Int. J. Nonlinear Anal. Appl.
Volume 12, Special Issue, Winter and Spring 2021, 2449-2460
ISSN: 2008-6822 (electronic)
http://dx.doi.org/10.22075/ijnaa.2021.6297

The effect of cultural, social and ethical capital on audit quality

Hossein Shoja[a], Mohammadreza Mehrabanpour[b], Hossein Jahangirnia[a,*], Reza Gholami Jamkarani[a]

[a]*Department of Accounting, Qom Branch, Islamic Azad University, Qom, Iran*
[b]*Department of Accounting and Financial Management, Faculty of Management and Accounting, University of Tehran, Farabi Campus, Iran*

(Communicated by Ehsan Kozegar)

Abstract

Given that auditors, as economic entities, do not do anything that would impair their long-term economic well-being, there is moral capital alongside the economic outlook. In addition, given that company auditors are professionals who have a social duty to support their owners and other stakeholders, social capital causes them to not only strive economically for their own benefit but also their commitment. To act independently of any interests of departments and individuals. Cultural capital, on the other hand, plays a unique role in the professional integrity of the accountant while performing audit and judgment work. Therefore, the purpose of this study was to design a model of the impact of cultural, social and moral capital on the auditors' quality. In this study, sampling is a census (census) and based on this, all statistical samples are 350 people. The results show that cultural capital (89%), social capital (85%) and moral capital (86%) have a significant effect on auditor quality.

Keywords: Cultural capital, Social capital, Moral capital, Auditor quality
2010 MSC: 91G15

1. Introduction

Auditting is the process of accumulating and evaluating facts or evidence regarding information that can be calculated in economic entities to ensure and report the level of correspondence or conformity between information and formation of criteria. Angelo [3] states that audit quality can be

*Corresponding author
Email addresses: h.shoja1380@gmail.com (Hossein Shoja), mehrabanpour@ut.ac.ir (Mohammadreza Mehrabanpour), hosein_jahangirnia@yahoo.com (Hossein Jahangirnia), accountghom@gmail.com (Reza Gholami Jamkarani)

Received: November 2021 *Accepted:* December 2021

defined as the possibility that (a) auditors will report violations (b) If auditors are not independent, they tend not to report irregularities, and thus damage audit quality. According to the Indonesian Institute of Accountants (IAI) audits carried out by auditors are said to be of quality, if they meet auditing standards and quality control standards. Quality audits can help management and stakeholders in making the right and accurate decisions. Legally auditing is divided into two, "audit failure" or "audit success". Audit failure occurs if the auditor does not act independently in fact, or if the independent auditor incorrectly issues a clean audit report because it fails to collect sufficient audit evidence in accordance with auditing standards. Audit failure has economic consequences for auditors, clients and third parties. Successful audits occur when auditors carry out audits in accordance with auditing standards and issue audit opinions that are in accordance with the conditions of the client's financial statements at a level consistent with audit risk [10].

As competition in the auditing profession grows, auditing firms seek to differentiate their services. One of the dimensions of differentiating between auditing firms is service quality presented by them. The quality of audit services is one of the most important issues in the field of auditing and Capital Markets. Since the audit partners comment on the files prepared by the auditors, so the performance of the auditors affects the quality of the audit . Behavioral characteristics of managers is one of the newest financial behavioral concepts that has gained a special place in both financial theories and psychology [6]. These traits cause human to overestimate his abilities and underestimate the risks, therefore give him the feeling that he is able to control issues and events, while this may not be the case [18]. Also, the behavioral characteristics of managers can affect their preparation and presentation of financial information to the capital market, because they seek to maximize the interests of shareholders in the long term, so they are reluctant to disclose confidential information that has negative investment feedback. This in itself affects the type of audit opinion [13]. Cultural, social and ethical capital is one of the factors that can affect the quality of auditing.

According to Arens et al. [4] ethics can be broadly described as a moral principle or value. Ethics is a branch of moral philosophy about morality, moral problems and moral judgment. the function of ethical principles is not to produce definite rules, but to produce guidelines for each individual in doing something or in decision making. The auditor's profession is always required to always follow the professional code of ethics. There are two principles in applying ethics, the first imperative principle, namely the principle that directs decisionmaking to behave in accordance with the requirements of ethical regulations, and the second principle of utilitarianism, namely the emphasis on checking the consequences of each action rather than following several ethical rules. According to Albeksh [2], the higher the auditor's commitment in applying ethics, the higher the quality audit report will be. Research conducted by Nasrabadi & Arabbian [14], found that professional ethics had an effect on audit quality.

Before beginning the discussion, it must first be determined what is meant by social capital. The earliest quotation surrounding social capital was from 1916, when Lyda Hanifan wrote a report on rural schools in West Virginia. He believed that the existence of social capital is very important for having a successful school. Nevertheless, Portes [15] thinks that the general concept of social capital comes back to Durkheim's advocacy of group life and its advantages. It seems that social capital is one of the new concepts that is used today in various studies by sociologists, economists, and political scientists. In fact, social capital is the product of human society and can be regarded as the bridge between economics and sociology. From the economic attitude, the norms that result in collaboration and teamwork are social capital. Social capital has been defined by various scholars; for instance, Portes [15] defines social capital as the desire of society to fulfill its obligations. Guiso et al. [9] also define SC this way "The level of mutual trust and humanitarian tendencies that exist among people in a community." In another interesting definition of SC, Guiso et al. [10] suggest that

SC is a set of morals and beliefs that make sense of cooperation and assistance in society.

Trust is identified as one of the main components of social capital because it creates cooperation among members of a group. Trust and reciprocity consist of reliable fairness, general honesty, and acts of usefulness [20]. Trust is said to be at the heart of social capital and can reduce the level of costs of social and economic interactions. Even scientifically, social capital has a deterrent role in preventing corruption, fraud, and misconduct in various fields. Trust can improve economic growth among countries. Trust can lower transactional costs, facilitate inter-organizational relationships, and improve manager–subordinate relationships [13]. However, it seems that if people abuse public trust, there will be adverse and unfortunate consequences for. In short, on the one hand, the amount of audit fees is positively linked to the extent of an audit firm's efforts and litigation risks. On the other hand, trust would likely affect the audit firm's efforts and the perceived litigation risks [18]. For these reasons, auditors spend more time on those firms located in low social-capital areas to reduce the audit risk because they do not trust their clients, which will lead to increasing the audit. Thus, audit firms are expected to evaluate the honesty of their clients based on where the companies are headquartered and charge more audit fees when they have less confidence in the uprightness of the companies [16].

More specifically, social norms represent intrinsic motivation for selflessness, and network density represents an extrinsic motivation for selflessness. Based on Woolcock [19], the social norms and networks that enable collective actions are called social capital. This implies that norms and networks are two inseparable concepts. In keeping with this view, some studies have shown that a strong social network can improve the quality of social norms [9]. Hence, similar to the Jha and Chen [13] approach, this research does not consider the social norms and networks as two separate elements and relies on the Woolcock [19] definition. Given the prior research literature, it is expected that the social norms and networks of high social capital regions induce managers to behave more honestly, which will lead to manipulating accounting figures According to the findings of researchers, it has already been proven that social norms can induce a sense of guilt when an individual behaves disparately. This sense of guilt can be seen as a cost, and executives take this cost into account when making decisions. Since financial information manipulation is seen as selfish, this theory suggests that executives are less likely to engage in misleading the financial statements in counties with more altruistic norms, compared to counties where altruism is less important [9]. With respect to social networks, they can build more trust among their members over time and establish a culture based on the principles of cooperation and collaboration. Fukuyama [8] believed that people support each other well when there are repeated games in a dense network. With the passage of time, this process becomes an accepted ethical principle in society that invites everyone to promote mutual trust as well as abide by their commitments. Not only does a strong social network encourage good behavior, but it also enhances the punishment for deviant behavior [16]. Social networks can increase the perceived cost of selfish decisions through punishment and more effective monitoring. These costs seem to be reflected in earnings management; if distortion in the financial statements is seen as undesirable and networks can more easily detect and punish earnings manipulation, executives will take these costs into account. This, in turn, decreases the expected benefits of earnings management, ultimately decreasing the likelihood that executives will engage in earnings management in counties with high network density [20].

Culture is generally regarded as the way of life of any group of people. The spate of corporate collapse globally has brought to the fore the issue of how culture impacts on Accounting and Audit quality and vice versa. In Nigeria it has been opined that the culture of low litigation against negligent auditors and slow and tardy judicial process may have accounted partly for incidences of low audit quality as the auditors have no incentives to aspire to upgrade quality [5].

Cultural issues in audit quality was introduced by Akpomi, Amesi & Harcourt [1] when they used behavioral considerations to justify the practice of mandatory rotation of auditors in Nigeria.

Questionnaires and interview were used to gather data from 37 administrators in both the public and private sectors of the Nigerian economy. Percentages and Chi- Square were used to analyse the data of study. They found that auditors do not have the confidence of administrators when they are on audit assignments as they believe that auditors are out to expose them. On the other hand auditors were also found to be conniving with corrupt officials to cover their lapses.

As described, this study seeks to explain the effect of cultural, social and ethical capital on audit quality and answers to this question that "do the cultural, social and ethical capital affect the audit quality"?

2. Research hypotheses

H1: Cultural capital have a significant effect on audit quality.
H2: Social capital have a significant effect on audit quality.
H3:Ethical capital have a significant effect on audit quality.

3. Research methodology

3.1. Research method

This study is pseudo-experimental. In pseudo-experimental research, the researcher has no control over the process of data creation and it can't define different groups, such as the experimental and control group, but, the whole group plays the role of the experimental group. The present study, in terms of results, applied; in terms of purpose, analytical; in terms of the logic of execution, a combination of analogy and induction; in terms of the execution process, quantitative and in terms of time period, it's cross-sectional.

3.2. Population and Statistical Sample

In the present study, the statistical population included auditors working in the audit organization, auditing firms. select the sample, use Cochran formula with the percentage of error obtained in the pre-test (0.05) and a confidence level of 95%, 350 people was determined as the minimum sample. Therefore, according to the population statistical volume, 350 questionnaires were distributed and collected.

3.3. Mathematical model and the method of data analysis

The following equations are used to test research hypotheses:

$$AQ_i = \beta_0 + \beta_1 CC_i + \beta_1 SC_i + \beta_1 EC_i + \epsilon_i \quad (1)$$

$$AQ_i = \beta_0 + \beta_1 CCC_i + \epsilon_i \quad (2)$$

$$AQ_i = \beta_0 + \beta_1 SCC + \epsilon_i \quad (3)$$

$$AQ_i = \beta_0 + \beta_1 ECC_i + \epsilon_i \quad (4)$$

In the above equations: AQ: audit quality, CC: cultural capital, SC: social capital, EC: Ethical capital, CCC: cultural capital components, SCC: social capital components, ECC: Ethical capital components.

Considering that in the present research, the relation between variables have been studied in the framework of a scientific model, statistical inference were analyzed by structural equation modeling

using AMOS software. Also, evaluated the fit of the proposed pattern based on the Chi-squared index(x^2), Comparative Fit Index (CFI), goodness of fit index (GFI), Adjusted goodness of fit index (AGFI) and Root Mean Square Error of Approximation (RMSEA). In order to fit the pattern, it is essential that these indexes have the necessary standards. If the index (X^2/df) be smaller than 3 and the amount of (rmsea) be smaller and closer to zero and fitting indexes (cfi,gfi,agfi) be closer to 1, it indicates that the proposed model has been confirmed.

The AMOS framework can be summarized into three matrix equations, two for the measurement model component and one for the path model component. For the measurement model component,

$$X = \Lambda_x \xi + \delta \tag{5}$$

$$Y = \Lambda_y \eta + \delta \tag{6}$$

where x is a $p \times 1$ vector of observed exogenous variables, and it is a linear function of a $j \times 1$ vector of exogenous latent variables ξ and a $p \times 1$ vector of measurement error δ. Λ_x is a $p \times j$ matrix of factor loadings relating x to ξ. Similarly, y is a $q \times 1$ vector of observed endogenous variables, η is a $k \times 1$ vector of endogenous latent variables, ϵ is a $q \times 1$ vector of measurement error for the endogenous variables, and Λ_y is a $q \times k$ matrix of factor loadings relating y to η. Associated with (5) and (6), respectively, are two variance-covariance matrices, $\Theta\delta$ and $\Theta\epsilon$. The matrix $\Theta\delta$ is a $p \times p$ matrix ofvariances and covariances among measurement errors δ, and $\Theta\epsilon$ is a $q \times q$ matrix of variances and covariances among measurement errors ϵ. For flexibility, AMOS describes the path model component as relationships among latent variables,

$$\eta = B\eta + \Gamma\xi + \xi \tag{7}$$

where B is a $k \times k$ matrix of path coefficients describing the relationships among endogenous latent variables, Γ is a $k \times j$ matrix of path coefficients describing the linear effects of exogenous variables on endogenous variables, and ζ is a $k \times 1$ vector of errors of endogenous variables. Associated with (7) are two variance-covariance matrices: ϕ is a $j \times j$ variancecovariance matrix of latent exogenous variables, and ψ is a $k \times k$ matrix of covariances among errors of endogenous variables. With only these three equations, AMOS is a flexible mathematical framework that can accommodate any specification of a SEM model. SEM has been typically implemented through covariance structure modeling where the variance-covariance matrix is the basic statistic for modeling. Model fitting is based on a fitting function that minimizes the difference between the model-implied variance-covariance matrix $\sum$ and the observed variance-covariance matrix S,

$$minf(\sum, S) \tag{8}$$

where S is estimated from observed data, $\sum$ is predicted from the causal and noncausal associations specified in the model, and $f(\sum, S)$ is a generic function of the difference between $\sum$ and S based on an estimation method that follows. As Shipley concisely stated, causation implies correlation; that is, if there is a causal relationship between two variables, there must exist a systematic relationship between them. Hence, by specifying a set of theoretical causal paths, one can reconstruct the model-implied variance-covariance matrix $\sum$ from total effects and unanalyzed associations. Hayduk outlined a step-by-step formulation under the AMOS mathematical framework, specifying the following mathematical equation for $\sum$:

$$\sum = \begin{bmatrix} \Lambda_y A(\Gamma\phi'\Gamma + \psi)A" A'_y\Theta_\epsilon & \Lambda_y A\Gamma\phi A'_x \\ \Lambda_x\phi\Gamma' Ay' & \Lambda_x\phi A_x + \Theta_\delta \end{bmatrix} \tag{9}$$

where $A = (I - B)^{-1}$. Note that in (9) the derivation of $\sum$ does not involve the observed and latent exogenous and endogenous variables $(i.e., x, y, \xi, and \eta)$. A common method in SEM for estimating parameters in $\sum$ is maximum likelihood (ML). In ML estimation, the algorithm iteratively searches for a set of parameter values that minimizes the deviations between elements of S and $\sum$. This minimization is accomplished by deriving a fitting function $f(\sum, S)$ (8) based on the logarithm of a likelihood ratio, where the ratio is the likelihood of a given fitted model to the likelihood of a perfectly fitting model. The maximum likelihood procedure requires the endogenous variables to follow a multivariate normal (MVN) distribution, and S to follow a Wishart distribution. Hayduk described the steps in the derivation and expressed the fitting function FML as

$$F_{ML} = log|\sum| + tr(S\sum^{-1}) - log|S| + tr(SS^{-1}) \tag{10}$$

where $tr()$ refers to the trace of a matrix and $\sum$ and S are defined as above. Proper application of (10) also requires that observations are independently and identically distributed and that matrices $\sum$ and S are positive definite. After minimizing (10) through an iterative process of parameter estimation, the final results are the estimated variancecovariance matrices and path coefficients for the specified model. The first is the overall model chi-square test based on a test statistic that is a function of the mentioned fitting function FML (10) as follows:

$$X_M^2 = (n-1)F_{ML} \tag{11}$$

where n is sample size and X_M^2 follows a chi-square distribution with degree of freedom df_M as defined above. Subsequent-ly, a P value is estimated and evaluated against a significance level. The overall model chi-square test is only applicable for an overidentified model, that is, when $df_M > 0$. A justidentified model ($df_M = 0$), for example, a path model representation of a multiple regression, does not have the required degrees of freedom for model testing.

The second fit statistic to consider is the Root Mean Square Error of Approximation (RMSEA), which is parsimony-adjusted index that accounts for model complexity. The index approximates a noncentral chi-square distribution with the estimated noncentrality parameter as

$$\widehat{\delta} = max(X_M^2 - df_M, 0) \tag{12}$$

where X_M^2 is computed from (11) and df_M is defined above. The magnitude of $\widehat{\delta}_M$ reflects the degree of misspecification of the fitted model. The RMSEA is then defined as

$$RMSEA = \sqrt{\frac{\widehat{\delta}_M}{(n-1)df_M}} \tag{13}$$

Lastly, the Joreskog-Sorbom Goodness of Fit Index (GFI) is a measure of relative amount of variances and covariances jointly accounted for by the model, and it is defined as

$$GFI = 1 - \frac{tr(\sum^{-1} S - 1)^2}{tr(\sum^{-1} S)^2} \tag{14}$$

where I is identity matrix. GFI ranged from 0 to 1.0 with 1.0 indicating the best fit. Considering that the number of free parameters in SEM is much smaller than that in EFA when m is large, Yuan [21] proposed to replace $(N-1)$ in the definition of T_{ml} with $N_y = N - (2p+13)/6 - m/3$. However,

this proposal is only a heuristic rather than one that is statistically justified. A more complicated correction was originally offered by Swain [17], who proposed to replace $(N-1)$ in T_{ml} by

$$N_g = N - 1[p(2p^2+3p-1) - h_q(2h_q^2+3h_q-1)]/12df \tag{15}$$

Where $h_q = (1+8q)^{1/2}/2$ and q is the number of free parameters in the structural model. Studies by Fouladi [7], Herzog et al. [11] and Herzog and Boomsma [12] indicate that the performance of test from best to worst are $T_{mls} = N_s F_{ml}, T_{mly} = N_y F_{ml}$, and T_{mlb}. Although the performance of T_{mls} is potentially promising, the correction is not statistically justified.

4. Statistical findings

4.1. Checking the normality of data distribution

To evaluate the normality of the distribution of the main variables, the valid Kolmogorov-Smirnov test is used. In interpreting the test results, if the observed error level more than 0.05, in that case, the observed distribution is the same as the theoretical distribution and there is no difference between them. That is, the obtained distribution is normal distribution.

Table 1: Variables normality test

Variable	Sig	Result
Audit Quality (X1)	0.078	Normal
Cultural Capital (X2)	0.098	Normal
Social Capital (X3)	0.056	Normal
Ethical Capital (X4)	0.052	Normal

According to the values obtained from Smirnov-Kolmogorov statistics (table1), it can be inferred that the expected distribution is not significantly different from the observed distribution for all variables and so the distribution of these variables is normal.

4.2. Factor analysis

In this research, to identify and measure the latent variables, confirmatory factor analysis has been used. In performing the factor analysis, we must first be sure to use the available data that is required for analysis, to ensure this, the KMO index is used. By using this test, we can ensure the adequacy of sampling. This index is in the range of 0 to 1, if the index value is close to one, the desired data are suitable for factor analysis and otherwise, the results of factor analysis are not suitable for the desired data.

Table 2: Results of KMO index and Bartlett's test of structures of research variables

Sampling adequacy ratio coefficient KMW		0.772
Bartlett's test	Chi-square test	3451.010
	Degrees of freedom	190
	Sig	0.000

According to the above results, the amount of sampling adequacy for research structures is 0.772. Therefore, the sample size is appropriate for using structural equations. Generally, high values (close to 1) show that factor analysis is applicable to data. If this value is less than 0.5, the results of factor analysis probably will not be useful for the data. Also, Bartlett's Test of Sphericity is significant

(because its significance level is less than the test level), so, the relation between variables or their covariance matrix is suitable for factor analysis.

As the first step to perform confirmatory factor analysis, we examine standardized and meaningful factor loads, to make sure that have markers played a role in measuring their hidden structures or in other words, they are meaningful. For markers, significant coefficients outside of 1.96 and -1.96 are acceptable and standard factor loads are actually the same regression coefficients of the hidden variable path to the marker that must be more than 0.3. However, in some sources, the minimum acceptable value is considered 0.5.

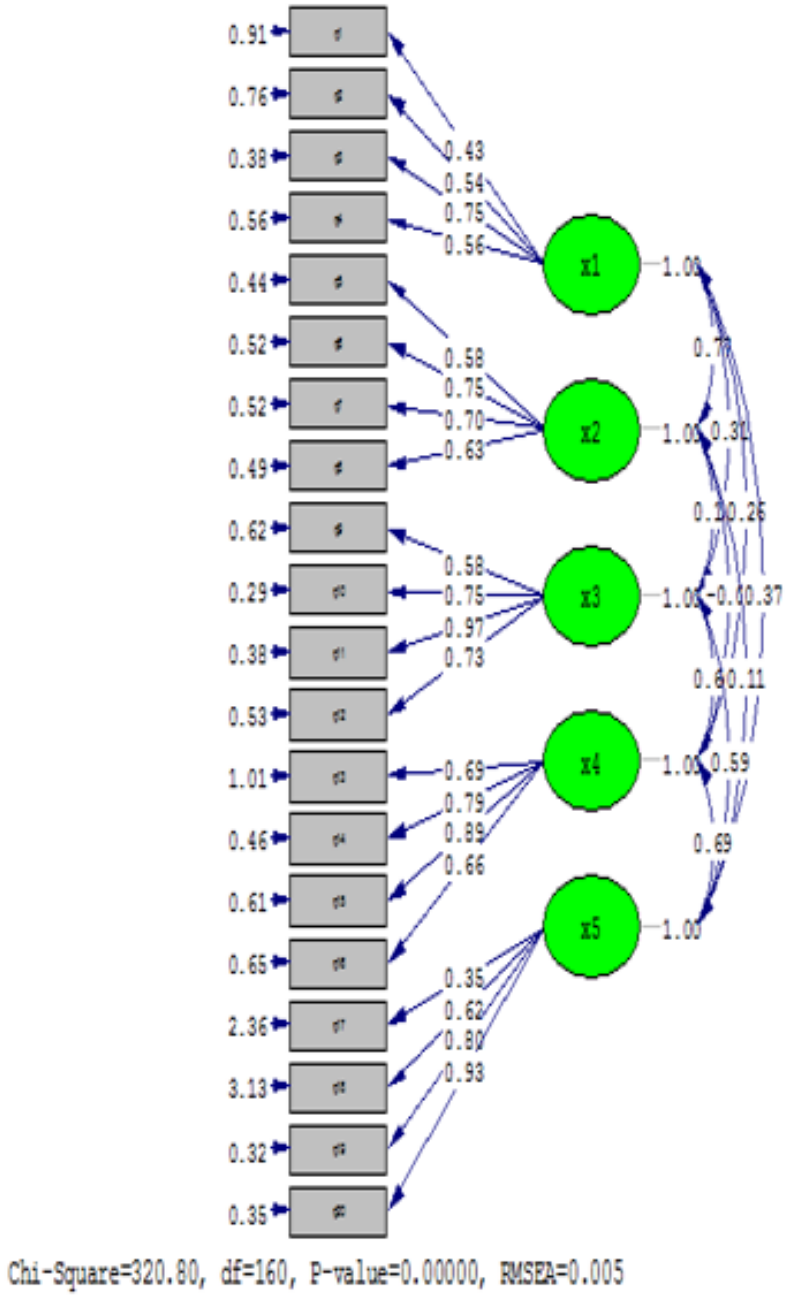

Figure 1: Standard coefficients of research variables measurement model

From the standardized coefficients measurement model (Fig. 1) it can be concluded that there is a significant correlation between the relevant latent variables and the indexes corresponding to them.

Standardized coefficients actually indicate the path coefficients or standardized factor loads between factors and markers. In order to have validity, there must be a significant correlation between index and dimension and between dimension and index. In other words, the correlation coefficient between the index and the dimension must be between $(-1, +1)$. Standard estimation model is a model that obtains from the compliance of two covariance matrixes of the data model and shows actual estimate of model parameters. In this model, the relation between index and dimension, dimension and index is shown. Coefficients between questions and research variables are standardized coefficients, that indicate ability intensity to measure each index in the research variable. Significant coefficients indicate a significant relation between variables. If these coefficients are between -1.96 and 1.96, indicate the inability of the index to measure the relevant variable. The values of the factor load, along with their significant values, are listed in table 3.

Table 3: The results of confirmatory factor analysis

Variables	t	Sig
1	7.42	0.000
2	9.76	0.000
3	15.24	0.000
4	11.36	0.000
5	12.91	0.000
6	14.55	0.000
7	18.91	0.000
8	13.29	0.000
9	11.85	0.000
10	17.98	0.000
11	10.99	0.000
12	14.93	0.000
13	10.95	0.000
14	16.91	0.000
15	16.68	0.000
16	12.69	0.000
17	2.86	0.000
18	6.75	0.000
19	18.48	0.000
20	26.44	0.000

According to the results of this table, the values of significance coefficients (t statistics) for all items are outside the range (-1.96, 1.96). As a result, markers have played a role in the measuring of their hidden structures, or in other words, are meaningful.

4.3. Fitting structural model and hypotheses test

Figure 2 shows the research structural model in which the estimated regression coefficients between the variables of research structural model are displayed.

The summary of the results of fitting the research structural model is shown in the table below.

As shown in Table 4, all fitted indexes of the model are at the desired level.

The results of Table 5 show that cultural, social and ethical capital with a coefficient of 0.89, 0.85 and 0.86 have a positive effect on audit quality, respectively, and given that the significance

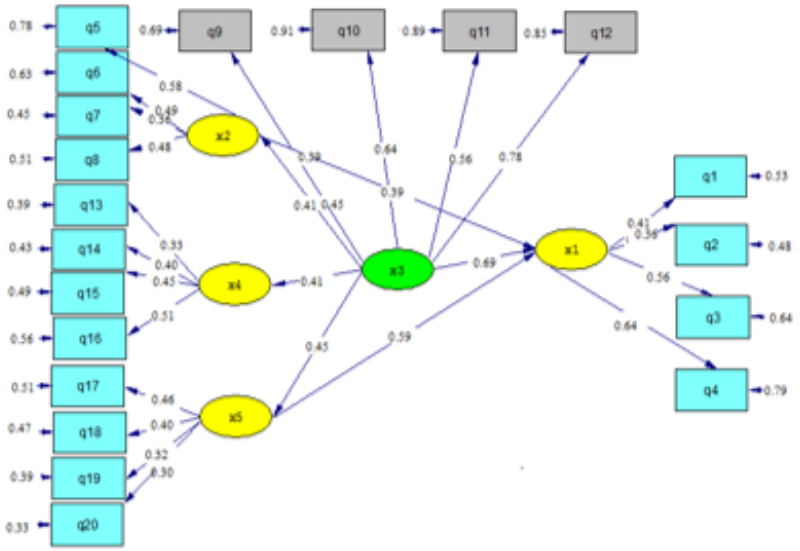

Figure 2: Values of Standard coefficients of relations between research model variables in structural model

Table 4: Fitting indexes for the proposed model

Grouping indicators	indicators	Initial Model	Acceptable fit
Absolute fit indicators	GFI	0.92	$GFI > 90\%$
	RMR	0.056	$RMR > 90\%$
Comparative fit indices	TLI	0.83	$TLI > 90\%$
	NFI	0.92	$NFI > 90\%$
	CFI	0.92	$CFI > 90\%$
	IFI	0.93	$IFI > 90\%$
Affordable fitting indices	PNFI	0.71	PNFI¿50%
	PCFI	0.79	PCFI¿50%
	RMSEA	0.009	RMSEA¿ 8%

Table 5: The results of fitting the research structural model

Hypothesis	Description of the hypothesis	Standard coefficient	Test statistics	Sig
H1	The effect of cultural capital on audit quality	0.89	6.198	0.000
H2	The effect of social capital on audit quality	0.85	5.317	0.000
H3	The effect of ethical capital on audit quality	0.86	5.541	0.036

level is less than 0.05, the above coefficients are statistically significant. And research hypotheses are confirmed.

5. Conclusion

Our findings show a positive relationship between social capital and audit fees. This means that the Iranian companies headquartered in provinces with high-quality social capital pay higher audit fees. In other words, the Iranian auditors do not judge the honesty of their clients based on where the firm is headquartered. Contrary to previous research literature, indicating that higher social norms

through an increased sense of guilt, as well as higher network density through increased punishment can induce managers to behave more honestly when providing financial reporting, our findings confirm that severe financial pressures stemming from economic crises may lead to the emergence of dark dimensions of social capital in management decisions. Difficult financial circumstances sometimes lead to a sense of fear of bankruptcy and the collapse of the company, which causes managers to manipulate the financial statements in such a way to attract more investors and creditors in the market. According to Jha and Chen [13], social capital measures the level of mutual trust in a region, and auditors often judge the trustworthiness of their clients based on where the firm is headquartered. Accordingly, since Iranian auditors have more confidence in the honesty of companies located in areas with high social capital, managers of these companies have considered the possibilities of detecting financial figures who are being manipulated by the auditors less, and they have attempted to provide more attractive financial images of their companies by performing profit management activities. Our findings are inconsistent with the results of Yue [20], Jha and Chen [13], Chen et al. [5], Sánchez et al.[16], etc. Unlike the Iranian market, most past research has been conducted in developed markets, and the managers of such companies have never been under severe financial pressure. Therefore, financial pressures can sometimes be major factors in shaping the negative effects of social capital when preparing financial reporting. As a result, social capital is expected to decrease the use of earnings manipulation, because of extra costs induced by guilt, monitoring, and punishment. In this research, a key question is raised that—given managers of Iranian companies are under heavy financial pressure due to severe economic sanctions—can norms and social networks still prevent their opportunistic behaviors? In other words, can social norms induce a sense of guilt especially in situations that Iranian managers, to survive in a financial crisis, have great motivations for conducting profit management activities to convey a more attractive picture of their financial situation? Do social networks increase the perceived costs of selfish decisions through punishment and more effective monitoring? To find answers to these questions, it is best to look at Iran's market conditions to evaluate better the impact of social capital on managerial behavior. Answering this question is like a double sword. On the one hand, given the prior research literature, it is expected that the social norms and networks of high social-capital regions induce managers to behave more honestly, which will lead to decreasing audit risk and audit fees. On the other hand, Iranian managers are not expected to be impressed by socially positive values and not adhere to professional ethics when preparing financial statements, which would increase auditing fees. Social capital measures the level of mutual trust in a location. Trust between a firm and both its stakeholders and investors are built through social capital. Trust between an auditor and its client also depends on the quality of the social capital in which a company is located. Accordingly, in addition to investors, lenders, and others who can be more confident in the honesty of the behavior of managers operating in areas with high social capital, auditors judge the trustworthiness of their clients based on where the firm is headquartered. Therefore, given that Iranian managers are under heavy financial pressure due to economic sanctions, those companies located in areas with higher social capital are expected to abuse the high level of trust that auditors and other groups in the market have in them. In other words, from the perspective of the managers of these companies, it is very unlikely that auditors and others will be pessimistic about the accuracy of the financial reporting. For this reason, these executives may abuse the high trust of others in themselves and try to better show their poor financial performance by manipulating accounting figures.

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