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The Influence of Earnings Quality for Restatements and Auditor's Qualified Opinion

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ABSTRACT

The objective of the present study was to raise the cases of restatements and to evaluate whether these events were associated with the low earnings quality and with the provision of advice with a qualified opinion by audit firms. The results obtained with the analysis indicate that the low earnings quality increases the chances of republishing the financial statements. Additionally, the results indicate that there is no evidence that lower earnings quality increases the chances of issuing a qualified audit report or disapproval of the financial statements by the independent auditors. These results point to a divergence regarding the understanding of earnings quality by the auditors and by the regulatory agency.

Keywords: Disclosure, Financial Statements, Earnings Quality, Republication, Caveat

Introduction

The literature presents much research that evidence the influence earnings quality in the financial statements, indicating interference with the objectives and conditions that give rise to management (Schipper, 1989), in accounting management decisions directed to the impact on bonuses received by executives (Healy & Wahlen, 1999; Murcia, 2007), the incentives that lead executives to earnings management (Matsumoto, 2009), in future cash flows (Dechow, Ge, & Schrand, 2010) and the deliberate decrease in results (Healy, 1999; Martinez, 2001). Davidson and Neu (1993) started with the hypothesis that the accounting results are managed in order to reduce errors concerning the projections previously disclosed by the administrators. However, this management can influence earnings quality, especially when it presents distortions. Dechow, Ge, and Scharand (2010) mention that the disclosed result, be it loss or profit, predicts the future cash flow better than that of the period itself, therefore, if it presents a distortion between the calculated value and the economic reality of the organizations, it could damage investors' trust.

Marques, Amaral, Souza, Santos, and Belo (2017), when analyzing 344 companies listed on the BM & FBOVESPA from 1998 to 2014, they observed that the size, the growth

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of assets, whether it is audited by a Big Four and the use of IFRS, had a positive and statistically significant effect on the likelihood of republishing the financial statements.

In this context, the present study has as objective: assess whether lower earnings quality increases the likelihood of republishing the financial statements and whether the lower quality of these earnings influences the impact of the qualified opinion issued by the audit firms.

For this purpose, a perspective based on the Brazilian context was used, considering that in Brazil, according to Martinez (2001), there is the possibility of the diversity of opinions on the same topic, low levels of penalty are applied, a fact that favors discretion on the part of managers and allows different margins of interpretation between audit firms. In this regard, as the author reports, analyzing earnings quality in emerging countries that are susceptible to institutional, regulatory, punishment, and monitoring problems is a great research opportunity, particularly because such an environment has specific characteristics that expand the possibilities of moral hazard and management.

Bearing in mind that there is evidence that the characteristic of low-quality profits may be associated with management practices that are not consistent with the legislation in force, these have a positive and statistically significant effect on the likelihood of republishing the statements and, in this line, the present study works with the hypothesis that lower earnings quality increase the probability of republishing the financial statements and, additionally, seeks to identify whether the lower quality of these earnings influences the issuance of the qualified opinion.

In Brazil, the first academic research on the subject was presented only from 2001, replicating well-designed and published studies in the international literature, in which evidence of the application of earnings management is presented (Cardoso, 2005; Martinez, 2001). In order to verify whether lower earnings quality increases the likelihood of republishing the statements, the Modified Jones model (1995) is used in this paper, so that discretionary accruals can be known, which are defined from the use of regression residues from total accruals so that it is possible to identify the effects on the economic situation of companies from the assessment of the earnings quality.

The sample of this research comprises the companies listed on the BM & FBOVESPA in the period from 2001 to 2015, through accounting data of those for which the Securities and Exchange Commission determined the republishing of financial statements.

The present study presents a practical contribution to the existing literature, considering that from the results obtained the objective is to demonstrate to organizations and the academic universe the description of the reasons why the CVM determines the Republication of the statements, and if these are related to the quality of the reported earnings, or if the motivation is related to technical specifications related to the correct disclosure of operations in the explanatory notes, among other aspects that are also relevant, but which have no direct relationship with the earnings quality.

This study differs from the others since it focuses on evaluating and evidencing whether lower earnings quality influences the determination of the Republication of the statements and the verification of the existence of correlation with the type of opinion issued by the independent auditing companies.

Theoretical framework

Determination of restatements

According to Pertuzatti (2015), the work carried out by the CVM is of paramount importance, given that without an inspection, there would be no control. Consequently, companies would not follow the rules. Inevitably, it is only through the application of severe punishments that it is possible to ensure that companies will fear the presence of fraud and error in their statements and will carry out their activities so that the current legislation is complied with.

Amaral (2004) reports that there is a difference between republishing and redoing the statements, given that the latter occurs, in most cases, through the issuance of a statement by the CVM and is linked to the Republication of the financial statements. It includes accounting records that have ceased to be made, the changes of which interfere with the company's equity situation. In contrast, the Republication is related to distorted information, difficult to understand, or even incomplete.

Earnings management

Dechow and Skinner (2000) guide the reach of the concepts of earnings management and fraudulent accounting and report that while in the accounting earning management, the manipulation of information is related to accepted accounting standards and policies, the fraudulent activity is a manipulation that violates the rules and principles and has the purpose of deceiving, configured as illegal and therefore considered an unacceptable practice.

To better reflect an organization's performance, accruals are used to decrease volatility and smooth cash flows (Dechow, Ge, & Schrand, 2010). According to Healy and Wahlen (1999), the act of managing earnings is demonstrated when management makes use of judgment in the production of financial reports and in the strategy of transactions to change them and draw the attention of stakeholders on the company's economic performance and/or to direct the results of contracts that are related to the disclosure of the statements.

Quality of companies' financial statements in Brazil

Colauto and Beuren (2006) concluded in their studies that the accounting earnings bring interpretive content that stores relevant information for the most varied users of accounting information. Lopes (2001) analyzed the informational content of accounting data for asset pricing in Brazil. They used the opportunity and evidence of asymmetric recognition of losses as an attribute for the accounting data to incorporate the information contained in its prices. Therefore, according to the author, the informational content of stock prices incorporates more negative news than those found in accounting, and economic losses are no longer recognized at the appropriate time. They do not positively relate earnings to the results obtained in the indications of negative performance.

Costa et al. (2006), when using the same model, concluded that it is observed that the main focus of accounting information is not the capital market, this does not mean that the accounting information is not relevant, considering that in the accounting environment there are other users and other roles. After this study, it was possible to verify that negative results are recognized on time, thus demonstrating the behavior of conservative origin in the presentation of the numbers in the statements.

The role of auditing in reducing information asymmetry

According to Rocha (2015), when addressing auditors' liability for errors and fraud, it is necessary to consider some situations, among which it can be highlighted that if the work of the auditing company was technically perfect. Following the rules, the responsibility is null and void if the work has been defective, with technical deficiencies, there are penalties of a professional nature for not following the rules, that is, under these conditions, the audit professional does not disburse resources in proportion to the loss, but suffers penalties by the professional because he/she has not adequately fulfilled his/her function. According to Gul, Fung, and Jaggi (2009), a measure widely used as a quality reference in audit work is that which identifies the practice of earnings management, in a more specific way, through discretionary accruals.

Thus, according to the publication of the Report to the Nations on Occupational Fraud and Abuse (2014), conducting studies to broaden understanding and knowledge about fraud and its impacts, the auditor's judgment assigns satisfactory assurance for the accuracy of the data presented in the financial statements. In 2014, the referred entity analyzed 1,483 cases of fraud and found that companies lose about 5% of revenues due to fraud and this is to say that figures around USD 3.7 trillion annually are diverted worldwide with this practice and, still according to this study, it was evidenced that among the main modalities we find: corruption, misappropriation, and fraudulent financial statements.

Audit rotation

According to a study by Myers, Myers, and Omer (2003), the long-term relationship of auditing companies can result in the usual tendency to agree with the judgments of the companies being audited, seeking to please and support them, without trying to interfere with management's ideas regarding the presentation of financial results, even in disagreement with these. The fact that according to Chen, Lin, and Lin (2010), exerts as a consequence, the auditing companies are committed to the accounting choices of their clients and, according to Ball, Tyler, and Wells (2015), such proximity can cause lapses in the detection of relevant and material distortions.

According to Johson, Khurana, and Reynolds (2012), a longer stay in the audited company can reduce the auditor's concerns about litigious risks on the part of their client and reduce efforts to perform the audit. The limitation of the relationship time, according to Ruiz, Gomez, and Carrera (2009), may interfere with management's ability to influence the audited company's decisions, to avoid issuing a biased audit report. Such limitation, according to Jackcon, Moldrich, and Roebuck (2008), can also prevent business ruins and contribute to credibility with regulatory bodies.

Earnings quality

According to Lo (2008), earnings are of low quality when there are indications that the earnings have been managed, whether intentionally or not, especially when there is evidence that data has been over manipulated. Among other aspects, the mentioned author also states that low earnings quality can be related, for example, with the attitude of accounting professionals when they follow fragile accounting standards that do not improve the information quality of financial statements. According to Morais and Curto (2008), due to the lack of clarity in the definition of what is, in fact, information of an accounting nature with quality, many studies use measures that are considered proxies of quality accounting information and, in this same line, The present study aims to work on its

research hypotheses, in an attempt to evaluate the reflexes of earnings quality disclosed by companies.

Restatements

According to Murcia (2007), although the auditing companies exercise their roles with professionalism and the CVM is very active in its supervisory role, there are still companies that omit and/or bias their information so that the analysis on the part of the users is hampered by imprecision and/or lack of data for making strategic and investment decisions. The impacts arising from the redoing of the statements are considered indeterminate, considering that they can be related to the reduction of the company's value, as reported by Anderson and Yohn (2002), with the reduction in the perspective of future earnings, according to Hribar and Jenkins (2004), or also according to Bischoff, Finley, and LeBlanc (2008), since they can contribute to less uncertainty about the company's future.

In 2006, the United States Government Accountability Office (GAO) reported that between 2002 and 2005, there was an increase in the number of republishes to the order of 67% of North American companies, one of the most important reasons being the inadequate recognition of revenues, which represents 20% of all republishes.

In 2007, Ahmed and Goodwin (2007) analyzed the 500 largest companies in Australia in order to identify how many of them republished and what was reflected in their profits; in which from this study, they found 195 reposts, in which there was a 49% reduction in earnings, as well as three reasons for the republishing of the earnings, whether they are the change in accounting policies (49%), revision of estimates (40%) and unidentified errors (11%). Thus, it is reiterated that in a scenario that seeks credibility in the dissemination of information and that the responsible bodies are expected to be efficient in regulating the capital market, in order for the country to develop better economically, the present work, due to the understanding of the relevance of the theme, aims to test its first research hypothesis:

H1: Lower earnings quality increases the chances of republishing the financial statements.

Auditor's qualified opinion

According to Dantas and De Medeiros (2015), if there is no literary consensus on the measure used as a proxy for audit quality, it is possible to state that it can be associated with the quality of the statements. Therefore, this is because eventual and material distortions contained in the information prepared by management would possibly be corrected beforehand by the auditors' actions.

As stated by Gul, Fung, and Jaggi (2009), the act of managing results, through discretionary accruals, is part of a set of practices mentioned in the literature on audit quality, along with the size and expertise of the auditor. Braunbeck (2010) has a similar understanding, who reports in his studies that the quality of audits is analyzed based on the quality of accounting information, considering this is intuitive reasoning that the better the quality of the information, the better the quality of the audit work.

Given this context and thinking about the reflections of the diversity of opinions on the same theme, when the statements show lower earnings quality, the present study aims to test its second research hypothesis:

H2: Earnings that are of lower quality increase the chances of an independent auditor with an opinion with caveat or disapproval of the financial statements.

Research methodology

Data collection

The database of the research sample is composed of publicly traded companies listed on the BOVESPA, who had to redo their statements from 2001 to 2015, as indicated on the CVM portal, whose support tool for extracting accounting information was the Economática software.

Following criteria defined by Dantas (2011), we conducted surveys based on the cases of determination of the Republication of financial statements by the CVM, and therefore, such research classified as descriptive where it involves the goals and the pursuit of process characteristics, from the examination of the analyzes, tabulation and data interpretation and, due to the analytical treatment related to technical procedures, our research is classified as documental, given the search for the organization of data on the processes of republication determinations and reservations of financial statements.

The survey covers the processes for determining the Republication of financial statements by the CVM in the period mentioned, identified through the letters issued by it, and which are available on its portal. The database was composed of the year 2001, since only from this year, through CVM Deliberation no. 388/2001 is that the disclosure of the contents of such letters was allowed.

The data source is the CVM portal, which indicates on an annual basis, the companies for which the republication determinations of the financial statements were issued. The referred data source has a total of 3,327 observations, comparing companies that restated and companies that did not restate their financial statements, and of companies that have qualified opinion in comparison to those that had no qualified opinion in the analysis period. After collecting the information corresponding to the number of companies, the next step is to identify the types of determinations issued, as well as the audit opinion issued for each of the financial statements. The earnings management proxy uses discretionary accruals, which are captured using the Modified Jones model (1995), through which the regression approach was initiated in order to control non-discretionary accruals and, from then on, if it could indirectly estimate the value of accruals considered discretionary.

Thus, once multiple regression has been implemented and performed, the estimated coefficients are used to calculate non-discretionary accruals and, then, based on the variation concerning total accruals, discretionary accruals are estimated. Therefore, the higher the result of discretionary accruals, the greater the perception that earnings are managed. When positive, they are directly related to the increase in earnings for the improvement of the result. In contrast, the negative ones are related to the intention of decreasing earnings or reducing the result (Goulart, 2007). As reported by Dechow, Sloan, and Sweeney (1995), this model assumes that regular accounting adjustments are made, taking into account the size of the assets that generate them, in the same way that they are associated with increased revenue. The same authors also report that possible deviations related to these behaviors can be captured through the error of the estimate, and this will result in discretionary appropriations.

Empirical model

In order to test the research hypotheses and demonstrate objectively the reasons pointed out by the CVM for republishing the statements, dummy binary variables were used in order to evaluate the models presented immediately after. Before presenting these models, it is important to mention that, in the first model, through the independent variable Discretionary Accruals, that are identified by the regression residues and that reflect earnings quality, we sought to identify whether they interfere in the dependent variable. Similarly, in the independent variable of the second model, an attempt was made to assess the correlation between these and the qualified opinion issued to the financial statements by the audit firms.

$$P[\text{Restatements}_{i,t} = 1]$$

$$= \beta_0 + \beta_1 |\text{Abnormal Accruals}| + \sum_{k=1}^n \beta_k \text{Controls}_{i,t} + \varepsilon_{i,t}$$

- The Republishing variable is a dependent variable that indicates whether there was republication or not and will be equal to 1 if there was Republication, and 0 otherwise;
- Abnormal Accruals or also called Discretionary Accruals, they are proxies for earnings management, whose measurement was estimated by the Modified Jones model and presupposes the manipulation of accounting information, by the managers, through the increase or decrease of accruals, aiming to influence earnings to reach certain interests. In Model 1, they represent the coefficient that relates the number of abnormal accruals to the likelihood that a company will republish its statements.

β_1 allows capturing the effect of discretionary accruals on the likelihood of republishing occurring in the analysis period, allowing to answer the H1 hypothesis through estimation via logistic regression.

$$P[\text{Qualified}_{i,t} = 1] = \beta_0 + \beta_1 |\text{Abnormal Accruals}| + \sum_{k=1}^n \beta_k \text{Controls}_{i,t} + \varepsilon_{i,t}$$

- The Caveat variable in H2 is a dependent variable, being considered a caveat dummy, which indicates whether there was a qualification or not and takes value 1 if the opinion has a caveat or is rejected, and 0 otherwise.
- Abnormal Accruals or also called Discretionary Accruals, are proxies for earnings management, whose measurement was estimated by the Modified Jones model and presupposes the manipulation of accounting information, by the managers, through the increase or decrease of accruals, aiming to influence earnings to reach certain interests. In Model 2, they represent the coefficient that relates the number of abnormal accruals to the likelihood that a company will include a caveat in its statements.

β_1 indicates the effect of discretionary accruals on the probability of qualification and/or disapproval during the period under analysis, allowing to answer hypothesis H2 through estimation via logistic regression.

Control variables

As control variables, we chose to use the level of the audit role, profitability, liquidity, the size of the audit firm, and financial leverage. Next, we present Table 1 with a summary of the control variables used.

Table 1. Definitions of control variables

<i>Variables*</i>		<i>Definitions</i>
<i>Audit role</i>	REPUBLICATION	Indicator that takes value 1 when the firm republished the financial statement; 0, otherwise
	CAVEAT	Indicator that assumes value 1 when the firm received a caveat from the independent audit; 0, otherwise
	TIME	Time the company is being audited by the same audit firm, in years
	BIG FOUR	Indicator that takes value 1 when the firm was audited by a Big Four audit firm; 0, otherwise
<i>Profitability</i>	ROA	Return on Assets: Net Income divided by Total Assets
<i>Liquidity</i>	LIQUIDITY	General Liquidity: Current Assets plus Long-Term Assets, both divided by the sum of current liabilities and long-term liabilities
<i>Firm size</i>	SIZE	Natural logarithm of total assets
<i>Leverage</i>	ALAVANCAGEM	Financial Leverage: Return on Equity divided by Return on Total Assets
<i>Accruals</i>	ACCRUALS	Discretionary accruals estimated according to the Modified Jones Model (1995)
<i>Acquisitions</i>	M&A	Indicator that takes value 1 when the firm participated in the merger or acquisition process; 0, otherwise

*Variables collected from the Economatica database

Source: Author's own elaboration.

The variables used are considered continuous quantitative and were extracted from the Economatica database to identify the characteristics of the companies that serve to explain the manipulations identified in the financial statements that were requested for Republication and qualified opinion, and to differentiate such companies from those that were not the subject of such request and/or procedure. These variables were selected based on previous studies; the theoretical definition and the relationship with management are presented in the subsequent items 3.3.1 to 3.3.10.

Republication

According to Murcia (2007), despite the laws and regulations within the legal system, on how the financial statements should be presented, some companies omit or bias information about their economic and financial situation. Since, in the specific cases of publicly-held companies, the CVM has the power to require the republishing of the financial statements.

Caveat

According to Calil (2017), the auditors' opinion is issued with a caveat, when it is concluded after having obtained appropriate and sufficient audit evidence, that there are distortions in the financial statements, individually or together, they are relevant, but not generalized. This statement is in line with the Auditing Standards, more specifically with NPA 01– Audit Procedure Standard 01, which indicates that the opinion must be issued with a caveat when it is concluded that the effect of any disagreement or restriction on the extension of work is not of such magnitude that it requires an adverse opinion or abstention from opinion. According to Damascena, Paulo, and Cavalcante (2011), the caveat is inserted when the auditor concludes that the effect of any disagreement or restriction on the extent of work may affect the financial statements.

Time

As stated by Myers, Myers, and Omer (2003), there is an association of larger mandates from audit firms with the disclosure of low-quality earnings. According to Schipper and

Vincent (2003), it is important to assess the audit firm's length of stay because, in this way, it is possible to measure its effect on the quality of companies' earnings.

Big Four

According to Silva, Pletsch, Vargas, Fazolin, and Klann (2016), the independent auditing firms, leaders in Brazil, and the world market are called Big Four. They are Deloitte ToucheDomatsu, Ernst & Young, KPMG, and Price Waterhouse Coopers, these being awarded the title of best quality for audit services.

According to Martinez and Reis (2011), The intensity of earnings management of companies audited by Big Four and, as per Gioielli et al. (2013), reputation is considered a relevant aspect when choosing the audit firm, considering that this indicates that there is a commitment not to manage earnings, with the purpose not only of avoiding accounting fraud but also of not adopting aggressive attitudes that enhance results management.

Return on assets (ROA)

According to Dechow et al. (2007), to maintain a high capitalization concerning earnings or book value, it is estimated that managers of companies whose shares have high prices concerning their foundations are more likely to manage earnings. Companies with lower levels of profitability are more likely to practice the management, with the measure that demonstrates the return on equity being the return on asset (ROA), which is represented by Net Income divided by Assets at the beginning of the period.

Liquidity

We use the general liquidity measure, represented by Current Assets plus Long-Term Assets, both divided by the sum of current liabilities and long-term liabilities.

According to Dechow, Ge, and Scharand (2010), the likelihood of management is greater for companies with lower levels of liquidity, and, for this reason, it is understood that management is practiced to conceal the deterioration in financial performance.

Size

According to Watts and Zimmerman (1986), larger companies are more likely to practice earnings management to reduce earnings than smaller companies. We use the natural logarithm of total assets to define the size of the company, and this criterion is in line with Gonzaga, Yoshinaga, and Junior (2014), that used such proxy, aiming to mitigate scale problems when evaluating the size of the companies.

Leverage

According to Baxter and Cotter (2009), financial leverage is defined as the company's ability to use fixed financial charges to increase the effects of changes in earnings before interest. The same author also points out that risk in its fundamental sense can be defined as the possibility of financial loss or, more formally, the variability of returns associated with a given asset. In this sense, the variable Financial Leverage was calculated through the Return on Equity divided by the Return on Total Assets.

Accruals

The adoption of discretionary accruals as a proxy for earnings management is quite frequent, and, according to Richardson, Tuna, and Wu (2002), companies that demonstrate higher levels of accruals are expected to be asked to republish their financial statements, for

being intentionally involved in manipulations. The model we used to estimate accruals was that by Jones Modificado (1995), aiming through this to try to control the effect of the alterations of the economic situation of the companies from regressions to control non-discretionary accruals and, indirectly, to determine the value of discretionary accruals.

M&A

For Ross, Jaffe, Jordan, and Westerfield (2011), Mergers and Acquisitions (M&A) is defined as the process of selling, dividing, and combining different companies. According to the same authors, the benefits resulting from this process are called synergy and can help the entities involved to grow quickly in their sector or location and to prosper in a new field of action. According to Thomas, Herrmann, and Inoue (2004), the possibilities for incentives can be implemented by using earnings management through intercompany transactions. The authors also mention that managers use the structure of operations between companies to manage performance, which may cause information asymmetry and reduction in the value of acquiring companies.

Results

In this chapter, we demonstrate and analyze the research results obtained from the application of the adopted methodology, as described in the previous chapter. First, the results of descriptive statistics will be presented, and then the means test and logistic regression, the latter being presented to demonstrate the effects of discretionary accruals on the probability of qualification and Republication.

Descriptive statistics

Table 2 presents means, standard deviations, quartiles, and the minimum and maximum variables. The sample contains 329 firms listed on the BM & FBOVESPA and 3,327 observations, captured between the years 2001 and 2015. It should be noted that companies with negative or zero net equity and/or total assets were excluded from the sample.

Table 2. Descriptive Statistics

This table presents means, standard deviations, quartiles, minimum and maximum of the variables. The sample contains 329 firms listed on the BM & FBOVESPA and 3,327 observations, captured between 2001 and 2015. Companies with negative or zero net equity and/or total assets were excluded from the sample.

	<i>Mean</i>	<i>Standard deviation</i>	<i>Min.</i>	<i>Max.</i>	<i>Q1</i>	<i>Q4</i>
<i>Republication</i>	0.01	0.08	0.00	1.00	0.00	0.00
<i>Caveat</i>	0.05	0.21	0.00	1.00	0.00	0.00
<i>Accruals</i>	-0.01	0.16	-0.58	0.33	-0.06	0.08
<i>Leverage</i>	2.18	16.32	-103.74	166.57	0.88	2.36
<i>Liquidity</i>	4.99	24.44	0.00	209.89	0.65	1.52
<i>ROA</i>	-0.02	0.51	-7.64	0.49	0.04	0.08
<i>Size</i>	13.89	2.48	2.30	19.26	12.74	15.37
<i>Big Four</i>	0.67	0.47	0.00	1.00	0.00	1.00
<i>Time</i>	1.85	1.70	0.00	9.00	0.00	3.00
<i>M&A</i>	0.02	0.14	0.00	1.00	0.00	0.00

Source: Author's own elaboration.

This table corresponds to the descriptive analysis of the explanatory variables, during the sample period, in which the mean, the standard deviation, the minimum and maximum, and the quartiles of the dependent variables Republication and Caveat and the control variables, Accruals, Leverage, Liquidity, ROA, Size, Big Four, Time and M&A. The variables were

winsorized to 2.5%, because in the sample there are very different companies and, for this reason, it was necessary to give adequate treatment to outliers, which in statistics are defined as points very distant from the other observations, being considered, therefore, as points outside the curve. Such treatment allows precious sample information not to be overlooked. In the analysis, it is possible to identify that, on average, 1% of the sample companies had to republish their statements, and approximately 5% had auditor's qualified opinion.

Means tests

The means test is intended to verify whether the null hypothesis of the equality of the mean of two groups can be rejected or not, taking into account that if the p-value is less than some level of significance (1%, 5%, or 10%), the hypothesis that the means are equal is rejected. In these cases, it can be deduced that the averages are different, with 99%, 95%, or 90% confidence, respectively. Table 3 shows the test of means. Based on the results presented in Panel A, it appears that the p-values of the variables Leverage, Liquidity, ROA, Size, and M & A are greater than 10%. In this case, the averages of these variables for Republication and non-republication are no different. With 99% confidence, there is evidence that these groups differ on mean concerning the variables Accruals, Big Four and Tempo (p-values < 1%).

Table 3. Means Tests

This table presents the averages tests considering two different groups: Panel A provides comparisons between companies that republished their statements in the period (22 observations) versus companies that did not republish (3,305 observations); Panel B provides comparisons between companies that received an audit exception in the period (154 observations) versus companies that did not receive an exception (3,173 observations). The "Difference" column represents the average of the group of non-republishings (non-reservations) minus the average of the group of republishings (reservations). The "Mean" column represents the average of the group of companies that republished (Panel A) or received a reservation (Panel B). The sample contains 329 firms listed on the BM & FBOVESPA and 3,327 observations, captured between the years 2001 and 2015.

Panel A: Comparison of Republication x Non-Republication

	Mean	Difference	p-value
Accruals	0.151	-0.045	0.073**
Leverage	-0.832	3.036	0.385
Liquidity	0.946	4.067	0.437
ROA	0.041	-0.059	0.586
Size	14.358	-0.467	0.379
Big Four	0.409	0.262	0.009***
Time	2.5	-0.653	0.073**
M&A	0	0.019	0.513

Panel B: Comparison of Republication x Non-Republication

	Mean	Difference	p-value
Accruals	0.085	0.023	0.019
Leverage	2.535	-0.368	0.785
Liquidity	2.888	2.2	0.276
ROA	-0.036	0.019	0.644
Size	13.65	0.256	0.212
Big Four	0.526	0.15	0.000***
Time	1.227	0.654	0.000***
M&A	0.013	0.006	0.579

Source: Author's own elaboration.

Such results suggest that, for the Big Four and Time control variables, the difference test of the means presented a significant coefficient at a 99% and 90% confidence level, respectively, which indicates the existence of statistically significant differences for these two indicators between companies that had Republication. The results presented are important insofar as they indicate, in terms of management of Accruals and informational content, that the groups of companies analyzed were no different in the period before the Republication. From the results presented in Panel B, it appears that the p-values of the variables Leverage, Liquidity, ROA, Size, and M&A are also greater than 10%, indicating that the averages of these variables for qualification and non-qualification are not different. With 99% confidence, there is evidence that these groups differ on mean concerning the variables Accruals, Big Four, and Tempo (p-values < 1%). These results suggest that for the Big Four and Time control variables and the different test of the means showed a significant coefficient at a 99% and 90% confidence level, respectively, which indicates the existence of statistically significant differences for these two indicators between the companies that had reservations in the opinions.

Results of logistic regressions

Table 4 shows the results of the two logistic regression models. Model 1 has a Republication as a dependent variable. Model 2 has a caveat as a dependent variable.

Table 4. Logistic Regression: Effect of Discretionary Accruals on the Probability of Reservation and Republication

This table presents the results for two logistic regression models. Model 1 has a Republication as a dependent variable. Model 2 has a caveat as a dependent variable. Model 1 excludes M&A control (mergers and acquisitions indicator) because there is no variability: that is, no company that republished statements participated in mergers and acquisitions during the sample period. P-value in parenthesis. Robust errors. *, ** and *** denote statistical significance at the level of 10%; 5% and 1%, respectively.

	(1) <i>Dependent Variable Republication</i>	(2) <i>Dependent Variable Caveat</i>
<i>Accruals</i>	5.36728*** (0.000)	-2.607362** (0.020)
<i>Leverage</i>	-0.0121839* (0.084)	0.0001341 (0.984)
<i>Liquidity</i>	-0.585341** (0.020)	-0.007448 (0.307)
<i>ROA</i>	0.8567493 (0.609)	-0.250803 (0.100)
<i>Size</i>	0.2045241* (0.058)	-0.0408566 (0.280)
<i>Big Four</i>	-1.660661*** (0.000)	-0.5564409*** (0.003)
<i>Time</i>	0.2064731** (0.043)	-0.2543472*** (0.000)
<i>M&A</i>	-	-0.3501899 (0.623)

Source: Author's own elaboration.

In model 1, related to Republication, the variable Accruals showed a positive and significant sign at the level of 1%, demonstrating that discretionary Accruals increase the

chances of Republication, given this that meets the first hypothesis of the study in which it is questioned whether earnings that have lower quality increase the chances of Republication. In model 2, related to the caveat, the variable Accruals showed a negative and significant sign at the level of 5%, demonstrating that the discretionary Accruals reduce the chances of qualification; this data goes against the second hypothesis of the study in which it is questioned whether profits that have lower quality increase the chances of issuing an opinion with a caveat or of disapproval of the financial statements by the auditors. The leverage variable in model 1 showed a negative and significant sign at the level of 10%, demonstrating that leverage decreases the likelihood of Republication and, in model 2, which deals with the qualification issue, the leverage variable did not present a statistically significant number, which did not allow conclusions about the effect on the qualification. In model 1, related to Republication, the variable Liquidity showed a negative and significant sign at the 5% level, demonstrating that Liquidity reduces the chances of Republication. In model 2, the Liquidity variable did not indicate a statistically significant number; therefore, it did not allow conclusions about the effect on the caveat.

The ROA variable did not show statistically significant numbers, either for model 1 or for model 2; thus, it did not allow conclusions about the effects on Republication and on qualified opinion.

In model 1, the Size variable showed a positive and significant sign at the level of 10%, demonstrating that the size of the company increases the chances of Republication. In model 2, this variable did not exhibit a statistically significant number, which did not allow conclusions about the effect on the caveat. The Big Four variable showed a negative and significant sign at the level of 1%, both in model 1 and in model 2, demonstrating that if the audit firm is a Big Four, the chances of Republication and qualification decrease with a probability of 99%. In model 1, the time variable showed a positive and significant sign at the 5% level, showing that the time that the same audit firm remains in the company increases the chances of Republication. In model 2, this variable presented the same level of 5% of significance, however, with a negative sign, which indicates that the time of permanence of the audit firm reduces the chances of issuing a qualified opinion. The M&A variable was excluded from model 1 because no company has republished its statements, and that has participated in mergers and acquisitions during the sample period. In model 2, the referred variable did not present statistically significant numbers, which did not allow conclusions about its effects.

Conclusion

The purpose of this study was to test the hypothesis that earnings of lower quality increase the chances of republishing the financial statements and, also, a second hypothesis that lower earnings quality increases the chances of issuing an opinion with caveat or disapproval of the statements. Based on this proposition, it was necessary to analyze the quality of accruals in order to assess whether they provide earnings with a better form of performance evaluation; because as stated by Dechow and Dichev (2010), the quality of accruals and earnings decreases as the magnitude of estimating accrual errors increases. The model we used to estimate discretionary accruals Jones Modified (1995), applied from the perspective of residual accruals, to capture earnings management and estimation errors. From the sample, regression models were estimated, through which it was possible to

analyze the interference of earnings quality in the Republication and the issuance of opinions with qualified opinion. The results presented demonstrate, with statistically significant coefficients, that discretionary accruals increase the chances of Republication, given this that meets the first hypothesis of the study in which it is questioned whether earnings that have lower quality increase the chances of republishing the financial statements. On the other hand, the second hypothesis has not been confirmed, as the variable Accruals for the model applied to the probability of qualification from the low earnings quality, presented relatively strong coefficients that reduce the chances of qualification in these conditions. Based on the results found, hypothesis H1 is not rejected: Lower earnings quality increases the chances of republishing the financial statements.

Hypothesis H2: Earnings that are of lower quality increase the chances of issuing an opinion with caveat or disapproval of the financial statements by the independent auditors; it was rejected because the results obtained demonstrated that discretionary accruals decrease the chances that audit firms will issue opinions with a qualified opinion, being indicated with relatively strong probabilities that there is a relationship with the Big Four and Time variables.

The present study was carried out in a scenario of analysis of earnings quality and with a focus on the occurrence of earnings management based on the identification of discretionary accruals. The results presented lead to adverse conclusions from that presented by Myers, Myers, and Omer (2003), who concluded that the link between the audit firm and the company does not lead to a reduction in earnings quality. Positively, the results are in line with what they concluded Kim, Lee, and Lee (2015) that evidenced in their research that the change of audit firm favors the presentation of lower values of discretionary accruals and better earnings quality. Such results also demonstrate that the audited companies present, in the first year, higher earnings quality and a lower index of discretionary accruals. In comparison to previous research, the present study brings results that are different from those previously presented by other authors, such as Azevedo and Costa (2012) and Martinez and Reis (2011), who concluded that there is no evidence of an association between earnings management and audit rotation, and Silva and Bezerra (2010), who concluded that the change of audit firm is not related to the decrease in earnings management.

The results of this study aim to present a contribution to the literature and debates on the topic, from discussions on earnings management, on the impact on earnings quality and its consequent implication in Republication and/or in the caveat, so that regulatory bodies, analysts, investors, and other stakeholders are increasingly ensuring the quality and transparency of the information disclosed.

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