainability of earnings be considered and addressed in financial management issues.
5. With regard to the results of the third hypothesis results, it is suggested to consider the sustainable profit in analyzing and determining the base price of stocks according to the models that rely on corporate profits.
6. The investors only consider some of the features of the profit and skip some other properties of profit such as quality of benefit of accruals, although the investors do not pay any attention to them due to some reasons. Therefore it is

suggested that in order to protect the public interest and the rights of shareholders Tehran stock exchange be involved in the comprehensive review of earnings quality, and the financial reporting from different viewpoints be on the agenda.

7. With regard to the importance of different features of profit from the viewpoint of investors as the most important users of the financial statements, it is suggested that the issues of profits quality and financial reporting be included in the accounting textbooks as one of the topics of financial accounting.

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