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THE EFFECT OF POLITICAL CONNECTIONS ON AUDITOR CHOICE AND RELATED PARTY TRANSACTIONS

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ABSTRACT

Financial reporting quality is a vital element in optimal allocation of resources and formation of proper economic decisions. Factors affecting the choice of an independent auditor and performing Related Party Transactions (RPTs) can affect the quality of financial reporting. The purpose of this study was to examine whether the political connections (PCs) of companies affect the relationship between (AC) and RPTs. For this purpose, 53 companies were selected among the companies listed on Tehran Stock Exchange for the period 2011-2016. Given the complexity of the research model, Smart-PLS software was used for data analysis. The results showed a positive and significant relationship between the PCs of companies and RPTs. The results indicated that PCs of the companies had no significant relationships with AC. Moreover, the results showed that given the reverse and significant relationship between RPTs and AC, PCs would reduce the severity of the reverse relationship, but its effect was not significant.

Keywords: *Auditor Choice, Political Connections, Related Party Transactions.*

INTRODUCTION

Financial analysts consider one of the reasons for financial crises in companies to be conducting RPTs and covering them through false presentations in financial statements. Such transactions can provide a good opportunity for managers and affiliated individuals to withdraw cash from the company by underground activities (Djankov et al., 2008). Experience has shown that RPTs can not only create disruptions in value creation for shareholders but also lead to the collapse of firms (Gordon & Henry, 2005). On the other hand, RPTs can be perceived as a part of the main operations of the business unit, in which case not only are they not detrimental, but can also be of great help to the management in value creation for the shareholders (Friedman et al., 2003). Increasing the quality of financial reporting and promoting disclosure can be considered as awareness increasing tools that influence the efficiency of the capital market (Moosavi Shiri et al., 2015). One of the important and significant factors affecting the quality of financial reporting is the political communication of the firms. Political relationships and influence, affect not only the financial status of the economic firms but also the motivations of managers in relation to financial reporting. It is expected that this state will eventually lead to significant differences in the quality of financial reporting of those companies that have broad political relationship with other companies. The justification is that companies with widespread PCs with the government suffer less cost from the state given the special conditions of PCs with the state

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(Chany et al., 2011). Thus, the existence of PCs, besides its double role for shareholders to gain more profit or to suffer losses, can reduce the quality of reporting as well.

It is expected that the higher the risk of corporate financial statements, the less credible auditing firms' acceptance of the audit firm's responsibilities. Indeed, this risk is directly connected with the weakness of internal controls and illegal activities (Mande et al., 2017). Given the fact that the existence of PCs and RPTs is not unrelated to the increased risk of audit, one can consider AC as a variable affected by PCs and RPTs.

In Iran's economic environment, many studies have been conducted concerning RPTs as well as PCs of the companies (such as Rezaei & Weysi Hesar, 2013; Hosseini et al., 2016; and Mousavi Shiri et al., 2015). However, so far, the effect of the power of corporate PCs on RPTs and AC has not been examined. Thus, the purpose of this study is to examine the effect of corporate PCs on the relationship between AC and RPTs.

HYPOTHESIS DEVELOPMENT

In inefficient capital markets, establishing and maintaining the relationship between companies and the state is usually accompanied by competitive advantage. The purpose of some mangers of the firms from establishing communication is elimination of financial constraints at the lowest cost (Bubakri et al., 2012). The purposeful connection between the interests of politicians and companies adds value to affiliated political affiliates (Chani Chaney et al., 2011). Politically affiliated companies are better off in obtaining loans from state (Charumilind et al. 2006; Dink, 2005) and private banks, have more favorable regulatory status, better status in access to import licenses (Khoja and Mayan Khawaja & Mian, 2005; Mubarak & Purbasari, 2006); lower tax rates (Faccio, 2010), lower import tariffs (Goldman et al., 2009), more market share (Faccio, 2010) and enjoy governmental currency. Therefore, the companies welcome these relationships for their own growth.

Given the many benefits that companies get through political communication, they have to give some privileges to the other party, so that both groups get their benefits. Granting privileges and meeting the needs of these individuals may be in conflict with the main objectives of the company, divert the company from its main path, cause irreparable losses to the main owners of the company that is the shareholders, and jeopardize the continuation of the company's activities. Thus, it is expected that the companies with PCs trade with politically affiliates individuals.

There are two perspectives on RPTs, each of which represents different aspects of such transactions. The first view defines such transactions as a tool for the personal gain for managers and considers them as the cause of the loss for the company and shareholders (Gordon et al., 2004). RPTs are one of the concerns of oversight bodies in public corporations, especially in companies admitted to capital markets (Hosseini et al., 2016). This is the result of this conservative accounting thinking stating such transactions may have a nature separate from the nature of transactions in the ordinary course of business of the entity with other persons. The second view considers such transaction as a guarantor of the work of managers in the company. The view of the effectiveness of RPTs follows the concept of transaction costs (Williamson, 1975). This view does not consider RPTs as harmful (Jian & Wong, 2010) because this theory considers the related parties as having the potential to increase the company's profitability and ultimately value of the company. Thus, according to the first view, it is not unexpected that the PCs of companies be related to RPTs. This is considered in the present research model as shown in Figure 1:

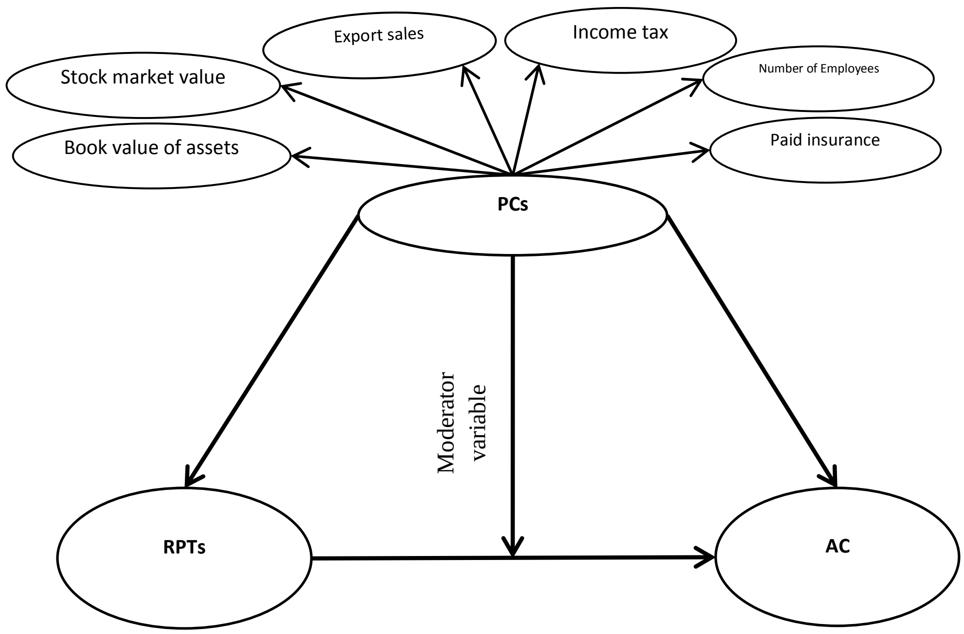

Figure 1: Conceptual Model of the Study

The trusted auditing companies in Iran are placed in four classes. Trusted audit firms that are better off in terms of classification are expected to be more sensitive and more responsive to the new client. Mande et al. (2017) argue that as the risk of corporate financial statements is higher, it is less likely that large audit firms assume the responsibility of auditing of the mentioned firm. In fact, this risk is directly related to the weakness of internal controls and illegal activities.

Studies on the relationship between AC and companies with PCs have resulted in contradictory results. On the one hand, the companies with PCs are not willing to choose large auditors, and this decision is made to cover up and conceal fraud and rentier activities (Morck et al., 2000; Ma et al. 2013). Such companies may manipulate accounting numbers and value PCs to ensure non-disclose of their deviant practices (Guedhami et al., 2014). On the other hand, there are companies that, despite having PCs, refrain from RPTs and prefer to be audited by large audit firms (Dyck & Zingales, 2004) because audit of financial statements by large auditors increases the special credit for financial statements (DeFond & Zhang, 2014).

The bias of the results of the above studies on the relationship between AC and companies with PCs is contradictory. For clarification of the mentioned relationship in the country's economic and political environment, as is seen in Figure 1, the relationship between corporate PCs and AC is examined. As firm size can affect AC, and as the purpose of the present study is not to measure the effects of this variable, according to Figure 1, we decided to control the effect of firm size on the relationship between PCs and AC.

Gordon et al. (2004) believe that to cover the negative effects of RPTs, mangers distort financial statements. Thus, RPTs are expected to affect AC. In the present study, the effect of RPTs on AC is examined. This relationship is seen in Figure 1. In order to examine this relationship more closely, we tried to control the effect of the firm size on AC as large companies prefer large audit firms. Habib et al. (2017) believe that the companies with widespread PCs, despite having many RPTs are more contending in selecting large audit firms. Thus, the present study examines the effect of the moderator PCs on the relationship between RPTs and AC.

Research hypotheses

H_1: The PCs of companies has a significant relationship with AC.
H_2: RPTs and the type of auditor selected by the companies have a significant relationship considering the effect of the moderator variable PCs.
H_3: PCs of the companies and RPTs of these companies have a significant relationship.

Variables

PCs: To determine the intensity of corporate PCs, Faccio's (2006) political cost variables are used as is shown in Table 1. For example, the higher the value of the stock market, the more the company's relationship with the stock exchange is, so the company will be more closely linked to the Ministry of Economic Affairs and Finance.
It is noteworthy that for using the variables in the mentioned table, except for the number of employees, their natural logarithms have been used in statistical analysis (Habib et al., 2017).

Table 1: Observed variables of corporate PCs

Observed variable	Explanations
Stock market value	The higher the value of the stock market, the more the communication with the Stock Exchange
Book value of the assets	The greater the book value of the assets, the more the company's relationship with the Ministry of Economic Affairs and Finance
Income tax	The higher the income tax, the more the company's relationship with the Ministry of Economic Affairs and Finance
Number of employees	The greater the number of employees, the more the company's communicate with the Ministry of Labor and Social Affairs
Export sales	The higher the total export sales, the more the company's contact with the Ministry of Commerce
Paid insurance	The higher the insurance contributions of the employer and the higher unemployment, the more the company's communicate with the Ministry of Labor and Social Affairs

RPTs: to calculate the value of RPTs, we used the values disclosed in the notes for financial statements, and to use these values in statistical analyses, we considered the natural logarithm of these transactions (Habib et al., 2017).
AC: to quantify the discrete variable AC, for the trusted audit institution of classes 1 and 2, the corresponding number 1 and for trusted audit institutions of classes 3 and 4, the corresponding 0 were considered in the calculation.

Firm size: Given the fact that the effects of the control variable firm size are controlled in the research model, we have used the natural logarithm of the company's assets for measurement.

Literature Review

Rezaei and Weissi Hesar (2013) investigated the relationship between PCs with the state and the quality of profits of companies listed in the stock exchange. The results showed that profits are high in companies with a centralized ownership structure, whereas it is low in companies with widespread PCs with the government that has a centralized ownership structure.

Chien and Hsu (2010) examined whether corporate governance has a positive impact on the relationship between RPTs and firm performance. To measure the impact of corporate governance, they used independence of the board of managers. The results showed that corporate governance mechanisms change these transactions from opportunistic deals to efficient transactions, and the independence of the board plays a moderating role in these transactions. In a study with the same theme, Moscariello (2010) examined the incentives for RPTs in the Italian stock exchange. His goal was to identify the underlying reasons for RPTs and the efficiency or opportunistic nature of these transactions. The results showed that the use of RPTs by major shareholders happens for the acquisition of the company's resources and ends up at the expense of the loss of small shareholders. Thus, evidence suggests opportunistic behavior in these transactions.

Chaney et al. (2011) showed that earnings quality in companies with PCs is significantly weaker than other companies for three reasons. First, in companies with PCs, the benefits of connections are more than the costs incurred for these communications. The managers of these companies delay the reporting of the benefits they derive from their PCs with intentional intentions to mislead investors to offset their costs (Leuz et al., 2003). Second, as these companies have political back up, the concern over low quality of accounting information is less because the pressure of the capital market on these companies is lower than those without PCs. Third, considering the two previous factors; one can argue that companies' lower quality of earnings is likely to have more PCs. Moreover, their evidence showed that in companies with a centralized ownership structure, the quality of earnings is lower, and the concentration of ownership causes the company's PCs ration to reduce significantly, but this relationship is statistically significant (Chaney et al., 2011).

Peng et al. (2011) examined RPTs during the period 1998-2004. They found that, when a company is in good financial condition, controlling shareholders use RPTs to obtain distributed dividends due to control; and when they are in poor condition, they use control to obtain private benefits. They showed that, especially, if a company acquires the right to issue new shares, the market would respond negatively to disclosure of RPTs. Conversely, if it faces the risk of going out of exchange, it will face the positive market reaction to disclosure of RPTs.

In a study, Bliss and Gul examined the relationship between PCs and debt costs. The findings showed that companies with PCs are more risk-averse than other companies. Their evidence suggested that overall, these companies have higher debt costs, more loss reporting, and mostly audited by large audit firms.

Henry et al. (2012) examined the role of RPTs in fraudulent reporting. Their findings showed that the embezzlement of the company's assets was often related to transactions with high cash flow. Moreover, they reported that, in general, the existence of RPTs does not necessarily indicate fraudulent reporting.

Manaligod and Del Rosario (2012) examined the financial statements of the companies listed on the Philippine Stock Exchange for disclosure of relationships with affiliated entities, RPTs and remuneration of managers. The results indicated that the average disclosure was 60%, 70% and 62%, respectively. Then considering the type of audit of the companies, they showed no significant differences in disclosure between the companies classified according to the type of auditor. Moreover, regression analysis indicated that the type of auditor and firm size are not predictive of the amount of disclosure by the companies.

Srinivasan (2013) studied the relationship between RPTs and performance in Indian companies. In his study, he concluded a negative and significant relationship between RPTs and the performance of the company, and the amount of RPTs in companies audited by large corporations is lower than the rest of the companies. Pozzoli and Venuti (2014) examined the relationship between RPTs and the financial performance of Italian companies, which ultimately found no evidence of a causal relationship between them.

Kohlbeck & Mayhew (2016) investigated the relationship between RPTs and restatements after the balance sheet date. The researchers found a positive and strong correlation between these transactions and the renegotiation after the balance sheet date, and the likelihood of restatement after the balance sheet date when the companies deal with affiliated entities is 15% more than when the companies traded with affiliated entities.

Habib et al. (2017) studied the relationship between PCs, RPTs and AC. They concluded that companies with PCs that have RPTs tend to opt for auditors other than large auditors to cover the correct presentation of such information on financial statements. On the other hand, companies with PCs with no RPTs opt for large auditors to increase their reporting credibility.
According to what mentioned in previous studies, the issue of RPTs and PCs has great importance in the transparency of providing information. As one of the most important and legal components identifying the desirability and transparency of financial statements is the auditors, in the present study, using a complex model of the relationship between PCs, RPTs and AC, we will study the effect of the first two variables on the type of selected auditor more precisely.

METHODOLOGY

The population of this study was the companies listed in the Tehran Stock Exchange and the sample was selected by applying four criteria: the fiscal year of the company should end in March 21; during the years 2011 through 2016, they should not have change the fiscal year or activities; they should not be investment firm and financial intermediary; and required financial information should be available. The required data was extracted from Tehran Stock Exchange sites and software Rahavard-e Novin 3. Finally, 53 companies had the above criteria and were selected from among Tehran Stock Exchange companies during the period of 5 years from 2011 to 2016.

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Table 2: Descriptive statistics of the variables

Quantitative variables	Min.	Max.	Mean	SD	Kurtosis	Skewness
Logarithm of stock market value	10.03	12.319	11.201	0.615	-0.812	-0.078
Logarithm of book value of the assets	11.02	13932	12.382	0.786	-1.113	0.310
Logarithm of income tax	6.101	8.556	7.185	0.705	-1.040	0.210
Logarithm of the number of employees	37	203	93.755	43.523	0.058	0.795
Logarithm of export sales	8.04	9.398	9.147	0.204	18.044	-3.302
Logarithm of the paid insurance	5.007	7.135	6.469	0.399	1.782	-0.736
Logarithm of RPTs	0.00	10.078	5.673	4.454	-1.778	-0.467
Qualitative variables	Frequency		Frequency percentage		Total	
AC: Trusted Class 1 or 2	27		51%		53 companies	
AC: Trusted Class 3 or 4	26		49%			

As the relationship between the variables is very complex, one cannot test the hypotheses with the help of ordinary statistical software such as SPSS. According to Chin et al. (1996), the structural equation modeling approach is a powerful approach to examine models with moderating variables. Moreover, as structural equation approach is not sensitive to the sample size and lack of sensitivity of the Partial Least Squares to the normal or abnormal distribution of data (Mohsenin, S. & Esfidani, 2016), among software Structural equations based on covariance (such as Lisrel and Amos) and based on variance (such as PLS), finally, structural equation software based on partial least squares variance was selected. Smart-PLS software was used for data analysis.

The descriptive statistics related to the data of the variables for the 53 selected companies are presented in Table 2. As not all the research variables are quantitative, Table 2 is presented in two quantitative and qualitative sections.

Among the quantitative variables in Table 2, as can be seen, the lowest and highest logarithms of the stock market value are 10.03 and 12.39, respectively. The average natural logarithm of the market value of 53 companies is 11.201. Moreover, information on the standard deviation, kurtosis, and skewness of the variables is provided in this table. According to data from selected companies, one can state that some of these companies do not deal with third parties and the highest transaction value with them is 10.087.

The second part of Table 2 is related to the qualitative variable. For AC, the corresponding number 1 was used for trusted audit institutions of classes 1 or 2 and the corresponding number 0 for class 3 and 4 audit institutions. Given the information provided in the table, 51% of companies signed contracts with trusted auditors in classes 1 and 2, and 49% prefer the lower classes.

Testing the structural model

In this section, we have decided to evaluate the quality of the research model. There are two main criteria for testing structural models: the index of coefficient of determination and the index of redundancy. We will discuss each.

A. Coefficient of determination (r square)

The basic criterion for evaluation of the endogenous latent variables of the path model is the coefficient of determination. This indicator shows what percentage of the variation of the endogenous variable is interpreted by the exogenous variable. The values of 0.67, 0.33, and 0.19 for endogenous structural variables are described as significant, moderate, and weak, respectively. However, if a small number (one or two) of the exogenous variables affects the latent endogenous variable, the mean values of the coefficient of determination are acceptable too (Hensler et al., 2009).

Table 3: The coefficient of determination of endogenous variables

Latent endogenous variables	R Square	R Square Adjusted
AC	0.688	0.648
RPTs	0.510	0.500

As is seen in Figure 1, there are two endogenous variables in the research model, which are AC and RPTs. According to Table 3, one can argue PCs can describe 51% of the variation of RPTs, which is considered average. As RPTs is solely affected by one exogenous variable, the average values are also acceptable.

As is seen in Figure 1, AC is described by RPTs and PCs. Given that the coefficient of determination AC in Table 3 is 68.8%, one can claim that the independent variables significantly describe the endogenous variable.
Considering what was dealt with in determining the coefficient of determination in structural model, one can claim that the structural model of this study has selected proper independent variables in predicting dependent variables.

B. Cross Validation Redundancy Index

The quality of the structural model is calculated by the redundancy index (cv-red). The purpose of this index is to examine the quality level of the structural model. The values above zero for the reflective endogenous latent variables indicate that the observed values are good, showing that the model has the ability to predict and the required quality (Valaei et al., 2017).
Table 4 presents information on the redundancy index. Given that the index is greater than zero for both reflective endogenous variables (AC is 0.605 and RPTs 0.492), so the quality of the structural model is confirmed.

Table 4: Redundancy index

Latent variable	SSO	SSE	1-SSE/SSO
AC	53.000	20.935	0.605
RPTs	53.000	26.920	0.492

RESULTS

One of the indices for confirmation of the relationships in the structural model is the significance of path coefficients. Path coefficient states the existence of a linear causal relationship and the direction of this relationship between the two variables, which is a numeric value between 1 and +1. If they equal to zero, there is no linear causal relationship between the two latent variables (Valaei et al., 2017). The path coefficients and t statistics are seen in Figure 2. The significance of the path coefficients is shown in Table 5 as well. We will analyze each of the research hypotheses, the numbers of the figure and the table.

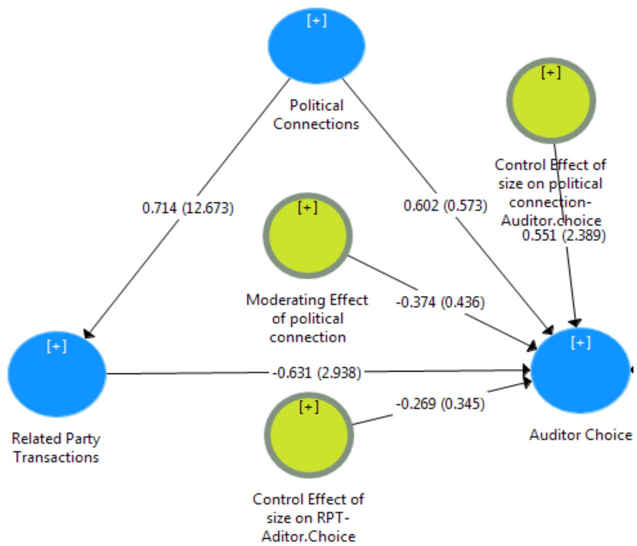

Figure 2: Path coefficients and t-statistics

Hypothesis 1: The PCs of companies have a significant relationship with AC.

According to the information in Figure 2, PCs affect AC from two paths. In the first path, the path coefficient is calculated for non-mediated communication of the two variables as 0.602. In other words, by increase in the PCs of the companies, they tend towards trusted audit institutions of classes 1 and 2. In the second path where these two variables are linked through the intermediary variable of RPTs, the path coefficient is -0.45 (0.631×0.714). Thus, the total direct and indirect effect of PCs on AC in the first hypothesis is 0.152. Figure 3, which shows the total histogram of these effects, confirms these calculations. Thus, one can argue that by increasing the PCs of companies, the probability of contracting with trusted audit institutions of classes 1 and 2 increases.

Table 5: Significance of path coefficients

hypothesis	Path start	Path end	Control variable	Moderator variable	SD	t-statistic	p-value
First	PCs	AC	Firm size	-	0.906	0.573	0.507
Second	RPTs	AC	Firm size	PCs	0.224	2.938	0.005
Third	PCs	RPTs	-	-	0.058	12.673	0.00
The effect of the moderator PCs on the second hypothesis					0.776	0.436	0.630

To study the significance of the direct relationship between the independent and dependent variables of the second hypothesis, by controlling the effects of firm size of on the relationship, according to the information in Table 5, one can claim that at 95% confidence level as p-value is calculated to be 0.507, the first hypothesis is rejected. This result is somewhat similar to the results of Dick & Zingales (2004), Blys & Gul (2012) Bliss & Gul and Guedhami et al. (2014) because they also claimed a direct relationship between RPTs and AC, but in contrast to their studies, the direct relationship here is significant. The results of researchers such as Morck et al. (2000), Ma et al. (2013) and Habib et al. (2017) are inconsistent with the results of this study. They found in inverse correlation between the PCs and AC.

The lack of a significant relationship between PCs and auditor type in the present study shows that the companies do not use their PCs for AC and determining the kind of auditor that is pleasing because in the event of a direct or reverse significant relationship, it is assumed that with its PCs the company wants to effect favorable changes in the audit process and, as a result, financial reporting, in normal circumstances.

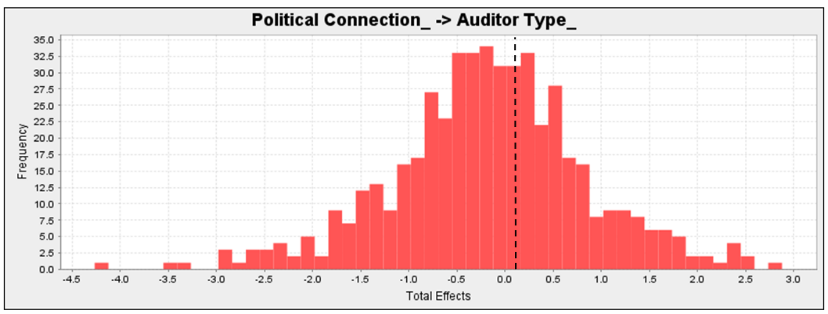

Figure 3: Histogram of total effects of PCs on AC

Second hypothesis: RPTs and the type of auditor selected by the companies have a significant relationship considering the effect of the moderating variable PCs.

As is seen in Figure 2, the path coefficient -0.631 suggests the inverse relationship between RPTs and type of auditor. This means that by increasing RPTs, companies are less likely to be willing to be audited by trusted institutions of classes 1 and 2. This relationship is examined by controlling firm size effects on this relationship. According to Table 5, t-statistic of this relationship is 2.938 and p-value is 0.005, so the significance of this inverse relationship is confirmed at 95% confidence level.

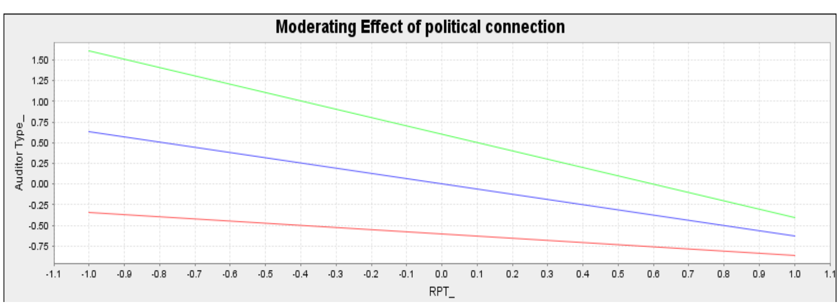

Figure 4: The effects of the moderating variable PCs on the second hypothesis

As the effect of the moderating variable PCs on the relationship between RPTs and the type of auditor should be measured, first, we deal with the type of effect that affects the relationship between these two variables, and then consider its significance. Figure 4 shows the effect of the moderator variable on the relationship between the independent variable and the dependent second hypothesis. In this figure, the blue line is the mean of the green and red lines. The green line shows the relationship between RPTs and the type of auditor without the effect of the moderating variable. The red line shows the relationship between the two variables, considering the effect of the moderating variable PCs.

Given the negative slope of the green line, as discussed before, it can be argued that the relationship between RPTs and the type of auditor is reverse. When the moderating variable PCs affects this relationship, the red line is seen. As the slope of this line is less than the slope of the green line, it can be inferred that by increasing RPTs, if PCs is considered, the companies tend to sign contracts with trusted institutions of classes 3 and 4, but this tendency is less compared to the time when PCs are not considered. In other words, PCs is the factor that makes such companies, despite having RPTs, have greater courage to enter into contracts with trustees of classes 1 and 2.

As shown in Table 5, as t-statistic of the effect of the moderating variable on the second hypothesis is 0.436, it can be claimed that considering the existence of a reverse and significant relationship between RPTs and type of auditor, the moderating variable PCs, despite reducing the severity of this relationship, its effect is not significant. This result was consistent with the results of Habib et al. (2017) and Gordon et al. (2004). However, Manaligod and Del Rosario (2012) believed in no relationship between the type of auditor and the RPTs.

In summary, the results of the analysis of the second hypothesis reveal the underlying reasons for performing RPTs and the efficiency or opportunism of these transactions. The results of this study were consistent with the studies such as Chen and Su Chien & Hsu (2010), Moscariello (2010), Srinivasan (2013), and Kohlbeck & Mayhew (2016) that confirm the existence of opportunistic behavior in these transactions because the reluctance to select the trustworthy auditors of Classes 1 and 2 is considered to be a way of detecting and non-disclosure RPTs. However, whether disclosing RPTs is for or against the owners, according to the results of Peng et al. (2011), one can claim that in certain circumstances it is for and in some cases against them.

Hypothesis 3: there is a significant relationship between PCs and RPTs.

In the final hypothesis, it was claimed that PCs and RPTs are correlated. By referring to Figure 2, it is seen that the path coefficient of this relationship is 0.714, which shows the direct relationship between the two variables. In other words, with the increase of PCs of the companies, RPTs increase too. According to Table 5, t-statistic of this relationship is 12.673 and p-value is 0.00 that suggest the significance of this direct relationship. The results of this study were consistent with the results of Gordon et al. (2004) and Jian & Wong (2010). Perhaps the reason for this result is that companies gain interest through PCs and to provide benefits for both groups, they also give some privileges to the parties in RPTs. In their studies, Rezaei & Weissi

Hesar (2013) and Chaney et al. (2011) confirmed that extended PCs of the company with the government are a factor to increase the likelihood of finical fraudulence.

DISCUSSION AND CONCLUSION

In this study, the researcher placed the key variables PCs, RPTs, and AC to figure out how these variables are related to each other. In the first hypothesis, it was claimed that the degree of PCs of companies has a relationship with the type of auditor selected by controlling the effect of firm size. The results showed that, with the increase of PCs of the companies, they tend more towards trusted audit firms of the first and second classes. In other words, they have a direct but weak relationship with each other. Thus, this hypothesis was rejected at 95% confidence level. The results obtained in this hypothesis were inconsistent with the results of Ma et al. (2013) and Habib et al. (2017). Considering the high trust that exists for trusted audit institutions of the high classes, it can clearly be stated that the relation obtained between the two variables is obtained in the contradictory studies rather favorable conditions in Iran's economic environment. In other words, the results of previous foreign studies indicate an inverse correlation between the two variables, i.e. with increasing PCs; they tend more towards weaker auditing institutions. This needs some reflection upon as it is not unexpected that PCs inflicted on financial misconduct will be shown and that it will tend to appear to be smaller than the audit firms to cover. However, in the present study, it was found that PCs of the companies has no significant effect on AC, which means non-interfere of these relations in financial reporting.

In the second hypothesis, it was claimed that the amount of RPTs by the companies has a relationship with the type of auditor selected by considering the effect of the moderating variable PCs on this relationship and by controlling the effect of firm size. The results showed that given the reverse and significant relationship between RPTs and type of auditor, the moderating variable PCs reduces the severity of this relationship but its effect is not significant. In other words, by increasing RPTs, the companies tend less to be audited by trusted institutions of high classes. On the other hand, from the results of studying the effect of the moderating variable PCs on this relationship, it can be interpreted that PCs are a component that makes such companies, despite having RPTs, have greater courage to enter into contracts with trustees of classes 1 and 2, but the moderating effect of the relationship is not significant. The result of this hypothesis was consistent with the results of Habib et al. (2017) and Gordon et al. (2004).

The inverse relationship between RPTs and the type of auditor selected has important information content. When there are no violations in such transactions, there is no reason for companies to sign contracts with poor audit firms for auditing. As the present study, similar to the studies by Chien & Hsu (2010), Moscariello (2010), Srinivasan (2013), and Kohlbeck & Mayhew (2016), there was an inverse relationship between the two variables; one cannot reject these transactions being opportunistic.

In the final hypothesis, it was claimed that there is a relationship between PCs and RPTs. The results of the study suggested that with the increase of PCs of companies, RPTs increase significantly. Rezaei & Weissi Hesar (2013) and Chaniyi et al. (2011) also claimed that the company's extensive PCs with the government are negatively correlated with the quality of the information reported, and since the power of the influential figures in RPTs of such companies cannot be ignored, so one can clearly understand the direct relationship between PCs and RPTs. Gordon et al. (2004) and Jian & Wong (2010) found similar relationships between these variables.

As at least 30 industries are active in the stock market, future researchers are recommended, in the future a research, studying each of the research variables to determine which industry has the most PCs and which industry has the most RPTs to get a better understanding of the situation of stock market companies. Thus, the industries that are more likely to be corrupted are identified to be monitored more by regulatory bodies. On the other hand, researchers are suggested using a decision matrix method to better distinguish between political and non-political companies in the entire stock exchange and separately for each industry. In addition, it is suggested that after dividing these companies into two political and non-political parties, study the significant difference in their financial performance.

As the results of this study suggested that by increasing RPTs, companies are less willing to be audited by trusted audit institutions of the higher classes, regulatory institutions in this area, especially the Audit and Association of Certified Accountants, are requested to take some measures to ensure that all companies are required to be audited by a trusted auditor institution for a specified period.

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