



Paper Type: Review Article

## Top Management Team Stability and the Quality of Interaction with the Independent Auditor

Akram Afsay<sup>1,\*</sup> , Hassan Shafikhani<sup>1</sup>

<sup>1</sup> Department of Accounting, Farabi Campus, University of Tehran, Qom, Iran; a.afsay@ut.ac.ir; hassan.shafikhani@ut.ac.ir.

### Citation:

Received: 27 May 2025

Revised: 03 August 2025

Accepted: 01 September 2025

Afsay, A., & Shafikhani, H. (2025). Top management team stability and the quality of interaction with the independent auditor. *Accounting and Auditing with Application*, 2(4), 287-298.

### Abstract


This article examines the role of senior management team stability in the quality of engagement with the independent auditor. It analyzes its importance in promoting professional trust, reducing audit risk, and strengthening professional judgment. Research shows that management stability, by creating mutual understanding and consistent procedures, enables effective interaction and transparent information exchange between management and the auditor. Long-term interactions offer opportunities to improve efficiency and reduce uncertainty, but in the absence of appropriate oversight, they may lead to overreliance and threaten auditor independence. A concentrated ownership structure, institutional interference, and the complexity of the business environment further increase the importance of management stability and oversight frameworks. A concentrated ownership structure, institutional interference, and the complexity of the business environment underscore the importance of management stability and oversight frameworks. Findings suggest that combining senior management team stability with effective corporate governance mechanisms and internal controls maximizes opportunities for professional engagement with the auditor and minimizes potential threats to it. This article suggests that policymakers and managers should pay special attention to strengthening management stability, maintaining auditor independence, and improving the quality of engagements to enhance transparency, investor confidence, and audit effectiveness in Iran.

**Keywords:** Senior management team stability, Audit, Effective engagement.

## 1 | Introduction

The evolution of the role of independent auditing in recent decades, from a mere control mechanism to a key institution in corporate governance, has led to greater attention by researchers to the quality of interaction between the auditor and management as one of the determinants of the credibility of financial reporting. Meanwhile, although the auditing literature has extensively addressed factors such as auditor independence,

 Corresponding Author: a.afsay@ut.ac.ir

 10.22105/aaa.v2i4.85



Licensee System Analytics. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0>).

auditor tenure, industry expertise, economic pressures, and audit committee characteristics, the role of the behavioral and structural characteristics of the senior management team, especially its stability or instability, has been examined in a scattered and inconsistent manner. The senior management team, as the main focus of decision-making, production of financial information, and direct interaction with the auditor, plays a fundamental role in shaping the professional atmosphere of auditing [1]. Top management team stability, which is usually defined as the persistence of key management members over relatively long periods, has been linked in the strategic management literature to concepts such as cognitive coherence, organizational memory, and decision-making coordination [2]. Research suggests that managerial stability can lead to improved decision quality, reduced internal uncertainty, and increased predictability of organizational behavior [3]. However, the implications of this stability become more complex when viewed in the context of interactions with external oversight bodies, particularly independent auditors, where both professional trust and conflict of interest are simultaneously present. The quality of the interaction with the independent auditor is a multidimensional concept that is not limited to the frequency of meetings or the speed of management's response, but also includes information transparency, honesty of communication, the degree of cooperation in presenting evidence, respect for the auditor's professional judgment, and acceptance of corrective recommendations [4]. Audit studies show that poor or hostile interactions between management and the auditor can lead to reduced audit effectiveness, increased undetected risk, and weakened professional skepticism.

On the other hand, overly friendly interactions based on long-term relationships may also threaten auditor independence and foster excessive trust [5]. In this context, the stability of the senior management team can play a dual and even contradictory role. On the one hand, the continued presence of senior managers can establish standard procedures for interacting with the auditor, reduce communication tensions, and facilitate mutual understanding of business risks. Stable managers usually have a deeper understanding of audit requirements, auditor professional sensitivities, and financial reporting implications, and this can enhance the quality of professional communication.

On the other hand, this same stability may lead to the formation of informal relationships, the normalization of interactions, and a reduction in the level of mutual challenge, a situation in which the auditor gradually moves away from an independent supervisory position and the interaction becomes a less challenging collaboration. The importance of this issue is further amplified in the context of developing countries and economies based on weaker institutional systems, including Iran. The concentrated ownership structure, the widespread presence of state-owned and quasi-state companies, the influence of controlling shareholders, and the relative weakness of the capital market in exercising effective supervision make the role of the independent auditor more prominent as one of the few external mechanisms of corporate governance [6]. In such an environment, the characteristics of the senior management team, especially its stability, can directly affect the quality of the interaction with the auditor and, consequently, the quality of financial reporting. In Iran, the stability of the senior management team is often not only a function of economic performance, but is also affected by institutional, political, and ownership factors. Management changes in many companies, especially state-owned and publicly owned companies, are not necessarily the result of professional performance assessments but are sometimes driven by external changes in the power structure and policy-making. On the one hand, this situation can lead to chronic management instability and difficulty in establishing sustainable professional interactions with the auditor. On the other hand, in cases where long-term management stability is established, it increases the risk of closed and opaque relationships between management and the auditor.

The audit literature in Iran has mainly focused on variables such as auditor tenure, audit firm size, audit fees, and independence. It has paid less attention to the role of management behavioral characteristics. International research shows that the quality of interaction with management strongly influences auditor judgments, and that this interaction is itself influenced by the personality traits, stability, and leadership style of the senior management team [4]. Ignoring this behavioral dimension, especially in the analysis of audit risk and audit quality, can lead to an incomplete understanding of professional realities. From a theoretical perspective, the link between the stability of the senior management team and the quality of interaction with

the independent auditor can be analyzed at the intersection of agency theory, corporate governance theory, and behavioral approaches to auditing. Agency theory emphasizes the inherent conflict of interests between managers and owners and introduces the auditor as a mechanism to reduce this conflict [7]. In this framework, managerial stability can both reduce agency costs through increased accountability and, in the case of weak supervision, deepen opportunistic behavior. Behavioral approaches to auditing also show that human relationships, trust, and long-term familiarity can influence the auditor's professional judgment by cognitive biases [8]. Given the gap in the literature, especially in the Iranian research environment, addressing the issue of senior management team stability and the quality of interaction with the independent auditor from a review and analytical perspective can create several scientific and professional added values. First, this approach helps enrich the audit literature by introducing behavioral and managerial variables. Second, it provides a conceptual framework for a better understanding of hidden risks in management-auditor interactions. Third, it can provide a basis for developing professional guidelines for auditors, audit committees, and supervisory bodies. Finally, in a situation where public trust in financial reporting and the audit institution is facing challenges in many economies, including Iran, an in-depth examination of soft and less visible factors, such as the stability of the senior management team and its consequences for the quality of interaction with the auditor, is of importance beyond a mere academic discussion. This issue can promote transparency, strengthen audit independence, and improve the overall functioning of the corporate governance system; from this perspective, it deserves serious attention from accounting and auditing researchers and professionals.

Conceptual explanation of senior management team stability. Senior management team stability is one of the fundamental concepts in the strategic management and corporate governance literature, the theoretical roots of which can be found in the "top-level organization theory" approach; an approach that is based on the assumption that the collective characteristics of senior managers indirectly but significantly affect organizational outcomes [1]. Top management team stability usually refers to the continuity of key management members over time, but it goes beyond the nominal permanence of individuals and includes stability in interaction patterns, power distribution, decision-making norms, and team leadership styles [2]. In the scientific literature, management stability has been associated with outcomes such as increased organizational memory, cognitive coherence, and reduced coordination costs. Stable management teams, through shared experience and mutual recognition, are able to process complex information more quickly and make more consistent decisions.

In environments where decision-making requires continuous interaction with external entities, including independent auditors, this characteristic can lead to the development of coherent, predictable communication procedures. However, research warns that long-term stability may lead to groupthink, reduce diversity of viewpoints, and weaken intra-team challenge [9]. From a corporate governance perspective, the stability of the top management team has a dual nature. On the one hand, the continued presence of managers can increase their accountability for the long-term consequences of decisions and limit short-term opportunistic behaviors [10]. On the other hand, in the case of weak monitoring mechanisms, excessive stability may lead to the concentration of managerial power and reduce the effectiveness of board and auditor oversight. This duality becomes more pronounced when managerial stability is not driven by performance but by institutional factors or informal relationships. In the Iranian context, the concept of top management team stability is influenced by specific institutional characteristics. The concentrated ownership structure, the extensive presence of the government and quasi-government institutions, and the role of non-economic factors in managerial appointments mean that management stability or instability does not necessarily reflect efficiency or inefficiency. In many companies, management changes are driven by external developments, which can lead to chronic instability or, conversely, to long-term, unresponsive stability. In such circumstances, the stability of the senior management team is more than a simple structural indicator; it is an institutional and behavioral phenomenon with important consequences for the quality of interaction with the independent auditor. From this perspective, the conceptual explanation of the stability of the senior management team requires a look beyond quantitative measures such as CEO tenure. It should include real stability in behaviors, decision-making norms, and professional relationships [11]. Such an approach allows for a more detailed analysis of the role of management stability in shaping patterns of interaction with the independent auditor,

the level of information transparency, and the quality of professional accountability, and will pave the way for a deeper understanding of the risks and opportunities inherent in this phenomenon in the economic and institutional environment of Iran.

## 2 | The Concept and Dimensions of the Quality of Interaction with the Independent Auditor

The quality of interaction with the independent auditor is a central concept in the audit and corporate governance literature, directly affecting the effectiveness of the audit process and the credibility of financial reporting. This concept extends beyond the formal relationship between management and the auditor to encompass dimensions such as information transparency, professional accountability, respect for the auditor's judgment, and cooperation in providing audit evidence [4]. Research shows that weak or ineffective interactions between managers and the auditor can lead to reduced audit quality, increased undetected risk, and reduced professional skepticism [12]. In contrast, effective interactions, based on mutual trust and respect, strengthen auditor independence and improve the accuracy and reliability of financial reports [5]. The quality of engagement with the independent auditor is influenced by several key factors, including the behavioral characteristics of the senior management team, managerial stability, the complexity of the firm's operations, the size and type of the audit firm, and the institutional environment [13]. The stability of the senior management team, in particular, plays a decisive role in establishing a stable and predictable professional relationship with the auditor, as stable managers have a deeper understanding of the audit requirements and the auditor's professional sensitivities, which can enhance the quality of the engagement [14]. However, a long-term relationship without an appropriate oversight framework may compromise the auditor's independence and provide the basis for overconfidence and reduced professional challenge [15]. In Iran, the concept of quality engagement with the independent auditor faces specific institutional and economic complexities. The concentrated ownership structure and the extensive presence of controlling shareholders, the relative weakness of capital market institutions, and political changes in state-owned and quasi-state companies mean that management-auditor interactions are often shaped by informal relationships and institutional pressures [6]. In such an environment, the quality of interaction with the auditor is not only a function of managers' professional and behavioral characteristics, but also the result of institutional requirements and internal policy-making. The dimensions of interaction quality include three main axes: the first is information transparency, which refers to the extent to which management provides complete, accurate, and timely information to the auditor [4].

The second axis is the auditor's skepticism and professional accountability, which is revealed through the degree of challenge, careful examination of documents, and the implementation of audit tests and internal controls [12]. The third axis is cooperation and mutual respect, which refers to how managers interact with the auditor's recommendations, corrections, and requests, and can strengthen or weaken the long-term professional relationship [14]. In the Iranian context, the weakness of regulatory institutions and the complexity of the economic environment make the quality of interaction with the independent auditor more dependent on the behavioral and institutional characteristics of the senior management team than in other countries. Stable managers who recognize the importance of auditing can create effective communication frameworks and help reduce the risk of incomplete or opportunistic reporting. This characteristic is especially important in family-owned, state-owned, and large companies with concentrated ownership, as the role of the independent auditor as the only external monitoring entity becomes more prominent. A review of the literature shows that the quality of interaction with the independent auditor significantly impacts audit effectiveness, fraud detection, compliance with financial reporting standards, and investor confidence. In environments with stable management, the likelihood of establishing continuous, reliable professional communication increases, and the auditor will be better able to assess financial realities and potential risks.

In contrast, management instability or frequent changes in key members of the management team can disrupt information flow, reduce coordination, and increase uncertainty in the audit process [11]. In general, the

quality of interaction with the independent auditor is a key mechanism in improving corporate governance, reducing risk, and increasing market confidence. Analysis of the Iranian context shows that the combination of behavioral and institutional characteristics of the senior management team determines the quality of interaction with the auditor and can directly affect the effectiveness of financial reporting. This argument highlights the need to pay special attention to the stability of the senior management team and to explain the dimensions of professional interaction with the independent auditor in review and extension studies, and paves the way for the promotion of theoretical frameworks and practical recommendations in the field of auditing and corporate governance in Iran [3], [4], [17].

### **3 | Stability of the Senior Management Team and the Formation of Professional Trust between Management and the Auditor**

The stability of the senior management team, as a structural and behavioral characteristic, plays a key role in the formation of professional trust between management and the independent auditor. Professional trust in this context refers to the auditor's belief in managers' honesty, transparency, and adherence to auditing standards, which can directly affect the quality of interaction and the effectiveness of the audit process [14]. International research shows that managerial stability creates stable, predictable professional relationships between managers and auditors, enabling auditors to assess financial facts more effectively and reducing the likelihood of encountering incomplete or inconsistent information [12]. In contrast, unstable management teams often face behavioral fluctuations, policy changes, and inconsistent information provision, which undermine auditor trust and degrade the quality of the interaction. Professional trust between management and auditor depends, in addition to stability, on the personality traits and leadership style of the senior management team. Experienced and stable managers, with a correct understanding of audit requirements and the auditor's professional sensitivities, establish clear and effective communications and help reduce misunderstandings and excessive skepticism [4]. This mutual trust causes the auditor to present his findings and corrective recommendations without worrying about informal barriers, and managers also consider them as valuable input for strategic decision-making [15]. In the Iranian context, the importance of senior management team stability in the formation of professional trust is particularly pronounced. The centralized ownership structure, the influence of the government and quasi-government institutions, and the presence of controlling shareholders in large and state-owned companies create conditions in which informal relationships and institutional pressures can affect trust between managers and the auditor [6]. In such an environment, the stability of the senior management team is not only a factor of internal cohesion, but also a mechanism for reducing the risk of incorrect information and increasing the reliability of financial reports. By establishing standard procedures for interacting with the auditor, stable managers can reduce the likelihood of conflicts of interest and misunderstandings, which leads to improved interaction quality and increased professional trust.

Research suggests that senior management tenure provides the basis for building professional trust by promoting mutual recognition, coordination in decision-making, and behavioral consistency [18]. This trust enables the auditor to fully conduct internal control review and testing processes and provide effective corrective recommendations without worrying about management resistance. Conversely, frequent changes in senior management team members or unexpected replacements can weaken this trust and force the auditor to spend more resources verifying information accuracy, leading to increased costs and reduced audit effectiveness [11]. In Iranian companies, the stability of senior management is also usually affected by institutional and political factors. Management changes driven by political pressures or government board decisions may disrupt the team's apparent stability and reduce auditor trust.

On the other hand, companies with long-term management stability are more likely to build a trusting professional relationship with the auditor. Still, in the absence of appropriate oversight mechanisms, overconfidence may develop, compromising the auditor's independence. Therefore, the stability of the senior management team should always be accompanied by effective oversight frameworks and attention to the

balance between trust and professional independence. In general, the stability of the senior management team, as a key factor in the formation of professional trust between management and the auditor, directly impacts the quality of interaction, audit effectiveness, and the reliability of financial reporting. Analysis of the Iranian context shows that the combination of behavioral characteristics, experience, and stability of the senior management team, in an environment with a concentrated ownership structure and weak regulatory institutions, determines the quality of interaction and professional trust between managers and the auditor and can help reduce reporting risks and improve corporate governance [12], [14], [16].

#### **4 | Management Stability and Auditor Professional Skepticism**

The stability of the senior management team has a significant impact on auditor professional skepticism, because the continued presence of key managers both stabilizes management behavior and decision-making patterns and provides a basis for predicting financial and organizational behavior [14]. Professional skepticism, which refers to the auditor's cautious and critical attitude toward information provided by management and a commitment to scrutinizing evidence, is considered a key component of audit quality [19]. Research suggests that in organizations with stable management, auditors may reduce their skepticism over time because continuous interaction with the same management team increases trust and reduces uncertainty in assessments [4]. This phenomenon can lead to improved interaction efficiency and reduced review time on the one hand, but it also carries the risk of reduced independence and increased cognitive biases [8]. International research shows that auditor professional skepticism is a function of business complexity, company size, level of information transparency, and long-term relationships with management [12]. In environments where the senior management team is stable and has long-term relationships with the auditor, there is a possibility of reduced professional skepticism, as the auditor becomes familiar with the team's decision-making style and reporting practices, and its behavior becomes easier to predict. This argument reduces audit costs and increases process efficiency, but can increase the risk of overconfidence and ignoring warning signs [20]. In the Iranian context, specific institutional and ownership characteristics create unique complexities for auditors' professional skepticism. The widespread presence of controlling shareholders, concentration of ownership, and political interference in management changes mean that apparent management stability does not always translate into predictability and risk reduction. In many state-owned and quasi-state companies, management changes are sometimes dramatic and result from institutional pressures, forcing the auditor to monitor information more closely and continuously to maintain his professional skepticism [6]. Some studies have suggested that management stability should be accompanied by strong supervisory frameworks so that the auditor's professional skepticism is not reduced and its independence is maintained [21]. In environments with weak oversight, stable teams may lead to overly trusting relationships, in which the auditor gradually reduces their challenge and ignores corrective recommendations [15]. This issue is particularly important in Iran due to the relative weakness of the capital market and supervisory institutions, and it shows that the stability of the senior management team without effective control mechanisms can threaten audit quality. In addition, the leadership style and professional experience of the senior management team play an important role in determining the auditor's level of professional skepticism. Experienced and stable managers, with a better understanding of the audit requirements, can establish clear and constructive communications with the auditor and help reduce unnecessary skepticism, without compromising the auditor's professional independence [4].

In contrast, unstable or frequently changing management teams often increase auditor skepticism and hesitation, as management behavior and decisions become difficult to predict and information received appears less reliable [11]. Therefore, the relationship between management stability and auditor professional skepticism is complex and two-way. Management stability can improve engagement efficiency and reduce uncertainty, but in the absence of appropriate oversight, it increases the risk of reduced skepticism and overconfidence in management. Analysis of the Iranian context shows that to maintain auditor professional skepticism and improve engagement quality, effective oversight mechanisms, strong internal controls, and professional training for auditors must accompany the stability of the senior management team.

## 5 | Implications of Senior Management Team Stability for Auditor Independence

Senior management team stability is considered a key factor affecting auditor independence, as this structural feature stabilizes managers' behavior and decision-making patterns, enabling the auditor to predict their actions [14]. Auditor independence refers to the auditor's ability to provide an impartial assessment without being influenced by management pressures and interests. It is considered one of the main prerequisites for audit quality and financial reporting credibility [5]. Research shows that management stability can have dual effects on auditor independence: on the one hand, mutual recognition and ongoing communication can provide a basis for professional trust and constructive cooperation; on the other hand, the continuation of long-term relationships may lead to overconfidence and reduced auditor challenge [15]. Empirical studies suggest that stable management teams tend to provide more transparent organizational information and establish predictable internal procedures, which allows the auditor to maintain focus on data analysis and risk assessment and better exercise professional independence [20].

In contrast, frequent changes in key management members can lead to increased time pressures, reduced information coordination, and increased likelihood of informal interference in the audit process, which threaten auditor independence. In complex, centrally owned environments, such as Iran, the implications of top management team stability for auditor independence are particularly important. State-owned and quasi-state-owned companies, with their unique ownership structures and political interference in management decisions, may exhibit apparent management stability that is actually a function of institutional and political factors rather than professional performance and competence. In such circumstances, the auditor needs to be aware of the institutional context and carefully analyze the behavior of managers to maintain his independence. According to the theoretical frameworks of corporate governance, management stability can increase trust and reduce the risk of incorrect information, but this will only lead to the promotion of auditor independence when monitoring mechanisms such as active boards, audit committees, and professional auditing standards are properly implemented [21]. Otherwise, the continuation of the management-auditor relationship may lead to interdependence and a decrease in professional challenge. From a professional behavior perspective, when working with a stable management team, the auditor can optimize his interactions, balance his level of skepticism, and independently evaluate data by better understanding the organization's decision-making style and priorities [22]. This dynamic is particularly important in large Iranian companies, where the complexity of operations and concentration of ownership can severely affect auditor independence. According to recent research, management stability is recognized as a dual factor: on the one hand, stability reduces uncertainty, establishes standard procedures, and facilitates information exchange with the auditor, thus strengthening professional independence; on the other hand, long-term relationships without appropriate control frameworks may reduce challenge, psychological dependence, and threats to independence [15], [16]. Therefore, in the Iranian environment, the stability of the senior management team should always be analyzed in the context of effective supervision, appropriate internal controls, and professional training of auditors so that its consequences for auditor independence are positive. This analysis suggests that policymakers, boards of directors, and regulators should consider the balance between management stability and auditor independence to enhance the quality of engagement and the credibility of financial reporting. Finally, the stability of the senior management team in Iran, given the specific institutional and ownership conditions, plays a pivotal role in determining the degree of auditor independence and can strengthen or weaken audit quality. A thorough understanding of this relationship is essential for designing effective corporate governance mechanisms and promoting transparency and trust in the financial market.

## 6 | The Role of Senior Management Team Stability in Audit Risk and Professional Judgment

The stability of the senior management team plays a key role in determining the level of audit risk and the quality of the auditor's professional judgment, because the continued presence of key management members stabilizes the organization's behaviors, decision-making styles, and internal procedures, which ultimately affect the transparency of information and the predictability of financial performance [1]. Audit risk refers to the likelihood that the auditor will issue an incorrect opinion due to error or fraud, and the quality of professional judgment includes the auditor's ability to analyze information, identify risks, and make independent decisions in accordance with professional standards [4]. Research has shown that in environments with stable management, auditors can better assess audit risk and make more accurate professional decisions due to reduced uncertainty and greater understanding of management behavior [12]. The continuity of the senior management team allows the auditor to become familiar with the management team's decision-making styles, reporting methods, and interactions, and to perform the risk analysis and evidence review process more accurately and efficiently [20]. This mutual recognition enhances professional judgment and reduces the likelihood of misinterpretation or error in the auditor's decision-making, as he can evaluate the information from management within a reliable, predictable framework.

On the other hand, management instability increases uncertainty and complexity in risk assessment. It forces the auditor to spend more resources on collecting and analyzing information, which can increase audit costs and negatively affect the quality of judgment [19]. In the Iranian environment, the importance of the senior management team's stability in reducing audit risk and improving professional judgment is even more evident. Government and quasi-government companies, with concentrated ownership and institutional and political interference in management appointments, create conditions in which management changes are often unpredictable and caused by external pressures [6].

In such an environment, the stability of the senior management team not only helps reduce uncertainty but also paves the way for the establishment of standard, consistent procedures for interaction with the auditor, thereby reducing the likelihood of hidden risks and improving the quality of the auditor's professional decision-making. Studies show that management stability is especially effective when accompanied by strong monitoring mechanisms and appropriate internal controls. In the absence of such mechanisms, the continuity of the management-auditor relationship may lead to excessive trust, reducing the auditor's skepticism and independence, which in turn can increase audit risk [5]. Therefore, management stability should be analyzed with respect to the balance between effective interaction and professional independence, so that its consequences for audit risk and professional judgment are positive. In Iranian companies, the role of the senior management team in stability, audit risk, and professional judgment is more prominent due to the complexity of the ownership structure and institutional environment. By creating consistent behavioral patterns and predictable decision-making procedures, stable managers enable auditors to assess risks and comprehensively analyze financial information more accurately.

In contrast, frequent management changes disrupt the flow of information and increase the risk of unknowns. It indicates that managerial stability and the quality of interaction with the auditor are two complementary factors in promoting audit effectiveness and strengthening professional decisions. In general, senior management team stability has a direct and indirect effect on audit risk and professional judgment. Analysis of the Iranian context suggests that the combination of behavioral characteristics, experience, and stability of the senior management team in an environment with a concentrated ownership structure and weak regulatory institutions determines the quality of the auditor's judgment and his ability to identify and manage audit risks [12], [14]. Finally, the stability of the senior management team not only helps reduce uncertainty and increase the auditor's knowledge but also, by creating a platform for continuous professional interaction, enables independent decision-making based on professional standards. This fact indicates that policymakers, boards of directors, and regulatory institutions should pay particular attention to the interaction between

management stability and auditors' professional judgment to improve the quality of financial reporting and audit effectiveness in Iran.

## 7 | Long-Term Management-Auditor Interactions: Opportunities and Threats

Long-term interactions between the senior management team and the independent auditor are a complex phenomenon in the audit and corporate governance literature that pose both significant opportunities and threats to audit quality and financial reporting. Research has shown that long-term interactions can increase mutual understanding, build professional trust, and improve the efficiency of the audit process, as the auditor becomes familiar with management's decision-making style, behavioral patterns, and procedures, and can analyze risks and financial information more accurately [14].

This understanding reduces uncertainty, improves professional judgment, and speeds up the audit process, allowing the auditor to focus resources on analyzing important risks and key issues [20]. On the other hand, long-term interactions also pose challenges. Long-term relationships may lead to auditor overconfidence in management and reduced professional skepticism, which in turn can undermine auditor independence and increase the likelihood of accepting inaccurate or undervalued information. Research suggests that psychological dependence and excessive interaction with management can create cognitive biases, reduce challenge, and weaken internal audit controls. Thus, long-term interactions are a dual phenomenon that offers both the benefits of recognition and trust and the potential risks of threatening independence and professional skepticism [12]. In environments with concentrated ownership and weak regulatory institutions, such as Iran, the consequences of long-term interactions between the management team and the auditor become particularly important. Many Iranian companies, especially state-owned and quasi-state-owned, have complex ownership structures and extensive institutional relationships, making management changes subject to political and institutional pressures [6]. In such circumstances, long-term engagement can help establish standard, predictable procedures for interacting with the auditor and reduce the risk of incorrect information and incomplete reporting [11].

These interactions also provide a basis for mutual professional trust, allowing the auditor to focus on key issues and risk analysis rather than spending time collecting scattered information [4]. However, weak oversight and institutional pressures can lead to long-term engagements that result in auditor overdependence and reduced independence. In many Iranian companies, long-term relationships between managers and auditors may lead to reduced challenge, automatic acceptance of management information, and reduced professional skepticism, which threatens audit quality [15]. Therefore, long-term engagement should be analyzed with strong oversight frameworks, ongoing professional training, and effective internal controls to maximize its benefits and minimize its potential threats [21]. Research shows that the balance between trust and skepticism in long-term engagements is key to improving audit quality. Ongoing engagements improve coordination, reduce misunderstandings, and increase the accuracy of evidence collection. Still, in the absence of oversight frameworks, the auditor may over-trust management and undermine his or her professional independence [20]. For this reason, researchers have emphasized that long-term engagement should be actively managed with the oversight of the board of directors and the audit committee to both maintain audit efficiency and effectiveness and ensure the auditor's independence and professional skepticism [12]. In the analysis of the Iranian context, it is observed that long-term engagements between management and auditors can help to form transparent and sustainable procedures, increase the quality of engagement, and reduce the risk of incorrect information. However, in the absence of appropriate oversight, these engagements may lead to overconfidence, reduced challenge, and damage to the auditor's professional independence. Therefore, management and policymakers should pay special attention to the balance between management stability, professional engagement, and auditor independence to maximize the opportunities created by long-term engagements and minimize their potential threats [4], [14], [15].

## 8 | Conclusion

The stability of the senior management team is one of the key components of corporate governance, playing a direct and indirect role in the quality of interactions with the independent auditor and the effectiveness of the audit process. A review of the literature shows that stable management teams, with experience, cohesion, and a sustained presence in the organization, can establish strong professional relationships with the auditor and optimize communication and information processes. This stability allows the auditor to gain a deeper understanding of managers' decision-making style, reporting procedures, and financial behavior, and to identify and assess risks more accurately. From this perspective, management stability is considered one of the prerequisites for the quality of interaction and professional trust between management and the auditor, and it plays a pivotal role in strengthening transparency, reducing uncertainty, and improving audit effectiveness. Theoretical and empirical analyses show that the quality of interaction with the independent auditor is not only a function of managers' behavioral characteristics but is also influenced by institutional factors, ownership structure, and the complexity of the business environment. In environments with concentrated ownership and weak oversight institutions, such as Iran, the stability of the senior management team becomes particularly important, as stable managers can establish standard frameworks and predictable procedures for interacting with the auditor, thereby reducing the risk of incorrect information and incomplete reporting. This situation allows the auditor to exercise his professional judgment more carefully and maintain balanced skepticism and professional independence.

The stability of the senior management team also provides a basis for professional trust between management and the auditor by reducing behavioral fluctuations and frequent changes in the organization's policies and processes. This trust, if accompanied by effective oversight frameworks, improves the efficiency of interaction, increases the speed of information exchange, and enhances the accuracy of assessments. In contrast, in the absence of appropriate supervision or excessive reliance on stable managers by the auditor, there is a risk of reduced skepticism and a threat to professional independence, which can negatively affect audit quality.

Studies show that long-term management-auditor interactions create both opportunities and threats. On the one hand, long-term interactions foster mutual recognition, reduce uncertainty, and enhance coordination, enabling the auditor to focus their resources on key issues and risk analysis. On the other hand, these relationships may lead to overconfidence and psychological dependence, reducing the auditor's level of professional skepticism and challenge and jeopardizing professional independence. Therefore, long-term interactions should be analyzed within the framework of corporate governance and supervision to maximize their benefits and minimize potential threats. In the Iranian context, the institutional environment, concentrated ownership structure, and political interference in management appointments highlight the importance of senior management team stability and the quality of interaction with the auditor. State-owned and quasi-state companies with specific ownership characteristics and institutional pressures, when real management stability is present, can create stable, predictable procedures, which help reduce the risk of incorrect information and improve the auditor's professional judgment. At the same time, the lack of supervisory frameworks and internal controls can lead to excessive trust and threaten the auditor's independence, underscoring the need to balance management stability and auditor independence. The stability of the senior management team extends beyond the quality of interaction and professional trust, directly affecting the auditor's audit risk and professional decision-making. By establishing behavioral patterns and standard procedures, stable managers enable auditors to effectively identify and analyze risks and make professional decisions based on reliable evidence. Management instability, especially frequent changes in key members, increases uncertainty, complicates information analysis, imposes unnecessary pressures on the auditor, and can increase undetected risks.

In summary, the stability of the senior management team and the quality of the interaction with the independent auditor are two complementary factors in enhancing audit quality, reducing risks, and strengthening professional judgment. In Iran, these two factors are particularly important given the country's

special institutional conditions and concentrated ownership structure, and their careful analysis is essential for policymakers, boards of directors, and regulatory agencies. Real management stability, combined with efficient supervisory frameworks, effective internal controls, and professional training of auditors, can maximize the opportunities created by long-term management-auditor interaction and minimize its potential threats. Therefore, policymakers and managers should pay special attention to strengthening the stability of the senior management team, designing professional engagement procedures with the auditor, and creating balanced oversight frameworks to improve the quality of financial reporting and audit effectiveness in Iran. This analysis shows that the balance among trust, professional skepticism, management stability, and auditor independence is key to improving the quality of engagements and reducing audit risks, and can play an effective role in strengthening corporate governance and investor confidence. Finally, the stability of the senior management team, as a structural and behavioral factor, not only directly affects the quality of engagement, professional trust, audit risk, and professional judgment, but also indirectly enhances the effectiveness of the entire audit system and public confidence in financial reporting. Analysis of the Iranian context shows that taking advantage of opportunities arising from management stability requires establishing balanced supervisory frameworks, paying attention to auditor independence, and enhancing their professional capabilities to both realize the benefits of long-term management-auditor interaction and reduce potential threats arising from long-term relationships. These findings emphasize that the stability of the senior management team, the quality of interaction with the independent auditor, and supervisory frameworks as three main pillars in strengthening corporate governance and improving financial reporting in Iran should receive continuous attention from researchers, policymakers, and managers, because these factors, in interaction with each other, contribute to reducing risks, increasing transparency, and enhancing investor confidence in financial markets.

## Authors' Contributions

The authors carried out all aspects of the research and manuscript preparation. The authors have read and approved the final version of the manuscript.

## Data Availability

All data are included in the text.

## Funding

This study did not receive any specific funding from public, commercial, or non-profit funding agencies.

## Conflict of Interest

The author declares that he has no conflicts of interest.

## References

- [1] Fakhr Hosseini, S. F., & Kaviani, M. (2018). Investigating the impact of geographical diversification on bank performance. *Quarterly journal of studies in banking management and islamic banking*, 4(Spring), 27–49. (In Persian). [https://jifb.ibi.ac.ir/article\\_65126\\_36175f2a808476118a5c84d23ced3f5d.pdf](https://jifb.ibi.ac.ir/article_65126_36175f2a808476118a5c84d23ced3f5d.pdf)
- [2] Ebrahimi, S. K., Shahriari, M., Navazan, & Mehman Navazan, S. (2016). Investigating the effect of income diversification on the performance of banks listed on the Tehran Stock Exchange. *Financial knowledge Securities analysis (Financial studies)*, 9(30) 67-75. (In Persian). <https://www.sid.ir/paper/200211/fa>
- [3] Bozorg Asl, M., Akbari Masoleh, A., Mohaghegh Nia, M. J., & Mahmadtaghi Taqvi, M. T. (2017). Investigating the effect of bank asset and facility diversification on bank efficiency (Case Study: Private Banks in Iran), (2588–4824). (In Persian). <https://sanad.iau.ir/Journal/fej/Article/1079553/FullText>
- [4] Deng, S. E., Elyasiani, E., & Mao, C. X. (2007). Diversification and the cost of debt of bank holding companies. *Journal of banking & finance*, 31(8), 2453–2473. <https://doi.org/10.1016/j.jbankfin.2006.10.024>

- [5] Shim, J. (2013). Bank capital buffer and portfolio risk: The influence of business cycle and revenue diversification. *Journal of banking & finance*, 37(3), 761–772. <https://doi.org/10.1016/j.jbankfin.2012.10.002>
- [6] Shim, J. (2019). Loan portfolio diversification, market structure and bank stability. *Journal of banking & finance*, 104, 103–115. <https://doi.org/10.1016/j.jbankfin.2019.04.006>
- [7] Gholizadeh, M. H., Akbari, M., Farkhunde, M., & Habibi, M. (2021). The impact of income diversification strategies on the market power of the banking system. *Asset management and financing*, 9(3), 89–104. (In Persian). <https://doi.org/10.22108/amf.2022.129626.1679>
- [8] Abuzayed, B., Al-Fayoumi, N., & Molyneux, P. (2018). Diversification and bank stability in the GCC. *Journal of international financial markets, institutions and money*, 57, 17–43. <https://doi.org/10.1016/j.intfin.2018.04.005>
- [9] Wu, J., Chen, L., Chen, M., & Jeon, B. N. (2020). Diversification, efficiency and risk of banks: Evidence from emerging economies. *Emerging markets review*, 45, 100720. <https://doi.org/10.1016/j.ememar.2020.100720>
- [10] Liang, H. Y., Chen, I. J., & Chen, S. S. (2016). Does corporate governance mitigate bank diversification discount? *International review of economics & finance*, 45, 129–143. <https://doi.org/10.1016/j.iref.2016.05.008>
- [11] Adesina, K. S. (2021). How diversification affects bank performance: The role of human capital. *Economic modelling*, 94, 303–319. <https://doi.org/10.1016/j.econmod.2020.10.016>
- [12] Stiroh, K. J. (2004). Diversification in banking: Is noninterest income the answer? *Journal of money, credit and banking*, 853–882. <https://www.jstor.org/stable/3839138>
- [13] Chen, T. K., Liao, H. H., & Ye, J. S. (2019). Bank management expertise and asset securitization policies. *Journal of banking & finance*, 109, 105667. <https://doi.org/10.1016/j.jbankfin.2019.105667>
- [14] Finkelstein, S. (1992). Power in top management teams: Dimensions, measurement, and validation. *Academy of management journal*, 35(3), 505–538. <https://doi.org/10.5465/256485>
- [15] Khan, I., Mansi, W., Lin, K. L., Liu, C. F., Suanpong, K., & Ruangkanjanases, A. (2021). The effect of CEO on bank efficiency: evidence from private commercial banks. *Frontiers in psychology*, 12, 738210. <https://doi.org/10.3389/fpsyg.2021.738210>
- [16] Ellul, A., & Yerramilli, V. (2013). Stronger risk controls, lower risk: Evidence from US bank holding companies. *The journal of finance*, 68(5), 1757–1803. <https://doi.org/10.1111/jofi.12057>
- [17] Fang, H., Lee, J. S., Chung, C. P., Lee, Y. H., & Wang, W. H. (2020). Effect of CEO power and board strength on bank performance in China. *Journal of asian economics*, 69, 101215. <https://doi.org/10.1016/j.asieco.2020.101215>
- [18] Ali, M., Gan, C., & Nadeem, M. (2023). A CEO's expertise power and bank diversification. *Accounting & finance*, 63(4), 3815–3840. <https://doi.org/10.1111/acfi.13070>
- [19] Custódio, C., Ferreira, M. A., & Matos, P. (2013). Generalists versus specialists: Lifetime work experience and chief executive officer pay. *Journal of financial economics*, 108(2), 471–492. <https://doi.org/10.1016/j.jfineco.2013.01.001>
- [20] Pathan, S. (2009). Strong boards, CEO power and bank risk-taking. *Journal of banking & finance*, 33(7), 1340–1350. <https://doi.org/10.1016/j.jbankfin.2009.02.001>
- [21] Claessens, S., & Laeven, L. (2004). What drives bank competition? Some international evidence. *Journal of money, credit and banking*, 563–583. <https://www.jstor.org/stable/3838954>
- [22] Wibowo, B. (2017). Banking competition measurement and banking sector performance: analysis of 4 ASEAN countries. *Signifikan*, 6(1), 194702. <https://doi.org/10.15408/sjie.v5i2.3193>
- [23] Laeven, L., & Levine, R. (2007). Is there a diversification discount in financial conglomerates? *Journal of financial economics*, 85(2), 331–367. <https://doi.org/10.1016/j.jfineco.2005.06.001>
- [24] Boyd, J. H., & De Nicolo, G. (2005). The theory of bank risk taking and competition revisited. *The journal of finance*, 60(3), 1329–1343. <https://doi.org/10.1111/j.1540-6261.2005.00763.x>
- [25] Ozdincer, B., & Ozyildirim, C. (2008, August). The effects of diversification on bank performance from the perspective of risk, return and cost efficiency. *21st Australasian finance and banking conference*, 1–17. <https://dx.doi.org/10.2139/ssrn.1253223>
- [26] Goetz, M. R. (2012). Bank diversification, market structure and bank risk taking: theory and evidence from US commercial banks. *FRB of boston risk and policy analysis unit working paper*, (12–2). <https://dx.doi.org/10.2139/ssrn.2651161>

- [27] Khoda Moradi, S., & Jalilian, J. (2013). Diversification: Basics, definitions, history, and methods of measuring it. *Business reviews*, 11(60), 47–58. (In Persian).  
<https://dor.isc.ac/dor/20.1001.1.26767562.1392.11.60.4.8>
- [28] Annick, P., Sauviat, A., & Tarazi, A. (2020). How organizational and geographic complexity influence performance? Evidence from European banks. 1-50. <https://unilim.hal.science/hal-02966628/>
- [29] Pang, J., Spindt, P. A., & Tice, S. (2010). Diversification and internal information sharing: Evidence from financial conglomerates. Available at *ssrn* 1783246. <https://dx.doi.org/10.2139/ssrn.1783246>
- [30] Landi, A., & Venturelli, V. (2001). The diversification strategy of european banks: determinants and effects on efficiency and profitability. Available at *ssrn* 269841. <https://dx.doi.org/10.2139/ssrn.269841>
- [31] Li, H., Terjesen, S., & Umans, T. (2020). Corporate governance in entrepreneurial firms: A systematic review and research agenda. *Small business economics*, 54(1), 43–74. <https://doi.org/10.1007/s11187-018-0118-1>
- [32] Daily, C. M., & Johnson, J. L. (1997). Sources of CEO power and firm financial performance: A longitudinal assessment. *Journal of management*, 23(2), 97–117. [https://doi.org/10.1016/S0149-2063\(97\)90039-8](https://doi.org/10.1016/S0149-2063(97)90039-8)
- [33] Neal, J. W., & Neal, Z. P. (2011). Power as a structural phenomenon. *American journal of community psychology*, 48(3), 157–167. <https://doi.org/10.1007/s10464-010-9356-3>
- [34] Horner, S. V. (2009). Board power, CEO appointments, and CEO duality. *Allied Academies International Conference. Academy of Strategic Management. Proceedings* (Vol. 8, No. 1, p. 25).  
<https://www.proquest.com/openview/132ff21694cce6034364564d5b1cf2f9/1?pq-origsite=gscholar&cbl=38771>
- [35] Brahma, S., & Economou, F. (2024). CEO power and corporate strategies: a review of the literature. *Review of quantitative finance and accounting*, 62(3), 1069–1143. <https://doi.org/10.1007/s11156-023-01231-7>
- [36] Sheikh, S. (2024). CEO power, corporate governance, and firm leverage. *Journal of economic analysis*, 3(3), 207–226. <https://ideas.repec.org/a/bba/j00001/v3y2024i3p207-226d231.html>
- [37] Pieter Spronck, I., & Eddy Vaassen, A. I. M. (2005). *Auditing in egypt: A study of challenges, problems, and possibility of an automatic formulation of the auditor's report*.  
<https://www.spronck.net/pubs/Wahdan2005c.pdf>
- [38] Yermack, D. (1996). Higher Market Valuation for Firms with a Small Board of Directors, 40 *J. Fin. econ*, 185, 186–187. [https://doi.org/10.1016/0304-405X\(95\)00844-5](https://doi.org/10.1016/0304-405X(95)00844-5)
- [39] Seetharaman, A., Gul, F. A., & Lynn, S. G. (2002). Litigation risk and audit fees: Evidence from UK firms cross-listed on US markets. *Journal of accounting and economics*, 33(1), 91–115. [https://doi.org/10.1016/S0165-4101\(01\)00046-5](https://doi.org/10.1016/S0165-4101(01)00046-5)
- [40] Finkelstein, S., & D'aveni, R. A. (1994). CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command. *Academy of management journal*, 37(5), 1079–1108. <https://doi.org/10.5465/256667>
- [41] Jensen, M. C. (2005). Agency costs of overvalued equity. *Financial management*, 34(1), 5–19. <https://doi.org/10.1111/j.1755-053X.2005.tb00090.x>
- [42] Zaidi, N., Azouzi, M. A., & Sadraoui, T. (2021). CEO financial education and bank performance. *Journal of entrepreneurship education*, 24(2), 1–20. <https://www.academia.edu/download/109559149/CEO-Financial-Education-1528-2651-24-2-709.pdf>
- [43] Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Corporate governance* (pp. 77–132). <https://www.taylorfrancis.com/>
- [44] King, T., Srivastav, A., & Williams, J. (2016). What's in an education? Implications of CEO education for bank performance. *Journal of corporate finance*, 37, 287–308. <https://doi.org/10.1016/j.jcorpfin.2016.01.003>
- [45] Voukkali, I., Papamichael, I., Loizia, P., & Zorpas, A. A. (2024). Urbanization and solid waste production: prospects and challenges. *Environmental science and pollution research*, 31(12), 17678–17689. <https://doi.org/10.1007/s11356-023-27670-2>
- [46] Smith, M., & White, M. C. (1987). Strategy, CEO specialization, and succession. *Administrative science quarterly*, 263–280. <https://doi.org/10.2307/2393129>
- [47] Cetorelli, N., & Strahan, P. E. (2006). Finance as a barrier to entry: Bank competition and industry structure in local US markets. *The journal of finance*, 61(1), 437–461. <https://doi.org/10.1111/j.1540-6261.2006.00841.x>

- [48] Dick, A. A. (2007). Nationwide branching and its impact on market structure, quality, and bank performance. *Quality control and applied statistics*, 52(2), 227–228.  
<https://www.jstor.org/stable/10.1086/499131>