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RESEARCH ARTICLE

# The Effect of Corporate Governance and Audit Quality on Disclosure Quality: Evidence from Tehran Stock Exchange

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***Abstract***
*The current study examines the effect of audit quality and internal and external corporate governance on the quality of disclosure of financial statements. In order to achieving the objectives of the study 7 hypotheses about audit quality and 7 hypotheses about internal and external corporate governance are postulated in the current study during 2009-2014 in Iran. Data analyzed in two regression models via the R software. The results indicate that there is no significant positive relationship between independent audit quality and the quality of disclosure of financial statements information, but there is a significant relationship between corporate governance and the quality of disclosure of financial statements information. So far, the current study is the first paper on the subject which conducted in the developing country such like Iran, the results of the study may give the strength to the auditing literature.*

***Keywords***
*Internal corporate governance, external corporate governance, audit quality, information disclosure quality, Tehran Stock Exchange*

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## 1 Introduction

Companies as economic enterprises are always looking for more profitability and greater wealth. For various reasons, most notably the separation of ownership from management, in addition to carrying out economic activities the companies are responsible to respond to people outside the company, as well. The reliability of figures and numbers that form the most important part of financial reporting has been seriously questioned because of bankruptcy of famous companies such as Enron, WorldCom, so that the investors do not trust the financial statements prepared by the management. Such bankruptcies raise questions about the role of corporate governance and other reassuring factors in the transparency and completeness of the financial reporting. Providing unreal and inadequate financial reporting such as confirmation of various accounting abuse in companies caused the market reaction towards the improvement of corporate governance in companies. In monitoring the management, stakeholders can rely on different mechanisms of corporate management such as independent board of directors and independent auditors. Corporate governance factors are important for the auditor in the audit process to confirm the financial reporting (Desender et al., 2011). Empirical evidence shows that poor corporate governance often decreases the quality of financial reporting, and causes changes in and overstating the profits and fraud in financial statements (Carcello et al., 2002). Therefore, the companies have always been looking for ways to improve their financial reporting via methods such as corporate governance. One of the ways to achieve such goals is to disclose adequate information for economic decision makers. Thus, our main concern in this study is to measure the effect of corporate governance mechanisms and independent audit on the financial information disclosure which has a significant effect on the users' reliance on the financial reports. The increasing importance of corporate governance and internal control of financial reporting is significantly resulting from the increase of managers' responsibility to handle corporate governance in the audit process. The auditors practice audit activities particularly the audit committee which is constantly dealing with complicated methods of corporate governance. Therefore,