AUDIT REPORT TONE AND AUDIT EXPECTATION GAP

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ABSTRACT

Purpose –This paper aims to assess the relationship between an audit report tone and the audit expectation gap.

Design/Methodology/Approach– The procedure of the study is descriptive-correlation based on information released from listed firms on the Tehran Stock Exchange during 2013-2019 using a sample of 128 firms (816 observations). The method used for hypothesis testing is linear regression using panel data.

Findings –The results testing show a negative and significant relationship between audit report tone and audit expectation gap.

Originality/value – Since the present study was carried out in an emergent financial market, like Iran, with a highly competitive audit market to figure out the relationship between audit report tone and audit expectation gap, it can provide helpful information in this field the readers.

Keywords: Audit Expectation Gap, Audit Report Tone, Stock Exchange

INTRODUCTION

Reporting tone refers to the difference between the number of optimistic words (positive words) and pessimistic words (negative words) Davis, et al., (2006). Thus, the tone is measured as the frequency of positive words minus negative words used in a report. Tan, et al., (2014), referring to Huang, et al., (2014), argued that the emotional effect of language is related to how positive and negative words are used. The linguistic nature of the tone of the messages conveyed in the company's annual reports tends to be accompanied by economic results (Henry 2008; Huang et al., 2014; Yekini et al., 2016). Optimistic language in disclosure tends to be positively associated with stock prices (Lang & Lundholm, 2000). It also affects the current and future performance of the company (Davies et al., 2015). Therefore, in the present study, we examine the effects of the audit report tone on the audit expectations gap because we expect the audit tone to have a positive and desirable effect on reducing the audit expectations gap. The auditing profession expects auditors to play an active role in preventing and detecting fraudulent reports (IIA, 2013c). Previous research has shown that senior management gains significant compensation, performance, and security for themselves and the business through the audit report (Christopheret et al., 2009; Roseet et al., 2013). As a result, auditors have been shown to play a critical role in value-added business and management (Ahlawat & Lowe, 2004). In other words, in general accounting, the high tone of the audit report is as important as the tone of the financial statements that the entity prepares because many stakeholders trust or are influenced by the work of the audit firms, as well as the work of the audit firms. The audit report is understandable and contains the most important points related to the business unit in a good tone (Kabuye, 2019). Thus, the tone has a significant impact on professions in the capital markets

around the world and the public interest responsibilities of the accounting profession. Recent UK FRC notes have highlighted the importance of culture in an auditing firm. The paper states that auditors should be aware of the public interest in the audit, prepare and review audit evidence with scepticism, and apply the judgment objectively and firmly. The environment in which the audit team operates can materially affect the mindset of the audit team and how it performs its responsibilities. This study emphasises the effect of the tone of the audit report on the audit expectations gap, which is the main factor in determining the quality of the audit because the ability to create an environment that achieves higher quality in every aspect of the audit process is evaluated, invested and rewarded and will be of special importance (Kabuye, 2019). On the other hand, it can be said that tone at the top management level is one of the main elements of a business risk management framework because adequate support for high tone is likely to provide a solid foundation for risk management tests (Wang & Fargher, 2017). Therefore, the tone in the financial statements and the audit report is critical because managers can use a high tone to manage risk at the financial statements level. At the level of the auditing profession, a good tone can build the trust of stakeholders who trust audit reports increase and improve their visibility in the company. Hence the tone can reduce the expectations gap of the auditing profession. The gap between audit expectations is one of the relatively long-standing areas in the audit literature. Previous research has shown a gap between what users of financial statements expect from the auditing profession and what auditors have defined as their role in the assurance process (Sidani, 2007). With the significant expansion of the Iranian capital market in recent years, many people have been active in this market, many of whom are non-professionals; Therefore, company managers publish a collection of quantitative and qualitative information to provide information about the future performance of the company. The present study also examines the tone of language (optimistic/pessimistic) in the audit report, considering another aspect of the qualitative information provided by managers and auditors commenting on it to understand the motivation better and influence the use of different financial reporting language annual reports. However, such researches are less seen with the literary form and composition of financial reporting in accounting and auditing (which requires good knowledge of accounting and auditing researchers about linguistic theories and literature). The subject sounds good. By examining the thematic literature, we found that it is difficult to find studies that have directly examined the effect of the tone of the audit report on the gap between audit expectations. Very little research has been done in the field of tone, for example, in terms of organisational culture, ethical communication, operational models, organisational structures, leadership and governance, risk management, tone at the management level, audit quality, and continuity reporting (Cheese, 2016; Dresp-Langley, 2009; Huang, 2004; Wang & Fargher, 2017). But research has not examined the effect of tone on the audit expectations gap. Therefore, in this regard, there is a research gap in thematic literature. The present study seeks to eliminate this gap and help thematic literature by providing valuable materials. The theoretical foundations and development of research hypotheses are stated in what follows. The following sections present methodology, data analysis, discussion, and conclusion.

Theoretical Foundations and Hypothesis Development

Accounting is considered the language of commerce in most popular books in accounting, such as the theories of accounting by Belquey and Hendrickson. The official bodies of the accounting profession (International Federation of Accountants), which publishes accounting terminology newsletters, have also confirmed the notion that accounting is a language. In recent decades, the development of capital markets and the increasing complexity of markets and financial and economic events have raised expectations of accounting and, in addition to numerical and financial information, have required non-numerical, non-financial, and descriptive information.

In explanatory accounting reports, there are always many choices made by the manager and the author, and there is a degree of discretion concerning the report's content and even its form. Elections may be optional or involuntary, and even this choice is seen in the tone and manner of expression and writing of managers, in the sense that their writing in financial statements and their tone of voice and tone in meetings (general meetings and other meetings with Investors and other users) changes users' perceptions when reporting. In general, the use of linguistic forms (optimistic/pessimistic tone) is used by managers in non-numerical, explanatory, and even verbal reports as a form of purposeful, intentional, and conscious perception to manipulate and deviate in perception (Wang & Fargher, 2017). The role of auditing in reducing distortions is fundamental to audit research and has profound practical implications. Auditing emphasises the cost-effectiveness of operations to save costs and reduce losses due to errors. Information provided by management may also be biased (Merkl-Davies et al., 2011). Davies, et al., (2014) showed that gender, age, level of education, and work experience influence the optimistic tone of financial disclosure. The auditing profession and stakeholders expect independent auditors to play an active role in ensuring effective corporate governance. This role includes risk management, reviewing and evaluating the adequacy and effectiveness of the internal control system, significant distortions, etc. (Institute of Internal Auditors [IIA], 2013a). The tone of the audit report by the auditor in charge of the audit report, the company environment, and the culture in which the financial reporting takes place are the most important factors contributing to the integrity of the financial reporting process (). Because stakeholders pay so much attention to auditors' behaviour, their judgments and decisions are influenced by the tone created at the level of the auditor responsible for the audit report (Committee of Sponsorship Organisations of the Treadway Commission [COSO], 1987). Every organisation needs a sense of direction. Its manager determines the direction of the organisation. As noted in the November 2004 issue of the CFO journal, setting the right tone requires a clear view of the core values under which the activity occurs. One of the most important reasons for the failure of business units is that they lack the basic string of tone that affects the perception of users of the organisation (IFAC, 2007). The tone is the ultimate responsibility of the managers of the organisations to be guided by giving continuous messages about the importance of high quality. Each management level shares this responsibility in organisations as individuals look to their immediate supervisors for guidance. Good tone is of particular importance in auditing because many stakeholders and users of financial statements have confidence in the audit process and the auditing profession, so the tone of the audit report is of paramount importance to stakeholders and users (IFAC), 2007). Recent research shows that the qualitative content of auditing reports, especially their tone, can affect various aspects of performance prediction in addition to quantitative content. For example, Melloni, et al., (2016) displayed that firms use a positive tone to show a desirable image. Further, Davies, et al., (2012) concluded a significant relationship between positive and negative words and future performance. They found that managers use a more optimistic tone than a pessimistic one to reduce the negative reactions of the market. In addition, Tetlock, et al., (2008) investigated the application of quantitative criteria related to language to predict accounting revenues of the firm and stock output. Their results showed that the use of negative words in financial reports causes low revenues for managers. Aly, et al., (2017) stated that member companies of the statistical sample publish good news more than bad news. They also find significant correlations between auditing, profitability, leverage, company growth, and financial reporting of good/bad news information. Buchholz, et al., (2018) found that CEO narcissism was significantly associated with an unnaturally optimistic tone. This study contributes to the emergence of personality traits in an organisation's financial reporting strategy. Souza, et al., (2019) concluded that managers publish more detailed accounting reports with poor performance. In other words, managers deliberately add to the complexity of accounting

explanatory reports to conceal poor performance and negative company information. De Castro, et al., (2019) showed that annual reports with an optimistic tone are associated with lower audit costs. Salehi, et al., (2020) showed no significant relationship between audit fees and the audit expectations gap. Olojede, et al., (2020) found that the audit report did not reduce the gap between audit expectations. According to the theory of social power, a manager can use some values or motivations to influence subsequent judgments and decisions (Lasswell & Kaplan, 1950); a set of values or motivations that the manager can use can affect the attitude that Influence employees on the manager and then change employees' judgments and behaviours. If agent management is ethical and honest and conveys positive value to employees (good tone), employees are more likely to worry about positive value. Conversely, suppose top management does not adhere to ethics and honesty and negatively communicates to employees (an important factor). In that case, employees will be more exposed to negative value concerns (Wang, 2019). The same can be extended to auditing so that if the auditor provides a positive tone and a report that is ethical and fair, he/she can convey a positive tone to stakeholders and users of the financial statements and their views on Change the company and financial reports in a positive way. Still, suppose the tone of the auditor is negative and biased, in addition to negatively changing the user's opinion. In that case, it can also lead to losses and devaluation due to biased behaviour. Therefore, the audit report's tone is critical because users make decisions about their most important investment based on the audit report. Thus, the tone of the auditor can lead to a decrease or increase in public expectations of the auditing profession. The Accounting and Auditing Institute managers ensure a commitment to quality embedded in the organisation's values, code of conduct, training, and policy rewards. Determining the "right tone" at the top level is important in building this commitment across the organisation (IFAC, 2007). The research hypothesis is as follows:

> *Hypothesis: There is a negative and significant relationship between the audit report tone and the audit expectations gap.*

METHODOLOGY

Research Methodology

This research is of causal correlation type and in terms of methodology is of quasi-experimental and retrospective type and in the field of positive accounting research done with real information. This research is applied in terms of nature and goals. Applied research aims to develop applied knowledge in a specific field. At the same time, this research is causal-correlational in terms of data collection and analysis methods.

Research Population

The statistical population of the present study includes all companies listed on the Tehran Stock Exchange in the period between 2013 to 2019. For sampling, a systematic elimination method is used, and finally, after applying the following conditions, the statistical sample of the research is selected:

1- Have been listed on the Tehran Stock Exchange until 2012.
2- The companies in question have been continuously active during the research period, and their shares have been traded (the suspension of transactions has not been more than 6 months).

3- Have provided the financial information required to conduct this research in full during the research period.
4- Have not been part of investment companies, banks, insurance and financial intermediation.

According to the information collected at the end of 2019, a final sample was obtained from Table (1).

Table 1 NUMBER OF COMPANIES' STATISTICAL COMMUNITY AND APPLICATION OF CONDITIONS FOR SAMPLE SELECTION		
Companies listed on the Tehran Stock Exchange	**Number of companies**	**Eliminated companies**
All companies listed on the Tehran Stock Exchange	395	
Financial intermediation, financing, insurance and investment companies		88
Companies that have entered the stock market during the research period		24
Lack of access to information		96
Statistical sample	128	

Data Collection

Basic information and data necessary to test the hypotheses were collected using the database of the Tehran Stock Exchange, including Tadbir Pardaz and Rahvard Novin, as well as reports published by the Tehran Stock Exchange Organization through direct reference to them (which is done by reviewing the reports disclosed on the Codal website and then collected manually), which is presented as a CD by the Tehran Stock Exchange and also on the www.rdis.ir website. Other necessary resources will also be collected.

Data Analysis

The data analysis method is cross-sectional and year-on-year (data panel). Multivariate linear regression method has been used to test the hypotheses, and descriptive and inferential statistical methods have been used to analyse the obtained data. Thus, the frequency distribution table is used at the inferential level to describe the data. F-Leimer test, Hausman test, normality test, and multiple linear regression test are used to test the research hypotheses.

Research Model

$$AEG_{i,t} = a_0 + a_1 Tone_{i,t} + a_2 ROE_{i,t} + a_3 achange_{i,t} + a_4 AIS_{i,t} + a_5 AO_{i,t} + a_6 ATENURE_{i,t}$$
$$+ a_7 BIND_{i,t} + a_8 Fage_{i,t} + a_9 fsize_{i,t} + a_{10} LEV_{i,t} + a_{11} LOSS_{i,t} + a_{12} MTB_{i,t}$$
$$+ a_{19} ROA_{i,t} + a_{20} industry_{i,t} + a_{20} Year_{i,t} + \varepsilon_{i,t}$$

Where

Research Variables

Independent Variables

Audit report tone (tone): is calculated as follows based on Carlson & Lameti (2015):
Tone = (positive words – negative words) / (positive words + negative words)

Dependent Variables

AEG: This variable is achieved from the absolute value of the error of the model of Salehi et al. (2020), who, for analysing the expectation gap, firstly, computed the absolute value of stock price changes using the following contributing factors, then expressed that the absolute value of the following model errors is indicative of audit expectation gap:

Model (2)

$$
\begin{aligned}
|ASP|_{it} = \beta_0 &+ \beta_1 profit\ and\ loss_{it} + \beta_2 industry_{it} + \beta_3 change\ board_{it} + \beta_4 inflation_{it} \\
&+ \beta_5 earning\ persistence_{it} + \beta_6 price\ earnings\ ratio_{it} + \beta_7 the\ liquidity_{it} \\
&+ \beta_8 debt\ ratio_{it} + \beta_9 dividends\ per\ share_{it} + \beta_{10} capital\ structure_{it} \\
&+ \beta_{11} capital\ increase_{it} + \beta_{12} forecast\ earnings\ per\ share_{it} \\
&+ \beta_{13} turnover_{it} + \beta_{14} return\ on\ assets_{it} + \beta_{15} stock\ returns_{it} \\
&+ \beta_{16} exchange\ rate_{it} + \beta_{17} oil\ price_{it} + \beta_{18} election_{it} + \beta_{19} current\ ratio_{it} \\
&+ \beta_{21} quick\ ratio_{it} + \varepsilon_{it}
\end{aligned}
$$

Where

|ASP|: the absolute value of changes in stock price three days before disclosure of audit report and three days after that.

Profit and loss: the profit and loss are assessed using the 0 and 1 methods. In case the firm is profitable 1, otherwise, 0.

Industry: by the industry, we mean the firm's class concerning the type of activity and mass production. The classification of the Tehran Stock Exchange is used for this purpose.

Change board: the changes in board members are assessed using the 0 and 1 method. In this case, at least one of the board members has changed 1; otherwise, 0.

Inflation: inflation rate which is extracted from the Central Bank.

Earnings persistence: which is obtained from the inverse errors of model 3:

Model (3)

$$EARN_{i,t} = \alpha_0 + \alpha_1 EARN_{i,t-1} + \varepsilon_{it}$$

EARNit: the profit in the current period,
α1: (independent variable coefficient) degree of earnings persistence during the study,
EARN, t-1: profit of the previous period,
εit: regression model residual,
Price-earnings ratio: stock price divided by the profit per share (P/E),
The liquidity: stock liquidity which is calculated as follows:

$$BAS = \frac{AP - BP}{\frac{AP + BP}{2}} * 100$$

BAS: The range of the proposed price difference for selling and buying the firm stock,
AP: average proposed price for selling the firm stock,
BP: average proposed price for buying the firm stock,
Debt ratio: total debts divided by total assets,
Dividend per share: dividing total profit payable into total firm stocks,
Capital structure: the capital structure is calculated as follows:

$$ML_{it} = \frac{BD_{it}}{BD_{it} + ME_{it}}$$

MLit: financial leverage based on market value for the company i in the tth time,
BDit: book value of debts for the company i in the tth time,
MEit: market value of dividends for the company i in the tth time, (market value of the dividend is computed by multiplying the stock market value by its number),
Capital increase: using the 0 and 1 method, we analyse the capital increase, such that if the capital increase occurs, the value is 1; otherwise, it would be 0,
Forecast earnings per share: if the real profit of the company i in the year t is more than the predicted profit 1 otherwise, it would be 0.
Turnover: the number of traded stocks of the company i in the year t is considered the turnover volume. Model (4) errors are used to control the price impacts to the extent possible.

Equation 1:

$$VOL_{it} = \beta_0 + \beta_1 MVOL_t + \varepsilon_{it}$$

$$MVOL_t = \frac{\text{No. of traded stocks in total market}}{\text{No. of published stocks in total market}}$$

$$VOL_{it} = \frac{No.\, of\, traded\, stocks\, of\, the\, company\, i}{No.\, of\, published\, stocks\, of\, the\, company\, t}$$

Return on assets: net income divided by the total average of assets,
Stock returns:

$$R = \frac{(\text{base price} - \text{daily price}) + DPS + \text{priority} + \text{bonus stock}}{\text{base price} + (1000 * \text{percentage of capital increase from contribution})} * 100$$

Exchange rate: rate of currency change which is extracted from the Central Bank,
Oil prices: oil price,
Election: election can be assessed using the 0 and 1 method, such that if there is an election during the year under study 1, otherwise, it would be 0,
Current ratio: current assets divided by the current debt,
Quick ratio: current assets minus inventories divided by the current debts.

Control Variables

AO: type of audit opinion. Should the audit opinion be unadjusted 1, otherwise, 0.
FAge: firm age. The time-lapse between the date of establishment and the year under study.

FSize: natural logarithm of the firm's total assets in the year under study.

Atenure: auditor tenure equal to the audit duration has been consistently the firm's auditor until the year under study.

Busy: dummy variable for end of the fiscal year. Suppose the end of the fiscal year is March 20, one; otherwise, 0.

Achange: auditor change. Should the auditor be changed in fiscal year 1, otherwise, 0.

AIS: auditor specialisation in the industry i in the year t that in this paper the market share is used as an index for auditor industry specialisation because it shows the priority for industry to other auditors. The more the audit market share, the more is the industry specialisation and auditor experience than other rivals. Audit market share is computed as follows:

Equation. (1)

$$\frac{total\ assets\ of\ all\ employers\ of\ each\ special\ audit\ firm\ in\ special\ industry}{total\ assets\ of\ all\ employers\ in\ special\ industry}$$

In this paper, those firms are considered industry-specialised that their market share, namely the so-called ratio, is more than [(total existing firms/1)*1.2]. Hence, if an audit firm is an industry specialised 1 otherwise, 0 will be assigned (Habib & Bihavian, 2011).

Big 1: audit firm largeness. If the audit firm in the year under study is among the big firms (with more than 20 partners), 1 will be assigned; otherwise, 0.

Loss: losing firm, a dummy variable, if the firm is losing in the year under study 1, otherwise, 0;

Bind: board independence equals the proportion of unbounded members to total board members.

LEV: financial leverage, total liabilities to total firm assets in the year under study;

MTB: market value to book value of equity;

ROE: return on equity that is equal to net profit divided by book value of equity;

ROA: Return on assets that is equal to net profit divided by total assets;

Industry: dummy variable of industry and,

Year: dummy variable of year.

DATA ANALYSIS

The Results of F-Limer, Breusch-Pagan, and Hausman tests

Description	F-Limer test (Section and time)		F-Limer test (Time)		F-Limer test (Section)		Breusch-Pagan test (Section and time)		Breusch-Pagan test (Time)		Breusch-Pagan test (Section)		Haussmann test		Result
	F	Prob	F	Prob	F	Prob	Chi2	Prob	Chi2	Prob	Chi2	Prob	Chi2	Prob	
Model (1): Flesch	5.36	0.000	6.33	0.000	5.29	0.000	139.87	0.000	19.22	0.000	159.09	0.000	50.98	0.000	Panel with fixed effects of section and time

As shown in Table (2), it is assumed that the F cross-sectional test examines the null hypothesis of pooled cross-sectional effects in comparison with the alternative hypothesis, that is, fixed cross-sectional effects. Considering the statistic and related probability level for all three models (0.00 less than 0.1), the null hypothesis is rejected, and the alternative hypothesis will be confirmed. The F cross-sectional and time test examines the null hypothesis of pooled cross-section and time compared to the alternative hypothesis, the panel model with fixed cross-sectional and time effects. The null hypothesis is rejected regarding the related statistic and probability level for all three models (0.00 less than 0.1).

Moreover, according to Table (2), the Breusch-Pagan cross-section test examines the null hypothesis of the pooled cross-section compared to the alternative hypothesis, that is, a panel with random effects. Regarding the obtained statistic and probability level for all three models (0.00 less than 0.1), the null hypothesis is rejected, and the model has random effects in cross-section. The Breusch-Pagan cross-section and time test examines the null hypothesis of pooled cross-section and time compared to the alternative hypothesis, panel with random effects in cross-section and time. Regarding the obtained statistic and probability level for all three models (0.00 less than 0.1), the null hypothesis is rejected, and a panel with random cross-section and time effect is confirmed. Considering the results of Table (2), we conclude that the pooled effects hypothesis is rejected in both tests and since the alternative F-Limer test shows the fixed effects and the Breusch-Pagan test is indicative of the alternative hypothesis of random effects, the Hausman test will be used for determining the final model. The Hausman test examines the null hypothesis of the panel with random effects compared to the panel alternative with fixed effects. Given the obtained statistic and probability level for model one (0.09), model two (0.00), and model three (0.00), the null hypothesis is rejected for all three models, so the final model for all three models of fixed effects is cross-section and time.

Descriptive Statistics of the Model

This paper uses the multivariate regression model to assess the relationship between total and illogical audit expectation gap and audit report tone. Moreover, the present study has inserted the panel data method of 128 Iranian firms from 2013-2019 in its database. The variables of audit expectation gap, audit report tone, and a series of control variables are used to assess the models.

Table 3 TONE IS THE DEPENDENT VARIABLE							
	Mean	**Median**	**Maximum**	**Minimum**	**Std. Dev.**	**Skewness**	**Kurtosis**
TONE	0.423	0.432	0.809	-0.035	0.153	-0.191	2.794
AD_CHANGE	0.274	0.000	1.000	0.000	0.446	1.013	2.027
AEG	0.197	0.132	1.702	5.80E-05	0.216	3.027	15.466
AIS	0.452	0.000	1.000	0.000	0.498	0.193	1.037
AO	0.425	0.000	1.000	0.000	0.495	0.305	1.093
ATENURE	4.030	2.000	18.000	1.000	4.337	1.873	5.309
BIND	0.707	0.800	1.000	0.200	0.166	-0.322	2.944
FAGE	39.312	39.000	68.000	11.000	13.387	0.005	1.781
FSIZE	14.582	14.343	20.183	10.533	1.581	0.948	4.321
ID	63.732	63.000	128.000	2.000	35.855	0.078	1.917
LEV	0.574	0.557	14.237	0.037	0.568	21.248	512.359

LOSS	0.078	0.000	1.000	0.000	0.268	3.157	10.966
MTB	5.322	3.806	370.449	-862.987	38.023	-16.681	428.606
ROA	0.138	0.118	0.603	-0.298	0.139	0.536	3.743
ROE	0.302	0.291	17.359	-1.952	0.731	19.185	451.642

Research Model Estimation

Table 4 TONE IS THE DEPENDENT VARIABLE				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
AD_CHANGE	-0.017	0.001	-15.562	0.000
Tone	-0.055	0.021	-2.538	0.012
AIS	-0.031	0.0004	-70.494	0.000
AO	-0.108	0.001	-80.0487	0.000
ATENURE	0.003	0.0002	17.887	0.000
BIND	0.029	0.005	6.570	0.000
FAGE	7.94E-05	6.05E-05	1.313	0.191
FSIZE	0.004	0.002	2.085	0.039
ID	0.0004	2.43E-05	18.812	0.000
LEV	0.002	0.0002	14.575	0.000
LOSS	0.021	0.003	6.113	0.000
MTB	0.0003	9.98E-06	28.111	0.000
ROA	-0.009	0.016	-0.574	0.567
ROE	-5.81E-05	5.79E-05	-1.002	0.318
C	0.348	0.029	11.782	0.000
R-squared	0.635	Mean dependent var		2.201
Adjusted R-squared	0.599	S.D. dependent var		18.458
S.E. of regression	0.114	Sum squared resid		2.032
F-statistic	18.088	Durbin-Watson stat		1.812
Prob (F-statistic)	0.000			

As shown in Table 4, a negative and significant relationship exists between the audit report tone and the audit expectation gap. The p-value is 0.021, lower than 5% of the significance level, with a negative coefficient of 0.055. Hence, regarding the obtained results, we can say that the better the audit report tone, the less is the audit expectation gap, so auditors with appropriate tone can improve the stakeholders' expectations. Considering the results of the Table, the model enjoys a good level of significance since the p-value of the model is 0.000 showing that the model is robust.

CONCLUSION AND DISCUSSION

Theoretically, annual reports are a significant link between management and shareholders outside the firm. Foreign investors and small shareholders can acquire information about the firm's financial status, financial performance, and cash flow through annual reports to assess the firm's growth overview and qualification (Luo et al., 2018). Tone can be specified using the ratio of positive and negative words available in annual financial reports and can be an index for changing the optimism or pessimism level of the disclosure. The present study assessed the

relationship between audit report tone and audit expectation gap in the Tehran Stock Exchange. The results show that the better the tone of the auditors, the less the audit expectation gap. In other words, words with a negative tone have a more powerful effect than positive words (Tetlak, Saro-Teschanski & Maxi, 2008). Psychologically, human is willing to process negative information more accurately. A bulk of results show that specialised auditors can provide high-quality audit services (Krishnan, 2003; Richlet & Wang, 2010; Yuan et al., 2016), so most of the adjusted reports would lead to a negative tone the audit report.

The audit report is a tool to influence the perception and decisions of users outside the organisation about the performance and future perspective of the firm. Based on the study results, what is shown in the form of hypotheses conforms with the anticipated results in theoretical principles. The inverse effect of the audit report tone is confirmed on the audit expectation gap. The results of the present study are in line with that of Wang & Fargher (2017), who showed that audit report tone would lead to the enhancement of audit quality because if we have an improved audit quality, the audit expectation gap will go down, so based on Wang & Fargher (2017), we can say that by improving the audit report tone, audit expectation gap will decline. Audit report tone can help the users better understand the financial statements and lead to better decisions of investors and users so that it will result in optimal decisions of users and investors.

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