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## **IMPACT OF AUDIT REPORT OF ACTIVITY'S CONTINUATION ON REACTION OF INVESTORS WITH REGARD TO PROVIDING DEBT COVENANTS AND FACILITIES, PROVIDING POTENTIAL SOURCES OF FUNDING AND INSTITUTIONAL INVESTMENT**

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### **ABSTRACT**

The items that were discussed in reports of independent auditors and specially term paragraphs which were written in them, have been used for decision making of various classes of society including investors and financial analyzers and therefore, they might lead to capital market's reaction. Capital market's reaction with an information content of audit reports leads to changes of the value of companies' market in the capital market. The main purpose of this article is to review the impact of audit report of activity's continuation on investors' reaction with providing debt covenant and facilities, providing potential resources of funding and institutional investment. Statistical population in this research includes those companies that have been accepted in Tehran's exchange market. Statistical population of this research has been used with the application of systematic omission method which includes 48 companies. Duration of this research is from the beginning of 1387 till the end of 1391 and in terms of purpose, research method is applicable and in terms of nature, it is among correlation researches. In order to test this research's hypothesis, the multivariate normal regression model has been used. The research's findings show that there is a significant connection between audit report of activity's continuation and investor's reaction. Also the variables of providing debt covenant and facilities, providing potential funding and institutional investments in providing audit report of activity's continuation have an impact on investor's reaction.

**Keywords:** *Audit Report, Activity's Continuation, Debt, Facilities, Debt Covenant, Institutional Investors*

### **INTRODUCTION**

The role of audit is to increase validity and fairness of provided information in financial statements. Audit, we playing its role, can affect profitability and reliability of information as a part of its qualitative properties. Due to audit's ability in increasing information's validity and fairness, publishing audit reports can lead to transmission of news and information about company to the capital market and therefore, they might lead to capital market's reaction. Capital market's reaction with an information content of audit reports leads to changes of the value of companies' market in the capital market. Thus, by providing profitable reports and publishing them in the capital market, audit can affect decision making of participants in the capital market and provide the condition for making accurate economical decisions (Rostami and Hakimi, 1391).

Stock market's reaction to ads and news is different and in some cases, individual's reaction is not rational and leads to some abnormalities such as too much and too little increase of prices. Too much reaction or too little reaction happens when individuals determine prices more or less than its real amount by paying attention to the new information. Although the market learns about its mistake and returns to the balance mode, nonetheless, such behavior is considered as an irrational behavior in the market that can be a rational response compared to lack of certainty that has been understood by the investors. Individuals' expectations follow their predictions which sometimes have some insufficiencies. Understanding the source of these insufficiencies can have important applications for study in the field of investor's rationality and market's efficiency (Ghalibaf and Naderi, 1385).

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According to the standard number 570 of a set of international audit standards with the title of "activity's continuation", auditor shall evaluate accuracy of the hypothesis of activity's continuation as a basis of preparation of financial statements, during the programming and implementation of audit methods and evaluation of the results obtained from it. In addition to this, according to the standard number 57 of a set of Iran's audit standards with the title of "activity's continuation" and standard number 130 from the set of England's audit standards with the title of "activity's continuation in financial statements" and standard number 59 of a set of America's audit standards with the title of "evaluation of auditors of business unit's activity's continuation", the auditor has a responsibility about the evaluation of activity's continuation which is being addressed as a organized unit in a logical interval. As it is obvious reviewing investors' reaction in exchange market has a significant effect on stock market's efficiency. Therefore, this research is attempting to review the relationship between audit report of activity's continuation and investor's reaction. In addition to this, in the rest of this research, in case of confirmation of the presence of such relationship, the quality and intensity of effectiveness of audit report of activity's continuation on investor's reaction is reviewed. Also this research can inform investors of the sensitivity of presence of activity's continuation of companies in audit reports and be a good guidance for investors in the exchange market.

### **Literature and Theoretical Foundations**

In this section, literature and theoretical foundations around activity's continuation, stock market's reaction to the announcement of audit report, institutional investors and funding has been provided and in each section the associated hypotheses have been developed.

#### **Activity's Continuation**

According to Welk and others' definition, if opposite evidences were not available, hypothesis of activity's continuation indicates that the company will continue its activities without a limit; therefore, in normal conditions reporting value of assets and rights of stockholders according to company's disorganization is obviously contradictory to this hypothesis. The most apparent sign of the hypothesis of activity's continuation as a basis for accounting principles is this truth that the principles that are used in treatment conditions are different from those in normal conditions (Masih, 1373). Several experts such as Belkaoui, Hendriksen, Sterling, Chambers, Ijiri, Paton and Littleton, Fremgen, Vatter, Wolk *et al.*, have mentioned several issues about the hypothesis of activity's continuation and most of their discussions are mainly about contradiction with obviousness and fundamentality of this hypothesis.

In Belkaoui's opinion, such hypothesis that shows stability of economical unit's condition reflects the expectations of all beneficiary groups in the economical unit. Thus, financial statements are only provide a temporary perspective of the company's financial statement and are only a part of a consistent series of reports. Except disorganization circumstances, the user will interpret the above information in this way that this information has been prepared and provided based on this hypothesis that economical unit will continue its activity. Also by using the certain hypothesis of activity's continuation, we can deduct about the benefit theory. Future profit's expectation encourages managers to look at the future and motivate investors to provide the capital of the economical unit. In order to justify "benefit theory", activity's continuation (which is unlimited durability of accounting's characteristic) is essential (translated of Parsayian, 1381).

#### **Stock Market's Reaction to Announcement of Audit Report**

Relativity of auditor's opinion is studied through analyzing capital market's direct and indirect reaction to auditor's opinion. Researchers such as Ball *et al.*, (1968), Bernard and Thomas (1989), Nichols and Wahlen (2004), and Jegadeesh and Livant (2006) have confirmed presence of correlation between information of accounting's profit and changes of stock's price. Nevertheless, according to Lev's opinion (1989), profit only explains a part of changes in the interval in the date of profit's announcement. Thus, researchers such as Ou and Penman (1989), Livant and Zarowin (1990) and Sloan (1996), by adding models with other financial and nonfinancial information, have attempted to review the effects of that information on interval's changes or stock's price. Among these, audit reports can lead to changes in market's indexes as an information resource.

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Audit report might contain some information that can affect estimation of rate and risk of future cash flows. Any information that could lead to revision in these components is relevant to stock's price. Secondly, audit report can include some basic information about company's activity's continuation, for example audit report of activity's continuation. Report shall reflect the auditor's accessibility of internal information such as predicted data and management designs in all times and also decisions of auditor's reports shall illustrate a part of private information (Bani and Ahmadi, 139). By considering the above basis, we can mention the main hypothesis of the research in the form of the following hypothesis:

H1: there is a significant relationship between audit report of activity's continuation and investors' reaction.

#### **Relativity of Audit Reports for Users' Decision Making**

Most information about the relativity of audit reports for users' decision making is among empirical studies. In these studies, users' decision making is evaluated when they are exposed to a particular kind of audit report or a scenario of necessities associated with funding. Guiral-Contreras *et al.*, (2007) divide these studies into three types. The first type studies, addresses the impact of level of auditor's opinion on the person's decision who gives loan (Johnson *et al.*, 1983; Wright *et al.*, 2000). The second type of studies, studies the impact of report's form on the process of the loan-giver person's decision making (Miller *et al.*, 1993). The third type of studies focuses on the differences in the relativity of accepted and qualified audit reports (Lasalle *et al.*, 1997; Bessell *et al.*, 2003). The empirical method that is used in this type of researches has been designed in a way that it would be able to measure the effect of audit report on the process of loan-givers decision making. In the present research, the effect of audit report of activity's continuation on investors' reaction with providing debt covenant and facilities, providing potential resources of funding and institutional investment have been evaluated. The first secondary hypothesis of the research can be mentioned as follows:

H11: there is a significant relationship between debt covenant and facilities in audit report of activity's continuation on investors' reaction.

#### **Institutional Investor**

Stakeholders can have a basic role in company's managing system, thus a varying combination of them in companies can have different impacts on companies' performance and also the way companies reflect information in the market and asymmetry of company's information. Therefore, by considering the type of ownership, the way performance of companies' managers is supervised can also be different (Pourzamani and Kharidar, 1392). According to Bushee's definition (1998), institutional investors are great investors such as banks, insurance companies, investing companies and etc. usually it is imagined in this way that presence of institutional investors might lead to changes in companies' behavior. This matter is caused by regulatory activities that investors do (Hasas *et al.*, 1387). Jensen (1989) has argued that ownership's distribution leads to major inefficiency in American companies. Nonetheless, we must know that not only ownership's concentration does not create a stronger motivation for maximizing the company's value; but also it enforces more costs to the company which are caused by excessive concentration of risk and potential authorities for expropriation of minority investors (Taghavi and Ahadi, 1386). In this regard, we can mention the following secondary hypothesis:

H12: there is a significant relationship between institutional investments in providing audit report of activity's continuation on investors' reaction.

#### **Funding**

Capital market makes providing required financial resources possible for companies through supplying exchange stocks. Managers attempt for their organization's maintenance and growth by using the obtained resources. Whereas, intense competitive conditions, financial, economical, political crises and ownership and legal requirements has made companies want more resources and sometimes invest the resources obtained from operation results of economical unit again inside economical unit, which also belongs to the owners. The important issue in this path will be to review the impact caused by funding on the entire company's efficiency. In other words, in a efficient market, company's growth and profitability and ultimately increase of shareholders' wealth will be realized when the efficiency caused by using financial

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resources caused by spreading share is more than opportunity's costs caused by capital projects which are implemented (Moradzadeh and Sayyadi, 1391). By considering the mentioned basis about the audit report and investors' reaction, we can mention the third secondary hypothesis in the following form:

H13: there is a significant relationship between providing potential resources of funding in audit report of activity's continuation and investors' reaction.

### **Review of Previous Researches' Records**

Fiert (1987) reviewed the impact of paragraphs of terms of lack of activity's continuation and assets' value in a research. According to his findings in England's market, paragraphs of terms of lack of activity's continuation and assets' value lead to intense reduction of share's price in the companies that received this type of audit terms. Choeen and Lin (2005) showed that governmental ownership and ownership's concentration in Chinese companies are more than Taiwanese companies, by comparing ownership structure in Chinese and Taiwanese companies and reviewing this matter that whether these companies' performance is affected by their ownership structure or not. Also Chinese companies' operation performance has a reverse relationship with concentration of governmental ownership and a direct relation with the concentration of private ownership (institutions).

Navissi and Naiker (2006), in the review of relationship between institutional ownership and company's value in New Zealand, by using the pond theories, found out that institutional investors have more motivation for supervising management and therefore, their presence will have a positive relationship with company's value. But in high levels of ownership, institutional investor might encourage management board to make non-optimal decisions. In reviewing the relationship between activities of funding, predicting analyzers and stock's return, Bradshaw *et al.*, (2006), in their 30-year research, concluded that there is a reverse relationship between the exact cash flow associated with each of the classes of funding activities (spread of share and debt) with the stock's return and also company's profitability. The results of Krishnagopal and David's research (2010) showed that the investors show negative reaction to audit report of activity's continuation. They showed that the stockholders show more reaction to the audit report of activity's continuation which can be cited by debt and funding and also by increasing the negative reaction after publication of audit report, institutional investors' continuation of activity reduces.

Mallorqu and Martin (2010), by reviewing the effect of various types of institutional owners on company's value, found out that when a bank is the main shareholder, that owner's right to vote negatively relates to company's value. This result might indicate that they tend to gain private resources with the cost of minority shareholders. Now when an investment fund is the major owner, the results illustrate that owner's right to vote has a positive effect on company's value. Hessi *et al.*, (2011) reviewed the impact of type of report on behavior of companies' share price's behavior in Taiwan. Their results showed that in dates close to publication of unqualified audit reports for investors, negative return will be created. Therefore, they concluded that type of audit report affects behavior of share price and they recommended to the investors to stop buying share with negative return, because its audit report is unqualified. Shourvarzi *et al.*, (1390), in their review of effectiveness of audit reports on recognizing bankrupted companies and comparing them with the prediction power of bankruptcy by financial variables, assumed that independent auditor's opinion in vague conditions about activity's continuation (modified reports) can predict bankruptcy in the next financial era better than financial variables altogether. Research's result indicated that financial variables altogether and independent auditor's opinion both have the ability to predict bankruptcy in the future financial era, but independent auditor's opinion is significantly better than financial variables.

In reviewing the too much reaction of investors of stock exchange compared to audit information of companies' continuation of activity, Rostami and Hakimi (1391) found out that behavioral financial core is this idea that investors' small mistake in processing the information associated with value leads to deviation of market's prices from what is predicted according to a model of rational expectations in which the investors show too much reaction (positive and negative) compared to the paragraph of companies' activity continuation of audit report. Pourzamani and Kharidar (1392), in reviewing the effect of types of



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institutional owners on company's value, evaluated types of institutional shareholders (banks, investment funds) and their variety (second and third major shareholder) in ownership structure. Research's results indicated that there is a positive significant relationship between major institutional ownership and company's value and also there is positive significant relationship between second and third major shareholder's right to vote and company's value in banks and investment funds. Tsipouridou and Spathis (2014), in a research with the title of management of profit and audit opinion, reviewed the effect of profit management on audit report of activity's continuation. Research's results showed that audit opinion is not relevant to profit management and company's financial properties such as profitability and size are effective in audit report of lack of activity's continuation.

## MATERIALS AND METHODS

### Research Methodology

In terms of purpose, research method is applicable and in terms of nature, it is among correlation researches which systematically explains the current situation and thus, studies the properties and specifications of variables and reviews the variables' connection. In addition, this research is a documentation mining research in terms of data and in terms of time of research it is post-occurrence. The main purpose of this research is to review the significant relationship between investor's reactions of the audit reports in the companies accepted in Tehran's stock exchange in a 5-year period. Therefore, the statistical population is those companies that their shares were exchanged in an interval between 1385 and 1390 in Tehran's stock exchange. Of course, some particular conditions were considered by the researcher that the authentication of these conditions is necessary in order to do the statistical reviews. The mentioned conditions are as follows:

- 1- Their end of financial year is each year's 29<sup>th</sup> of Esfand (20th of March)
- 2- During research's time era, the financial year does not change.
- 3- At least three times a month their share is exchanged.
- 4- Their required data is accessible.

As the result of the mentioned process, 48 companies were chosen as the companies that were being studied.

By considering the nature of this research, first by using library resources, introductory studies and determination of research's literature and theoretical framework have been done. At the rest, by using database of Tehran's stock exchange, this organization's internet website, Codal website and available software packages such as "Rahavard-e Novin" software, the required data for testing the hypotheses has been collected.

In order to review investors' reactions' correlation reported in audit reports of activity's continuation by using the panel data's regression, we evaluated the investors' reactions' to variables through the following equations:

Equation 1:

$$CAR = \alpha + \beta_1 LMValue + \beta_2 EBIT + \beta_3 \Delta Income + \beta_4 CFOPS + \beta_5 Zscore + \beta_6 ExitValue$$

Equation 2:

$$CAR = \alpha + \beta_1 LMValue + \beta_2 EBIT + \beta_3 \Delta Income + \beta_4 CFOPS + \beta_5 Zscore + \beta_6 ExitValue + \beta_7 BIG4 + \beta_8 CiteDebt + \beta_9 InstOwn$$

In which CAR indicates investors' reaction equal to too much cumulative Returns, from three days before the date of exposure of audited financial statements, CiteDebt means presence of vagueness in relationship with funding problems (covenant of debt ad facilities in audit reports of activity's continuation), Instown means percentage of institutional investors, and Zscore indicates the combined measurement of financial crisis in "Zemijoski" model (1984).

The following equation shows the "Zemijoski" model:

$$Zscore = -4.3 - 4.5 NITA + 5.7 TDTA - .004 CACL$$

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In which: NITA= pure profit to the entire asset, CACL= debt to asset, and TDTA= current asset to the current debt.

Also the entered control variables in the research's model include the following items:

**LMValue**= Natural logarithm of value of market of shareholders in million

**ΔIncome**= Changes in company's pure profit

EBIT=Profit before taxes

CFOPS=Ratio of operational cash flow to all assets

BIG4=Company's auditor (audit organization)

ExitValue=Company's output value (it is calculated by using the "Burger" model (equation 3))

Equation 3: Company's output value by using the "Burger" model:

$$\text{Exit Value} = 1.0 * \text{Cash} + 1.0 * \text{Marketable Securities} + 0.72 * \text{Receivables} + 0.55 * \text{Inventory} + 0.54 * \text{Fixed Assets} - 1.0 * \text{Payables} - 1.0 * \text{Total Debt}$$

In which:

CASH= cash flow

Marketable securities= marketable stock exchange

Receivables = receivables which include each receivable price which is currently reached deadline or not

Inventory= goods holding

Fixed Assets= Fixed Assets

Payables= Payables

and Total Debt = Total Debt

## RESULTS AND DISCUSSION

### Research's Findings

In this research, in order to determine the effect of audit report of activity's continuation on investors' reactions, first test's main hypothesis and then the variables of impact of providing debt covenants and facilities, impact of potential resources of funding and effect of institutional investment in providing of audit report of activity's continuation on investors' reactions as criteria of activity's continuation in secondary hypotheses have been tested separately. In order to test research's hypothesis, the method of correlation between methods and multivariable regression equations have been used through the method of panel data.

**Table 1: Analysis of the main hypothesis**

<b>Modified determination coefficient</b>		<b>0.966932</b>			
<b>F statistic</b>		<b>106.9989</b>			
<b>Probability (Prob)</b>		<b>0</b>			
<b>Durbin – Watson statistic</b>		<b>2.051246</b>			
<b>Explanatory variable</b>	<b>Coefficient</b>	<b>Standard deviation</b>	<b>T statistic</b>	<b>Probability</b>	<b>Confidence level</b>
CITEDEBT	-0.13696	1.522676	-0.08995	0.9285	Meaningless
INSTOWN	-0.12473	0.039271	-3.17617	0.0018	99%
ZSCORE	-3.3017	0.123673	-26.697	0	99%
BIG	-13.1066	5.919565	-2.21412	0.0284	95%
CFOPS	-2.10938	4.899637	-0.43052	0.6674	Meaningless
EBIT	6.52E-06	1.25E-06	5.231883	0	99%
EXITVALIUE	-1.20E-06	5.17E-07	-2.32667	0.0213	95%
INCOM	-6.82E-06	9.07E-07	-7.51879	0	99%
LM	-21.5047	4.312394	-4.98672	0	
C	255.8593	50.02917	5.114203	0	

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### Analysis of the Main Hypothesis

At first by considering the model's type, the time and sectional fixed effects are tested. In combined data, data's time and sectional effects and also their simultaneous effects have been tested. In testing all of the hypotheses of research, by considering the statistic of Chow test about the sectional fixed effects that their probability is less than 0.05 and about time fixed effects with the probability of more than 0.05, the model of sectional fixed effects is favorable. After finishing the Chow test and choosing the model of time fixed effects, in order to chose the method of testing data, the Hausman test has been used among the two methods fixed effects and random effects. In testing all of the hypotheses of research, by considering the probability associated with the test which is less than 0.05 in the confidence level of 95%, random effects have been rejected and fixed effects have been accepted.

Table 1 shows the results associated with the test of main hypothesis.

The results associated with Durbin – Watson statistic (lack of autocorrelation of all errors) for models of all hypotheses show data's relative independency. By considering the f statistic and the probability associated with it, we can conclude that at the confidence level of 95%, the regression equation is significant. By considering the probability associated with the variables in the model, the CiteDebt variable (presence of vagueness in relations of problem of providing financial resources) which is more than 0.05, this variable is not significant at the confidence level of 95%. But the probability associated with InstOwn (percentage of institutional investors) and Zscore (combined measurement of financial crisis) are less than 0.01; therefore, these variables are significant at the confidence level of 99% in the model. Among the covariates variables, variable EBIT (profit before taxes), *Income* (changes of company's pure profit), *LMValue* (natural logarithm of value of market of shareholders in million) have less than 0.01 probability; therefore, these variables at the confidence level of 99% are significant in the model. Also variables BIG (type of company's audit institute) and *ExitValue* (company's output value) have less than 0.05 probability; thus, these variables are significant in model at the confidence level of 95%. But variable CFOPS (ratio of operational cash flow to all assets) have a probability more than 0.05; therefore, this variable is not significant in model at the confidence level of 95%. By considering this fact that the variable InstOwn (percentage of institutional investment) and Zscore (combined measurement of financial crisis) are significant in model, thus, as criteria of audit report of activity's continuation, they have a relationship with the reaction of company's investors; thus, we can claim that audit report of activity's continuation affects the company's investors' reactions and the main hypothesis of this research is confirmed.

### Analysis of First Secondary Hypothesis

**Table 2: Analysis of first secondary hypothesis**

<b>Modified determination coefficient</b>		<b>0.616673</b>			
<b>F statistic</b>		<b>7.196629</b>			
<b>Probability (Prob)</b>		<b>0</b>			
<b>Durbin – Watson statistic</b>		<b>2.07841</b>			
<b>Explanatory variable</b>	<b>Coefficient</b>	<b>Standard deviation</b>	<b>T statistic</b>	<b>Probability</b>	<b>Confidence level</b>
CITEDEBT	-3.37264	0.216458	-15.581	0	99%
BIG	-8.40741	5.732749	-1.46656	0.1445	Meaningless
CFOPS	-4.7609	0.950147	-5.0107	0	99%
EBIT	7.18E-06	9.24E-07	7.763732	0	99% %
EXITVALIUE	-6.32E-07	5.13E-07	-1.23299	0.2195	Meaningless
INCOM	-7.44E-06	1.29E-06	-5.76003	0	99%
LM	-16.3344	1.03458	-15.7884	0	99%
C	194.33	11.76332	16.52	0	99%

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This hypothesis has been mention about reviewing the presence of effect of providing debt covenant and facilities in audit report of activity's continuation on company's investors' reactions and its results have been provided in table 2.

By considering the f statistic and the probability associated with it, we can conclude that at the confidence level of 99%, the regression equation is significant. By considering the probability associated with the variables in the model, the CiteDebt variable (presence of vagueness in relations of problem of providing financial resources) which is less than 0.01, this variable is significant at the confidence level of 99%. Among the covariates variables, variable EBIT (profit before taxes), *Income* (changes of company's pure profit), *LMValue* (natural logarithm of value of market of shareholders in million) have less than 0.01probability and variables BIG (type of company's audit institute) has less than 0.05 of probability, therefore these variables are significant, respectively, at the confidence level of 99 and 95 percent in model. *ExitValue* (Company's output value) has less than 0.05 probability; thus, this variable only isn't significant in model at the confidence level of 95%. By considering the fact that *CiteDebt* variable (presence of vagueness in association with problem of providing financial resources), is the main variable, it is significant in model. Therefore, we can claim that there is a significant relationship between providing debt covenant and facilities in audit report of activity's continuation on investors' reactions or in other words, providing debt covenant and facilities in audit report of activity's continuation affect investors' reactions. Thus, by considering the results of testing the model the first secondary hypothesis is also confirmed.

### Analysis of Second Secondary Hypothesis

This hypothesis has been mentioned about reviewing the effect of providing potential funding in audit report of activity's continuation on investors' reactions. We can see its results in table 3. By considering f statistic and probability associated with it, we can conclude that at the confidence level of 99%, regression equation is significant. By considering the probability associated with variable in model, *Zscore* (combined measurement of financial crisis) is less than 0.01; therefore, this variable is significant at the confidence level of 99% in model.

**Table 3: Analysis of second secondary hypothesis**

<b>Modified determination coefficient</b>		<b>0.902899</b>			
<b>F statistic</b>		<b>36.9888</b>			
<b>Probability (Prob)</b>		<b>0</b>			
<b>Durbin – Watson statistic</b>		<b>1.917955</b>			
<b>Explanatory variable</b>	<b>Coefficient</b>	<b>Standard deviation</b>	<b>T statistic</b>	<b>Probability</b>	<b>Confidence level</b>
ZSCORE	-3.17411	0.084663	-37.4911	0	99%
BIG	-7.46899	5.324988	-1.40263	0.1627	Meaningless
CFOPS	-5.09255	4.19256	-1.21466	0.2263	Meaningless
EBIT	6.45E-06	9.62E-07	6.706226	0	99%
EXITVALIUE	-8.39E-07	5.10E-07	-3.04378	0.0027	99%
INCOM	-7.31E-06	1.07E-06	-6.83081	0	99%
LM	-21.0518	2.756105	-7.63824	0	99%
C	244.7018	31.67362	7.725729	0	99%

Among the covariates variables, variable EBIT (profit before taxes), *ExitValue* (Company's output value), *Income* (changes of company's pure profit), *LMValue* (natural logarithm of value of market of shareholders in million) have less than 0.01probability; therefore, these variables are significant in model at the confidence level of 99%. But variables BIG (type of company's audit institute) and CFOPS (ratio of cash flow to all assets) have a probability of more than 0.05, therefore these variables are not significant



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in model. By considering the fact that *Zscore* variable (combined measurement of financial crisis) is the main variable, it is significant in model. Thus, we can claim that there is a significant relationship between providing potential funding in audit report of activity's continuation with investors' reactions. Therefore, the results of testing the model of the second secondary hypothesis of this research are also confirmed.

### Analysis of Third Secondary Hypothesis

This hypothesis has been mentioned reviewing the presence of a relationship between institutional investment in providing audit report of activity's continuation on investors' reactions and its results have been expressed in table 4.

**Table 4: Analysis of third secondary hypothesis**

Modified determination coefficient	0.902899				
F statistic	36.9888				
Probability (Prob)	0				
Durbin – Watson statistic	1.917955				
Explanatory variable	Coefficient	Standard deviation	T statistic	Probability	Confidence level
INSTOWN	-0.11449	0.038245	-2.99363	0.0032	99%
BIG	-12.3621	6.439932	-3.27247	0.0024	99%
CFOPS	-5.90464	3.645154	-1.61986	0.1074	Meaningless
EBIT	6.54E-06	9.84E-07	6.646202	0	99%
EXITVALIUE	-6.71E-07	5.84E-07	-1.14896	0.2524	Meaningless
INCOM	-6.52E-06	1.09E-06	-6.00682	0	99%
LM	-15.5835	2.269817	-6.86551	0	99%
C	190.8615	26.83303	7.112931	0	99%

By considering the f statistic and the probability associated with it, we can conclude that at the confidence level of 99%, the regression equation is significant. By considering the probability associated with the variables in the model, the *InstOwn* variable (percentage of institutional investment) which is less than 0.01, this variable is significant at the confidence level of 99%. Among the covariates variables, variable EBIT (profit before taxes), *Income* (changes of company's pure profit), *LMValue* (natural logarithm of value of market of shareholders in million) have less than 0.01probability, therefore these variables are significant at the confidence level of 99 percent in model. But variables *ExitValue* (Company's output value) and CFOPS (ratio of operational cash flow to all assets) have a probability level of more than 0.05; thus, this variable only isn't significant in model at the confidence level of 95%. By considering the fact that *InstOwn* variable is the main variable of model, it is significant in model. Thus we can claim that there is a significant level between institutional investment in providing audit report of activity's continuation and investors' reactions; or in other words, institutional investment in providing audit report of activity's continuation affects investors' reactions. Therefore, by considering the results of testing the model, the third secondary hypothesis of this research is also confirmed.

### Discussion and Conclusion and Presenting Recommendations

The results showed that the percentage of institutional investors and combined measurement of financial crisis in model are significant; thus, as the criteria of audit report of activity's continuation, it has a relationship with reaction of company's investors. Clarification by companies and reviewing it by auditor can be effective in method on method of company's investors. Investors react to the published news. The results of statistical analysis showed that presence of vagueness in association with the problem of providing funding in model is significant, thus, as a criterion providing debt covenant and audit report of activity's continuation has a relationship with company's investors' reactions. Clarification by companies and reviewing it by auditor can be effective in method on method of company's investors. These results

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are in compliance with the findings of Krishnagopal and David (2010). The results also showed that combined measurement of financial crisis is significant in model, therefore, as a criterion of potential resources of funding and audit report of activity's continuation has a relationship with company's investors' reactions. The fund obtained from funding activities is used in implementing the capital projects and reforming capital structure. But the important issue in this path will be reviewing the effect caused by funding on return of whole company. In other words, in an efficient market, company's growth and profitability and ultimately increase of shareholders' wealth will happen when the return caused by applying funds caused by publishing share is more than opportunity's costs caused by capital projects that are being implemented.

By considering research's results, combined measurement of institutional investment is significant in model; therefore, as a criterion institutional investment and audit report of activity's continuation has a relationship with company's investors' reactions. Institutional investment is considered as an effective and important governing factor in stock companies and percentage of share of institutional investment strongly affects the share's price.

At the end, we suggest to the investors to consider audit report of activity's continuation while reviewing the company's financial reports and care about the rate of debt covenant and facilities in audit report of activity's continuation while reviewing the company's financial reports. Also we recommend to the investors to consider resources of funding in audit report of activity's continuation while reviewing the company's financial reports and pay special attention to the percentage institutional investment in audit report of activity's continuation while reviewing the company's financial reports. Also the employers in responsible organizations shall ask the auditors to emphasize more on preparing an audit report of activity's continuation.

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