

## **Auditor Style and Comparability of Financial Statements: A Comparison of Audit Style in Iran and U.S.A.**

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### **Abstract**

The term auditor style is used to determine a unique set of internal working rules each audit firm employs to perform audit standards and application generally accepted accounting principles between their clients. Audit style implies that two companies audited by the same auditor, subject to the same audit style, are more likely to have comparable earnings than two firms audited by two different audit firms with different styles. The sample consists of 63 companies listed in Tehran Stock Exchange for the period 2002 to 2013. The tests are based on pairs of firms and a total of 4344 pairs of firms as observations are used. In the present study correlation method and multiple regression are used and the means for comparing hypothesis test are performed. The findings show that the audit style of audit firms in the U.S leads to more similar in total accruals and discretionary accruals for their clients than to clients of audit firms in Iran. In other words, the comparability of financial statements of U.S companies with Iranian ones indicates more similarity in accruals and earnings structure.

**Keywords:** auditor style, comparability, discretionary accruals, accounting earnings

### **Introduction**

Comparability is defined by the Financial Accounting Standards Board (FASB) as the quality of information that enables users to identify similarities and differences in the financial performance of two firms. The joint conceptual framework project of FASB and the International Accounting Standards Board (IASB) emphasize that comparability is a basic property of financial information which enhances its usefulness (FASB, 2010).

Indeed the FASB states that comparability in financial reporting is the primary reason for developing accounting standards (FASB, 1980), and the centrality of comparability is stressed in accounting textbooks, particularly financial statement analysis texts (Phillips, Libby, & Libby, 2013; Revsine, Collins, Johnson, & Mittelstaedt, 2011).

The primacy of comparability as a qualitative characteristic of accounting makes it important to understand the factors that give rise to this characteristic. The emerging research into the determinants of comparability has focused on the role of accounting standards such as the adoption of IFRS (Barth, Landsman, Lang, & Williams, 2012; Lang, Maffett, & Owens, 2010).

The concept and use of the word comparability are different in the literature. For the purpose of our study we define accounting comparability as the closeness of two firms' reported earnings due to the consistency with which rules are applied across firms. In our empirical context, this means that firm-pairs in the same industry and fiscal year, and therefore subject to the same general

economic shocks, are expected to have similar accruals and earning structure, all things being equal. However, there are frictions in the interpretation, implementation, and enforcement of accounting standards which can reduce inter-company comparability.

However, accounting standards on their own do not fully determine financial reporting outcomes; economic agents and institutional incentives also play an important role (Ball, Robin, & Wu, 2003; Leuz, Nanda, & Wysocki, 2003).

This motivates our investigation of the role that auditors play in the implementation of comparability in Iran. In the present paper audit style quality in Iran and USA and its impact on the comparability of financial statements are studied. The existing debate and empirical evidence in regard to the production of comparability has focused almost exclusively on the role of standards themselves, especially FASB versus IFRS. The present study provides evidence that an economic institution -the auditor- is also an important factor in the production of financial statement comparability. If we confirm this hypothesis, evidence will be obtained in support of the joint FASB/IASB conceptual framework. It argues that accounting standards alone may not necessarily lead to comparability, but that the effects of standards are also dependent upon audit firms involved in the enforcement of GAAP.

The study makes several contributions to the literature. This is the first study to hypothesize, test and compare the role of economic institutions within a country in the production of comparability. Our study provides evidence that an economic institution – the auditor –is also an important factor in the production of financial statement comparability. Consistent with the joint FASB/IASB conceptual framework, our results suggest that accounting standards alone may not necessarily lead to comparability, but that the effects of standards are also dependent upon audit firms involved in the enforcement of GAAP. As such, we document a new channel through which auditor characteristics affect audited financial statements.

Second, we contribute to the debate on principles versus rules in the development of accounting standards by regulators. Kothari et al. (2010) argue that regulators should not be concerned with the potential for non-comparability if accounting standards are principle-based, because accountants and auditors who are involved in the day-to-day application of principles will develop “working rules” to standardize accounting practice (S. P. Kothari, Ramanna, & Skinner, 2010). Our results suggest that this standardization process occurs within the clientele of one auditor; however, there are significant “style differences” between audit firms that reduces inter-auditor comparability.

Third, we contribute to the broader literature that examines the auditor’s role in the production of financial reports. This literature has mainly examined the role of auditing in curbing earnings management, which is related to the qualitative characteristic of “representational faithfulness” (FASB, 2010). We show that the unique style of audit firms in each country affects the qualitative characteristic of comparability.

We extend the concept of unique styles in the production of financial reports from individuals to accounting firms. Our findings are analogous to the results of Francis et al. (2013). They found that two firms in the same industry-year and audited by the same Big 4 auditor have more comparable earnings than two firms audited by two different Big 4 auditors. They also argued that two firms audited by Big 4 auditors have greater accounting comparability than firms audited by non-Big 4 auditors (J. R. Francis, Pinnuck, & Watanabe, 2013).

In the next sections, we first explain the theoretical foundations and literature of the research then research hypotheses and methodology are discussed, and finally it will be presented the findings, discussion and conclusion.

### Literature Review

This study examines the auditor style as one of the characteristics of an auditor, and tries to empirically evaluate the auditor style consequences on the audit results. Specifically, comparability of audited financial statements of companies will be studied through observation of differences between clients and non-clients of an audit firm; meanwhile, the evidence is obtained about the impact of auditor style. Therefore the theoretical foundations of this study are based on three areas of research in accounting and auditing. The first area is in the field of comparability of financial statements; second, research related to quality of financial statements and, finally, research that examines the relationship between audit quality and auditor characteristics. Theoretical foundations of each area are briefly described in the following.

#### Financial Statement Comparability

FASB (1980) states that, "comparability is the quality of information that enables users to identify similarities and differences between two sets of economic phenomena" (FASB, 1980). De Franco et al. conceptually define financial statement comparability in two ways (De Franco, Kothari, & Verdi, 2009). Their first definition is:

*"Two firms have comparable accounting systems if, for a given set of economic events, they produce similar financial statements."*

Their second conceptual definition of comparability is:

*"Firms with correlated economic events and similar accounting of these events will have correlated financial statements over time."*

The concept and use of the word comparability are different in the literature. For the purpose of our study we define accounting comparability as the closeness of two firms' reported earnings due to the consistency with which rules are applied across firms.

#### The quality of financial statements

The conceptual definition of financial reporting quality used in this paper is the accuracy with which financial reporting conveys information about the firm's operations, in particular its expected cash flows, in order to inform investors in terms of equity investment decisions. This definition is consistent with the FASB – SFAC No. 1 which states that one objective of financial reporting is to inform present and potential investors in making rational investment decisions and in assessing the expected firm cash flows. An extensive field of auditing research on the quality of Client's financial statements focuses that this research discretionary accruals are used frequently as representatives of audit quality.

#### Auditor Characteristics and Audit Quality

Antle and Nalebuff (1991) document that financial statements are jointly produced by clients and their auditors (J Francis, 2011). The seminal empirical studies linking statistical properties of client financial statements with audit characteristics are Becker et al. (1998) and Francis et al. (1999) who document that the clients of Big 4 auditors have smaller abnormal or unexpected accruals than do the clients of non-Big 4 auditors, based on the well-known model of expected accruals developed by Jones (1991) and extended by DeFond and Jiambalvo (1994). The basic research design which links earnings quality attributes to auditor characteristics is described in below:

$earnings\ quality = f(audit\ characteristics + controls\ for\ non-audit\ factors)$

It is very important to emphasize that audit characteristics are not direct measures of audit quality; rather, the above design tests if there are systematic differences in audit outcomes (earnings quality) conditional on certain audit characteristics. If there are systematic differences, then there is

evidence consistent with the audit characteristics affecting earnings quality from which one can then infer audit-quality differences (J Francis, 2011).

In principle, the above design can be used for both experimental and archival research. For example, an experiment might investigate if proposed audit adjustments to earnings differ as a function of auditor characteristics, such as gender or experience. However, in practice, the mentioned plan has been investigated primarily in archival research and has focused mainly on the association of accounting firm attributes with clients' earnings quality. Some of the accounting firm attributes that have been examined include accounting firm size (Big 4/non- Big 4), engagement office size (Choi, Kim, Kim, & Y. Zang, 2010; J. Francis & Yu, 2009), accounting firm industry expertise measured at both the national level and specific office level (Reichelt & Wang, 2010), accounting firm tenure with the client (Johnson, Khurana, & Reynolds, 2002), the presence of accounting firm alumni in executive positions in client firms (Lennox, 2000; Menon & Williams, 2004), and the accounting firm's fee dependence on the client (Frankel, Johnson, & Nelson, 2002).

These studies find that earnings quality is higher when the auditor is larger in both overall size and engagement office size, and when the auditor has more industry expertise. On the other hand, earnings quality is lower in the initial years of engagement tenure, and when audit firm alumni hold key executive positions in client firms (J Francis, 2011).

Auditors work for accounting firms and the outcome of the audit process is an audit report that is issued in the name of the accounting firm, along with the client's audited financial statements, which can be viewed as the joint outcome of client inputs and proposed auditor adjustments. For firms are crucial to understanding audit quality because firms hire and train audit personnel, and incentivize auditors through compensation and other organizational policies. Firms also devise the audit programs and testing procedures that guide the evidence collection process, and firms have internal administrative structures to assure quality and compliance with their audit policies (J Francis, 2011).

Francis (2004) reviews the development of this literature, which began with the big firm/small firm dichotomy (Big 4/non-Big 4) and has progressed to examine differences within the dominant group of large accounting firms (within-Big 4 variation). The main source of variation that has been investigated is variation in industry expertise (J Francis, 2011).

The unique character of audit methodologies implies that each firm's audit approach will systematically detect or not detect the same client errors, including GAAP implementation errors. The implication is that financial statements will be more similar for firm-pairs with the same auditor, *ceteris paribus*, than for firm-pairs with two different auditors each having different styles. Turning to style effects that arise from GAAP interpretation, it may not be as well-known, but each of the Big 4 accounting firms also has in-house rules for interpreting and implementing GAAP, just as it has for implementing auditing standards (J. R. Francis et al., 2013).

Kinney (1986) classified the then Big 8 accounting firms based on their use of unstructured, intermediate, and structured audit technologies. While audit methods/procedures must comply with generally accepted audit standards (GAAS), the audit standards are themselves rather general in nature and much more principles-based than is U.S. GAAP. This means that each accounting firm must devise its own in-house working rules for the efficient and consistent implementation of GAAS across its client base (Kinney, 1986).

While accounting firms originally developed these materials for internal use by their audit staff, they also provide some of the same information to their clients. In other words, clients are likely to be using their auditor's GAAP guidance products in preparing financial statements (J. R. Francis et al., 2013).

The working rules of Big 4 auditors are an important mechanism through which GAAP is operationalized and implemented by both auditors and their clients, even within the United States with its arguably more explicit rule-based standards. The result is that two companies with the same Big 4 accounting firm as their auditor are more likely to interpret and implement GAAP in the same way, including the role of the auditor in enforcing GAAP and detecting GAAP misapplications for its clientele through the firm's standardized audit methodology (J. R. Francis et al., 2013).

DeFond et al. (2011) point out that while comparability is the desired outcome of adopting a set of uniform accounting standards, uniformity alone does not necessarily result in comparability. In particular, the standards and in-house rules must also be faithfully implemented (DeFond, Hu, Hung, & Li, 2011).

While the importance of comparability has long been recognized by standard setters, and discussed in the academic literature at a conceptual and normative level, there is much less empirical research on comparability. Recent empirical papers have emerged in response to the development of new methodologies to measure comparability, and to the widespread adoption of IFRS. These papers examine how the adoption of IFRS affects financial statement comparability, and how improved comparability affects decisions by investors (J. R. Francis et al., 2013).

Francis et al. (2013) found that two firms in the same industry-year and audited by the same Big 4 auditor have more comparable earnings than two firms audited by two different Big 4 auditors. They also argued that two firms audited by Big 4 auditors have greater accounting comparability than firms audited by non-Big 4 auditors (J. R. Francis et al., 2013).

Barth et al. (2012) examine the comparability of financial statements of non-U.S. firms that adopt IFRS with that of U.S. firms, and find that IFRS adoption by non-U.S. firms enhances their financial statement comparability with U.S. firms (Barth et al., 2012).

De Franco et al. (2011) find that earnings comparability within an industry is positively related to analysts' following and accuracy, and negatively related to analysts' optimism and dispersion in earnings forecasts (De Franco, Kothari, & Verdi, 2011).

Bradshaw et al. (2011) also study analysts and find that the commonality of accounting policy choices, their measure of comparability, affects analyst coverage and behavior (Bradshaw, Miller, & Serafeim, 2011).

DeFond et al. (2011) show that mutual funds increase their foreign investment in countries with mandatory IFRS adoption, which they argue is due to improved cross country earnings comparability (DeFond et al., 2011).

Lang et al. (2010) examine changes in cross-country financial statement comparability around mandatory IFRS adoption and document that IFRS adoption increases comparability, measured as cross-country earnings co-movement. Other recent papers have examined whether comparability affects the decisions of participants in the capital market (Lang et al., 2010).

Turning to the auditing literature, a large body of research has examined the association of auditor characteristics with clients' audited earnings. The seminal studies linking auditors and earnings attributes are Becker et al. (1998) and Francis et al. (1999), who document that Big 4 clients have smaller abnormal accruals than non-Big 4 clients (J Francis, 2011). This stream of research has also examined other earnings attributes such as benchmark beating (Burgstahler & Dichev, 1997; Frankel et al., 2002), accruals quality (Dechow & Dichev, 2002; Doyle, Ge, & McVay, 2007), and timely loss recognition (Basu, 1997; Krishnan, 2005).

Becker et al. (1998) document that the clients of Big 4 auditors have smaller abnormal or unexpected accruals than do the clients of non-Big 4 auditors (Becker, DeFond, Jiambalvo, & Subramanyam, 1998).



Mohseni (2014) in his dissertation argued that clients of other audit firms as members of certified public accountants society in the same industry and year have more similarity in accruals and earnings structure than clients of an audit organization. Also clients of other audit firms in the same industry and year are more similar in accruals and earnings structure than their non-clients (Mohseni, 2014).

### **Financial Reporting Environment in Iran**

Accounting and auditing standards in Iran are developed in the framework of international standards of accounting and auditing and according to internal needs and conditions governing the economic environment. It is important to note that international financial reporting standards are based on principles and in their formulation, technical guidelines helping implementing the standards have not been considered enough. Accounting and auditing standards in Iran are mostly based on principles. Principle-based accounting standards may state a goal or objective while little technical guidance or structure for complying with the standard is provided. When standards are created based on principles, considerable judgment is required in interpreting and applying the standards.

So, audit firms try to create a unique approach to applying audit tests based on accepted auditing standards, along with their own rules for the interpretation and application of generally accepted accounting principles. This is exactly what is called audit style. Regarded a result in the Iranian accounting environment, the auditors have more important roles in achieving comparable financial statements than those of the countries in which accounting and auditing standards are based on rules. Therefore, the audit firms in Iran should design audit programs and test methods, according to which the collecting process of audit evidence be put in the right path. In addition, the audit firms need to have internal administrative structures to assure quality and compliance with their audit policies. Due to the cost of creating such structures for audit firms in Iran- mostly being small or medium in size, as well as being newly founded- there are certain shortcomings in both cases.

### **Materials and Methods**

In this paper, a multiple regression model is used to study the effects of audit style on financial statements comparability. Also Data preparation and testing hypotheses is performed using STATA statistical analysis software.

#### ***Hypothesis Development***

As research background indicates, two companies exposed to the same audit style, in terms of earnings and accruals structure are more similar. In other words, the client's financial statements of an audit firm have more comparability with each other than its non-audit clients. These similarities in earnings and accruals structure are results of the audit style. So if the level of financial statements comparability between Iranian companies be equal with level of comparable between U.S. companies, we can conclude that audit style is the same in Iran and the USA. On the one hand, the presence of large audit firms (such as Big 4) has more capacity to bear the cost and invest in audit programs and rules for interpretation and application of generally accepted accounting principles through established technical instructions; on the other hand, with regard to audit history in the USA and the opportunity that audit firms had to achieve a unique style, we expect that financial statements of U.S. companies be more comparable to Iranian companies. With regard to theoretical foundations expressed and also research purpose and question, the research hypothesis is as follows:

*The style of U.S. audit firms than the style of Iranian audit firms will lead to more comparability of financial statements between its clients.*

#### **Sample Selection and Data**

The population of this study consists of all accepted companies in Tehran Stock Exchange during the years 2002-2013. The Financial sector (comprised of banks, insurance companies and financial services companies) is excluded for two reasons:

- (1) Entities in this sector have different operating characteristics, and as a result, possess risk and complexity properties that are unique in nature and different from those of other sectors.
- (2) The unique characteristics of those entities make it impossible to compute the control variables or makes computing the variable of no meaning.

Firms which do not comply with the sample criteria are deducted from the sample because of the potential noise and contaminating effect they might pose on the findings.

The following are the sample criteria and requirements:

The firm's shares should be listed for trading on the TSE during the years (2002-2013).

The firm's financial statements must be available for the years (2002-2013), to provide for the financial data needed to calculate the study variables.

The above-mentioned criteria of the population and sample should be considered as a limitation of the study, that is, as a result of these criteria a limited number of firms will be relevant for the analysis.

Based on the above stated contents, the study sample consists of 63 companies selected out of seven industries such as automotive industry and components manufacturing, various food and beverage products, chemical and pharmaceutical products, textiles, machinery and equipment, basic metals and other non-metallic mineral products. Since in the present study the testing is based on firm-pairs, the firm-pairs are determined through a major category in each industry based on all possible binary combinations. For example, if there are three firms A, B, and C, then the firm-pairs would be A-B, B-C, and A-C.

Accordingly, in the present study, 4344 firm-pairs determined are as the original sample. According to the research hypotheses, other sub-categories will be used within the main category.

#### **Hypothesis Test Method**

For calculating of client's financial statements comparability two indexes are used like the ones in the previous research. These two variables are the absolute value of the difference between total accruals and the absolute value of the difference between discretionary accruals of given companies pairs. To test research hypothesis, the mean of these two variables in Iran and USA are compared. The mean differences in total accruals (discretionary accruals) between U.S. firm-pairs have been extracted from Francis et al. (2013).

We measure differences in total accruals for a given pair of firms in each year and industry as follows :

$$Diff\_Total\_Accruals_{ijt} = abs(Total\_Accruals_{it} - Total\_Accruals_{jt}) \quad (1)$$

Diff\_Total\_Accruals<sub>ijt</sub> : is the absolute value of the difference between total accruals for firm-pairs in the same industry classification in year *t*. We calculate this comparability metric for each firm *i* and firm *j* pairwise combination, for *J* firms in the same industry and fiscal year. Total accruals are calculated by working capital method adjusted for cash flows from extraordinary items scaled by beginning of year total assets as follows:

$$TA = \Delta CA - \Delta Cash - \Delta CL + \Delta STDEBT - Dep(Amo) \quad (2)$$

Where:  $\Delta CA$  is the change in current assets,  $\Delta Cash$  is the change in cash and cash equivalents,  $\Delta CL$  is the change in current liabilities,  $\Delta STDEBT$  is the change in short-term debt, and  $Dep(Amo)$  is the

depreciation and amortization expense. We use the same approach to calculate differences in abnormal accruals, which we label  $Diff\_Abn\_Accruals_{ijt}$  as follows:

$$Diff\_Abn\_Accruals_{ijt} = abs(Abn\_Accruals_{it} - Abn\_Accruals_{jt}) \quad (3)$$

Where  $Abn\_Accruals_{it}$  are the abnormal accruals for firm  $i$  in year  $t$  and  $Abn\_Accruals_{jt}$  the abnormal accruals for firm  $j$  in year  $t$ . Abnormal accruals are calculated using the Jones (1991) model of discretionary accruals, with control for contemporaneous performance as follows (S. Kothari, Leone, & Wasley, 2005):

$$\frac{TA}{Assets_{t-1}} = \alpha + \beta_1 \frac{1}{Assets_{t-1}} + \beta_2 \frac{(\Delta Sales_t - \Delta Rec_t)}{Assets_{t-1}} + \beta_3 \frac{PPE_t}{Assets_{t-1}} + \beta_4 ROA + e_t \quad (4)$$

In this model,  $TA$  is total accruals,  $\Delta Sales$  is change in sales revenue,  $\Delta AR$  is the change in accounts receivables,  $Assets_{t-1}$  is the beginning of year total assets,  $ROA$  is return on assets,  $PPE$  is property and equipment, and the subscript  $t$  denote year. The abnormal accruals represent the difference between total accruals and the estimated (fitted) normal accruals. To test the research hypothesis is used from *Independent-Samples T Test*. The statistical hypothesis is as follows:

$$\begin{cases} H_0: \mu_1 \leq \mu_2 \\ H_1: \mu_1 > \mu_2 \end{cases}$$

The opposite hypothesis states that the financial statements comparability of the audit firms' clients in USA is larger than audit firms' clients in Iran. To test this hypothesis, with regard to large samples in both populations, we use standard normal distribution and t-statistic. This statistic is calculated as follows:

$$t = \frac{(\bar{X}_1 - \bar{X}_2) - (\mu_1 - \mu_2)}{S_p \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}$$

The calculated statistics for each variable is compared with critical value of Z distribution table, in assurance level 99 percent (2.232).

## Results and Discussion

Table 1 provides descriptive statistics including the min, max, mean and standard deviation for the research variables. For the accrual-difference metrics, the mean difference in total accruals (abnormal accruals) between firm-pairs is 14.9 (14.2) percent of total assets. The larger accrual differences imply lower earnings comparability.

**Table 1 Descriptive Statistics**

Variables	Mean	Median	STD	Min	Q1	Q3	Max
Abn_Accr_Diff	0.142	0.102	0.258	0.000	0.000	1.031	8.936
TA_Diff	0.149	0.103	0.267	0.000	0.000	1.070	9.022
Abn - Accruals	0.000	0.005	0.343	-8.287	-0.527	0.504	0.755
Total - Accruals	-120559	-5905	936832	-12829164	-6563883	1574047	4813812
Assets	2290135	315832	9565255	30603	34242	80300000	101708893
Δsales	195439	32972	2203878	-36852365	-3673852	11700000	19305885
ΔRec	69069	5495	707004	-5045787	-1521600	3431468	14043036
PPE	409557	80234	1665287	790	4489	14700000	18751448
ROA	0.152	0.117	0.140	-0.220	-0.129	0.653	0.734



Table 2 reports the correlation between the accruals-difference metrics and shows a statistically positive association as would be predicted.

**Table 2 Correlation Coefficients Between Comparability Metrics**

		Pearson	Spearman
I.	TA_Diff	1	0.751**
			(0,000)
II.	Abn_Accr_Diff	0.962**	1
		(0,000)	
** denote significance at the 1% level			

As shown in Table 2, the correlation coefficient between these two variables is significant at confidence of 99 percent. Table 3 provides the mean and standard difference in total accruals (discretionary accruals) between firm-pairs audited by audit firms in Iran and USA.

**Table 3 Mean and Standard Deviation Difference of Comparability Metrics**

Companies	Variables	Mean	STD
IRAN	TA_Diff	0.149	0.267
	Abn_Accr_Diff	0.142	0.258
USA*	TA_Diff	0.113	0.113
	Abn_Accr_Diff	0.106	0.101
*Based on Francis et al. (2013)			

As shown in Table 3, the mean difference in total accruals and discretionary accruals between firm-pairs audited by audit firms in USA is 0.113 and 0.106, respectively. So each two accrual-difference metrics, for firm-pairs audited by audit firms in USA are less 0.036 than firm-pairs audited by audit firms in Iran. This is consistent with greater similarity in the accruals structure for firm-pairs audited by the U.S. audit firms.

Table 4 reports the test of research hypothesis which predicts greater earnings comparability for firm-pairs audited by the U.S. audit firms than firm-pairs audited by Iranian audit firms.

**Table 4 Independent-Samples T Test Results for the Accrual-Difference Metrics**

Variables	Mean- Diff.	T-Stat.	P-value**	Result
TA_Diff	0.03635	20.895	0.000**	Confirm
Abn_Accr_Diff	0.03627	23.359	0.000**	Confirm
** denote significance at the 1% level				

As Table 4 shows, the differences are statistically significant at  $p < .01$  for both differences in total accruals and differences in discretionary accruals. So, one can conclude that the style of U.S. audit firms leads to more comparability of financial statements between its clients than the style of Iranian audit firms. This is the evidence in support of research hypothesis.

The findings show that approaches of audit firms in Iran for applying audit tests according to auditing standards and internal work rules for interpretation and application of generally accepted accounting principles have less uniformity than audit firms in USA. In other words, style differences

among audit firms in Iran have led to using different approaches in applying audit tests and different judgments in the interpretation and employing accounting standards. Thus, the financial statements comparability of the audit clients in Iran has been lower than those of the audit clients in USA.

### Conclusions

The previous studies have demonstrated that companies audited by the same audit firm, and therefore subject to the same audit style, are more likely to have comparable financial statements than companies audited by different audit firms and subject to different audit styles. Therefore, comparability of financial statements can be considered as an outcome of the audit style. In the present research, the styles of audit firms in Iran and the USA have been studied through comparing financial statements comparability within their clients in two countries.

Our results provide support for Kothari et al. (2010) who conjecture that when standards are principles-based, economic agents such as auditors will develop their own in-house rules which give rise to comparability in the production of financial statements. Our study documents that the role of an economic agent, the auditor, is also important in facilitating the production of accounting comparability. Our tests show that the style of audit firms in USA led to more similar in total accruals and discretionary accruals between their clients than the style of audit firms in Iran. This is the evidence in support of research hypothesis.

To improve the comparability of financial statements as standard-setting purpose in accounting, the audit firms in Iran is need to have their own unique set of in-house rules with respect to the interpretation and implementation of GAAS (auditing standards) and the interpretation and enforcement of GAAP (accounting standards). In addition, the audit firms must enhance internal administrative structures to assure quality and compliance with their audit policies.

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