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The model for determining the materiality of auditing in the Iranian environment

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Abstract

This study explores the materiality of auditing within the Iranian context, addressing critical choices and assessments made by auditors throughout the audit process, including planning, evidence gathering, and evaluation. Utilizing a mixed-methods approach, it involves qualitative interviews with 18 audit and accounting experts and a quantitative survey of 213 respondents. The qualitative phase employs grounded theory to identify key categories influencing materiality thresholds, such as decision-making processes, ethical considerations, and adherence to regulations. The quantitative phase validates these findings through a researcher-designed questionnaire. Key outcomes include improved information accuracy, enhanced financial transparency, and increased public trust in audit reports. The study also identifies various conditions affecting materiality assessments, including legal requirements, industry characteristics, and internal control systems. Confirmatory factor analysis supports the causal relationships within the proposed structural model, providing a comprehensive framework for understanding materiality in auditing practices.

Keywords: audit materiality, the Iranian environment, auditors' judgment, financial reporting
2020 MSC: 91G15

1 Introduction

The purpose of a financial audit of financial statements is to provide reasonable assurance of compliance of financial statements in all material aspects with accounting standards. In auditing standard no. 700 of Iran, it has been emphasized that the auditor's responsibility is to give an opinion on the financial statements based on the audit conducted according to the auditing standards. The said standard requires that the auditor comply with the code of professional conduct and plan and execute the audit to obtain reasonable assurance of the absence of material misstatement in the financial statements.

Material is a relative concept. Financial information can be considered material or low-material from all different aspects according to characteristics such as "relevance" and "reliability." Also, material is a judgmental concept, and the basis of its grading is human judgment based on the perspective of users of financial statements [10]. Auditing is

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a matter of judgment. Due to the existing limitations, errors in these judgments are always possible. The possibility of auditors making wrong judgments is called audit risk. Due to the existing limitations, audit risk can always be maintained to zero. It may be claimed that the audit risk can be reduced to zero by reviewing all the documents. Still, in response, it must be said that even in this case, the audit risk does not become zero because there is always the risk of not discovering frauds and collusions that have been hidden with great skill. Based on this, the auditor must manage the audit risk using scientific methods [14].

Therefore, auditors are faced with material decisions and judgments at all stages of the audit process. In the stages of planning and testing to determine the amount, type, nature of evidence, timing of implementation, and limits of audit tests, they must determine an acceptable amount of material to discover existing errors and material misstatements. Also, in the final evaluation and opinion stage, auditors must judge whether or not the total effects of errors and misstatements are material to financial statements to determine the type of audit opinion [10]. For this purpose, until the last three decades, all the auditors' efforts were to manage the audit risk by conducting extensive content tests and sometimes handling 100 percent of the documents. Meanwhile, the development of the volume of activities of the companies, the complexities in the examination of documents and documents, and cost considerations prevent all documents and documents from being examined in one audit. Based on this, a sample review of documents is a solution that must be done according to the materiality threshold and audit risk [13]. According to the above, auditing standard No. 320 of Iran is the basis for determining the materiality threshold in the planning and implementation stage of audit operations, which defines material information.

- Misstatement, including unreported information, is considered material when it is reasonably expected that, alone or in the aggregate, it can affect the economic decisions of users based on financial statements.
- The judgment of materiality is made in light of the circumstances and is influenced by the size or nature of a misstatement or both, and
- Judgment about material issues is formed from the point of view of users of financial statements, according to the common information needs of users as a group. The possible effect of misstatements on the decisions of specific users, who may have very different information needs, is not considered.

According to the standard, the mentioned characteristics provide a suitable basis for the auditor to determine the materiality threshold. However, as mentioned earlier, determining the materiality threshold by the auditor requires professional judgment. It is influenced by the auditor's perception of the information needs of the users of financial statements.

The auditors are responsible for ascertaining whether or not the financial statements are materially misstated. Any identified misstatements must be promptly communicated to the employer for rectification. If the employer declines to rectify the financial statements, the auditor should modify their opinion based on the materiality of the misstatement. To accomplish this, the auditor must comprehensively understand how to effectively employ materiality. With deep attention to materiality, the problems (challenges) auditors face in applying materiality are revealed. Auditors follow five interrelated steps to apply materiality, as shown in the figure below [18].

At first, auditors determine materiality at the level of financial statements as a single set. In the second step, the auditors determine the materiality threshold in implementation, which includes determining the materiality threshold in implementation for financial statements as a single set and, if necessary, for groups of transactions, account balances, and disclosures. These two stages, called preliminary or preliminary judgment, are part of the planning process and may change during the audit.

In the third stage, auditors evaluate the amounts of misstatement at the level of components of financial statements, including disclosures, after reviewing the audit evidence. Finally, the last three stages are part of the evaluation of the results of audit tests. As mentioned in the initial estimation of materiality, it should be remembered that materiality is a relative concept and not an absolute one. The amount that may be considered material for a small company is insignificant and insignificant for a large company. Another point is determining the materiality threshold according to different bases. These bases may be net profit before tax, operating profit, net sales, and total assets, which must be determined by the auditor [14].

On the other hand, auditing standards do not provide specific guidelines about materiality, and they leave it up to the auditors to determine the materiality threshold based on their professional judgments. In this regard, auditing institutions usually use instructions and explanatory guidelines for determining the materiality threshold. Iranian Audit Organization has also proposed a guideline to determine the amount of materiality for normal conditions and uses the average criterion of total assets and sales.

According to the above contents and studies conducted such as Zareei [19]; Hajipour [9], Hassas Yeganeh and Kasyri [10]; Madahi and Hassas Yeganeh [11]; Foroughi et al. [7]; Hock Gin Chong [4]; Julia Baldauf et al. [3] and other studies, as well as the judgmental nature of the audit process and especially the determination of materiality, the audit profession has been associated with challenges in recent years and has always had gaps in the accountability process because the quality of audits under The impact of auditing standards and auditors' judgment. But in practice, there are gaps between these two, and users' expectations still need to be met [8]. Therefore, the present research tries to provide a suitable criterion (model) for determining the materiality threshold of the audit at the level of the entire financial statements, at the level of the elements of the financial statements, and at the level of each item by using experts' opinions in this field so that the quality of the audit can be more reliable; transparency in terms of amount and nature should also be observed. The main questions of this research are:

How is the model of materiality of auditing in the Iranian environment? Does it have sufficient validity and effectiveness?

2 Theoretical foundations

2.1 The concept of materiality in auditing

The concepts of materiality and audit risk form the basis of the audit opinion. The main role of an independent auditor is to attest to financial information and make the task of transmitting information and informing the accounting system in the economic system more effective. The attest function is performed through independent auditing of financial statements within the framework of auditing standards and giving opinions on the favorable presentation of these statements in compliance with accounting standards from all material aspects. According to the auditing standards [2], the audit should be planned and executed so that you get reasonable assurance of the absence of errors or material misstatements in the financial statements.

Obtaining reasonable assurance means that the audit opinion is not necessarily absolute and in a range of acceptable precision or accepting a degree of materiality and a degree of "probability of risk".

This article is due to the inherent limitations that exist in every audit work, including sampling of different degrees of persuasiveness of audit evidence, the characteristics of the accounting system and internal control, the inherent limitations of the field of measurement in accounting, as well as the limitations of users in understanding and analyzing financial information.

The inherent limitations of measurement in accounting are caused by the difficulty of assigning the value of assets and liabilities to the past, present, and future periods. The factor causing this difficulty in the accounting process is the contractual choice of the assumption of the financial period as the beginning and end of the measurement of economic activities and events. In contrast, the actual economic operations run their course without paying attention to this tradition; this choice has caused the emergence of two factors of allocation and collection in accounting [16].

The first factor means allocation is due to periodic measurement, and based on that, the accounting allocates expenses to the past, present, and future periods or overhead expenses based on different bases. "Estimating the value of assets and liabilities created in the process of economic unit activities is in the measurement stage of accounting. For example, the questionable part of accounts receivable and the future costs of guaranteeing after-sales service are accounting estimates. The estimation factor causes the accuracy of some financial information to be reduced to an estimate or an estimate of reality, which is unknown for accounting. Allocation and estimation in measurement cause Accounting information to be prepared and presented in financial statements within an acceptable range of accuracy by management.

The act of auditing measures this scope's acceptable accuracy and reasonableness in management assertions of the existence or occurrence of the completeness of the rights and obligations of valuation, allocation, presentation, and disclosure compared to the information reflected in the financial statements. In the audit process, attention is paid to how far the management's claims are from the unknown truth of the effects and results of the transactions and economic events carried out during the specific period [1, 6].

Materiality threshold Financial reports are the most critical element in the auditing profession, which determines the scope of the procedures performed and the level of reliability of information in financial statements [10, 14]. After selecting the materiality threshold, the auditor must determine the level of importance for commenting. If the selected materiality threshold is incorrect, the audit risk will increase, adequate procedures will not be performed, and the financial statements will not meet users' expectations. Auditors' biggest problem is determining the materiality threshold, which may affect the reliability of financial statements and user decisions. The auditor makes the final

decision according to the materiality threshold, and the materiality threshold determined by the auditor only sometimes meets the expectations of the users of the financial statements [6].

2.2 How to use materiality in auditing

According to auditing standards [2], the auditor must pay attention to the importance of each of the following steps:

- **Determining the materiality threshold in the planning stage**

  In the planning phase, the auditor must determine an acceptable level of the importance of the initial estimate to discover errors or material misstatements. He specifies the items that can make the financial statements a material misstatement at this stage. The auditor pays attention to the importance both at the level of the financial statements as a single set and about each of the account balances of the group of transactions, events, and disclosures. The auditor's estimate of the importance of the planning stage is the maximum amount of errors and misstatements that can be made. It exists in the financial statements, and the auditor believes that the errors above and misstatements do not affect a reasonable user's judgment and decision-making. This amount is called a Tolerable Error. At this stage, an initial estimate of the importance amount is made based on the profit amount of total assets, owners' equity, sales capital, etc.

  After determining the importance amount at the level of financial statements, importance is assigned to the remaining accounts listed in the balance sheet and the main profit and loss accounts. Since the error or misstatement may be in two opposite directions (underestimated or overestimated). The total importance assigned to the accounts is usually considered equal to 2 times the initial estimate of 2 or 3. Then, this estimate is allocated between the balance sheet or profit and loss accounts. This allocation is called initial allocation. In the second step, the allocation of the initial amount to each account is adjusted according to factors such as the sensitivity of the accounts that require time and money to handle [12].

- **Determining materiality in the final evaluation stage and audit opinion**

  In the final evaluation stage, the auditor must determine whether or not the uncorrected errors or misstatements detected during the audit are material. The sum of errors and misstatements is statistically obtained from the combination of the following three types of misstatements:

  1. Known errors: specific errors identified or detected by the auditor.
  2. Projected or direct misstatement: It is the auditor's estimate of other errors or misstatements that cannot be specifically identified, but its existence is probable. For example, if an error of 10 Rials is discovered in handling a sample of 50 Rials out of 500 Rials, the projected misstatement will be 100-7500.
  3. Potential undetected misstatement: This error occurs in statistical sampling and is called sampling error. This error is the limit that has remained undetected due to accepting a certain amount of audit risk despite the auditing methods. For example, if the sampling error in the example is assumed to be 50% 2) Projected or direct misstatement of the error amounts in sampling, in this case, the sampling error will be $(100 \times 50 = 50)$ Rials.

In the next step, the sum of errors or misstatements obtained above is compared with the initial estimate of the importance of the above account balance. If the auditor concludes that such errors or material misstatements are present, he must ask the management of the unit under review to correct the financial statements. Or should implement auditing methods more widely to reduce audit risk. In this case, it should be noted that even if the known error is corrected, the auditor should expand the audit methods to reduce the audit risk at an acceptable level [15].

3 Research methodology

Mixed methods research was applied in this study. In the qualitative part of the research, the grounded theory method was used to identify the research variables and their dimensions since the theoretical foundations of the research on the subject must have the necessary richness. In qualitative research, the main research tool is semi-structured interviews with experts. The statistical population of the research consists of three groups (official accountants, university professors, and active auditors).

Considering the size of the statistical population, the sample selected considers expert members of each group as representatives of these three groups. They included: 1- official accountants (independent auditors), 2- Audit

committee of companies and internal auditors, and 3- University professors and faculty members. In grounded theory, samples are generally selected purposefully. The "snowball sampling" method was used. This method is based on the subjective judgment of the researcher. Especially where the resources are limited, or it is not possible to specify the sampling frame, the techniques related to "non-random sampling" can be used. In this research, the sample size included 18 experts.

To reach the pattern emerging from the qualitative method, after 30 interviews with different people, data saturation was achieved in terms of sampling adequacy. In this investigation, a semi-structured interview is widely acknowledged as a prominent qualitative social research method. This style falls between structured and unstructured interviews, commonly known as in-depth interviews. During a semi-structured interview, all participants are presented with identical questions, allowing them to express their responses uniquely. Consequently, it becomes the researcher's responsibility to codify and classify these answers.

In this research section, the initial step involves breaking down the text into distinct elements containing extracted open codes (concepts) to analyze the data acquired from the interview. Then, these concepts are organized into broader categories.

In the second step, i.e., axial coding, the main categories are identified, followed by categorizing other categories as causal conditions, strategies, contextual conditions, intervening conditions, and consequences. Finally, during the selective coding stage, the connections between the obvious categories and the paradigmatic model of the theory derived from the data are established. The current study necessitates testing the conceptual model derived from the qualitative portion, so structural equation modeling is essential in the quantitative phase. The SPSS software and Smart Pls software are used for quantitative data analysis and subsequent examination.

In the quantitative section, the codes obtained from the qualitative section were analyzed by confirmatory factor analysis. The minimum sample size for confirmatory factor analysis is 200 people. The statistical population of this research in the quantitative section consists of official accountants, university professors, and active auditors. Due to the unlimited nature of the statistical population, the minimum sample size required by the Cochran formula is 384 individuals.

The researcher employed a self-designed questionnaire to gather the necessary data for assessing the qualitative model of the study. This questionnaire consisted of items derived from the categories identified in the qualitative part of the research. To assess the responses provided, the items in the questionnaire were formulated using a 5-point Likert scale, ranging from " Strongly disagree" (1) to " Strongly agree" (5). The quantitative is divided into two primary sections.

The first section includes demographic variables such as sex, age, educational degree, and field of study. The second section comprises items related to the primary focus of the research. Consequently, the sampling method employed in this section combines random and convenience sampling methods. Its validity was confirmed using experts' opinions, while the reliability was confirmed using Cronbach's alpha test. The alpha value of the questionnaire was 0.88, which indicates the appropriate reliability of the tool. After collecting data, data analysis was done at two descriptive-inferential levels using confirmatory factor analysis methods and Amos software.

3.1 General structural equation modeling

This model is a combination of two measurement and structural models. It considers both the relationships between latent variables and observed variables (measurement model) and the relationships between latent variables (structural model).

An example of a general structural equation model and its solution:

The relationship between three latent variables, m, p, and g, is investigated as follows.

The exogenous latent variable g, p, and m is the independent variable that affects the endogenous latent variable n. To measure variable m, three observed variables, X_1, X_2, and X_3 indices have been used. To measure the p variable, three observed variables, Y_1, Y_2, and Y_3 indices have been used.

To measure the latent variable g, three observed variables, Y_4, Y_5, and Y_6 indices are used. The path coefficient between two dependent latent variables is denoted by β, and the coefficient between the independent and dependent latent variables is represented by γ. The relationship between each latent variable and the corresponding observed variables is indicated by the letter λ, which is called factor loading. ε represents the error (residual) for the endogenous latent variable, δ represents the error (residual) for the exogenous manifest variable and ζ represents the error variance

(residual) for the endogenous latent variable used to fit the model.

$$n_t = \beta_1 + \beta_2 m_t + \beta_3 g_t + \varepsilon_{1t}. \tag{3.1}$$

The model should be named according to the number of parameters of the model and the parameters should be entered into the model (Eqs. (3.2)–(3.7)):

$$n_t = \beta_{11} + \beta_{12} m_t + \beta_{13} p_t + \varepsilon_{2t} \tag{3.2}$$

$$n_t = \frac{\{(\beta_1\beta_{13} - \beta_{11}\beta_3) + \beta_{13}\beta_2 gt^{-}\beta_3\beta_{12}m_t - \beta_3\beta_{14}n_{t-1} + (\beta_{13}\varepsilon_{1t} - \beta_3\varepsilon_{2t})\}}{\beta_{13} - \beta_3} \tag{3.3}$$

$$p_t = \frac{\{(\beta_1 - \beta_{11}) + \beta_2 gt^{-}\beta_{12}\beta_{12}m_t - \beta_{14}n_{t-1} + (\varepsilon_{1t} - \varepsilon_{2t})\}}{\beta_{13} - \beta_3} \tag{3.4}$$

$$erf(x) = \frac{2}{\sqrt{\pi}} \int_0^x e^{-t^2} dt.$$

$$n = \max(n_1, n_2) \tag{3.5}$$

where:

$$n_1 = \left\lceil 50\left(\frac{j}{k}\right)^2 - 450\left(\frac{j}{k}\right) + 1100 \right\rceil$$

$$n_2 = \left\lceil \frac{2}{2H}\left(A\left(\frac{\pi}{6} - B + D\right) + H + \sqrt{\left(A\left(\frac{\pi}{6} - B + D\right) + H\right)^2 + 4AH\left(\frac{\pi}{6} + \sqrt{A} + 2B - C - 2D\right)}\right) \right. \tag{3.6}$$

where, $A = 1 - p^2$, $B = \text{parcsin}\left(\frac{p}{2}\right)$, $C = \text{parcsin}(p)$ and $D = \left(\frac{\delta}{z_{1-\alpha/2} - z_{1-\beta}}\right)^2$, where j is the number of observed variables, k is the number of latent variables, ρ is the estimated Gini correlation for a normal random vector of variables, δ is the predicted effect size, α is the corrected type I error rate, β is the type II error rate, and z is a standard score.

$$F(x; \mu, \sigma^2) = \frac{1}{2}\left[1 + erf\left(\frac{x - \mu}{\sigma\sqrt{2}}\right)\right], \tag{3.7}$$

where μ is the mean, σ is the standard deviation, and erf is the error function. Now, the same steps can be done using the software.

4 Findings

4.1 Qualitative section

At first, the concepts and key points on the investors' financial behavior model were listed from the interview process. The phrases, concepts, and elements extracted from the interviews were assimilated through a meticulous analysis, ensuring the selection of precise terminology and removing redundant concepts.

Consequently, a total of 134 items were derived in this phase. These obtained codes were then organized into a comprehensive checklist to facilitate the subsequent interview sessions. Furthermore, certain items were refined and adjusted based on the insights gained from conducting expert interviews.

In this stage, an attempt was made to organize similar and symmetrical categories into main themes. The themes were derived from the conceptual similarities among the categories, resulting in more abstract concepts. A table of initial concepts and categories was prepared and established as the initial step in qualitatively analyzing the information gathered from the interview.

To finalize this process, the resulting concepts were further grouped at a higher and more abstract level to identify the main themes. Those interconnected categories were combined into a broader theme by comparing the grouped categories. Furthermore, general titles were assigned to these themes based on relevant theories or concepts in the existing research literature. Table 1 represents Selected final codes.

Table 1: Selected final codes

Axial category	Axial codes	Paradigm codes	Open codes
Providing a model for the materiality of auditing in the Iranian environment	Casual conditions	• Determining the materiality threshold by considering the chosen criteria, typically represented as a percentage of it; • Analyzing the decision-making process and the nature of the choices made, focusing on the judgment employed; • Evaluating the ethical and behavioral attributes of the auditor involved in the assessment; • Examining the adherence or deviation from the established rules, regulations, and financial guidelines.	How to judge the auditor
			Accountant or auditor
			Lawmakers
			Measuring tools
			Measurement environment
			Choosing the right criteria
			Determining the materiality threshold specific for account balances, transaction groups, or disclosures
			Length of financial reporting period
			Quality factors
			Auditor's fear of quality control
			Auditor personality types
			Degree of professional doubt
			Type of audit firm
			Total sales
			Costs
			Operating profit
			Net profit and annual adjustments for the income statement
			Total assets and equity
			Amount of working capital for the balance sheet
			Factors such as asset revaluation
			Specific features of the industry
			Costs
			Transactions with related parties
			The operating profit of the company
			Profit per share and amount of assets
			Variables affecting profit and loss items and balance sheet
			The nature of the items is effective in determining the net profit.
			The nature of the items is subject to a specific event or condition.
			Audit quality and audit industry expertise
			The difference or conflict of interest between financial information providers and their users is the same as between shareholders and managers.
			Users do not have direct access to financial information and its providers.
			Complexity of financial statements
			The type and extent of economic activities that have financial consequences.
			Legal requirements and stakeholders' insistence on audits such as banks or tax authorities.
	Strategies	• Paying attention to the elements and nature of financial statements • Specializing audit • Expanding standards • Full compliance of financial statements with the criteria of accounting standards	Determining the materiality threshold based on the impact on profit
			Training of official accountants of Iran
			In consideration of giving qualitative factors
			Measuring the needs of users
			Disclosure of more details in some areas
			Education at the university level
			Classification of financial statement items and disclosure
			Impartiality should be considered as a whole, both during the implementation and acceptance stages and in the reporting stage.
			More audit users
			Audit responsibilities
			Corporate management at the company level
			More attention during planning
			Performing audit procedures to discover misstatements
			According to the level of importance in planning and conducting the audit, choosing a uniform and general materiality threshold for financial statements
			Considering the company's revenue and other quantitative factors

		Establishing materiality thresholds for specific accounts or disclosures
		Determining tolerable misstatement
		To audit the consolidated financial statements of a company with multiple locations or business units, the auditor must reduce the tolerable misstatement significantly.
		Considerations as audit advances
		Auditors should report all uncorrected errors and misstatements to the senior management or the company's audit committee.
		In importance judgments, the nature of items and quality factors must be paid attention to
		The effects of errors and misstatements should be considered individually and then in the financial statements.
Consequences	• Providing more accurate information needs of users • Economic efficiency and, as a result, cost savings • Increasing financial transparency in organizations • Increasing public confidence in audit reports and auditors themselves	Determining and quantitatively measuring the materiality threshold can reduce auditors' different judgments
		Creating added value in terms of improved disclosures
		Customer-industry homogeneity (change in operating costs of industry members)
		Collection of investment opportunities (IOS) of audited companies
		To improve the position of the auditing profession
		Increase materiality threshold
		Increasing public confidence in financial performance (both government and private sector)
		Increasing audit quality
Axial conditions	• Determining the materiality thresholds for the components of financial statements separately • Determining the materiality threshold separately for misstatement in classification and misstatement in account balances • Determining the materiality threshold in execution for each section	Increasing the materiality threshold in companies that have done asset revaluation
		Including profit in determining the materiality threshold
		Deduction of receivables, debts, and transactions with related parties in determining the materiality threshold
		The higher the materiality threshold, the less responsive managers are, and vice versa.
		The ratio of the judged amount to the net profit is the most important factor in determining the materiality threshold.
		The effect of the amount judged on the profitability process
		Ability to measure the amount to be judged
		Total amount of assets and income
		Net profit amount
		The amount of equity capital
		The main amount and the main classes related to the judged item in the financial statements
		Intentional or unintentional origin of the judged amount
		Normal or unusual exceptional nature of the amount judged
		A line of legal, regulatory, and contractual requirements resulting from the judgment amount
		The effect of the amount judged on the profitability situation and trend
		The effect of the amount judged on the position and process of their liquidity and repayment
		Correlation of the amount judged with the account of related parties' transactions or suspicious transactions.
		When evaluating the appropriateness of implementation impartiality thresholds for sectors
		Determining the materiality threshold section for special partnerships and business affiliates
		The effect of change in the materiality threshold of the group
		The widespread effects of misstatements on different parts of financial statements

		The relationship between the item under judgment and the transactions of related and suspicious persons
		Intentional or unintentional nature
		The state economy is the most important challenge.
Contextual conditions	• Determining the type and nature, implementation schedule, and limits of auditing methods • Legal and regulatory requirements • The performance of companies in recent years from the perspective of misstatements • The type of view of the rulers or institutions affecting the auditing profession (such as the Iranian Association of Certified Public Accountants (IACPA) and Iranian Audit Organization)	Quantifying the materiality threshold at the level of financial statements and account components
		Company information and financial statements
		Evaluating the effect of errors
		This places importance both at the level of financial statements as a single set and on each of the account balances, groups of transactions and events, and disclosures by the auditor.
		Considerations related to each of the account balances listed in the financial statements
		Obtain reasonable assurance
		Accepting a materiality threshold with reasonable assurance
		Accepting some degree of risk
		Determining the type and nature of auditing methods
		Implementation schedule and limits of auditing methods
		Evaluating the effect of distortions
		Correlation of the amount judged with the account of transactions of related parties or suspicious transactions
		Existence of effective components (for example, coefficients and indicators should be given for each industry)
		Measuring materiality threshold in companies
		The nature of the auditing profession
		Diversifying the formula for determining the materiality threshold
		To quantify
		Modeling the materiality threshold
		The necessary will in professional institutions
		The existence of extensive research
		Moving the economy toward the private sector
		Customer needs
		Quality control
Intervening conditions	• Factors such as asset revaluation • Non-compliance with financial rules and regulations can lead to negative consequences • Industry-specific characteristics or the extent to which managers are aware of fraud in financial statements • Features of accounting system and internal control in every organization	Iranian Association of Certified Public Accountants (IACPA)
		Iranian audit organization
		Knowledge of auditors
		The purpose of the audit (it can also be an interfering factor)
		The audit profession itself
		Study gap
		How to monitor
		Determining the materiality threshold
		Specific features of the industry
		Transactions with related parties.
		Weakness in internal controls that the auditor is obliged to mention in his report
		Discussion of policy and financial transparency
		Economic transparency
		Macroeconomic system
		Different degrees of persuasiveness of audit evidence
		Intrinsic limitations of the field of measurement in accounting
		Limiting users in understanding and analyzing financial information
		The difficulty of assigning the value of assets and liabilities to past periods
		Legal and regulatory requirements
		Considerations related to each of the account balances listed in the financial statements
		Verifying the feature of being reliable or having the ability to be confirmed
		Validity and impartiality of financial information
		Estimated or determinable
		The impact of the judged item on the trends, especially the net profit trend

4.1.1 Selective coding

Selective coding aims to create a relationship between the generated categories (in the axial coding stage). This action is usually done based on the paradigm model and helps the theoretician to carry out the theorizing process easily. The basis of connecting in axial coding is expanding one of the categories. In the selective coding stage of the current research, the relationship of the main category with other categories was determined. At this stage, the primary and secondary classes were connected to produce theoretical concepts to provide a model for determining the materiality of auditing in the contextual conditions of Iran. we identified the role of the extracted categories in the form of a paradigm model.

Selective coding serves the purpose of establishing a correlation between the categories that have been generated during the axial coding phase. The paradigm model typically guides this process and facilitates the theorizing process for the researcher. The connection in axial coding is primarily based on expanding one particular category. In the selective coding stage of the present study, the relationship between the main category and other categories was identified. Through this stage, the primary and secondary classes were linked together to generate theoretical concepts, which in turn provided a framework for assessing the materiality of auditing within the contextual conditions of Iran. The significance of the extracted categories was determined by utilizing a paradigm model.

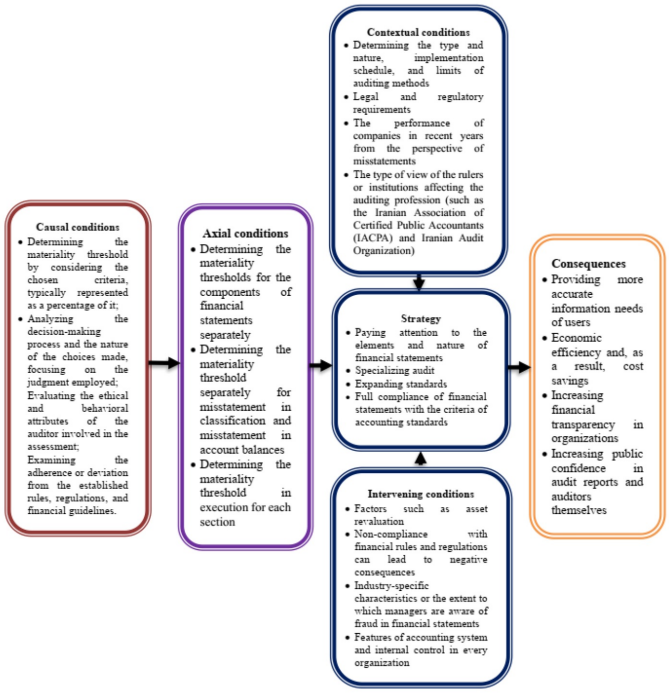

Figure 1: Selective coding based on the paradigm model

4.2 Quantitative part

4.2.1 Confirmatory factor analysis

- Confirmatory factor analysis of causal conditions

  Confirmatory factor analysis was used to determine the validity of variables of the causal conditions. The output of AMOS software shows that all factor loadings are higher than 0.3. According to the output of AMOS, the calculated value of CMIN/DF is 1.73, the value of CMIN / DF smaller than 5 indicates the appropriate fit of the model. The root mean square error of approximation (RMSEA) estimate should be less than 0.08. This value in the model is equal to 0.045. The GFI, AGFI, CFI, and NFI indicators should be more than 0.9. the obtained values in the investigated model are higher than the set value. Therefore, the data of this research fits well with the factor structure of this scale, and this indicates the alignment of the questions with the variables of the causal conditions.

- Confirmatory factor analysis of strategies

Table 2: Fit indices of causal conditions

Indicator	Name of Indicator	Abbreviation	Acceptable Value	Estimated Value
Absolute Fit Indices	Degrees of Freedom	DF	–	234
	Significance level	P	$P < 0.05$	0.000
	Chi-Square to Degrees of Freedom Ratio	CMIN / DF	$1 < CMIN/DF < 5$	1.73
	Chi-Square	Chi-Square	$Chi-Square > 0.05$	0.40
	Goodness of Fit Index	GFI	$GFI > 0.9$	0.934
	Adjusted Goodness of Fit Index	AGFI	$AGFI > 0.9$	0.940
Comparative Fit Indices	Non- Normed Fit Index	NNFI	$NNFI > 0.9$	0.920
	Normed Fit Index	NFI	Close to 1	0.93
	Comparative Fit Index	CFI	$CFI > 0.9$	0.934
	Relative Fit Index	RFI	$RFI > 0.5$	0.64
	Incremental Fit Index	IFI	0–1	0.60
Parsimoious Fit Indices	Parsimony Normed Fit Index	PNFI	$PNFI > 0.5$	0.75
	Parsimony Comparative Fit Index	PCFI	$PCFI > 0.5$	0.911
	Root Mean Square Error of Approximation	RMSEA	$RMSEA < 0.10$	0.045
	Chi-Square	CMIN	$1 < CMIN < 3$	2.2

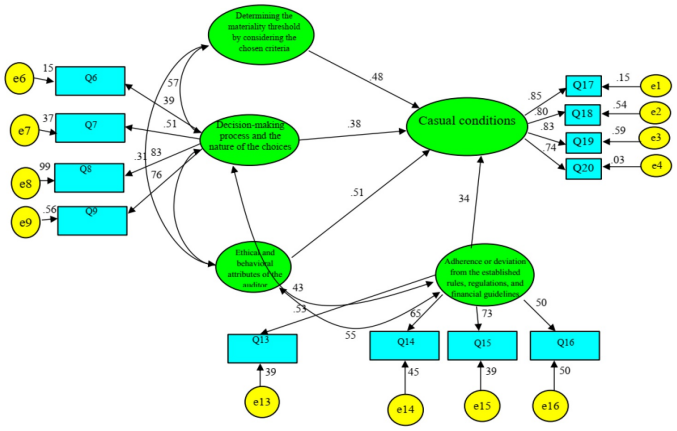

Figure 2: Path analysis of causal conditions

Confirmatory factor analysis was used to determine the validity of the strategies. The output of AMOS software shows that all factor loadings are higher than 0.3. According to the output of AMOS, the calculated value of CMIN / DF is 1.58, the value of CMIN / DF smaller than 5 indicates the appropriate fit of the model, and the root mean square error of approximation (RMSEA) estimate should be less than 0.08. This value in the model is equal to 0.055. The GFI, AGFI, CFI, and NFI indicators should be more than 0.9, higher than the set value in the investigated model. Therefore, the data of this research fits well with the factor structure of this scale, and this indicates the alignment of the questions with the variables of the strategies.

Table 3: Fit indices of strategies

Indicator	Name of Indicator	Abbreviation	Acceptable Value	Estimated Value
Absolute Fit Indices	Degrees of Freedom	DF	–	251
	Significance level	P	$P < 0.05$	0.000
	Chi-Square to Degrees of Freedom Ratio	CMIN / DF	$1 < CMIN/DF < 5$	1.58
	Chi-Square	Chi-Square	$Chi-Square > 0.05$	0.39
	Goodness of Fit Index	GFI	$GFI > 0.9$	0.981
	Adjusted Goodness of Fit Index	AGFI	$AGFI > 0.9$	0.941
Comparative Fit Indices	Non- Normed Fit Index	NNFI	$NNFI > 0.9$	0.90
	Normed Fit Index	NFI	Close to 1	0.92
	Comparative Fit Index	CFI	$CFI > 0.9$	0.981
	Relative Fit Index	RFI	$RFI > 0.5$	0.58
	Incremental Fit Index	IFI	0–1	0.74
Parsimoious Fit Indices	Parsimony Normed Fit Index	PNFI	$PNFI > 0.5$	0.90
	Parsimony Comparative Fit Index	PCFI	$PCFI > 0.5$	0.941
	Root Mean Square Error of Approximation	RMSEA	$RMSEA < 0.10$	0.055
	Chi-Square	CMIN	$1 < CMIN < 3$	1.8

- Confirmatory factor analysis of contextual conditions

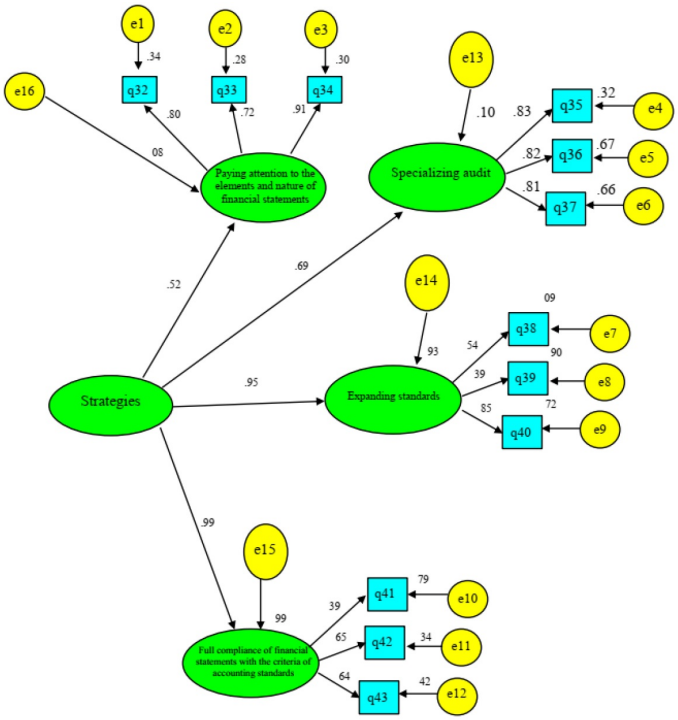

Figure 3: Path analysis of strategies

The numbers on the paths are factor loadings; all factor loadings are higher than 0.3. According to the output of AMOS, the calculated value of CMIN/DF is 2.96, the value of CMIN/DF smaller than 5 indicates the appropriate fit of the model, and the root mean square error of approximation (RMSEA) estimate should be less than 0.08. This value in the model is equal to 0.069. The GFI, AGFI, CFI, and NFI indicators should be more than 0.9, higher than the set value in the investigated model. Therefore, the data of this research fits well with the factor structure of this scale, and this indicates the alignment of the questions with the variables of contextual conditions.

Table 4: Fit indices of contextual conditions

Indicator	**Name of Indicator**	**Abbreviation**	**Acceptable Value**	**Estimated Value**
Absolute Fit Indices	Degrees of Freedom	DF	–	50
	Significance level	P	$P < 0.05$	0.000
	Chi-Square to Degrees of Freedom Ratio	CMIN / DF	$1 < CMIN/DF < 5$	2.96
	Chi-Square	Chi-Square	$Chi-Square > 0.05$	0.14
	Goodness of Fit Index	GFI	$GFI > 0.9$	0.955
	Adjusted Goodness of Fit Index	AGFI	$AGFI > 0.9$	0.941
Comparative Fit Indices	Non- Normed Fit Index	NNFI	$NNFI > 0.9$	0.90
	Normed Fit Index	NFI	Close to 1	0.99
	Comparative Fit Index	CFI	$CFI > 0.9$	0.955
	Relative Fit Index	RFI	$RFI > 0.5$	0.64
	Incremental Fit Index	IFI	0–1	0.59
Parsimoious Fit Indices	Parsimony Normed Fit Index	PNFI	$PNFI > 0.5$	0.99
	Parsimony Comparative Fit Index	PCFI	$PCFI > 0.5$	0.901
	Root Mean Square Error of Approximation	RMSEA	$RMSEA < 0.10$	0.069
	Chi-Square	CMIN	$1 < CMIN < 3$	1.9

- Confirmatory factor analysis of intervening conditions

  Confirmatory factor analysis was used to determine the validity of the intervening conditions. The numbers on the paths are factor loadings, and all factor loadings are higher than 0.3. The findings related to the fit indices of the factors in Table 5 indicate that the CFI, GFI, NFI, RMR, and RMSEA indices have an acceptable level. These good fit characteristics show that the data of this research has a good fit with the factor structure of this scale, and this indicates the alignment of the questions with the variables of intervening conditions.

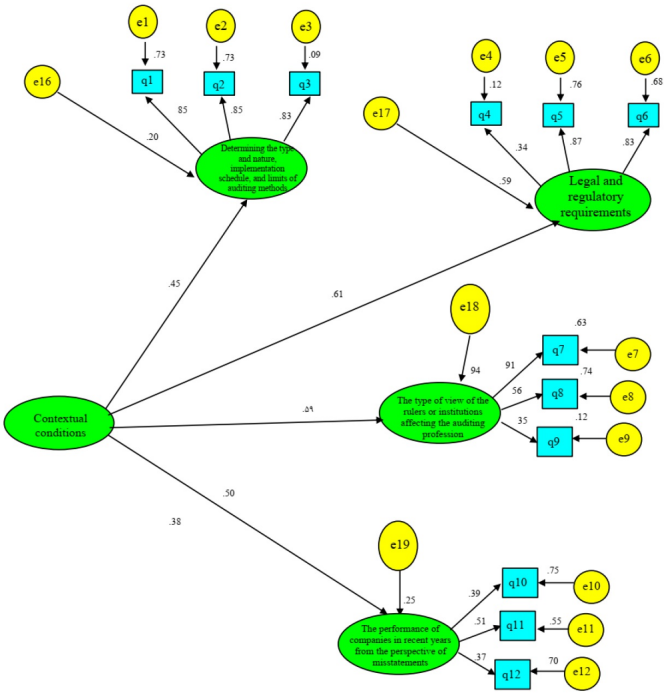

Figure 4: Path analysis of contextual conditions

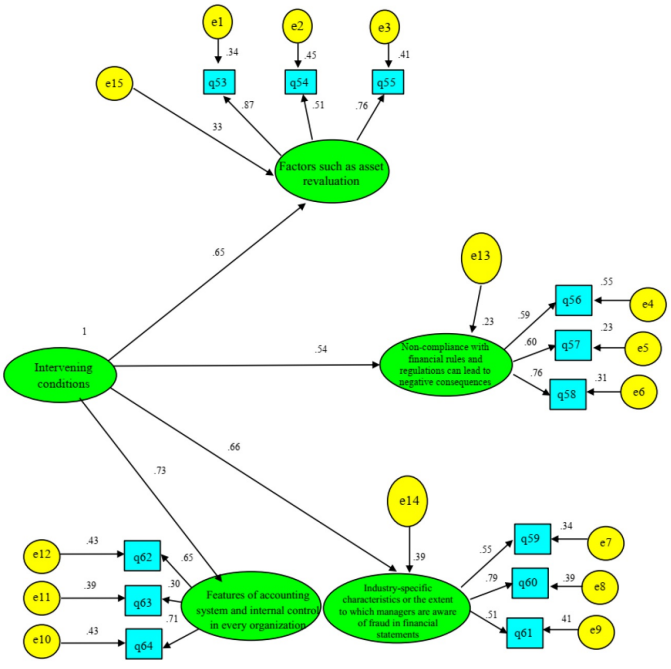

Figure 5: Path analysis of intervening conditions

- Confirmatory factor analysis of consequences

  Confirmatory factor analysis was used to determine the validity of the consequences. The numbers on the paths are factor loadings, and all factor loadings are higher than 0.3. The findings related to the fit indices of the factors in Table 6 indicate that the CFI, GFI, NFI, RMR, and RMSEA indices have an acceptable level. These good fit characteristics show that the data of this research has a good fit with the factor structure of this scale, and this indicates the alignment of the questions with the variables of consequences.

- Confirmatory factor analysis of axial conditions

Table 5: Fit indices of intervening conditions

Indicator	Name of Indicator	Abbreviation	Acceptable Value	Estimated Value
Absolute Fit Indices	Degrees of Freedom	DF	–	24
	Significance level	P	$P < 0.05$	0.000
	Chi-Square to Degrees of Freedom Ratio	CMIN / DF	$1 < CMIN/DF < 5$	1.91
	Chi-Square	Chi-Square	$Chi-Square > 0.05$	0.46
	Goodness of Fit Index	GFI	$GFI > 0.9$	0.93
	Adjusted Goodness of Fit Index	AGFI	$AGFI > 0.9$	0.947
Comparative Fit Indices	Non- Normed Fit Index	NNFI	$NNFI > 0.9$	0.94
	Normed Fit Index	NFI	Close to 1	0.933
	Comparative Fit Index	CFI	$CFI > 0.9$	0.918
	Relative Fit Index	RFI	$RFI > 0.5$	0.74
	Incremental Fit Index	IFI	0–1	0.62
Parsimoious Fit Indices	Parsimony Normed Fit Index	PNFI	$PNFI > 0.5$	0.96
	Parsimony Comparative Fit Index	PCFI	$PCFI > 0.5$	0.930
	Root Mean Square Error of Approximation	RMSEA	$RMSEA < 0.10$	0.071
	Chi-Square	CMIN	$1 < CMIN < 3$	2.3

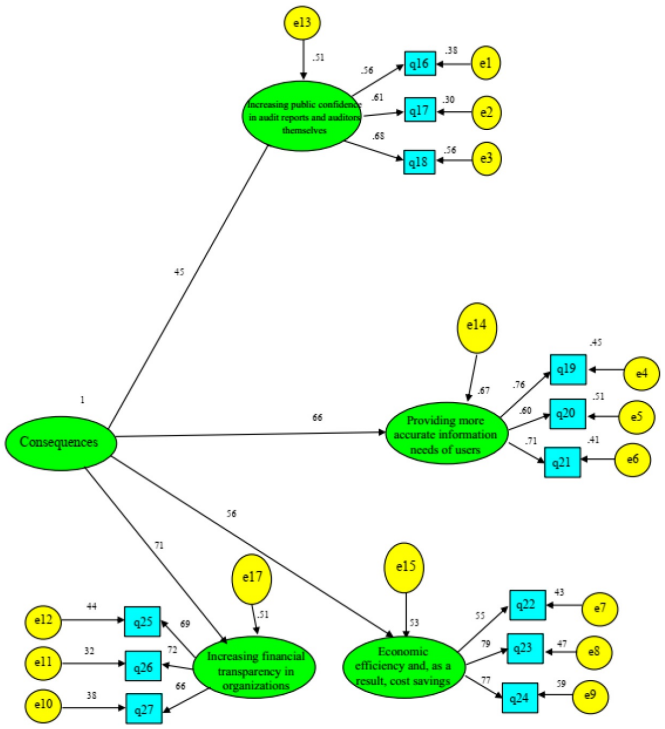

Figure 6: Path analysis of the consequences

Confirmatory factor analysis was used to determine the validity of the axial conditions. The numbers on the paths are factor loadings, and all factor loadings are higher than 0.3. The findings related to the fit indices of the factors in Table 7 indicate that the CFI, GFI, NFI, RMR, and RMSEA indices have an acceptable level. These good fit characteristics show that the data of this research fits with the factor structure of this scale, and this indicates the alignment of the questions with the variables of axial conditions.

4.3 Analyzing the model and checking the fit of the proposed research model

In this section, using the information collected through a questionnaire designed based on the indicators identified in the qualitative section and distributed among a statistical sample of the studied community, the indicators related to the components were quantitatively analyzed statistically, and the results are given below. Fit criteria are one of the most important steps in structural equation modeling analysis. These criteria answer whether the model represented by the data confirms the measurement model of the research. Many fit standards have been introduced in structural equation modeling methodology to answer this question. Table 8 shows the status of these indicators.

Table 6: Fit indices of consequences

Indicator	Name of Indicator	Abbreviation	Acceptable Value	Estimated Value
Absolute Fit Indices	Degrees of Freedom	DF	–	61
	Significance level	P	$P < 0.05$	0.000
	Chi-Square to Degrees of Freedom Ratio	CMIN / DF	$1 < CMIN/DF < 5$	1.91
	Chi-Square	Chi-Square	$Chi-Square > 0.05$	0.13
	Goodness of Fit Index	GFI	$GFI > 0.9$	0.918
	Adjusted Goodness of Fit Index	AGFI	$AGFI > 0.9$	0.947
Comparative Fit Indices	Non- Normed Fit Index	NNFI	$NNFI > 0.9$	0.91
	Normed Fit Index	NFI	Close to 1	0.933
	Comparative Fit Index	CFI	$CFI > 0.9$	0.918
	Relative Fit Index	RFI	$RFI > 0.5$	0.59
	Incremental Fit Index	IFI	0–1	0.61
Parsimoious Fit Indices	Parsimony Normed Fit Index	PNFI	$PNFI > 0.5$	0.96
	Parsimony Comparative Fit Index	PCFI	$PCFI > 0.5$	0.930
	Root Mean Square Error of Approximation	RMSEA	$RMSEA < 0.10$	0.071
	Chi-Square	CMIN	$1 < CMIN < 3$	2.5

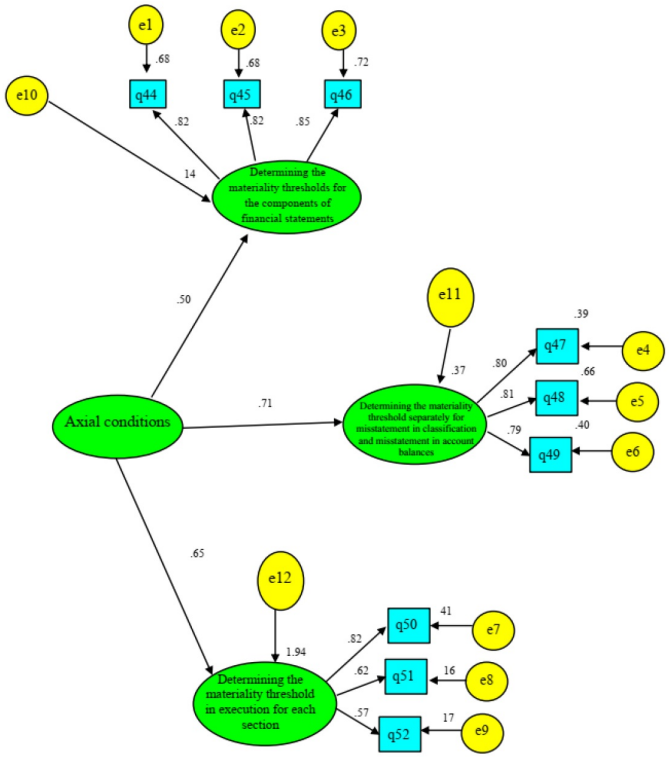

Figure 7: Path analysis of the axial conditions

1. Chi-Square to Degrees of Freedom Ratio (χ^2/df): In the Chi-Square test, the compatibility hypothesis of the desired model is investigated by the covariance pattern between the observed variables. Its smaller values, i.e., less than 3, indicate more fitness. The quantity of χ^2 is highly dependent on the sample size, and a large sample increases the quantity of χ^2 more than it can be attributed to the wrongness of the model.
2. The goodness of Fit Index (GFI) and Adjusted Goodness of Fit Index (AGFI): These indices show the extent of the relative amount of variances and covariance explained by the model. Both criteria vary between 0 and 1; t closer they are to 1, the better the model's fit with the observed data is.
3. Root Mean of Residuals (RMR): In this index, the residuals of the observed variances and covariance are compared with the estimations made in the model. Its smaller values indicate a better fit. Models in which this value is less than 0.05 have a very high fit, but values between 0.05 and 0.08 are also suitable for a good model.
4. Root Mean Square Error of Approximation (RMSEA): This index is 0.050 or less for good models, and a model in which this index is 0.10 or more has a poor fit.

The results show the appropriate fit of the proposed model. After testing the measurement models, it is necessary to provide a structural model that shows the relationship between the latent variables of the research.

Table 7: Fit indices of axial conditions

Indicator	Name of Indicator	Abbreviation	Acceptable Value	Estimated Value
Absolute Fit Indices	Degrees of Freedom	DF	–	61
	Significance level	P	$P < 0.05$	0.000
	Chi-Square to Degrees of Freedom Ratio	CMIN / DF	$1 < CMIN/DF < 5$	1.91
	Chi-Square	Chi-Square	$Chi-Square > 0.05$	0.13
	Goodness of Fit Index	GFI	$GFI > 0.9$	0.918
	Adjusted Goodness of Fit Index	AGFI	$AGFI > 0.9$	0.947
Comparative Fit Indices	Non- Normed Fit Index	NNFI	$NNFI > 0.9$	0.91
	Normed Fit Index	NFI	Close to 1	0.933
	Comparative Fit Index	CFI	$CFI > 0.9$	0.918
	Relative Fit Index	RFI	$RFI > 0.5$	0.59
	Incremental Fit Index	IFI	0–1	0.61
Parsimoious Fit Indices	Parsimony Normed Fit Index	PNFI	$PNFI > 0.5$	0.96
	Parsimony Comparative Fit Index	PCFI	$PCFI > 0.5$	0.930
	Root Mean Square Error of Approximation	RMSEA	$RMSEA < 0.10$	0.071
	Chi-Square	CMIN	$1 < CMIN < 3$	2.5

Table 8: The results of the fit indices of the research model

χ^2/df	GFI	AGFI	NFI	CFI	RMR	RMSEA
2.858	0.835	0.841	0.887	0.845	0.133	0.090

According to Table 9 and the number of significant coefficients, since the CR value (critical ratio) must be greater than 1.96 or less than -1.96 to reject or confirm the relationship, the parameter value between the model's two domains is unimportant. Also, the values between these two values indicate no significant difference in the value calculated for the regression weights with a zero value at the 95% level. The results of the model test are presented in Table 9:

Table 9: The results of the implementation of the structural model for presenting a design model and validating the national talent management model (emphasizing the role of educational institutions)

Relationships	Standard estimate	Standard error	Critical ratio	Significance level
Consequences → The model for determining the materiality of auditing in the Iranian environment	0.420	0.056	4.018	0.000*
Casual conditions → The model for determining the materiality of auditing in the Iranian environment	0.26	0.077	2.798	0.010*
Contextual conditions → The model for determining the materiality of auditing in the Iranian Environment	0.68	0.045	3.813	0.000*
Intervening conditions → The model for determining the materiality of auditing in the Iranian Environment	0.44	0.042	2.958	0.000*
Strategies → The model for determining the materiality of auditing in the Iranian Environment	0.11	0.033	2.362	0.000*
Axial conditions → The model for determining the materiality of auditing in the Iranian Environment	0.23	0.41	4.113	0.000*
$^*P \leq 0.05$				

Based on this, the research model was evaluated using Amos software. As can be seen, all the relationships, according to the value of the path coefficients, are confirmed at the 95% confidence level. The model related to casual conditions has been represented in the above table to present a design model and validate the national talent management model (emphasizing the role of educational institutions). Based on the obtained results, the causal conditions, strategies, contextual conditions, intervening conditions, and consequences components have been effective in the final model of the research.

5 Discussion and conclusion

The current study was divided into two parts: qualitative and quantitative. The qualitative findings indicate that the acceptance of auditing, like many other phenomena in the human sciences, necessitates the presence of theoretical

foundations and a conceptual framework. There are numerous similar phenomena that anthropology has yet to explore and understand. These phenomena will be discovered through human efforts and advancements in science and technology, leading to a better understanding of their underlying theories. Consequently, accepting natural and experimental sciences does not rely solely on artificial concepts and theories. While accounting and auditing are closely related, they possess distinct natures. They can be considered academic and professional colleagues rather than father and son. Accounting involves identifying, analyzing, measuring, and reporting financial data. Its purpose is to condense information into manageable and comprehensible data. On the other hand, auditing does not encompass these tasks. It focuses on examining the process of identifying, processing, and reporting financial information and providing a professional opinion. Auditing is deeply rooted in its logic, which forms the basis for its ideas and methods, rather than relying on accounting, the subject of its investigation. In terms of auditing and accounting, they complement each other despite utilizing different tools and methods. Therefore, it is unreasonable to expect to uncover the foundations, theory, and philosophy of auditing solely by examining accounting theory and practice. A more precise approach is required, delving into the nature of audit performance [17].

After careful contemplation, we realized that auditing is a specialized scientific field, and formulating a correct and appropriate philosophy regarding auditing is commendable. The philosophy of auditing encompasses abstract ideas and possesses a logical structure consisting of self-evident assumptions, concepts, methods, and procedures. Consequently, articulating auditing theory philosophically entails a meticulous intellectual inquiry. Hence, auditing warrants recognition as a scientific discipline, providing an avenue for intellectual exertion and demanding substantial intellectual effort.

Those responsible for compiling accounting policies have recently elucidated and prescribed the fundamental reporting attributes regarding relevance and reliability. Auditors typically bear professional and legal obligations to opine whether the audited financial statements have influenced users' decisions and accurately represent economic phenomena; such instances hold significance for auditors. These instances signify that auditors know users' decisions and can observe and scrutinize reportable and verifiable economic phenomena.

The perspectives on the group's research are derived from empirical academic investigations. These viewpoints consider the members' previous opinions and the numerous evident assumptions regarding individuals and entities associated with the subject matter or impacted by financial statement audits. As the academic empirical research progresses in each area of debate concerning the proposed regulations, the group's work presents the three perspectives above and serves as a guide to outlining the overall standpoint on the proposed regulations. The first perspective asserts that standards should be established based on comprehension. The second perspective suggests that the responsibility for developing standards should primarily lie with independent standard developers in the private sector, who are chosen based on their specialized expertise. The third perspective maintains that the objective of regulatory authorities in drafting standards and regulations should be to enhance operational and transparent guidelines widely utilized within the existing legal framework.

The results of the quantitative section show the appropriate fit of the proposed model. After testing the measurement models, it is necessary to provide a structural model showing the relationship between the research variables. Research hypotheses can be examined using the structural model. Based on this, the research model was evaluated using Amos software. As can be seen, all the relationships, according to the value of the path coefficients, are confirmed at the 95% confidence level. This study's results align with the studies of Elmi Hosseini and Rasouli [5], Hajipour [9], and Julia Baldauf et al. [3].

6 Practical recommendations for research

Practical recommendations based on the findings of the research are as follows:

1. Mitigating the difference or conflict of interest between providers of financial information and their users is crucial. This means to reduce the conflict of interest between shareholders and managers.
2. Enabling direct access to financial information and its providers for users should be considered. This would facilitate a more efficient flow of information.
3. Conducting thorough audits of financial statements and sharing them with relevant parties such as banks, tax authorities, shareholders, and other decision-makers makes them gain confidence in the organization. High transparency of information is a key attribute of effective auditing.
4. Regular audits of financial statements are essential to ensure the reliability of companies. A transparent and consistent audit process aids in effectively addressing internal issues within the organization and making informed decisions.

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