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The relationship between political relations with audit quality and auditor industry expertise

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The present study assesses the relationship between political relations, audit quality, and auditor industry expertise. In other words, this paper attempts to answer the question of “whether the political relations can enhance the audit quality and auditor industry expertise or not.” For this study, the multivariate regression model is used for hypothesis testing. Using the multivariate regression model, research hypotheses were also tested using a sample of 768 year-firm listed on the Tehran Stock Exchange during 2013–2018. The results show a significant and negative relationship between political relations with audit quality and expertise, which means firms with high political relations increase competition in the audit market and lower the audit quality.

KEYWORDS

audit quality, auditor industry expertise, political relations

1 | INTRODUCTION

Auditor expertise indicates the auditor's specialization, experience, knowledge, and ability in exploring existing biases in financial statements (Salehi, Moradi, & Paydarmanesh, 2017b). Audit firms provide the staff's required training and apply the industry's most updated technology to increase audit quality. They try to elevate their credit and prestige by acquiring industry specialization and presenting high-quality works (Gramling & Stone, 2001). Dunn and Mayhew (2004) notice that specialization can increase audit quality and, finally, financial reporting quality. Moreover, Balsam et al. (2003) find a positive relationship between specialized auditors and financial reporting quality. The results of Romanus et al. (2008) show a negative relationship between specialized industry auditors and financial restatement. Ming et al. (2017) and Liu et al. (2016) posit that firms with political relations search for high-quality auditors. According to these studies, auditor narcissism lowers the audit quality because audit quality derives from auditors' quality of judgment and decision. So, auditors should be responsible for their performance and the

results of audit reports. Auditors' competency to deal with different situations and making high-quality judgments relies on their attempts to improve efficiency (Salehi & Dastanpoor, 2018; Salehi, Jafarzadeh, & Nourbakhshhosseiny, 2017a). Hence, firms with political relations also try to enhance their political relations interests to conceal any intentional and misleading action in their financial reports to investors (Leuz & Oberholzer, 2003). Moreover, since such firms are dealing with organizational problems (Bliss & Gul, 2012; Boubakri et al., 2012), they are known as high-risk firms, so the shareholders of such firms try to find high-quality auditors to prevent such actions (Ming et al., 2017). Thus, firms with political relations select large and high-quality auditors to increase accounting information (Guedhami et al., 2014; Liu et al., 2016). There are currently different definitions of audit quality in society. One of the most important and oldest proposed by DeAngelo (1981) described audit quality as “market evaluation from the probability that auditors explore significant deviations in financial statements and report them.” Like Titman and Trueman (1986), other scholars believe that the accuracy of published information by the auditor is an index for audit quality. According to DeAngelo (1981), using a criterion or index directly associated with audit quality is extremely economical in terms of time and cost to measure the audit quality, which is non-tangible. Therefore, he proposes the audit firm's size as an available

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and measurable criterion for evaluating the audit quality and posits that larger audit firms enjoy high-quality training periods. Failure to explore significant deviations at the financial statement level causes the organization's outflow of considerable profits. Further, larger audit firms are also more willing to maintain their fame in society, which causes clients' financial statements to be audited with higher quality. In general, it can be said that larger audit firms always have more customers that bring about their independence to the client and increase the bargaining power of such firms compared to that of the smaller firms. On the other hand, Hermanson et al. (2007) and Deloitte (2010) believe that if an auditor issues an adjusted report, this shows that he/she will perform his/her job with planning, effort, and independence. One of the important issues for increasing the quality of financial reporting is to lower information asymmetry by increasing the audit quality (Das & Pandit, 2010). Catanach and Walker (1999) define the audit quality as a function of two factors, auditor competencies (including knowledge, experience, adaptation power, and technical efficiency) and professional implementation of auditing (like independence, objectivity, professional care, conflict of interests, and judgment) because auditor expertise is indicative of specialization, experience, and competency of the auditor in exploring existing biases in financial statements. By giving appropriate training to employees and applying suitable technologies, audit firms increase audit quality and elevate their credit and prestige by acquiring industry specialization and presenting high-quality works (Gramling & Stone, 2001). Dunn and Mayhew (2004) notice that specialization can increase audit quality and, finally, financial reporting quality. Today, the intensification of competition in production and services has caused many companies to go bankrupt, which has caused concern among owners and managers. Investors always want to prevent capital loss by anticipating the possibility of a company going bankrupt. Therefore, they are looking for ways by which they can evaluate the factors affecting the financial distress of companies and try to reduce the effects of the financial crisis by creating a political relationship. Managers with political connections are usually considered strong because they can reap various benefits (Khan et al., 2016). These connections can lead to representation costs in emerging economies, typically associated with a weak legal environment. Political relations and influence affect the financial position of enterprises and the motivations of managers concerning financial reporting, which is expected to ultimately lead to significant differences in the audit quality and financial quality of companies with political relations compared to companies without political relations. Hence, the present study aims to assess the relationship between political relations, audit quality, and auditor industry specialization in emerging markets. Since the present study is carried out for the first time with a new approach to calculating political relations and audit quality, it can contribute to science and knowledge development. Since this paper is the first paper about such a topic, it can fill the topical literature gap. In the upcoming sections, we talk about theoretical principles. The methodology, which comprises the model, data analysis, discussion, and conclusion, will be discussed in the fourth and fifth sections.

2 | THEORETICAL PRINCIPLES AND HYPOTHESIS DEVELOPMENT

Political relations and influence contribute to business firms' financial condition and affect managers' motivations concerning financial reporting. It is expected that this condition finally leads to significant differences in the financial reporting of those firms that, compared to other firms, benefit from extensive political relations (Chaney et al., 2011). According to Fisman (2001), political relations are a factor for firm profitability in East Asian and developing countries compared to the firm's economic bases. He also believes that even with political relations, firm earnings are considerably influenced by governmental decisions that attract their interests. Capital resources do not rely on the reported profit in firms with political relations because political relations bring about easy access to state-owned banks' credit and capital resources (Boubakri et al., 2012). Today, business firms' managers are also searching for high-quality auditors to attract more capital and show their firm performance. The managers of business firms with high political relations seek high-quality auditors and auditors willing to sign a contract with such firms to increase their fame and ensure collecting claims. Auditors to sign a contract with such firms increase their audit quality and expertise because industry specialization is the salient feature of auditors in today's world. Such a feature is a key factor in the audit market. A firm with more specialization in different industries will benefit from a higher market proportion. Hence, we expect a political relation to lead to the enhancement of auditors' quality and specialization. Studies with maximum similarities to this topic, including Maaloul et al. (2018), declare that political relations elevate firm performance and value. To acquire higher profits, investors are willing to invest in firms with high political relations. Saeed et al. (2016) indicate that political firms' performance, based on the indices of return on assets and return on equity, is lower than nonpolitical firms' performance by 15% and 17%, respectively. Boubakri et al. (2012) figure out that firms first enhance their performance after making political relations and increasing their debts. Second, political relations are associated firmly with a change in operational leverage and performance. Third, firms with political relations have easier access to credit sources. Bad Avar Nahandi and Taghizadeh Khanghah (2018) observe that political relations have an extremely positive impact on investment and a negative effect on firm performance. Ahmadi (2015) also reveals a positive and significant relationship between information asymmetry and audit fees. Hussain et al. (2020) concluded that politically connected firms face high agency costs as they do not use their assets efficiently to generate revenue. In addition, the impact of auditor expertise on agency costs shows that audit quality is a significant mechanism to control agency costs. Whereas it is determined that the growth of politically connected firms is low and older firms exhibit lower agency costs. So the first and second hypotheses of the study are as follows:

Hypothesis 1. *There is a significant relationship between political relations and audit quality.*

Hypothesis 2. *There is a significant relationship between political relations auditor industry specialization.*

3 | RESEARCH METHODOLOGY

This paper's statistical population includes all listed firms on the Tehran Stock Exchange during 2013–2018.

Sampling method. The systematic elimination method is used for sampling, and the statistical sample is selected after applying the following conditions:

Firms should be listed on the Tehran Stock Exchange until the end of 2012;

Firms should be active during the period of the study, and their shares should be transacted;

Firms should fully present the required information for this study; and,

Firms should not be affiliated with investment firms, banks, insurance, and financial intermediaries.

The primary and raw information and data for hypothesis testing were collected using the information bank of Tehran Stock Exchange, including Tadbir Pardaz and Rah Avard-e Novin, and also the published reports of Tehran Stock Exchange via direct access (by analyzing the released reports in Codal Website and manually collected data) to CDs and also by referring to rdis.ir website and other necessary resources.

The data analysis method is cross-sectional and year-by-year (panel data). In this paper, the multivariate linear regression model is used for hypothesis testing. Descriptive and inferential statistical methods are used for analyzing the obtained data. Hence, the frequency distribution table is used for describing data. At the inferential level, the F-Limer, Hausman test, normality test, and multivariate linear regression model are used for hypothesis testing.

3.1 | Research model

To test the first hypothesis, model 1 is used as follows:

Model (1)

$$AQ_{it} = a_0 + a_1PR_{it} + a_2LEV_{it} + a_3SIZE_{it} + a_4AIS_{it} + a_5ROA_{it} + a_6LNafee_{it} + a_7ACC_{it} + a_8ROE_{it} + a_9Growthsales_{it} + a_{10}risk_{it} + a_{11}Inve_{it} + a_{12}OWN_{it} + a_{13}ICW_{it} + a_{14}LOSS_{it} + a_{15}SHOP_{it} + a_{16}MODIF_{it} + a_{17}Age_{it} + a_{18}YEAR_{it} + a_{19}INDUSTRY_{it} + \varepsilon_{it}$$

To test the first hypothesis, model 2 is used as follows:

Model (2)

$$AIS_{it} = a_0 + a_1PR_{it} + a_2Atenure_{it} + a_3Achange_{it} + a_4BIG1_{it} + a_5LNafee_{it} + a_6rank_{it} + a_7size_{it} + a_8LEV_{it} + a_9ICW_{it} + a_{10}Age_{it} + a_{11}loss_{it} + a_{12}INDUSTRY_{it} + a_{13}YEAR_{it} + \varepsilon_{it}$$

where

PR: political relations: the exploratory factor analysis of the following variables is used for measuring political relations:

1. D/TL: long-term debts to total debts ratio per year are calculated for each firm;
2. NGB/BS: affiliated board members with the government to total board members is calculated for each year;
3. GSH/TSH: major governmental or quasi-governmental shareholders to total shareholders are calculated for each year;

Those firms with long-term debts to total debts ratio, affiliated board members to the government to total board members, and also major governmental or quasi-governmental shareholders to total shareholders more than the median of other firms are referred to as firms with political relations and 1 will be assigned to them, and other firms will gain 0. This variable is a virtual factor in case the firm has political relations 1. Otherwise, 0 will be assigned.

4. Firm size (SIZE): natural logarithm of total firm assets;
5. Institutional ownership (IINE): number of shares available to governmental, financial, insurance, and investment firms to total published shares;
6. Financial leverage (LEV): is equal to total liabilities to total assets;
7. Export (FORIN): in the firm understudy has an export 1, otherwise, 0; and,
8. Human force (EMPLOY) equals the number of business firm staff in the year under study.

This paper uses the exploratory factor analysis (using the principal component analysis) to calculate the political relations variable. Factor analysis is a multivariate statistical method for classifying and recognizing the present structures among research data. Such a statistical method is mainly used for two reasons. Firstly, the exploratory factor analysis method enables us to combine extensive variables that affect political relations to proxy political relations. This occurs while in the previous studies, either a limited set of factors (liability ratio, governmental or quasi-governmental shareholders, and affiliated board members with the government) were considered as political relations or the linearity problem that may derive from the presence of several variables is ignored that affect political relations and can be emerged in the form of control and independent variables in experimental models. On the other hand, controlling mutually potential relations of variables is not an easy task. Secondly, one of the exploratory factor analysis features is to assign a weight to every included variable in political relations based on the output of the correlation matrix, which is in contrast with the previous studies that consider the effect of each variable of political relations as equal.

As for calculating the variable of political relations, the information related to 8 factors of political relations with an influence on motivation and capability of a business firm is collected for each year-company. Then the linear correlation coefficient matrix of the above 8 variables is extracted for each year, and finally, the exploratory factor analysis is carried out. The weight of 8-fold variables is computed. The variable of political relations is achieved from the total weight multiplication of the factor in a numerical value of the related factor.

Moreover, we should say that since export is related to political relations and firms with higher political relations benefit from a higher export,

like higher liability, every firm with a higher political relation will have more financial supply, as well. The government's employment will support one of the government's significant duties and firms with more labor force, so the number of staff can be a criterion for political relations.

The present study introduces a new index for political relations using the model's exploratory factor analysis (1). The previous indices were not appropriate, individually, for political relations and should be strengthened, so the use of exploratory factor analysis remedied the previous index's defects because the new index determines the severity of political relations, not the presence or absence of that.

Model (1)

$$PR_{it} = NGB/BS_{it} + D/TL_{it} + GSH/TSH_{it} + SIZE_{it} + IINVE_{it} + LEV_{it} + FORIN_{it} + EMPLOY_{it}$$

AQ: Audit quality: the exploratory factor analysis of the following five variables is used for measuring audit quality:

1. Number of audit firm partners
2. The rank of audit firms discloses annually by the official accountants association
3. Audit firm largeness, if the audit firm is affiliated with the audit organization or Mofid Rahbar 1; otherwise, 0
4. Audit firms' tenure
5. Auditor change, if the audit of the business firm has changed in the year under study 1; otherwise, 0

This paper uses the exploratory factor analysis (using the principal component analysis) to calculate the political relations variable. Factor analysis is a multivariate statistical method for classifying and recognizing the present structures among research data. Such a statistical method is mainly used for two reasons; firstly, the exploratory factor analysis method enables us to combine an extensive set of variables that affect the political relations to make a proxy for political relations. This occurs while in previous studies, either a limited set of factors was considered political relations or the linearity problem that may derive from several ignored variables that affect political relations and can emerge in the form of control and independent variables in experimental models. On the other hand, controlling mutually potential relations of variables is not an easy task. Secondly, one of the exploratory factor analysis features is to assign a weight to every included variable in political relations based on the output of the correlation matrix, which is in contrast with the previous studies that consider the effect of each variable of political relations as equal.

As for the manner of calculation of the variable of audit quality, the information related to 5 factors of political relations with an influence on motivation and capability of a business firm is collected for each year-company, then the linear correlation coefficient matrix of the above five variables is extracted for each year, and finally, the exploratory factor analysis is carried out. The weight of 5-fold variables is computed. The variable of audit quality is achieved from the total weight multiplication of the factor in a numerical value of the related factor.

AFA: audit firm age equal to the time interval between the current year and establishment date of the audit firm.

AIS: auditor specialization in the industry i in the year t that in this paper, the market share is used as an index for auditor industry specialization because it shows the priority for industry to other auditors. The more the auditor's market share, the more industry specialization and auditor experience than other rivals. Auditor market share is computed as follows:

$$\frac{\text{total assets of all employers of each special audit firm in special industry}}{\text{total assets of all employers in special industry}} \quad (1)$$

In this paper, those firms are considered industry specialized that their market share, namely the so-called ratio, is more than $[(\text{total existing firms}/1)*1.2]$. After calculating an audit firm's market share, if the obtained value is more than the above equation's value, the audit firm is specialized in that industry. Hence, if an audit firm is industry specialized 1; otherwise, 0 will be assigned (Habib & Bhaiyan, 2011).

RISK: auditor risk which is achieved in proportion to the long-term liability ratio of the audit customer;

Size: firm size equal to the natural logarithm of total firm assets;

NONREST: non-restatement, if the firm understudy did not restate the financial statement in the year under study 1, otherwise, 0;

LnAfee: natural logarithm of audit fee;

Rank: audit firm rank, which is evaluated according to the classification of authorized audit firms;

ROA: Return on equity equal to net profit ratio divided by the book value of equity in the year under study;

LEV: financial leverage equal to total liabilities to total assets of a firm in the year understudy.

Growthsales: sales growth equal to total sales minus that of the previous year divided by the sales of the previous year;

Age: firm age equal to the duration of time passed from the date of establishment to the year under study;

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

Year: dummy variable of the year; and,

Industry: dummy variable of industry.

4 | DATA ANALYSIS

4.1 | Descriptive statistics

In this paper, two models are used to assess the relationship between political relations and narcissism and overconfidence of auditors, and a model is used to analyze sensitivity. Moreover, the present study has inserted the panel data method of 128 Iranian firms from 2012 to 2017 in its database. To assess the models, the variables of narcissism, auditor overconfidence, and political relations are used which shown in Table 1.

TABLE 1 Descriptive statistics of research variables

Variable	Mean	SD	Min	Max
AQ	0.667	0.444	0.017	2.102
AIS	0.462	0.499	0.000	1.000
PR	1.286	0.521	0.017	2.673
AQ	0.677	0.444	0.017	2.101
AIS	0.462	0.498	0	1
Atenure	3.761	3.981	1.000	16.000
Achange	0.346	0.476	0.000	1.000
Big1	0.298	0.457	0.000	1.000
Rank	2.812	0.417	1.000	3.000
Lnafee	7.604	1.862	3.245	14.390
ICW	0.307	0.461	0.000	1.000
SHOP	0.646	0.478	0.000	1.000
IINVE	0.557	0.346	0.000	0.990
OWN	0.698	0.207	0.010	0.989
ACC	0.065	0.073	0.000	0.761
MODIF	0.485	0.500	0.000	1.000
ROE	0.241	0.378	-2.114	2.813
RISK	0.069	0.105	0.012	0.945
LEV	0.607	0.233	0.090	2.315
AGE	38.436	12.839	10	66
SIZE	14.247	1.526	10.533	19.374
ROA	0.114	0.232	-2.898	0.802
Growthsales	0.186	0.385	-0.845	2.742
Loss	0.133	0.339	0	1

The variables of audit quality and political relations are obtained using the exploratory factor analysis. They are assigned a coefficient by the Software, which will be discussed in the third section. Moreover, the maximum value for financial leverage is 2.315, and the minimum value for return on assets is the negative value of 2.898.

4.2 | Results of the linearity test

As shown in Table 2, by assessing the linearity of variables, there is no linearity among variables and independent of one another.

As shown in the table, given the obtained VIF statistic for all variables, which is less than 10, there is no linearity among model variables.

The correlation of variables is also studied, and results show no correlation among variables.

4.3 | Inferential test

To test the first hypothesis, the following model is used:

Model (1)

TABLE 2 The results of the linearity test among variables

Variable	VIF	1/VIF
SIZE	1.95	0.513
ROA	1.67	0.599
LEV	1.64	0.611
Lnafee	1.59	0.628
LOSS	1.58	0.633
IINVE	1.51	0.662
OWN	1.38	0.724
AIS	1.33	0.751
ROE	1.32	0.756
RISK	1.28	0.891
MODIF	1.19	0.840
ICW	1.12	0.889
Growthsales	1.11	0.901
Shop	1.10	0.907
Age	1.06	0.945
ACC	1.05	0.952
PR	1.03	0.972
Mean VIF	1.35	

$$AQ_{it} = a_0 + a_1PR_{it} + a_2LEV_{it} + a_3SIZE_{it} + a_4AIS_{it} + a_5ROA_{it} + a_6LNafee_{it} + a_7ACC_{it} + a_8ROE_{it} + a_9Growthsales_{it} + a_{10}risk_{it} + a_{11}IInve_{it} + a_{12}OWN_{it} + a_{13}ICW_{it} + a_{14}LOSS_{it} + a_{15}SHOP_{it} + a_{16}MODIF_{it} + a_{17}Age_{it} + a_{18}YEAR_{it} + a_{19}INDUSTRY_{it} + \varepsilon_{it}$$

We should first determine whether the *F* test is pooled or panelled to estimate the model. This test's null hypothesis is that the data are pooled, and Hypothesis 1 claims that data are panel. If *H*₀ is rejected after performing the *F* test, the question here is based on which models of fixed effects or random effects the model is analyzable, which is determined by the Hausman test. Regarding the pooled test results reported in Table 3, the null hypothesis concerning the pooled data is not ejected for the first model at 99%. Hence, the model with panel data should be used for estimating the coefficients of the models. According to Table 2, the Hausman test statistic, based on estimation for the models, is equal to 11.72, with a probability level of 0.8176, which is larger than the table's value, so the null hypothesis is not rejected. Hence, the model with random effects is more appropriate for the model.

According to Table 4, there is a negative and significant relationship between political relations and audit quality. Its *p*-value is 0.040 less than the significance level of 0.05 with a negative coefficient of 0.001, which shows a negative and significant association among these two variables. So, the more the political relations of firms, the less is the audit quality.

To test the second hypothesis, the following model is used:

Model (2)

TABLE 3 The results of model one estimation

AQ	Coef	SE	Z	p-value
PR	−0.001	0.000	−2.06	0.040**
Lev	−0.10	0.004	−2.75	0.006***
Size	0.024	0.012	2.00	0.045**
ALS	0.002	0.001	2.24	0.025**
Roa	−0.116	0.064	−1.81	0.070*
Lnafee	0.097	0.048	2.02	0.046**
Acc	−0.651	0.263	−2.48	0.013**
Roe	−0.008	0.005	−1.66	0.096*
Growthsales	−0.099	0.043	−2.29	0.022**
Risk	0.128	0.052	2.45	0.015**
IINVE	0.007	0.003	2.48	0.013**
OWN	0.178	0.076	2.35	0.019**
ICW	−0.011	0.006	−1.83	0.070*
Loss	−0.042	0.012	−3.49	0.000***
Shop	0.005	0.002	3.21	0.002***
Modif	0.080	0.035	2.28	0.022**
Age	0.046	0.027	1.73	0.085*
Con	0.018	0.010	1.73	0.084*
F-limer	F(127,516)	0.69		
	p-value	0.09943		
Hausman	Chi2(17)	11.72		
	p-value	0.8167		
R-SQ	0.0232			
R-SQ2	0.2304			
Pro	Chi2(17) = 64.34			
	p-value = 0.000***			

Note: Resource: research findings.

* 90% significance level.

**95% significance level.

***99% significance level.

$$\begin{aligned}
 AIS_{it} = & a_0 + a_1 PR_{it} + a_2 Atenure_{it} + a_3 Achange_{it} + a_4 BIG1_{it} + a_5 Lnafee_{it} \\
 & + a_6 rank_{it} + a_7 size_{it} + a_8 LEV_{it} + a_9 ICW_{it} + a_{10} Age_{it} + a_{11} loss_{it} \\
 & + a_{12} INDUSTRY_{it} + a_{13} YEAR_{it} + \varepsilon_{it}
 \end{aligned}$$

Regarding the pooled test results presented in Table 4, the null hypothesis concerning the pooled data is rejected at a 99% confidence level for the second model, so the panel data model should estimate the second model's coefficients. According to Table 4, the Hausman test statistic, based on estimation for the models, is equal to 9.45, with a probability level of 580.0, larger than the table's value, so the null hypothesis is not rejected. Hence, the model with random effects is more appropriate for the second model. According to Table 4, there is a negative and significant relationship between political relations and audit market specialization. Its *p*-value is 0.004 less than the significance level of 0.05 with a negative coefficient of 0.002, which shows a negative and significant association among these two variables.

TABLE 4 The results of model one estimation

ALS	Coef	SE	Z	p-value
PR	−0.002	0.001	−2.85	0.004***
Atenure	0.003	0.001	1.80	0.072*
Achange	−0.003	0.013	−1.92	0.054*
Big1	0.356	0.072	4.98	0.000***
Lnafee	−0.005	0.002	−2.05	0.041**
Rank	0.105	0.039	2.70	0.007***
Size	0.106	0.018	5.77	0.000***
Lev	−0.073	0.034	−2.18	0.030**
ICW	0.069	0.036	1.92	0.055*
Age	0.002	0.000	6.00	0.000***
Loss	−0.064	0.039	−1.65	0.099*
Con	−1.396	0.256	−5.46	0.000***
F-limer	F(127,536)	5.84		
	p-value	0.000***		
Hausman	Chi2(11)	9.45		
	p-value	0.580		
R-SQ	0.0886			
R-SQ2	0.4389			
p-value model	Chi2(11) = 205.05			
	Prob = 0.000***			

Note: Resource: research findings.

**95% significance level.

***99% significance level.

As can be seen in Tables 2 and 4, the results of model estimations are robust. Panel data and four classic econometric assumptions are assessed in these models, and the results are reported as reliable. These four assumptions include linearity among variables, exogeneity of descriptive variables, homogeneity variance, and the absence of serial autocorrelation among disruptive components. Given the applied regressions, the intercept is significant for both models (model 1 at 09% and model 2 at 99% confidence level), and model 2 outperform model one because the coefficient of determination of the second model is 0.4389, which benefit from more explanatory power, compared to the first model.

5 | DISCUSSION AND CONCLUSION

The present study assesses the relationship between political relations and auditor industry quality and specialization. The results of the study show that there is a negative and significant relationship between political relations and audit quality and industry specialization, such that the more the political relations, the less the audit quality would be, which is, in turn, one of the reasons for the decline of specialization in the audit industry. In addition, companies with political connections may sacrifice significant resources for political activities, depriving them of the benefits of political communication. Therefore, the possibility of manipulating financial statements in such

companies is high, and company managers can use political communication opportunistically and influence the interests of shareholders. Because since corporate governance and investors' support are weak in the emerging markets, managers misuse their power with political relations and ignore shareholders' interests and increase agency costs. Since the conventional mechanisms of corporate governance are not effective in emerging economies, we show that political relations affect auditors' supervisory role and lead to the decline of audit quality. The results of the study are in line with that of Gul (2006); Fan and Wong (2005), Chaney et al. (2011), and Arifur et al. (2017), who declares that political relations can bring about the decrease of audit quality and are also in contrast with that of the He et al. (2017) who claim that political relations lead to the increase of audit quality. In other words, they posit that firms with higher political relations do not normally assign their audits to small audit firms. Political relations also contribute to auditors' evaluations of audit risk and even in selecting auditors for the desired firms. Given that the research results show that there is a negative relationship between corporate political communication and audit quality, so investors and financial analysts are advised to pay attention to the level of corporate political communication in the situation and consider Existence of more political connections leads to lower audit quality, which can also affect the quality of financial reporting. In addition, the Tehran Stock Exchange and Securities Organization are proposed to require companies with high political relations to select specialized, big and high-quality auditors to reduce agency costs and reduce the financial crisis of companies. The present study is carried out in emerging markets, like Iran, with an inflationary economy, extremely competitive audit firms, and high political relations firms. This would cause such firms' bargaining power to increase. Since Iran's audit market is also competitive, audit firms usually sacrifice the quality to attract more customers and publish a report following employers' tastes (Lennox, 2002a, 2002b). Due to companies' limited selection and access to their financial information.

DATA AVAILABILITY STATEMENT

The data will be available at request.

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