

Investigating the Effect of Auditor Specialization in Industry on the Relationship between Tax Avoidance and the Risk of Future Stock Price Crash of Pharmaceutical and Non-pharmaceutical Companies Listed on the Tehran Stock Exchange

S. A. Vaez (Ph. D.)^{1*} and S. S. Dorseh²

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Abstract

Introduction: The results of previous researches suggest that the audit specialization in industry leads to audit quality. Also, auditors through their information and corporate governance roles, decrease the risk of stock price crash.

Method: This research is applied in terms of purpose and by nature, it is a descriptive correlational research. The data related to 99 companies listed on the Tehran Stock Exchange which consist of 25 pharmaceutical companies and 74 non-pharmaceutical companies during 2005-2014 have been analyzed.

Results: Tax avoidance has a positive and significant effect and auditor specialization in industry has a negative and significant effect on the risk of future stock price crash. Moreover, auditor specialization in industry has a negative and significant effect on the relationship between tax avoidance and the risk of future stock price crash. Also, the effect of auditor specialization in industry on the relationship between tax avoidance and the risk of future stock price crash in the pharmaceutical companies is higher than that of non-pharmaceutical companies.

Conclusion: Tax avoidance necessitates applying a complex and unclear reporting system. This issue provides a circumstance for the opportunistic measures of managers so that they refuse to disclose negative news for their own personal interests and hide them inside their companies. When negative news inserts into the market, it leads to the crash of the stock price and since specialized auditors are the best monitors, they can decrease the effect of tax avoidance on the risk of stock price crash. Auditors can decrease the accumulation of negative news and uncertainty of financial information to the extent that tax avoidance become impossible.

Keywords: Auditor Specialization in Industry, Tax Avoidance, the Risk of Future Stock Price Crash.

¹Assistant Professor, Department of Accounting, Shahid Chamran University of Ahvaz.

² Ph. D. Student in Accounting, Shahid Chamran University of Ahvaz.

*Corresponding Author; Email: sa.vaez@gmail.com.