Words that Bind: The Relation Between Linguistic Homophily Between Audit Partner and Client Executives and Audit Outcomes

Shivam Agarwal
School of Business
Maynooth University
Maynooth, Co. Kildare, Ireland
Email: Shivam.Agarwal@mu.ie

Swetha Agarwal
Indian Institute of Management Ahmedabad
Vastrapur, Ahmedabad
Gujarat 380015, India
Email: swethaa@iima.ac.in

Gopal V. Krishnan
Department of Accounting
Bentley University
Waltham, MA 02452
Phone: 781-891-2477
Email: gkrishnan@bentley.edu

Siddharth Purohit
Accountancy Subject Area
College of Business
University College Dublin
Belfield, Dublin 4, Ireland
Email: siddharth.purohit@ucd.ie

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The authors are listed in alphabetical order of their last names.

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Abstract

We focus on the impact of language homophily between the audit partner and firm executive on audit outcomes. Focusing on the Indian context which has a rich linguistic diversity, our results suggest that when the audit partner and firm executives share a common language, audit quality is lower. More specifically, we find that language homophily is associated with income-increasing discretionary accruals, lower cash flow predictability, and reporting small increases in earnings. Further analysis reveals that the results are more pronounced when the audit partner and the CEO share the same native language, hence indicating the dominant role of the CEO in influencing auditor selection as well as shaping the negative outcomes. Overall, our findings suggest that language-based homophily between audit partners and CEOs can compromise auditor independence, leading to diminished audit quality, increased provision of non-audit services, and reporting delays.

Key Words: *audit partner; CEO; language; homophily; audit quality; India*.

JEL Classifications: M42.

1. Introduction

Language is fundamental to human interactions and plays a crucial role in enhancing communication between the auditor and client. However, there is a paucity of empirical evidence on whether and how language similarity between the auditor and client impacts audit outcomes. The objective of this study is to examine whether language homophily, i.e., speaking the same language between the audit partner and CEO or CFO is associated with audit quality and other audit outcomes, such as audit fees and audit report lag.

We focus on the Indian setting because it is a linguistically diverse nation with 122 officially recognised languages, out of which 32 are spoken by over a million people each (Language Census of India, 2011). At the outset, about 17.8 (19.3) percent of audit partner-CEO (audit partner-CFO) pairs in our sample share a common native language.

Ex ante, whether language homophily enhances or undermines audit quality is unclear. On one hand, familiarity of language between the audit partner and client firm executives could positively affect audit outcomes for the following reasons. First, according to theories of knowledge exchange, individuals with similar ascribed characteristics find it easier to access and transfer information that they require to perform their jobs efficiently (Ertug et al., 2018; Hansen, 1999; Reagans & McEvily, 2003). Sharing a linguistic background makes the interpretation of language nuances smoother, improves the understanding of technical jargon and contextual issues, thus reducing the risks of misunderstandings (Pham et al., 2023). Secondly, knowledge transfer is usually a costly activity for the transferrer (Hansen, 1999; Reagans & McEvily, 2003; Szulanski, 1996) and is often met with reluctance. The executives might offer only perfunctory assistance for courtesy, thus providing only superficial information which is of little value. However, sharing a language instantly creates trust and develops a friendly rapport between the parties (Tenzer et al., 2014), motivating the provider of information (e.g., CEO/CFO) to transfer knowledge quickly without much reluctance to the

acquirer (here, the audit partner). This ease of information flow and quick establishment of trust between the parties improves the quality of discussion, specifically of key audit matters.

On the other hand, language homophily could also have a negative impact on audit outcomes for two reasons. First, according to the structural holes theory (Burt, 1992), diversity of networks is important for accessing and learning from a varied range of people and resources. Limiting interactions with a familiar few leaves little room for diversity of resources and the opportunity to cross-examine the available information, which could reflect negatively on the audit outcomes (Beasley & Salterio, 2001; Ittonen et al., 2010; Samba et al., 2016). The second reason is that familiarity builds an inherent trust and comfort between the parties, which could hamper the auditor's capacity to think objectively and critically. Excess familiarity and friendship could lead to self-serving biases, especially when the auditor regards personal relationships as too important for client retention and fee negotiations (DeFond & Zhang, 2014). Thus, while homophily may facilitate smoother interactions, it simultaneously raises the risk of reduced auditor independence, unconscious bias, and collusion. Thus, the nature of the relationship between language homophily among audit partners and client executives and audit outcomes is an open empirical issue.

We document several key findings. First, *audit partner language homophily* (APLH) with client firm executives, especially the CEO, is negatively associated with audit quality. Specifically, APLH with the CEO is associated with higher income, increasing discretionary accruals, lower cash flow predictability of earnings, and a higher propensity to report small earnings increases.

Second, CEO power is a significant channel driving this association. Third, business group affiliation of the client firm is a significant factor moderating the association between APLH and the CEO and lower audit quality. We find that audit partners are more likely to acquiesce to the CEO's demands when the client firm's management holds greater bargaining

power over the auditor. Results from our subsample tests further show that the detrimental impact of APLH on audit quality is predominantly observed when the audit firm is small (i.e., non-Big 4), has a lower bargaining power, or in the earlier years of the audit partner's tenure.

We undertake several measures to address concerns related to endogeneity and self-selection bias. First, we apply both client-firm and audit partner fixed effects to our base regression models. Next, we adopt an instrumental variable regression approach and the entropy balancing method (Hainmueller, 2012) to ensure our results are not an outcome of functional form misspecification. Our results hold across all the above robustness tests. Finally, in supplementary tests, we document that while APLH with the CEO and the CFO is associated with overall lower audit fees and total fees paid to the auditor, the payments include a greater proportion of fees for non-audit services. Audits with APLH also take longer to complete. Collectively, our results support the notion that when the firm CEO and audit partner share a common native language, audit outcomes are adversely affected.

Our study makes several important contributions. First, we add to the existing literature on how shared characteristics between auditors and firm executives affect financial reporting quality and overall audit outcomes. While prior literature has documented the impact of broad social, cultural, and demographic similarities (Du et al., 2023; Guan et al., 2016; Pham et al., 2023), the results are mixed and inconclusive. We attempt to fill that gap by examining the dyadic relationship between the audit partner and individual firm executives (CEO/CFO) at a highly granular level with shared language as the source of homophily. Second, we extend the literature by disentangling the roles of the CEO and CFO in influencing auditor-client relationships and audit outcomes. Prior literature has emphasised that while the CFO is more directly involved in the preparation and presentation of financial statements (Jiang et al., 2010), the CEO also holds overarching authority and strategic influence (Feng et al., 2011). Considering such arguments, this distinction is important and adds an interesting layer to our

study by identifying which firm executive has stronger incentives and greater ability to influence audit outcomes.

Third, while Du et al. (2023) examine the effect of *dialect* similarity in China, our setting differs fundamentally. It is important to understand that India offers a uniquely fragmented linguistic environment, with over a hundred officially recognised *languages* that often bear little resemblance in syntax, script, pronunciation, or cultural nuance. This allows us to study language homophily in a context where language is not merely a dialectal variation but a strong indicator of cultural and social identity. By examining these dynamics, we provide new evidence on how language-based relationships shape audit outcomes in a highly diverse and complex setting. Finally, our study adds to the governance and auditing literature by suggesting that executive–auditor homophily may not be random and inconsequential but instead could reflect executives' incentives to select auditors who are more linguistically aligned and therefore potentially more accommodating.

The rest of the paper proceeds as follows. Section 2 discusses the related literature and institutional background, followed by hypothesis development in Section 3. The data collection and mapping process is described in Section 4, while the research design is detailed in Section 5. Sections 6 and 7 discuss our main empirical findings and supplementary tests, respectively. We discuss our results and conclude in Section 8.

2. Literature review and institutional background

2.1 Homophily

Homophily, the tendency of individuals to form connections based on common traits such as race, gender, ethnicity, place of birth, educational background, or social network, etc., is a well-established concept in organizational and social science literature (Lawrence & Shah, 2020; Lazarsfeld & Merton, 1954; McPherson et al., 2001). McPherson et al. (2001) posit that contact among similar people occurs at a higher rate than among dissimilar people. This

principle is instrumental in shaping relationships across various domains, such as friendship, work collaboration, and financial transactions. Consequently, homophily plays a crucial role in shaping networks and influencing how information, resources, and opportunities flow within organizations and societies (Ertug et al., 2022). The concept of homophily was formally introduced by Lazarsfeld and Merton (1954), who further distinguished homophilic traits into two broad categories: status homophily (similarity in ascribed characteristics such as race, age, gender, and education) and value homophily (similarity in attitudes, beliefs, and preferences). McPherson et al. (2001) documented the prevalence of homophily in various relationship dynamics, including marriage, workplace interactions, and community ties. They argue that homophily leads to the creation of biased groups, fosters inequality, and limits exposure to diverse viewpoints. In contrast, homophily could lead to better coordination, seamless communication, and increased trust between the associated parties (Ertug et al., 2022). It is important to note that the outcomes of homophily are not the same across all settings. The outcomes vary depending on the context of the relationship being studied, and literature has often found divergent results. According to Ertug et al. (2022), homophily is like a double-edged sword.

On one hand, theories of knowledge suggest that when individuals share a common characteristic such as background, language, or education, they tend to experience a quick connection. This familiarity reduces the initial barriers of communication, building trust and friendship between the parties. As a result, these familiar parties are more comfortable sharing information and resources, leading to an effective knowledge-sharing mechanism, which in turn improves performance. On the other hand, in line with the structural holes theory (Burt, 1992), familiarity could lead to a reduction in diversity or the willingness to seek information and knowledge from outsiders. It could also lead to bias or favoritism, thus resulting in inefficient repercussions. The outcome of homophily in a setting depends upon which of the

above two forces dominates in each setting, as there is no clear winner between the two. Prior empirical literature has reported inconsistent pieces of evidence on the consequences of homophilic relationships in various contexts (Ertug et al, 2022). For example, Dana (2007) documents that entrepreneurs stand to gain when their suppliers share their nationality, yet such results do not hold when the homophilic counterpart is a client. Hegde and Tumlinson (2014) find a positive association between homophily among venture capitalists and startup performance. However, Gompers et al. (2016) document that homophily among venture capitalists leads to sub-optimal investment decisions. The contrasting evidence implies that the outcomes of homophilic relations could vary based on the context or setting, thus defying a one-size-fits-all approach.

2.2 Homophily and audit outcomes

Prior literature posits that audit outcomes are not only a function of the audit firm and audit partner, but also depend upon the dynamics of the auditor-client relationship. For example, He et al. (2017) document that social ties between the auditors and audit committee members impair the audit quality. As a proxy for social connection, they use alma mater ties, professor-student connections, etc. In the same vein, Guan et al. (2015) find that when the client executives and auditor happen to have attended the same university, there are greater chances of collusion and compromise of audit quality. In contrast, some studies document a positive impact of such shared affiliations (Carcello & Neal, 2003). Bruynseels & Cardinaels (2014) examine the effect of social ties between audit committee members and the CEO and document a negative impact on audit quality. Additionally, Du et al. (2023) find that when CEOs and audit partners speak the same dialect, there is a higher likelihood of audit opinion shopping. In contrast, Pham et al. (2023) find that when the auditor and CFO share similar cultural traits, there is improved communication between the parties, thus impacting the audit quality

positively. Thus, there is no conclusive evidence of the impact of social proximity and affiliations between the audit partners and firm executives on audit quality.

3. Hypothesis development

The exact nature of the relationship between audit partner-client executives' language homophily and audit outcomes is not obvious. Familiarity of language between the firm executives and the audit partners could positively affect the audit outcomes for the following reasons. First, according to theories of knowledge exchange, individuals with similar ascribed characteristics find it easier to access and transfer the information that they require to perform their jobs efficiently (Hansen, 1999; Reagans & McEvily, 2003). Sharing a linguistic background makes the interpretation of language nuances smoother, improves the understanding of technical jargon and contextual issues, thus reducing the risks of misunderstandings (Pham et al., 2023). Secondly, knowledge sharing and transferring are usually a costly activity for the provider (Hansen, 1999; Reagans & McEvily, 2003; Szulanski, 1996) and is often met with reluctance. The executives might offer only perfunctory assistance for courtesy, thus providing only superficial information which is of little value. However, sharing a language instantly creates trust and develops a friendly rapport between the parties (Tenzer et al., 2014) motivating the provider of information (CEO/CFO) to transfer knowledge quickly, without much reluctance, to the acquirer (here, the audit partner). This ease of information flow and quick establishment of trust between the parties improves the quality of discussion, specifically of key audit matters.

In contrast, while language homophily could lead to improved communication and enhanced trust between the parties, it could have a negative impact on audit quality for two reasons. First, according to the structural holes theory (Burt, 1992), diversity of networks is important for accessing and learning from a varied range of people and resources. Limiting interactions with a familiar few leaves little room for diversity of resources and the opportunity

to cross-examine the available information, which could reflect negatively on the audit outcomes (Beasley & Salterio, 2001; Ittonen et al., 2010; Samba et al., 2016). The second reason is that familiarity builds an inherent trust and comfort between the parties, which could hamper the auditor's capacity to think objectively and critically. Excess familiarity and friendship could lead to self-serving biases, especially when the auditor regards personal relationships as too important for client retention and fee negotiations (DeFond & Zhang, 2014). Thus, while homophily may facilitate smoother interactions, it simultaneously raises the risk of reduced independence, unconscious bias, and collusion.

In light of the above opposing arguments, we propose our hypothesis in the null form:

H1: Audit partner's language homophily with client firm executives is not associated with audit outcomes.

4. Data

4.1 Socio-Economic and Caste Census (SECC)

Our primary data source is the 2011 Socio-Economic and Caste Census (SECC), conducted by the Registrar General of India. The survey covered approximately 2.4 million enumeration blocks, each containing an average of 125 households, providing near-complete coverage of India's rural and urban population. The raw SECC comprises roughly 474 million household records spanning all 640 districts. For each household, the dataset includes the name of the head, gender, caste, district, state, tehsil, and village. From these, we extract four variables: surname, district, state, and caste.

4.2 Linguistic Survey of India (LSI)

Following Aswani (2020), we merge the SECC with the Linguistic Survey of India (LSI), which provides district-level linguistic composition based on census data compiled by (Lacina, 2018). The LSI reports the seven most spoken languages in each district and the share of the population speaking each language. We define the dominant language of a district as that spoken by the largest share of its population. For example, in Anantnag (Jammu & Kashmir),

Kashmiri is dominant, with Gujari, Dogri, and Central Pahari as secondary languages. To avoid mismatches arising from non-unique district names (e.g., "Aurangabad" in Maharashtra and Bihar), we merge the SECC and LSI using district and state identifier codes.

4.3 Identity variables

The merged SECC-LSI dataset allows us to link each surname to three distinct identity attributes. 'Native language' is defined as the dominant language of the individual's district of residence. 'Native place' corresponds to the individual's state of residence. Caste is obtained from the SECC and classified according to the Government of India's official categories: Scheduled Castes (SC), Scheduled Tribes (ST), and "Other" castes (OC).[1] Thus, each surname in our dataset is mapped to these three identifiers, creating a link between names and multiple dimensions of social identity.[2]

4.4 Surname-language mapping

In India, surnames are not confined to a single region. To identify the language associated with each surname, we first construct a surname–district frequency matrix from the SECC. Each cell in this matrix represents the frequency of a given surname that appears in a particular district. We then merge this matrix with district-level language data from the LSI. This process links a surname to the dominant language of the district where it appears most often. If a surname is present in multiple districts, we assign its language identity based on the district with its highest relative frequency in the SECC data. For example, the surname "Bhattacharya" appears in multiple Indian states, but the surname–district matrix depicts that it is primarily concentrated in districts of West Bengal. Merging it with the LSI therefore assigns Bengali as the native language for Bhattacharya.

[1]The "Other" caste category corresponds to groups not classified as SC or ST, including historically "upper" castes such as *Brahmins*, *Kshatriyas*, and *Vaishyas*.

[2] In India, surnames signal lineage, community, and region of origin, enabling inference of otherwise unobserved identity traits (see Sankaran et al. 2017).

5. Research design

5.1 Linguistic homophily and audit quality

Our measure of linguistic homophily between the audit partner and firm executives is based on the commonality of the principal native language between the audit partner and the CEO or the CFO.[3,4]

5.2 Measures of audit outcomes

Our audit outcome measures include measures of audit quality, audit fees, and audit report lag. Francis (2024) argues that earnings quality is a better measure of audit report quality. Thus, we employ signed performance-adjusted discretionary accruals (Kothari et al., 2005),[5] cash flow predictability of earnings (Krishnan et al., 2023), and small increases in earnings (Burgstahler & Dichev, 1997; Gunny, 2010). While lower discretionary or abnormal accruals are suggestive of the auditor's ability to constrain opportunistic earnings management (Knechel et al., 2013), a significantly positive correlation between operating accruals and future operational cash flows indicates greater reliability of the reported earnings and hence higher audit quality (Dichev et al., 2013). Our third proxy for audit quality is based on firms'

[3] We consider the audit partner's homophily with both the CEO and the CFO, as prior research suggests the influence of both these executives on financial reporting (Friedman, 2014; Kim et al., 2011; (Xuefeng) Jiang et al., 2010). Moreover, recent empirical evidence is not convergent on the degree as well as direction of the association of audit partner's cultural or linguistic ties with the CEO and the CFO and audit quality (Du et al., 2023b; Pham et al., 2023b). For instance, Pham et al. (2023b) find that cultural proximity between the audit partner and the CFO, but not the CEO, is associated with higher audit quality. However, in a related study, Du et al. (2023b) find evidence of audit opinion shopping when the audit partner and the CEO share a common dialect.

[4] In many Indian companies, the top executive position may be designated as either the Chief Executive Officer (CEO), Managing Director (MD), or Executive Director (ED), which are collectively bundled under the definition of CEO in our study. For instance, the designation CEO exists in only about 15% of our sample for client firm-years. For the remainder of the sample, we consider the MD or the ED (in that order) as occupying the top executive position in the client firm. Similarly, Chief Financial Officers (CFOs) are alternately designated as Director (Finance), Vice President (Finance), or General Manager (Finance) in many Indian companies. All of these titles are bundled under the definition of CFO for the purposes of our study.

[5] We use signed (instead of unsigned or absolute) values of discretionary accruals as prior research indicates greater regulatory, litigation, and audit risk associated with income-increasing accruals compared to income-decreasing accruals (N. K. Desai & Gerard, 2013; Heninger, 2001). Studies employing signed discretionary accruals to measure FRQ or audit quality include Hope et al. (2013), Tanyi and Smith (2015), and Gaver and Utke (2019), among others.

propensity to manage earnings to report small increases in earnings (Burgstahler & Dichev, 1997), and auditors' incentives to curb such behaviour to showcase higher audit quality (Casey et al., 2015).

5.1.1 Analysis with discretionary accruals

To test the relationship between audit partner linguistic homophily (APLH) and discretionary accruals, we estimate the following fixed effects OLS regression model (firm and year subscripts are omitted for brevity):

$$DA\_PADJ = \beta_0 + \beta_1 APLH\_CEO + \beta_2 APLH\_CFO + \beta_{3\text{-}19} Controls + IFE + YFE + \varepsilon \quad (1)$$

where *DA_PADJ* are the discretionary accruals adjusted for firm performance (Kothari et al., 2005). *APLH_CEO* and *APLH_CFO*, our principal explanatory variables of interest, are coded as dummy variables which assume the value of 1 when the audit partner and the CEO, or the CFO, respectively, are likely to have the same native language, and 0 otherwise. Positive (negative) estimates of the coefficients of interest β_1 *and* β_2 would suggest that *ceteris paribus*, APLH is associated with lower (higher) audit quality. *IFE* and *YFE* indicate, respectively, industry and year fixed effects. Variable definitions are in Appendix A.

The control variables in model (1) are based on prior literature and account for a host of characteristics related to the audit partner, audit firm, client firm, and the auditor-client relationship that may influence discretionary accruals (Chi et al., 2017; DeFond & Zhang, 2014b; Gaver & Utke, 2019; Krishnan et al., 2023). For instance, we control for auditor size (*BIG4*) as larger auditors provide better quality audits (Becker et al., 1998; DeAngelo, 1981). *TOPCLNT* accounts for the bargaining power of the client, which is inversely related to audit quality (Asthana & Boone, 2012). At the audit partner level, we control for the tenure (*PTNR_TENURE*) as well as the busyness (*PTNR_BUSYNESS*) of the audit partner which have a bearing on audit quality (C. Chen et al., 2008; Goodwin & Wu, 2016). To account for the reversal of previous year accruals, we include *DA_PADJ_PY* in the regression model. The next

set of controls account for firm fundamentals such as size (*SIZE*), leverage (*DEBT*), market value (*MTB*), cash flow from operations (OCF), and listing age (*AGE*). In addition, we control for firm performance through sales growth (*SALESGR*) and loss indicator (*LOSS*). The number of geographical and business segments (*GEOSEG* and *PRODSEG*, respectively) accounts for the complexity of the firm's operations, while *OCF_SD* and *SALES_SD* account for the volatility of its operational cash flows and sales revenue, respectively. Finally, we include *INDPC*, or the percentage of independent directors on the firm's board, which partially represents the quality of corporate governance of the firm, an important factor having a bearing on its FRQ (X. Chen et al., 2015). The model includes industry and year fixed effects and is estimated with robust standard errors clustered at the client firm level. All continuous variables are winsorized at the 1st and 99th percentiles for each year in the sample.

5.1.2 Analysis with cash flow predictability

Next, turning to our second measure of audit quality, cash flow predictability of earnings, we estimate the following fixed effects OLS regression model:

$$OCF\_NY = \beta_0 + \beta_1 ROA + \beta_1 APLH\_CEO + \beta_3 ROA \times APLH\_CEO + \beta_4 APLH\_CFO + \beta_5 ROA \times APLH\_CFO + \beta_{6\text{-}35} Controls + IFE + YFE + \varepsilon \quad (2)$$

where the dependent variable *OCF_NY* represents the client firm's operational cash flows divided by total assets for the next financial year (*t+1*); and *ROA* measures the net earnings before extraordinary items divided by total assets of the firm in year *t*. The coefficients of interest in this model are β_3 and β_5, negative (positive) values of which would suggest a lower (higher) audit quality for APLH with the CEO and CFO, respectively. The control variables employed in this model are similar to those in model (1), except that it excludes *OCF* and *DA_PADJ_PY* and includes interactions of all control variables with *ROA*. This model is similar to Krishnan et al. (2023).

5.1.3 Analysis with small earnings increases

For a test of the association between APLH and a firm's propensity to report small increases in earnings, we estimate the following probit regression model:

$$MEET\_LAST = \beta_0 + \beta_1 APLH\_CEO + \beta_2 APLH\_CFO + \beta_{3\text{-}18} Controls + IFE + YFE + \varepsilon \quad (3)$$

where *MEET_LAST* is an indicator variable for instances of the client firm reporting small increases in earnings, inspired by Gunny (2010). Positive (negative) values of the coefficients of interest β_1 and β_2 in this model would suggest APLH's association with lower (higher) FRQ. Model (3) employs similar control variables as model (1), with the exception of *DA_PADJ_PY.*

6. Sample and main results

6.1 Sample

Our sample selection process is detailed in Panel A of Table 1. The sample for our analyses is drawn from the universe of quoted non-financial Indian companies having data on financial statements and related variables available in *Prowess*$_{dx}$.[6] We begin with 133,446 client firm-year observations spanning the years 1990 to 2023. As we aim to examine the association between shared linguistic identities of individuals (i.e., audit partner, CEO, and CFO) and audit outcomes, we exclude all instances where two or more audit partners are jointly in charge of the audit, leading to a loss of 8,489 observations. Next, we lose 29,110 client firm-years on account of inadequate information to probabilistically ascertain the native language of audit partners, and a further 26,795 (67,473) on account of inadequate information on CEOs (CFOs). Finally, after further sample attrition due to missing values of the dependent variable indicating small earnings increases (*MEET_LAST*) and required control variables, we arrive at the analysis

[6] *Prowess*$_{dx}$, a database service of the *Centre for Monitoring Indian Economy,* provides computerised data on financial statements and related variables of public and private Indian companies for research purposes. Numerous prior academic studies in the Indian context have used data from *Prowess*$_{dx}$ (e.g., N. Desai et al., 2025; Gopalan et al., 2007; Jindal & Seth, 2019; Khanna & Palepu, 2000; Manchiraju & Rajgopal, 2017).

sample for benchmark tests consisting of 42,816 (20,812) client firm-year observations from 1998 to 2023 for regressions with *APLH_CEO* (*APLH_CFO*) as the main explanatory variable of interest. In a similar manner, after accounting for missing values of discretionary accruals (*DA_PADJ*) or future cash flows (*OCF_NY*) and the relevant control variables, our tests using discretionary accruals or cash flow predictability consist of 41,771 (20,110) or 38,355 (17,570) observations, respectively, when examining the influence of APLH with CEO (CFO) on FRQ.

Panel B of Table 1 presents the distribution of our sample by the native language of audit partners, CEOs, and CFOs. Our sample includes 5,229 unique audit partners and 8,529 (5,688) unique CEOs (CFOs) collectively speaking 36 different languages. The top three languages spoken by the highest proportion of audit partners and client executives in our sample are *Western Hindi*, *Bihari*, and *Marathi*, with *Western Hindi* spoken by 18.6 percent of audit partners and 19 (18.6) percent of CEOs (CFOs), respectively.

[Insert Table 1 about here]

6.2 Summary statistics

Panel A of Table 2 presents the summary statistics for the variables employed in our analyses. The sample size fluctuates between our tests on account of the availability of data on various variables, and the same is also reflected in the summary statistics. The mean value of *APLH_CEO* (*APLH_CFO*) indicates that overall, the audit partner shares their native language with the CEO (CFO) in about 17.8 (19.3) percent of our sample.[7] On average, the value of performance-adjusted discretionary accruals (*DA_PADJ*) is -0.005, whereas the likelihood of firms reporting small earnings increases (*MEET_LAST*) is about 15.4 percent. The mean future cash flows from operations (*OCF_NY*) of our sample firms are 5.96 percent of their total assets.

[7] Additionally, the audit partner shares their native language with *both* the CEO and the CFO in only about 6.9 percent of the sample (N = 19,460 client firm-years). In unreported results, we do not find any significantly incremental impact of APLH with *both* the CEO and CFO on the audit quality after controlling for *APLH_CEO* and *APLH_CFO* separately.

[Insert Table 2 about here]

In Panel B of Table 2, we report the summary statistics separately for homophilous and non-homophilous audit partners, conditional upon the existence or non-existence of APLH with either the CEO or the CFO. The univariate comparisons of means suggest that client firms characterised by the audit partner's homophilous association with the CEO (*APLH_CEO*=1) have on average, significantly higher discretionary accruals (*DA_PADJ*) and likelihood of reporting small increases in earnings (*MEET_LAST*). Similar comparative figures are also observed between the subsamples with and without APLH with the CFO, except that the difference in mean frequencies of *MEET_LAST* is not statistically significant in this case. While these statistics preliminarily indicate impaired FRQ for homophilous audit partners, we defer any conclusions to the results of our multivariate analyses.

6.3 Main results

In this subsection, we discuss the results of multivariate regression analyses to examine whether there exists any association between APLH with client executives (i.e., the CEO and the CFO) and the three measures of audit quality, namely, performance-adjusted discretionary accruals (model 1), cash flow predictability of earnings (model 2), and the propensity to report small earnings increases (model 3).

6.3.1 APLH and discretionary accruals

Panel A, Table 3 presents the results of estimation of model (1). In columns (1) and (2), the coefficients of *APLH_CEO* and *APLH_CFO* are positive and significant at the 1 percent level, suggesting higher income-increasing accruals for clients where audit partners share their native language with the CEO or the CFO, respectively. In column (3), when we include *APLH_CEO* and *APLH_CFO* both as the explanatory variables, only *APLH_CEO* is

statistically significant.[8, 9] Among the notable controls related to auditor characteristics, the coefficients in columns (1) to (3) suggest that while Big 4 audit firms (*BIG4*) are associated with lower discretionary accruals and thus higher FRQ, greater client importance to the audit firm (*TOPCLNT*) is associated with higher discretionary accruals, implying lower FRQ.

It is possible that executives in client firms with inherently lower FRQ engage homo-lingual audit partners for reasons including but not limited to smoother communication, increased trust, and the resulting ease of persuasive negotiation (Ertug et al., 2022b; Taylor & Thomas, 2008). In such a scenario, our explanatory variables of interest (*APLH_CEO* and *APLH_CEO*) would be potentially endogenous on account of their co-determination with the dependent variable based on certain unobservable factors at the client firm-level. To minimise the effects of endogeneity emerging from the client firms' selection bias on our conclusions, we incorporate client firm fixed effects in our regression model (1). With client firm fixed effects, we are able to control for all unobservable time-invariant client-level characteristics that may influence the dependent variable. The results of our within-firm regressions, presented in column (4) indicate that both *APLH_CEO* and *APLH_CFO* are positively associated with higher abnormal accruals ($p<0.01$ and $p<0.05$, respectively).

Similar to selection bias originating from the client firm's end, selection bias is equally likely from the audit partner's end. For instance, audit partners with inherently weaker independence and professional scepticism may be prone to engaging in audit assignments of financial statements with lower audit quality in exchange for higher monetary rewards from

[8] The coefficients of *APLH_CEO* and *APLH_CFO* are statistically different at the 10 percent level of significance. In an additional test (unreported), we examine the regression coefficient of interaction between *APLH_CEO* and *APLH_CFO* (indicating cases where the audit partner, the CEO, and the CFO share the same native language). We find that *APLH_CEO* continues to be positive and significant ($p<0.01$), whereas *APLH_CFO* and *APLH_CEO*×*APLH_CFO* both have statistically insignificant coefficients. In summary, our results suggest that *APLH_CEO* has a persistent positive relation with abnormal accruals, implying lower FRQ when the audit partner shares their native language with the CEO of the firm.

[9] The correlation coefficient between *APLH_CEO* and *APLH_CFO* in our sample is 0.23. The average VIF of the regression model in column (3) is 3.80. These values minimise concerns of serious multicollinearity in our regression (Belsley et al., 2005; Porter & Gujarati, 2008).

clients in the form of contracts for non-audit services or audits of subsidiaries or associates. To account for this possibility and control for any similar unobservable traits of the audit partners, we further include audit partner fixed effects in the regression model (1). Column (5) (Table 3 - Panel A) presents the results with client firm and audit partner fixed effect, where *APLH_CEO* and *APLH_CFO* both continue to be positively associated with *DA_PADJ*, suggesting that homophilous audit partners are associated with lower audit quality.[10]

6.3.2 APLH and cash flow predictability

Next, we examine whether APLH is associated with the ability of earnings to predict future cash flows (model (2)). The results, presented in Table 3 - Panel A, offer the following conclusions. First, the coefficient estimates of *ROA* are significant and positive ranging from 0.296 to 0.501 across columns (1) to (5), showing that current year's profits are predictive of operational cash flows of the succeeding year. Further, the negative coefficients of *ROA*×*APLH_CEO* indicate that in cases of APLH with the CEO, the predictability of future cash flows is marginally weakened, although the statistical significance dips from the 5 percent level to the 10 percent level when we control for client firm fixed effects and audit partner fixed effects in columns (4) and (5), respectively.[11] The weakened predictive power of earnings in the presence of APLH with the CEO implies lower audit quality. Interestingly, while APLH with the CFO appears to have a similar effect (on the predictive value of earnings) at first (column (2)), the coefficient of *ROA*×*APLH_CFO* becomes insignificant when it is tested alongside the variable for APLH with the CEO (columns (3) to (5)). Overall, this suggests that after controlling for the audit partner's linguistic ties with the CEO, and client firm and audit partner fixed effects, APLH with the CFO may not have a material impact on the predictive

[10] In addition to estimating regressions with client firm and audit partner fixed effects, we take several other measures to address endogeneity concerns in our research setting, which are discussed in greater detail in Section 6.6.

[11] The sums of the coefficients of *ROA* and *ROA*×*APLH_CEO* are statistically significant at the 1, 5, 10, and 10 percent levels in columns (1), (3), (4), and (5), respectively.

value of earnings. APLH with the CEO, on the other hand, demonstrates a significant negative impact on cash flow predictability of earnings even after controlling for a host of auditor and client firm characteristics, both observable and unobservable.

6.3.3 APLH and small earnings increases

The results for multivariate probit regressions to estimate the likelihood of reporting small earnings increases relative to the previous financial year (model (3)) are presented in Panel C of Table 3. Columns (1) and (2) show the results for regression of model (3) with *APLH_CEO* and *APLH_CFO* as the predictor variables of interest, respectively. Columns (3) and (4), on the other hand, include both these predictor variables simultaneously. While columns (1) to (3) are estimated with industry and year fixed effects, column (4) is estimated with random effects.[12]

The coefficient of *APLH_CEO* is positive and significant in all columns in Table 3 – Panel C with statistical significance between 1 and 5 percent levels, showing that APLH with the CEO leads to a higher likelihood of a firm meeting or beating its prior year earnings by a small margin. In contrast, the coefficient of *APLH_CFO* is inconsistent and statistically insignificant in our regressions, indicating the lack of a material association between *APLH_CFO* and *MEET_LAST* in our sample.

In summary, the results from our tests with three different measures of FRQ – discretionary accruals, cash flow predictability, and small earnings increases – collectively provide some evidence that audit partner's linguistic ties with the CEO are associated with lower FRQ, and therefore lower audit quality. As regards the implications of audit partner's

[12] Estimating a probit model with multiple fixed effects can cause the "incidental parameters problem" (Greene, 2004; Lancaster, 2000) and introduce convergence issues in the Maximum Likelihood Estimator (MLE). Therefore, we do not estimate the probit regression (model (3)) with client firm and audit partner fixed effects. To overcome this issue, we instead estimate a random effects probit model which controls for unobserved time-invariant heterogeneity at the firm level. However, due to these limitations, unlike in our tests with discretionary accruals and cash flow predictability (Table 3 – Panels A and B), we are unable to account for unobserved audit partner-level heterogeneity, which can have a non-trivial association with the propensity of a firm to report small earnings increases.

linguistic ties with the CFO on a firm's FRQ, our results are less cohesive. While we find that *APLH_CFO* is related with higher discretionary accruals, we do not find evidence of its significant and consistent association with either the predictive value of earnings or the propensity to report small earnings increases after we control for unobserved heterogeneity among client firms or audit partners in our sample. Collectively, these results provide support to reject our null hypothesis H1.

[Insert Table 3 about here]

6.4 Tests of CEO duality and business group affiliation as potential channels

The differences in our findings for *APLH_CEO vs. APLH_CFO* may be explained by prior research. Among the studies focusing on the role of CEOs vs. CFOs in earnings management or financial misreporting, competing findings emerge. Jiang et al. (2010) find that earnings management through accruals or benchmark beating is more sensitive to the CFO's equity incentives than those of the CEO. In contrast, Feng et al. (2011) find that financial misreporting is costly for CFOs, and they engage in it only when faced with pressure from CEOs who have greater equity incentives and command more power in the firm. Friedman's (2014) modelling further explains how the CEO's *power* plays an instrumental role in pressuring the CFO to engage in biased financial reporting. If CEO power is indeed at play, it may help explain our findings – that FRQ when measured by multiple proxies is consistently lower in the presence of linguistic homophily between the audit partner and the CEO rather than the CFO. Powerful CEOs are also known to strategically undermine the functioning of independent audit committees in ensuring credible financial reporting (Bedford et al., 2023; Lisic et al., 2016), so it wouldn't be surprising if they also influence the auditor's independence by leveraging linguistic ties. A significant source of CEO power is the CEO's presidency of the board, which is also termed as CEO duality (Brochet et al., 2021; Friedman, 2014). Hence, in our empirical tests, we employ CEO duality (*CEODUAL*) as a proxy for CEO power and

examine whether it is an influential factor in moderating the relation between *APLH_CEO* and lower FRQ.

Parallelly, we also explore the role of another potential channel – management's bargaining power over the auditor – that may drive the negative relation between APLH and FRQ in our research setting. The prevalence of business groups in the Indian corporate landscape is well-documented in prior research (Gopalan et al., 2007; Khanna & Palepu, 2000). These are groups of independent legal entities that are connected to each other through several factors including common control and/or equity ownership and significant managerial, operational, and financial linkages. Firms in business groups follow cohesive business strategies and are capable of taking coordinated decisions at the group level, lending them considerable bargaining power against external parties (Khanna & Palepu, 2000; Singh & Gaur, 2009). This bargaining power of business groups has been shown to have a weakening effect on audit partner independence, as exercising independence (e.g., by issuing a modified audit opinion) may entail economic costs to the audit partner in the form of lost business prospects from other members in the business group (Fung et al., 2025). Therefore, in a business group setting, client firm executives may leverage their position of dominance (by virtue of being affiliated to a business group) and linguistic ties with the audit partner to influence the audit partner to compromise their independence.

In our sample, the CEO presides over the board of directors (*CEODUAL*) in 45.6 percent of the firm-years, whereas 52.1 percent of the firm-years are affiliated to a business group (*BUSGRP*).[13] The results of the channel tests with CEO duality (*CEODUAL*) and business group affiliation (*BUSGRP*) are presented in Panels A through C of Table 4. In tests with discretionary accruals (Panel A), the positive and significant coefficients of the interaction

[13] For reference, the corresponding mean value of CEO duality reported in Brochet et al. (2021) is 55 percent. Similarly, the corresponding percentage of group-affiliated firms reported in Khanna & Palepu (2000) is about 56.5 percent.

terms *APLH_CEO×CEODUAL* and *APLH_CEO×BUSGRP* (columns (1) and (2), respectively) confirm that the positive association between *APLH_CEO* and *DA_PADJ* is driven primarily by CEO duality or business group affiliation in our sample firms. Similarly, the results in Panels B and C suggest that *CEODUAL* and *BUSGRP* are significant channels moderating the association between *APLH_CEO* and lower audit quality, where audit quality is measured through cash flow predictability and small earnings increases, respectively.[14]

[Insert Table 4 about here]

6.5 Role of auditor type, client importance, and audit partner tenure

Next, we examine whether the association between APLH and audit quality varies in different subsamples based on the type of audit firm or certain characteristics – specifically, client importance and audit partner tenure – of the auditor-client relationship.

6.5.1 Big 4 vs. non-big 4 auditors

Big 4 auditors have a strong global reputation for delivering high-quality audits (A. T. Craswell et al., 1995; Moizer, 1997), which enables them to earn fee premiums around the world (A. T. Craswell et al., 1995; Basioudis & Francis, 2007; Asthana & Boone, 2012), including the Indian audit market (Jacob et al., 2019). These fee premiums indicate the higher bargaining power of Big 4 audit firms compared to non-Big 4 audit firms. Owing to their higher bargaining power, Big 4 auditors are more likely to be effective in enforcing the desired audit adjustments and less likely to succumb to clients' pressures for unscrupulous financial reporting. As a corollary, smaller or non-Big 4 auditors are more amenable to such client pressures.

In our sample, in terms of the number of client firm-years, Big 4 auditors have a market share of 18.9 percent.[15] The frequency of *APLH_CEO* (*APLH_CFO*) is 15.4 (16.1) percent in

[14] We also carry out similar tests for *APLH_CFO*, but do not find any evidence of significant moderating effects of *CEODUAL* or *BUSGRP* and hence do not report the results for brevity.

[15] In India, Big 4 audit firms have a relatively low market share (in terms of number of clients) when compared to international average of 80 percent or US average of 87 percent reported in prior literature(e.g., Choi et al. (2008)).

Big 4 audits compared to 18.4 (20.1) percent in non-Big 4 audits, which suggests that homophilous audit partners are relatively less likely to be involved in Big 4 audits. As shown in Table 5, the association between *APLH_CEO* and lower FRQ – measured either through discretionary accruals (*DA_PADJ*), cash flow predictability (*OCF_NY*), or propensity to report small earnings increases (*MEET_LAST*) (columns (1) and (2) of Panels A, B, and C, respectively) – is statistically significant only in the subsample of client firms audited by non-Big 4 audit partners.[16] These results suggest that the influence of linguistic homophily on audit quality is conditional on the auditor type (i.e., Big 4 vs. non-Big 4) and other key factors that vary with the auditor type such as reputation and bargaining power of the auditor.

6.5.2 Client's economic importance

The idea of auditor's bargaining power is also closely related to the client's economic importance to the auditor. While Chi et al. (2012) find some evidence that client importance is associated with compromised independence for non-Big 4 audit partners, most prior studies do not find any adverse consequences of client importance on audit quality (Chung & Kallapur, 2003; A. Craswell et al., 2002; Reynolds & Francis, 2000). Therefore, whether the association between APLH and audit quality is stronger or weaker in the presence of auditor's economic dependence on the client is an open question, which we attempt to explore.

In the results presented in columns (3) to (4) of Panels A, B, and C in Table 5, we observe that that audit partner's linguistic homophily with the CEO has a significantly negative relation with the audit quality principally in the subsample of audit firms' economically

[16] We carry out subsample regressions instead of a pooled regression with an interaction for Big 4 auditors (*BIG4*), because we cannot confirm that the coefficients of control variables and residual distributions do not vary significantly between the Big 4 and non-Big 4 subsamples, which is a necessary assumption in a pooled regression approach. This approach is similar to Guan et al. (2016). For similar reasons, we carry out subsample tests for client's economic importance (*TOPCLNT*=0,1) and audit partner tenure (*TNR_SHORT*=0,1), the results of which are reported in Table 5.

important clients, i.e., when the total fee payments (for audit and non-audit services) from the client firm account for the largest share in the audit firm's revenues (*TOPCLNT*=1).[17]

6.5.3 Audit partner tenure

Audit partner tenure, which is the length of association of the audit partner with the client (in such capacity), is another important aspect of the auditor-client relationship which impacts audit outcomes (Bedard & Johnstone, 2010; Carey & Simnett, 2006; C. Chen et al., 2008) through its effects on audit partner's incentives, knowledge, and bargaining power. Consequently, the extent of the relation between APLH and audit quality may also vary depending on the length of the audit partner's tenure.

For the subsample analysis, we split our sample based on the median value of audit partner tenure (*PNTR_TENURE*), which is 5 years. The subsample with audit partner tenure lower (higher) than the median is indicated by *TNR_SHORT*=1 (*TNR_SHORT*=0). Our results indicate that the baseline negative effects of APLH on FRQ are concentrated in instances of shorter audit partner tenure. Specifically, the association between *APLH_CEO* is associated with higher discretionary accruals (*DA_PADJ*) (Table 5, Panel A, columns (5)-(6)); lower cash flow predictability (*OCF_NY*) (Table 5, Panel B, columns (5)-(6)); and a higher probability of reporting small earnings increases (*MEET_LAST*) (Table 5, Panel C, columns (5)-(6)) only in the earlier years of the audit partner's tenure, when the audit partner possibly has limited knowledge of the client's business and financial reporting coupled with greater incentives to retain the client for a longer term.

[Insert Table 5 about here]

[17] In our overall sample, the client firm is the highest paying client (*TOPCLNT*=1) in about 44 percent of the instances.

6.6 Addressing endogeneity concerns

The assignment of audit partners to client firms is a non-random process (Lennox & Wu, 2018). At one end, audit firms may assign audit partners to client firms based on, among other factors, the audit partners' comfort in communicating with key client executives to create a more efficient audit environment without any ex-ante implications on independence. At the opposite end, however, client executives predisposed to biasing the financial statements may prefer homolingual audit partners to engage in audit opinion shopping (Du et al., 2023b). These preferences make our analysis prone to sample selection bias. In addition to incorporating client firm and audit partner fixed effects in our regressions[18], we adopt two additional approaches to address the selection bias in our research setting: two-stage least squares instrumental variable regression (2SLS IV) and entropy balanced-weighted regression.

6.6.1 2SLS IV regression

To mitigate the concerns of endogeneity due to self-selection, we follow prior studies related to audit partner characteristics and implement the 2SLS IV regression approach (Krishnan et al., 2023; Lee et al., 2019). Given that the explanatory variable of interest *APLH_CEO* is potentially endogenous, we use another variable *APL_OFFDIST* as the IV, where *APL_OFFDIST* is an indicator variable equal to 1 when the audit partner's native language is the same as the principal language of the district where the corporate office of the client firm is located.

The basic premise for selecting this instrument is that the pool of candidates for appointment as the company's CEO, as well as the pool of audit partners available for assignment to the company, are both likely to be influenced by the company's geographical location – in our setting, the district where the company's corporate office is situated. In such a scenario, an audit partner who speaks the local language of the district (i.e.,

[18] The results of regression analyses with client firm and audit partner fixed effects are discussed in Section 6.3.

APL_OFFDIST=1) is likely to be homo-lingual with the CEO, who has a high chance of knowing the local language of the district. For example, in the district of Mumbai, which houses the largest proportion of client firms' corporate offices in our sample, both the CEO as well as the audit partner of a client firm have a positive likelihood of knowing *Marathi*, the principal language of the district as per the Linguistic Survey of India.[19] In such a scenario, the probability of the audit partner speaking Marathi (i.e., *P(APL_OFFDIST*=1)) will be positively associated with the probability of the audit partner being homo-lingual with the CEO (i.e., *P*(*APLH_CEO*=1)), which is the potential endogenous regressor in our models. Therefore, the instrument satisfies the "relevance" condition. At the same time, the fact that the audit partner speaks the principal language of the district is unlikely to be directly associated with audit quality of the client firm or the error term, except through its possible association with *APLH_CEO*, thus satisfying the "exogeneity" condition (Gujarati, 2015).[20]

To execute the 2SLS IV regression for the test with discretionary accruals, we estimate the first-stage model with *APLH_CEO* as the dependent variable, *APL_OFFDIST* as the IV, and all other control variables from model (1).[21] In the second stage, we regress discretionary accruals (*DA_PADJ*) on the predicted value of the homophily variable (*APLH_CEO^*) and the control variables. The results of this analysis are presented in Panel A, Table 6. In column (1), the coefficient of *APL_OFFDIST* is statistically significant ($p<0.01$), indicating that it is a strong predictor of *APLH_CEO*. Further, the F-statistic of the first-stage model is 190.81, which is sufficiently higher than the threshold of 10 referred to in Stock et al. (2002), lending semblance of validity to our instrument. In column (2), *APLH_CEO^* has a positive and

[19] The city of Mumbai is technically classified into two districts for administrative purposes – "Mumbai" and "Mumbai Suburban". Here, we refer to the district "Mumbai", where the language Marathi is spoken by more than 48 percent of the population as per the 2014 Linguistic Survey of India.
[20] In similar (unreported) tests for *APLH_CFO*, we do not find any evidence of its association with our measures for audit quality.
[21] Even though our endogenous regressor is a dummy variable, we follow the recommendation in Angrist & Krueger (2001, p. 80) and refrain from using a probit/logit model to generate the first-stage predicted values to minimise issues resulting from potential misspecification.

significant coefficient ($p<0.01$), implying that audit partners' linguistic ties with the CEO result in higher income-increasing abnormal accruals even after enforcing controls for selection bias.

Similarly, the results of 2SLS IV with small earnings increases (*MEET_LAST*) as the proxy for FRQ are presented in Table 6 – Panel C.[22] The positive coefficient of *APLH_CEO^* ($p<0.05$) in column (2) conforms with our overall results, indicating that APLH with the CEO leads to a higher propensity to report small earnings increases and therefore lower FRQ.

6.6.2 Entropy balancing

Next, we perform entropy balancing, which is a quasi-matching approach that assigns regression weights to observations to balance the covariates between the treatment and control groups (Hainmueller, 2012) and has been increasingly used in auditing research to address selection bias (Gul et al., 2024; Krishnan et al., 2023; Zimmerman et al., 2023). Specifically, we categorize the sample observations into the treatment (control) group if the audit partner has (does not have) linguistic ties with the CEO. Then, we run entropy balancing based on all the control variables and industry and year fixed effects between the treatment and control groups to arrive at entropy-balanced weights, which are used in the regressions.

The results of the entropy balancing approach for our tests with discretionary accruals, cash flow predictability, and small earnings increases (i.e., models (1), (2), and (3), respectively) are presented in Table 6 – Panels A, B, and C, respectively. The results, with the coefficients of interest statistically significant at the 1 or 5 percent levels, are qualitatively consistent with our overall findings. These results continue to support our conclusion that audit partners with linguistic ties to the CEO are associated with poorer FRQ, reflecting impaired independence and audit quality.

[22] Notably, we do not implement the 2SLS IV regression approach for our cash flow predictability test (model (2)) because it employs a piecewise linear model where the endogenous regressor is an interaction term giving rise to estimation challenges (Beaver et al., 2012; Krishnan et al., 2023). However, to verify the robustness of our cash flow predictability results to an IV approach, we manually estimate *APLH_CEO^* and (*ROA×APLH_CEO*)^ and use them as instruments in model (2). The results continue to indicate incrementally weaker predictability of cash flows for firms having audit partners with linguistic ties to the CEO.

Despite our efforts to control for selection bias, we submit that it is impossible to completely rule out the possibility that our findings are at least in part the result of the endogenous matching of audit partners and clients. Nonetheless, our findings cast light on an important factor in the auditor-client relationship that has material implications for the quality of client's financial reporting.

[Insert Table 6 about here]

7. Supplementary tests with other audit outcomes

To examine the implications of APLH beyond audit quality, we examine other audit outcomes: audit fees and audit report lag.

7.1 Audi fees

Audit fees are an important outcome of the auditor-client negotiation process. While audit fees per se are a mixed indicator of audit quality (DeFond & Zhang, 2014b), looking at audit fees jointly with the payments made for non-audit services (NAS) can be informative of the apparent degree of the auditor's independence (Francis & Ke, 2006; Lindberg & Beck, 2004; Whisenant et al., 2003). Therefore, in the next set of tests, we examine whether the auditor's total remuneration and the composition of the same – i.e., share of non-audit fees vis-à-vis audit fees – varies significantly in the case of homophilous audit partners. In particular, we examine audit fees (*AUDFEE*), total fees (*TOTFEE*), and ratio of NAS fees (*NAS*) paid to the auditor.

The results of tests of audit fees are presented in Table 7.[23] The negative and significant coefficients of *APLH_CEO* and *APLH_CFO* in columns (1) to (3) suggest that audit fees (*AUDFEE*) are relatively lower when the audit partner shares a common native language with the CEO or the CFO. These results are consistent with prior research and reflect the lower

[23] These tests, run as OLS regressions, include several additional control variables to account for client complexity which are potentially associated with audit fee measures as per prior literature (N. Desai et al., 2025; Huang et al., 2009; Simunic, 1980). These variables, which are defined in Appendix A, are *ARLAG*, *CURRATIO*, *EXDISC*, *FCF*, *FOREX*, *INVENTORY*, *MNA*, and *TRADEREC*.

information acquisition costs for the auditors along with increased perceived transparency that comes with shared commonalities. (Ertug et al., 2022b; Pham et al., 2023b). Further, the results for total fees paid to the auditors (*TOTFEE*) (columns (4) to (6)) show a similar trend, implying that homophilous audit partners tend to receive lower total compensation from their clients. However, our results for the NAS fee ratio (*NAS*) (columns (7) to (9)) provide some evidence that the fee composition of audit partners sharing a common language with the CEO includes a higher proportion of non-audit fees, which are believed to have higher profit margins than fees for traditional audit services (Securities and Exchange Commission (SEC), 2000).[24]

[Insert Table 7 about here]

7.2 Audit report lag

Finally, we turn to the timeliness of audits conducted by audit partners sharing a common native language with the CEO or the CFO. Based on the evidence that communicating in a common language can foster trust and consensus and reduce frictions (Ertug et al., 2022b), APLH can be expected to lead to faster completion of the audit process. However, homophily can also create an environment of complacency (Fazelpour & Rubin, 2022) and lead to suboptimal allocation of auditor's resources, leading to delays in concluding the audit. Therefore, whether APLH increases or hampers the efficiency of the audit process is an empirical question. To test whether APLH is associated with audit duration, we regress the audit report lag (*ARLAG*) – which measures the duration between financial year end date and audit report date – on *APLH_CEO* and *APLH_CFO* and the relevant control variables based on prior research (e.g., Knechel & Payne, 2001; Whitworth & Lambert, 2014). The results, presented in Table 8, show that both *APLH_CEO* and *APLH_CFO* are associated with a higher

[24] In additional (unreported) tests, we also examine the *amount* of NAS fees for homophilous audit partners but do not find any evidence that they are significantly different from that for other (non-homophilous) audit partners.

reporting lag, suggesting that audits involving homophilous audit partners take longer than average.

[Insert Table 8 about here]

Overall, the results from our analyses provide some evidence that linguistic homophily between the audit partner and key client executives, especially the CEO, is associated with a lower financial reporting quality, lower audit fees, a higher proportion of non-audit fees, and greater audit delays. In sum, these findings indicate that the audit partner's independence is marginally affected by their linguistic affiliation with the client executives.

8. Conclusion

In this study, we focus on the impact of language homophily between the audit partner and firm executive on audit outcomes. Focusing on the Indian context, which has a rich linguistic diversity, our results suggest that when the audit partner and firm executives share a common language, audit quality is lower. More specifically, we find that language homophily is associated with income-increasing discretionary accruals, lower cash flow predictability, and reporting small increases in earnings. Further analysis reveals that the results are more pronounced when the audit partner and the CEO share the same native language, hence indicating the dominant role of the CEO in influencing auditor selection as well as shaping the negative outcomes. In additional analysis, we document that APLH_CEO also leads to lower audit fees yet a higher non-audit fees ratio and greater reporting lag.

Our findings have important implications for regulators in India, boards of directors, investors, and others. Collectively, our results support the notion that sharing the same native language between the audit partner and firm executives has adverse effects on audit outcomes. Thus, the audit committee and other board members need to be mindful of the potential negative consequences of audit partner-client executives' homophily and take steps to mitigate such effects.

In closing, we acknowledge that audit partner-client executive language homophily may not be random and we employ econometric tests to address this concern. However, we caution that we cannot rule out selection bias impacting our results. Future studies can extend our research focusing on other settings rich in language diversity, such as Africa and European countries.

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Appendix A: Variable definitions

Variable	Definition
AGE	Age of the client firm, equal to the natural logarithm of number of years since the firm is listed on a recognised stock exchange.
APL_OFFDIST	Indicator variable equal to 1 if audit partner's native language is the same as the native language of the district in which the corporate office of the client firm is located.
APLH_CEO	Indicator variable equal to 1 if the audit partner and the CEO share the same native language.
APLH_CFO	Indicator variable equal to 1 if the audit partner and the CFO share the same native language.
ARLAG	Audit report lag, equal to the natural logarithm of the number of calendar days between the financial year-end date and the audit report date.
AUDFEE	Audit fees, equal to the natural logarithm of the audit fees paid by the client firm for the financial year.
BIG4	Indicator variable equal to 1 for audit firms that are part of the global network of Big 4 firms.
BUSGRP	Indicator variable equal to 1 for client firms that are a part of a business group.
CEODUAL	Indicator variable equal to 1 when the CEO is also the Chairperson of the Board of Directors.
CURRATIO	Current ratio, equal to the ratio of current assets to current liabilities.
DA_PADJ	Performance-adjusted discretionary accruals, computed as per Kothari et al. (2005).
DEBT	Debt ratio, equal to the ratio of total liabilities to total assets.
EXDISC	Indicator variable equal to 1 when the firm reports income from extraordinary items or discontinued operations.
FCF	Net cash flows from financing activities, as a percentage of lagged total assets.
FOREX	Income earned in foreign exchange, as a percentage of total income.
GEOSEG	Number of geographical business segments of the client firm.
INDPC	Percentage of independent directors on the board of the client firm.
INVENTORY	Ratio of inventory to total assets.
LOSS	Indicator variable equal to 1 if the client firm reported a loss for the financial year.
MEET_LAST	Indicator variable equal to 1 if the firm just meets or beats its previous year earnings (i.e., the change in net income divided by total assets between the current and previous financial years is between 0 and 0.01) (Gunny 2010).

MNA	Indicator variable equal to 1 when the client firm undergoes a merger, acquisition, or corporate restructuring activity.
MTB	Ratio of market value of equity to book value of assets of the client firm.
NAS	Non-audit services ratio, equal to the ratio of the amount of fees for non-audit services to the amount of audit fees in the fiscal year.
OCF	Net cash flows from operations, as a percentage of assets at the beginning of the financial year.
OCF_NY	Net cash flows from operations in the next financial year (*t+1*), as a percentage of lagged total assets.
OCF_SD	Standard deviation of *OCF* of the previous three years.
PRODSEG	Number of product business segments of the client firm.
PTNR_BUSYNESS	Audit partner busyness, equal to the number of client firms audited by the engagement partner in signing capacity in the financial year.
PTNR_TENURE	Audit partner tenure, equal to the number of consecutive years the audit partner has audited a particular company.
ROA	Profit before tax and extraordinary items as a percentage of total assets.
SALES_SD	Standard deviation of cash sales revenues scaled by lagged total assets for previous three years.
SALESGR	Natural logarithm of the ratio of sales of current financial year to the sales of previous financial year.
SIZE	Natural logarithm of total assets.
TOPCLNT	Indicator variable equal to 1 when the fee payments from the client firm account for the largest share in the audit firm's revenues for the fiscal year, and 0 otherwise.
TOTFEE	Natural logarithm of total fees paid to the auditor.
TRADEREC	Ratio of trade receivables to total assets.

This table provides the definitions of all variables used in the study. All variables are listed in alphabetical order.

Table 1 – Panel A: Sample selection

	Regressions with audit partner-*CEO* pair (1)	**Regressions with audit partner-*CFO* pair (2)**
Client-year observations of quoted non-financial companies in *Prowess*$_{dx}$ for financial years 1990-2023	133,446	133,446
Less: Firms audited by joint auditors	(8,489)	(8,489)
Less: Observations with missing or inadequate information for the determination of native language of audit partners	(29,110)	(29,110)
Less: Observations with missing or inadequate information for the determination of native language of CEO in column 1 (CFO in column 2)	(26,795)	(67,473)
Less: Observations with missing values of indicator variable for small earnings increases (*MEET_LAST*) and required control variables	(26,236)	(7,562)
Sample for audit quality tests with small earnings increases (*MEET_LAST*)	**42,816**	**20,812**
Less: Observations with missing values of performance-adjusted discretionary accruals (*DA_PADJ*) and required control variables	(1,045)	(702)
Sample for audit quality tests with performance-adjusted discretionary accruals (*DA_PADJ*)	**41,771**	**20,110**
Less: Observations with missing values of future cash flow from operations (*OCF_NY*) and required control variables	(3,416)	(2,540)
Sample for audit quality tests with future cash flow from operations (*OCF_NY*)	**38,355**	**17,570**

This table describes our sample selection process. Data on identities of audit partners, client firm executives, and financial statement variables are obtained from *Prowess*$_{dx}$. Data on native languages is triangulated from Socio-Economic Caste Census (SECC) and Linguistic Survey of India.

Table 1 - Panel B: Distribution of sample by native language of audit partners, CEOs, and CFOs

Language	(1) Audit partner native language		(2) CEO native language		(3) CFO native language	
	N	*(%)*	*N*	*(%)*	*N*	*(%)*
Western Hindi	7,980	18.6	8,145	19.0	3,861	18.6
Bihari	7,246	16.9	6,704	15.7	3,434	16.5
Marathi	4,307	10.1	4,381	10.2	2,205	10.6
Bengali	4,240	9.9	4,244	9.9	1,925	9.2
Oriya	3,330	7.8	3,756	8.8	1,567	7.5
Gujarati	3,278	7.7	3,788	8.8	1,667	8.0
Tamil	2,895	6.8	2,489	5.8	1,614	7.8
Rajasthani	2,099	4.9	2,045	4.8	1,037	5.0
Eastern Hindi	2,054	4.8	2,050	4.8	954	4.6
Malayalam	1,799	4.2	1,866	4.4	975	4.7
Kannada	1,384	3.2	1,131	2.6	594	2.9
Sindhi	364	0.9	276	0.6	153	0.7
Tulu	286	0.7	282	0.7	145	0.7
Nisi/Dafla	273	0.6	62	0.1	22	0.1
Bhili	189	0.4	216	0.5	61	0.3
Kashmiri	178	0.4	189	0.4	125	0.6
Gurumukhi Punjabi	165	0.4	302	0.7	89	0.4
Central Pahari	149	0.3	130	0.3	78	0.4
Telugu	106	0.2	20	0.0	28	0.1
Gondi	103	0.2	144	0.3	30	0.1
Santali	81	0.2	83	0.2	42	0.2
Nepali	60	0.1	84	0.2	33	0.2
Ao Naga	57	0.1	47	0.1	13	0.1
Western Pahari	53	0.1	115	0.3	32	0.2
Assamese	49	0.1	103	0.2	46	0.2
Dangi	44	0.1	74	0.2	34	0.2
Dogra	26	0.1	31	0.1	13	0.1
Adi/Abor	10	0.0	15	0.0	2	0.0
Non-Gurumukhi Punjabi/Punjabi Hindi	8	0.0	-	-	-	-
Angami Naga	3	0.0	11	0.0	16	0.1
Bodo	-	-	-	-	1	0.0
Karbi/Mikir	-	-	17	0.0	-	-
Konyak Naga	-	-	6	0.0	-	-
Mishmi	-	-	-	-	1	0.0
Mizo/Lushei	-	-	2	0.0	-	-
Tibetan	-	-	8	0.0	15	0.1
Total	**42,816**	**100**	**42,816**	**100**	**20,812**	**100**

This table lists the distribution of the baseline sample by native language of audit partners, CEOs, and CFOs. The names of the languages are as per the Linguistic Survey of India. Observations in all columns are sorted in the descending order based on the frequency of native language of the audit partner (Column 1). The sample consists of 5,229 unique audit partners and 8,529 (5,688) unique CEOs (CFOs).

Table 2 – Panel A: Summary statistics

Variables	*N*	Mean	Median	SD	P25	P75
AGE	42,816	2.739	2.944	0.743	2.398	3.258
APL_OFFDIST	42,816	0.240	0.000	0.427	0.000	0.000
APLH_CEO	42,816	0.178	0.000	0.383	0.000	0.000
APLH_CFO	20,812	0.193	0.000	0.395	0.000	0.000
ARLAG	31,627	4.453	4.511	0.538	4.043	4.905
AUDFEE	31,627	0.699	0.405	0.696	0.182	1.030
BIG4	42,816	0.189	0.000	0.391	0.000	0.000
BUSGRP	42,816	0.521	1.000	0.500	0.000	1.000
CEODUAL	42,816	0.456	0.000	0.498	0.000	1.000
CURRATIO	31,627	2.311	1.424	4.350	0.997	2.347
DA_PADJ	41,771	-0.005	-0.006	0.138	-0.063	0.051
DEBT	42,816	0.647	0.562	0.814	0.369	0.729
EXDISC	31,627	0.715	1.000	0.452	0.000	1.000
FCF	31,627	0.443	-1.841	18.095	-6.406	2.927
FOREX	31,627	15.501	2.973	23.907	0.000	20.946
GEOSEG	42,816	1.312	1.000	0.740	1.000	1.000
INDPC	42,816	37.266	41.667	18.615	30.000	50.000
INVENTORY	31,627	0.181	0.156	0.140	0.077	0.250
LOSS	41,771	0.231	0.000	0.422	0.000	0.000
MEET_LAST	42,816	0.154	0.000	0.361	0.000	0.000
MNA	31,627	0.200	0.000	0.400	0.000	0.000
MTB	42,816	1.424	1.000	1.373	0.860	1.416
NAS	31,627	0.279	0.093	0.424	0.000	0.429
OCF	42,816	5.895	5.846	13.809	0.187	12.141
OCF_NY	38,355	5.960	5.860	13.380	0.209	12.073
OCF_SD	42,816	9.978	6.298	19.932	3.680	10.601
PRODSEG	42,816	1.560	1.000	0.995	1.000	2.000
PTNR_BUSYNESS	42,816	2.912	2.000	2.726	1.000	4.000
PTNR_TENURE	42,816	7.024	5.000	6.396	2.000	11.000
ROA	38,355	2.032	2.474	10.456	-0.269	6.690
SALES_SD	42,816	0.267	0.164	0.354	0.087	0.301
SALESGR	42,816	0.044	0.081	0.511	-0.076	0.225
SIZE	42,816	7.418	7.344	1.971	5.991	8.769
TOPCLNT	42,816	0.440	0.000	0.496	0.000	1.000
TOTFEE	31,627	0.802	0.531	0.769	0.182	1.194
TRADEREC	31,627	0.188	0.158	0.148	0.075	0.261

This table presents the summary statistics for the baseline analyses samples. All variables are defined in Appendix A.

Table 2 - Panel B: Summary Statistics - Homophilous vs. Non-homophilous audit partners

	APLH with CEO					APLH with CFO				
	APLH_CEO=1		*APLH_CEO=0*			*APLH_CFO=1*		*APLH_CFO=0*		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	***N***	**Mean**	***N***	**Mean**	**Diff. (2-4)**	***N***	**Mean**	***N***	**Mean**	**Diff. (7-9)**
AGE	7,640	2.706	35,176	2.746	-0.041***	4,014	2.793	16,798	2.798	-0.005
APL_OFFDIST	7,640	0.445	35,176	0.195	0.250***	4,014	0.476	16,798	0.180	0.296***
APLH_CEO						3,771	0.357	15,689	0.134	0.223***
APLH_CFO	3,454	0.390	16,006	0.151	0.239***					
ARLAG	5,527	4.503	26,100	4.442	0.060***	3,117	4.515	13,710	4.443	0.072***
AUDFEE	5,527	0.595	26,100	0.721	-0.126***	3,117	0.758	13,710	0.887	-0.130***
BIG4	7,640	0.164	35,176	0.194	-0.031***	4,014	0.176	16,798	0.219	-0.042***
BUSGRP	7,640	0.483	35,176	0.529	-0.046***	4,014	0.534	16,798	0.550	-0.017*
CEODUAL	7,640	0.444	35,176	0.458	-0.014**	4,014	0.462	16,798	0.468	-0.006
CURRATIO	5,527	2.257	26,100	2.323	-0.066	3,117	2.049	13,710	2.047	0.002
DA_PADJ	7,426	0.000	34,345	-0.006	0.006***	3,873	-0.000	16,237	-0.006	0.006**
DEBT	7,640	0.657	35,176	0.645	0.012	4,014	0.625	16,798	0.601	0.024
EXDISC	5,527	0.690	26,100	0.720	-0.030***	3,117	0.715	13,710	0.725	-0.010
FCF	5,527	0.255	26,100	0.483	-0.228	3,117	-0.322	13,710	-0.532	0.210
FOREX	5,527	13.837	26,100	15.853	-2.016***	3,117	13.460	13,710	14.826	-1.367***
GEOSEG	7,640	1.280	35,176	1.318	-0.039***	4,014	1.426	16,798	1.489	-0.064***
INDPC	7,640	37.126	35,176	37.296	-0.171	4,014	38.797	16,798	38.825	-0.029
INVENTORY	5,527	0.189	26,100	0.179	0.011***	3,117	0.185	13,710	0.177	0.009***
LOSS	7,426	0.236	34,345	0.230	0.005	3,873	0.234	16,237	0.220	0.014*
MEET_LAST	7,640	0.167	35,176	0.151	0.016***	4,014	0.161	16,798	0.156	0.004
MNA	5,527	0.181	26,100	0.204	-0.023***	3,117	0.195	13,710	0.210	-0.015*
MTB	7,640	1.387	35,176	1.432	-0.045***	4,014	1.655	16,798	1.727	-0.073**
NAS	5,527	0.278	26,100	0.279	-0.001	3,117	0.256	13,710	0.250	0.006
OCF	7,640	5.388	35,176	6.005	-0.617***	4,014	5.376	16,798	5.882	-0.506**
OCF_NY	6,267	5.495	32,088	6.051	-0.555***	3,308	5.635	14,262	6.071	-0.436*

OCF_SD	7,640	9.951	35,176	9.983	-0.032	4,014	9.580	16,798	9.527	0.052
PRODSEG	7,640	1.560	35,176	1.560	0.000	4,014	1.591	16,798	1.615	-0.024
PTNR_BUSYNESS	7,640	2.947	35,176	2.905	0.042	4,014	2.751	16,798	2.886	-0.135***
PTNR_TENURE	7,640	6.875	35,176	7.056	-0.181**	4,014	5.290	16,798	5.209	0.081
ROA	6,267	1.626	32,088	2.111	-0.485***	3,308	2.108	14,262	2.646	-0.537***
SALES_SD	7,640	0.275	35,176	0.265	0.010**	4,014	0.269	16,798	0.264	0.006
SALESGR	7,640	0.036	35,176	0.046	-0.010	4,014	0.020	16,798	0.031	-0.011
SIZE	7,640	7.203	35,176	7.465	-0.262***	4,014	7.745	16,798	7.945	-0.200***
TOPCLNT	7,640	0.450	35,176	0.438	0.013**	4,014	0.459	16,798	0.442	0.017*
TOTFEE	5,527	0.689	26,100	0.826	-0.137***	3,117	0.864	13,710	0.995	-0.130***
TRADEREC	5,527	0.194	26,100	0.186	0.008***	3,117	0.200	13,710	0.186	0.014***

This table presents the summary statistics for the baseline analyses samples split into subsamples based on whether the audit partner shares a common native language with the CEO (columns (1) to (4)) or the CFO (columns (6) to (9)). Columns (5) and (10) present the differences of means between the subsamples, evaluated based on a two-sample t-test. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

Table 3 - Panel A: APLH and discretionary accruals

	(1)	(2)	(3)	(4)	(5)
Dependent variable	*DA_PADJ*	*DA_PADJ*	*DA_PADJ*	*DA_PADJ*	*DA_PADJ*
APLH_CEO	**0.006*** **		**0.008*** **	**0.013*** **	**0.018*** **
	(3.189)		**(3.301)**	**(3.639)**	**(2.908)**
APLH_CFO		**0.007*** **	**0.002**	**0.007** **	**0.010** **
		(2.921)	**(0.865)**	**(2.037)**	**(1.973)**
BIG4	-0.004*	-0.006**	-0.005*	-0.004	0.016
	(-1.924)	(-2.167)	(-1.906)	(-0.718)	(0.617)
TOPCLNT	0.005***	0.004*	0.004**	0.001	-0.000
	(3.419)	(1.849)	(1.963)	(0.246)	(-0.021)
PTNR_TENURE	0.000**	0.000	0.000	0.000	-0.000
	(2.536)	(1.612)	(1.520)	(0.003)	(-0.734)
PTNR_BUSYNESS	0.000	-0.000	-0.000	-0.000	-0.000
	(0.216)	(-0.348)	(-0.266)	(-0.548)	(-0.148)
DA_PADJ_PY	0.050***	0.029***	0.028**	-0.153***	-0.237***
	(6.573)	(2.638)	(2.466)	(-12.842)	(-15.928)
SIZE	0.003***	0.004***	0.004***	0.013***	0.017**
	(5.965)	(5.552)	(5.467)	(2.791)	(2.405)
DEBT	-0.007***	-0.006***	-0.006***	-0.012***	-0.008*
	(-4.912)	(-3.563)	(-3.286)	(-2.743)	(-1.814)
MTB	0.000	0.000	0.000	0.002	0.001
	(0.258)	(0.554)	(0.552)	(1.237)	(0.674)
OCF	-0.003***	-0.003***	-0.003***	-0.003***	-0.003***
	(-19.478)	(-13.756)	(-12.772)	(-12.284)	(-12.283)
AGE	-0.004***	-0.005***	-0.005***	-0.010	-0.014
	(-3.678)	(-3.754)	(-3.611)	(-1.555)	(-1.462)
LOSS	-0.030***	-0.030***	-0.029***	-0.020***	-0.017***
	(-16.504)	(-11.316)	(-10.979)	(-5.323)	(-3.888)
SALESGR	-0.010***	-0.008**	-0.007**	-0.008**	-0.005
	(-4.660)	(-2.554)	(-2.285)	(-2.233)	(-1.271)
GEOSEG	0.002*	0.001	0.001	0.001	-0.001
	(1.742)	(0.741)	(0.810)	(0.433)	(-0.214)
PRODSEG	-0.002**	-0.002**	-0.002**	-0.003	-0.002
	(-2.129)	(-2.338)	(-1.961)	(-1.282)	(-0.680)
OCF_SD	-0.000	0.000	-0.000	-0.000	0.000
	(-1.231)	(0.287)	(-0.185)	(-0.345)	(0.160)
SALES_SD	0.011***	0.009	0.012***	0.011	0.006
	(3.447)	(1.625)	(2.638)	(1.249)	(0.511)
INDPC	-0.000	0.000	0.000	0.000	0.000
	(-0.647)	(1.177)	(1.322)	(1.106)	(0.663)
Constant	-0.011**	-0.019**	-0.022***	-0.073*	-0.104
	(-2.115)	(-2.510)	(-2.791)	(-1.802)	(-1.614)
Industry FE	Yes	Yes	Yes	-	-
Year FE	Yes	Yes	Yes	Yes	Yes
Client Firm FE	-	-	-	Yes	Yes
Audit Partner FE	-	-	-	-	Yes
N	41771	20110	18923	18923	18923
Adj. R-squared	0.138	0.128	0.127	0.237	0.233
F-stat	57.379***	27.301***	24.493***	24.860***	29.881***

This table presents the results of analysis of financial reporting quality with discretionary accruals as per model (1). The dependent variable represents performance-adjusted discretionary accruals (*DA_PADJ*) in all columns. The main explanatory variables of interest are *APLH_CEO* and

APLH_CFO, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year (columns (1-3)); for year and client firm (column (4)); and for year, client firm, and audit partner (column (5)). The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 3 - Panel B: APLH and cash flow predictability					
	(1)	(2)	(3)	(4)	(5)
Dependent variable	*OCF_NY*	*OCF_NY*	*OCF_NY*	*OCF_NY*	*OCF_NY*
ROA	0.296***	0.365***	0.374***	0.392**	0.501**
	(4.261)	(3.641)	(3.167)	(2.216)	(2.410)
APLH_CEO	0.141		0.101	0.203	0.662
	(0.757)		(0.352)	(0.439)	(1.006)
ROA×APLH_CEO	**-0.066****		**-0.088****	**-0.083***	**-0.095***
	(-2.466)		**(-2.212)**	**(-1.739)**	**(-1.686)**
APLH_CFO		0.054	-0.157	-0.246	-0.185
		(0.263)	(-0.568)	(-0.670)	(-0.332)
ROA×APLH_CFO		**-0.051****	**0.023**	**0.025**	**0.065**
		(-2.107)	**(0.590)**	**(0.540)**	**(1.046)**
BIG4	0.325	0.518**	0.588*	-3.774**	-2.745
	(1.551)	(2.025)	(1.828)	(-2.440)	(-1.359)
ROA×BIG4	0.144***	0.126***	0.108**	0.148***	0.005
	(5.142)	(3.899)	(2.497)	(3.116)	(0.069)
TOPCLNT	-0.280*	-0.423**	-0.295	0.215	0.011
	(-1.737)	(-2.143)	(-1.163)	(0.557)	(0.020)
ROA×TOPCLNT	-0.026	-0.014	-0.050	-0.115**	-0.077
	(-1.093)	(-0.524)	(-1.235)	(-2.442)	(-1.284)
PTNR_TENURE	0.057***	0.042**	0.039*	0.085**	0.095**
	(4.445)	(2.536)	(1.783)	(2.402)	(2.030)
ROA×PTNR_TENURE	0.003*	0.001	0.005	0.008**	0.001
	(1.817)	(0.728)	(1.606)	(1.998)	(0.377)
PTNR_BUSYNESS	-0.008	-0.065	-0.067	0.022	0.118
	(-0.264)	(-1.632)	(-1.283)	(0.229)	(1.064)
ROA×PTNR_BUSYNESS	-0.008*	-0.005	-0.008	0.000	-0.002
	(-1.820)	(-1.447)	(-1.384)	(0.045)	(-0.250)
SIZE	0.555***	0.530***	0.643***	0.418***	0.705
	(10.462)	(9.018)	(7.707)	(2.727)	(0.963)
ROA×SIZE	-0.010	-0.004	-0.013	-0.002	-0.011
	(-1.289)	(-0.479)	(-1.131)	(-0.161)	(-0.687)
DEBT	0.415	0.458***	-0.202	0.077	-0.465
	(0.892)	(2.632)	(-0.365)	(0.182)	(-0.496)
ROA×DEBT	-0.032**	-0.018	-0.043**	-0.033	-0.029
	(-2.120)	(-1.611)	(-2.007)	(-1.519)	(-1.011)
MTB	-0.172	0.058	-0.173	-0.334	-0.741**
	(-1.152)	(0.531)	(-0.866)	(-1.570)	(-2.522)
ROA×MTB	0.039***	0.017**	0.038***	0.043***	0.040**
	(3.852)	(2.296)	(2.894)	(3.326)	(2.033)
AGE	0.321**	0.257**	0.315*	0.302	0.865
	(2.575)	(1.987)	(1.877)	(1.148)	(0.936)
ROA×AGE	0.038**	0.040**	0.054**	0.033	-0.002
	(2.366)	(2.230)	(2.435)	(1.225)	(-0.075)
LOSS	-0.893***	-0.985***	-1.219***	-0.373	-0.161
	(-3.292)	(-3.782)	(-3.414)	(-0.922)	(-0.380)
ROA×LOSS	-0.247***	-0.329***	-0.355***	-0.277***	-0.203***
	(-5.963)	(-9.071)	(-5.235)	(-4.046)	(-2.629)
SALESGR	0.316	0.472**	0.246	0.536	0.597
	(1.479)	(2.117)	(0.819)	(1.532)	(1.634)
ROA×SALESGR	0.012	-0.026	-0.043*	-0.032	-0.022
	(0.676)	(-1.174)	(-1.677)	(-1.289)	(-0.788)
GEOSEG	-0.285*	-0.178*	-0.419*	-0.555	-0.211
	(-1.705)	(-1.671)	(-1.676)	(-1.529)	(-0.808)

ROA×GEOSEG	0.040	0.008	0.044	0.055	-0.008
	(1.527)	(0.616)	(1.124)	(1.105)	(-0.377)
PRODSEG	-0.213***	-0.217***	-0.236**	-0.293**	-0.124
	(-2.953)	(-2.608)	(-2.361)	(-1.992)	(-0.423)
ROA×PRODSEG	0.001	0.006	0.008	0.003	0.023
	(0.100)	(0.637)	(0.564)	(0.209)	(1.077)
OCF_SD	-0.019***	-0.021***	-0.013*	0.001	0.029
	(-2.740)	(-3.328)	(-1.697)	(0.149)	(1.224)
ROA×OCF_SD	0.001	0.001	-0.002	-0.003	-0.005
	(0.759)	(1.023)	(-0.910)	(-1.540)	(-1.341)
SALES_SD	-0.611*	-0.334	-0.318	0.416	-0.274
	(-1.888)	(-0.866)	(-0.694)	(0.639)	(-0.254)
ROA×SALES_SD	-0.057*	-0.146***	-0.044	-0.035	0.007
	(-1.660)	(-3.726)	(-0.806)	(-0.552)	(0.077)
INDPC	-0.007	0.014*	0.019**	0.023*	0.01
	(-1.399)	(1.715)	(1.964)	(1.824)	(0.641)
ROA×INDPC	-0.000	-0.001	-0.002	-0.002	-0.003*
	(-0.529)	(-0.828)	(-1.591)	(-1.493)	(-1.877)
Constant	0.500	-0.577	-0.920	1.095	-1.882
	(0.841)	(-0.868)	(-1.023)	(0.688)	(-0.288)
Industry FE	Yes	Yes	Yes	-	-
Year FE	Yes	Yes	Yes	Yes	Yes
Client Firm FE	-	-	-	Yes	Yes
Audit Partner FE	-	-	-	-	Yes
N	38355	17570	16352	16352	16352
Adj. R-squared	0.126	0.17	0.146	0.255	0.321
F-stat	86.009***	63.178***	46.460***	16.391***	3.480***

This table presents the results of analysis of financial reporting quality with cash flow predictability as per as per model (2). The dependent variable represents operational cash flows for the subsequent financial year scaled by lagged total assets (*OCF_NY*) in all columns. The main explanatory variables of interest are *ROA×APLH_CEO* and *ROA×APLH_CFO*, representing interactions of current year earnings (*ROA*) with *APLH_CEO* or *APLH_CFO*, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year (columns (1-3)); for year and client firm (column (4)); and for year, client firm, and audit partner (column (5)). The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 3 - Panel C: APLH and small earnings increases

	(1)	(2)	(3)	(4)
Dependent variable	*MEET_LAST*	*MEET_LAST*	*MEET_LAST*	*MEET_LAST*
APLH_CEO	**0.062*** **		**0.085*** **	**0.080** **
	(3.182)		**(2.904)**	**(2.420)**
APLH_CFO		**0.005**	**-0.016**	**-0.003**
		(0.193)	**(-0.555)**	**(-0.084)**
BIG4	-0.067***	-0.018	-0.026	-0.033
	(-2.773)	(-0.554)	(-0.741)	(-0.835)
TOPCLNT	0.072***	0.077***	0.064**	0.058**
	(4.225)	(3.131)	(2.493)	(2.003)
PTNR_TENURE	0.002	0.000	0.000	0.005**
	(1.443)	(0.193)	(0.089)	(2.177)
PTNR_BUSYNESS	-0.000	0.005	-0.001	0.001
	(-0.104)	(0.916)	(-0.207)	(0.194)
SIZE	0.024***	0.023***	0.030***	0.020**
	(4.836)	(3.275)	(4.036)	(2.405)
DEBT	-0.174***	-0.105***	-0.086***	-0.082***
	(-7.215)	(-3.331)	(-2.693)	(-2.738)
MTB	-0.092***	-0.086***	-0.089***	-0.093***
	(-9.495)	(-8.200)	(-8.056)	(-8.053)
OCF	-0.002***	-0.002**	-0.002**	-0.002**
	(-2.867)	(-2.570)	(-2.495)	(-2.478)
AGE	-0.017	-0.019	-0.021	-0.028*
	(-1.615)	(-1.409)	(-1.478)	(-1.797)
LOSS	-0.256***	-0.265***	-0.282***	-0.244***
	(-9.189)	(-8.102)	(-8.135)	(-6.484)
SALESGR	0.142***	0.143***	0.148***	0.151***
	(9.710)	(6.760)	(6.608)	(6.526)
GEOSEG	-0.043***	-0.058***	-0.058***	-0.048***
	(-3.609)	(-4.030)	(-3.890)	(-3.046)
PRODSEG	-0.007	0.002	0.003	0.01
	(-0.804)	(0.142)	(0.219)	(0.773)
OCF_SD	-0.000	0.000	-0.000	-0.000
	(-0.629)	(0.213)	(-0.089)	(-0.023)
SALES_SD	-0.156***	-0.164***	-0.170***	-0.163***
	(-5.594)	(-4.320)	(-4.231)	(-3.950)
INDPC	-0.001***	-0.000	-0.000	0.000
	(-2.594)	(-0.513)	(-0.298)	(0.287)
Constant	-0.799***	-1.185***	-1.145***	-0.923***
	(-6.845)	(-2.897)	(-2.692)	(-10.588)
Industry FE	Yes	Yes	Yes	-
Year FE	Yes	Yes	Yes	-
Random Effects	-	-	-	Yes
N	42816	20812	19460	19460
Pseudo R-squared	0.034	0.037	0.040	-
Model Chi-squared	71957.60***	14727.23***	45875.27***	222.085***

This table presents the results of analysis of financial reporting quality with small earnings increases as per model (3). The dependent variable indicates instances when the client firm just meets or beats its previous year earnings (*MEET_LAST*) in all columns. The main explanatory variables of interest are *APLH_CEO* and *APLH_CFO*, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in columns (1-3). Column (4) presents the results of the probit estimation with random effects. The sample

selection process is detailed in Table 1 – Panel A. Values in parentheses represent z-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 4 - Panel A: APLH and discretionary accruals - Channel tests with CEO Duality and Business Group Affiliation

	(1)	(2)
Dependent variable	*DA_PADJ*	*DA_PADJ*
APLH_CEO	**0.002**	**0.002**
	(0.922)	**(0.725)**
CEODUAL	**0.003****	
	(2.101)	
APLH_CEO×CEODUAL	**0.008****	
	(2.364)	
BUSGRP		**0**.000
		(0.078)
APLH_CEO×BUSGRP		**0.008****
		(2.216)
BIG4	-0.003	-0.004**
	(-1.613)	(-1.962)
TOPCLNT	0.005***	0.005***
	(3.342)	(3.350)
PTNR_TENURE	0.000**	0.000***
	(2.506)	(2.607)
PTNR_BUSYNESS	0.000	0.000
	(0.297)	(0.259)
DA_PADJ_PY	0.050***	0.050***
	(6.574)	(6.552)
SIZE	0.003***	0.003***
	(5.764)	(5.800)
DEBT	-0.007***	-0.007***
	(-4.886)	(-4.887)
MTB	0.000	0.000
	(0.320)	(0.310)
OCF	-0.003***	-0.003***
	(-19.463)	(-19.464)
AGE	-0.004***	-0.004***
	(-3.575)	(-3.645)
LOSS	-0.030***	-0.030***
	(-16.485)	(-16.537)
SALESGR	-0.010***	-0.010***
	(-4.659)	(-4.649)
GEOSEG	0.002*	0.001*
	(1.715)	(1.716)
PRODSEG	-0.002**	-0.002**
	(-2.173)	(-2.102)
OCF_SD	-0.000	-0.000
	(-1.193)	(-1.234)
SALES_SD	0.011***	0.011***
	(3.408)	(3.449)
INDPC	-0.000	-0.000
	(-0.942)	(-0.571)
Constant	-0.012**	-0.013**
	(-2.233)	(-2.177)
Industry FE	Yes	Yes
Year FE	Yes	Yes
N	41771	41771
Adj. R-squared	0.138	0.138

F-stat	52.521***	52.137***

This table presents the results of analysis of financial reporting quality with discretionary accruals as per model (1), modified to test the potential channels of CEO duality (*CEODUAL*) or business group affiliation (*BUSGRP*). The dependent variable represents performance-adjusted discretionary accruals (*DA_PADJ*) in both columns. The main explanatory variables of interest are *APLH_CEO* and its interaction with *CEODUAL* (column (1)) or *BUSGRP* (column (2)), respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in both columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 4 - Panel B: APLH and cash flow predictability - Channel tests with CEO Duality and Business Group Affiliation

	(1)	(2)
Dependent variable	*OCF_NY*	*OCF_NY*
ROA	0.287***	0.463***
	(4.059)	(6.150)
APLH_CEO	0.532**	0.214
	(2.042)	(0.849)
ROA×APLH_CEO	**-0.033**	**-0.017**
	(-0.961)	**(-0.512)**
CEODUAL	**0.128**	
	(0.806)	
ROA×CEODUAL	**0.013**	
	(0.556)	
APLH_CEO×CEODUAL	**-0.918****	
	(-2.511)	
ROA×APLH_CEO×CEODUAL	**-0.105****	
	(-1.977)	
BUSGRP		**-0.567*****
		(-3.140)
ROA×BUSGRP		**-0.065*****
		(-2.660)
APLH_CEO×BUSGRP		**-0.210**
		(-0.575)
ROA×APLH_CEO×BUSGRP		**-0.131****
		(-2.420)
BIG4	0.321	0.296
	(1.531)	(1.445)
ROA×BIG4	0.145***	0.153***
	(5.170)	(5.419)
TOPCLNT	-0.279*	-0.235
	(-1.728)	(-1.453)
ROA×TOPCLNT	-0.027	-0.024
	(-1.123)	(-0.954)
PTNR_TENURE	0.057***	0.054***
	(4.445)	(4.221)
ROA×PTNR_TENURE	0.003*	0.001
	(1.814)	(0.446)
PTNR_BUSYNESS	-0.008	-0.009
	(-0.263)	(-0.311)
ROA×PTNR_BUSYNESS	-0.008*	-0.008**
	(-1.844)	(-2.227)
SIZE	0.557***	0.474***
	(10.507)	(7.995)
ROA×SIZE	-0.009	-0.021**
	(-1.254)	(-2.368)
DEBT	0.414	1.115***
	(0.891)	(3.859)
ROA×DEBT	-0.032**	0.009
	(-2.104)	(0.434)
MTB	-0.175	-0.222
	(-1.172)	(-1.359)
ROA×MTB	0.039***	0.036***

	(3.816)	(2.927)
AGE	0.318**	0.302**
	(2.551)	(2.408)
ROA×AGE	0.038**	0.028*
	(2.399)	(1.702)
LOSS	-0.901***	-0.918***
	(-3.326)	(-3.668)
ROA×LOSS	-0.245***	-0.280***
	(-5.908)	(-6.509)
SALESGR	0.317	0.213
	(1.482)	(1.030)
ROA×SALESGR	0.011	0.004
	(0.656)	(0.220)
GEOSEG	-0.291*	-0.278
	(-1.752)	(-1.571)
ROA×GEOSEG	0.040	0.043
	(1.545)	(1.437)
PRODSEG	-0.217***	-0.196***
	(-3.003)	(-2.709)
ROA×PRODSEG	0.001	0.000
	(0.134)	(0.000)
OCF_SD	-0.020***	-0.014**
	(-2.764)	(-2.116)
ROA×OCF_SD	0.001	-0.000
	(0.734)	(-0.310)
SALES_SD	-0.600*	-0.664**
	(-1.853)	(-2.073)
ROA×SALES_SD	-0.056*	-0.081**
	(-1.646)	(-2.038)
INDPC	-0.007	-0.007
	(-1.392)	(-1.451)
ROA×INDPC	-0.000	0.000
	(-0.519)	(0.112)
Constant	0.457	0.952
	(0.766)	(1.483)
Industry FE	Yes	Yes
Year FE	Yes	Yes
N	38355	38355
Adj. R-squared	0.126	0.122
F-stat	77.413***	80.951***

This table presents the results of analysis of financial reporting quality with cash flow predictability as per as per model (2), modified to test the potential channels of CEO duality (*CEODUAL*) or business group affiliation (*BUSGRP*). The dependent variable represents operational cash flows for the subsequent financial year scaled by lagged total assets (*OCF_NY*) in both columns. The main explanatory variables of interest are *ROA×APLH_CEO* and *ROA×APLH_CEO×CEODUAL* (column (1)), or *ROA×APLH_CEO×BUSGRP* (column (2)), representing interactions of current year earnings (*ROA*) with *APLH_CEO* and *CEODUAL* or *BUSGRP*, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in both columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 4 - Panel C: APLH and small earnings increases - Channel tests with CEO Duality and Business Group Affiliation

	(1)	(2)
Dependent variable	*MEET_LAST*	*MEET_LAST*
APLH_CEO	**0.023**	**0.017**
	(0.796)	**(0.610)**
CEODUAL	**-0.016**	
	(-0.953)	
APLH_CEO×CEODUAL	**0.069***	
	(1.775)	
BUSGRP		**0.093*****
		(4.975)
APLH_CEO×BUSGRP		**0.080****
		(2.061)
BIG4	-0.066***	-0.070***
	(-2.756)	(-2.908)
TOPCLNT	0.071***	0.067***
	(4.182)	(3.952)
PTNR_TENURE	0.002	0.002*
	(1.417)	(1.855)
PTNR_BUSYNESS	-0.000	0.001
	(-0.103)	(0.181)
SIZE	0.024***	0.036***
	(4.818)	(6.811)
DEBT	-0.174***	-0.176***
	(-7.223)	(-7.153)
MTB	-0.092***	-0.089***
	(-9.502)	(-9.229)
OCF	-0.002***	-0.001**
	(-2.873)	(-2.565)
AGE	-0.017	-0.014
	(-1.598)	(-1.335)
LOSS	-0.256***	-0.254***
	(-9.186)	(-9.086)
SALESGR	0.142***	0.144***
	(9.711)	(9.837)
GEOSEG	-0.043***	-0.042***
	(-3.631)	(-3.551)
PRODSEG	-0.007	-0.004
	(-0.824)	(-0.540)
OCF_SD	-0.000	-0.000
	(-0.637)	(-0.659)
SALES_SD	-0.156***	-0.156***
	(-5.577)	(-5.588)
INDPC	-0.001***	-0.001**
	(-2.607)	(-2.117)
Constant	-0.786***	-0.923***
	(-6.698)	(-7.745)
Industry FE	Yes	Yes
Year FE	Yes	Yes
N	42816	42816
Pseudo R-squared	0.034	0.035
Model Chi-squared	71631.460***	68937.000***

This table presents the results of the analysis of financial reporting quality with small earnings increases as per model (3). The dependent variable indicates instances when the client firm just meets or beats its previous year's earnings (*MEET_LAST*) in both columns. The main explanatory variables of interest are *APLH_CEO* and its interaction with *CEODUAL* (column (1)) or *BUSGRP* (column (2)), respectively. Fixed effects are included for industry and year in both columns. The sample selection process is detailed in Table 1 – Panel A. All variables are defined in Appendix A. Values in parentheses represent z-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 5 - Panel A: APLH and discretionary accruals - Subsample tests						
	Big 4 Auditor		**Client Importance**		**Audit Partner Tenure**	
	(1)	(2)	(3)	(4)	(5)	(6)
	BIG4=1	*BIG4=0*	*TOPCLNT=1*	*TOPCLNT=0*	*TNR_SHORT=1*	*TNR_SHORT=0*
Dependent variable	*DA_PADJ*	*DA_PADJ*	*DA_PADJ*	*DA_PADJ*	*DA_PADJ*	*DA_PADJ*
APLH_CEO	**0.002**	**0.009*** **	**0.010*** **	**0.007**	**0.010*** **	**0.005**
	(0.397)	**(3.184)**	**(2.792)**	**(1.373)**	**(3.328)**	**(1.293)**
APLH_CFO	**-0.004**	**0.004**	**0.005**	**-0.001**	**0.003**	**0.001**
	(-1.106)	**(1.284)**	**(1.429)**	**(-0.409)**	**(1.159)**	**(0.295)**
BIG4			-0.010	-0.004	-0.005	-0.003
			(-1.527)	(-1.649)	(-1.533)	(-0.654)
TOPCLNT	0.001	0.005**			0.005**	0.004
	(0.086)	(2.162)			(1.965)	(1.054)
PTNR_TENURE	0.000	0.000	0.000	0.000		
	(0.830)	(1.131)	(0.560)	(1.069)		
PTNR_BUSYNESS	-0.001	0.000	0.000	-0.000	-0.000	-0.000
	(-1.152)	(0.331)	(0.281)	(-0.258)	(-0.034)	(-0.381)
DA_PADJ_PY	0.056***	0.021*	0.022	0.028	0.031**	0.012
	(2.607)	(1.656)	(1.248)	(0.964)	(2.228)	(0.626)
SIZE	0.001	0.005***	0.004***	0.004**	0.005***	0.003**
	(1.004)	(5.251)	(3.746)	(2.411)	(5.750)	(2.289)
DEBT	-0.010***	-0.005***	-0.012***	-0.004**	-0.006***	-0.005
	(-3.948)	(-2.724)	(-3.410)	(-2.628)	(-3.049)	(-1.630)
MTB	0.004***	-0.001	0.001	0.001	0.001	-0.000
	(3.257)	(-1.234)	(0.684)	(0.670)	(0.956)	(-0.168)
OCF	-0.001***	-0.003***	-0.003***	-0.002***	-0.003***	-0.002***
	(-5.876)	(-11.595)	(-8.215)	(-7.899)	(-10.578)	(-8.144)
AGE	-0.002	-0.006***	-0.007***	-0.004**	-0.004**	-0.008***
	(-0.969)	(-3.766)	(-3.176)	(-2.034)	(-2.259)	(-3.101)
LOSS	-0.014***	-0.032***	-0.030***	-0.027***	-0.028***	-0.033***
	(-2.628)	(-10.595)	(-7.653)	(-3.714)	(-8.862)	(-6.971)
SALESGR	0.004	-0.009***	-0.009*	-0.007	-0.007*	-0.009
	(0.670)	(-2.611)	(-1.820)	(-1.305)	(-1.869)	(-1.384)
GEOSEG	-0.001	0.002	0.001	0.001	-0.001	0.003

	(-0.945)	(1.477)	(0.476)	(0.514)	(-0.468)	(1.555)
PRODSEG	0.001	-0.004***	-0.002	-0.002	-0.000	-0.006***
	(0.523)	(-2.690)	(-1.604)	(-1.390)	(-0.239)	(-2.780)
OCF_SD	0.000	-0.000	0.000	-0.000	0.000	-0.000
	(0.663)	(-0.361)	(0.126)	(-0.110)	(0.322)	(-0.739)
SALES_SD	0.005	0.013**	0.021***	0.001	0.010*	0.018*
	(0.624)	(2.471)	(3.349)	(0.317)	(1.872)	(1.771)
INDPC	-0.000	0.000*	0.000*	0.000	0.000	0.000
	(-0.512)	(1.753)	(1.922)	(0.182)	(0.535)	(1.285)
Constant	-0.007	-0.023***	-0.015	-0.023*	-0.031***	0.001
	(-0.498)	(-2.584)	(-1.275)	(-1.687)	(-3.334)	(0.044)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	3911	15012	8545	10378	12385	6538
Adj. R-squared	0.078	0.14	0.143	0.113	0.135	0.122
F-stat	5.46***	23.317***	18.567***	19.184***	18.385***	11.091***

This table presents the results of analysis of financial reporting quality with discretionary accruals as per model (1), for subsamples based on auditor type (*BIG4*, columns (1-2)), client importance (*TOPCLNT*, columns (3-4)), and audit partner tenure (*TNR_SHORT*, columns (5-6)). The dependent variable represents performance-adjusted discretionary accruals (*DA_PADJ*) in all columns. The main explanatory variables of interest are *APLH_CEO* and *APLH_CFO*, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in all columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 5 - Panel B: APLH and cash flow predictability - Subsample tests						
	Big 4 Auditor		**Client Importance**		**Audit Partner Tenure**	
	(1)	(2)	(3)	(4)	(5)	(6)
	BIG4=1	*BIG4=0*	*TOPCLNT=1*	*TOPCLNT=0*	*TNR_SHORT=1*	*TNR_SHORT=0*
Dependent variable	*OCF_NY*	*OCF_NY*	*OCF_NY*	*OCF_NY*	*OCF_NY*	*OCF_NY*
ROA	0.808***	0.197**	0.318***	0.319	0.232***	0.737***
	(3.867)	(2.459)	(3.446)	(1.655)	(2.925)	(4.094)
APLH_CEO	-0.205	0.246	-0.110	0.316	-0.243	0.752
	(-0.399)	(0.771)	(-0.282)	(0.808)	(-0.725)	(1.472)
ROA×APLH_CEO	**-0.044**	**-0.092*****	**-0.105*****	**-0.042**	**-0.078****	**-0.091**
	(-0.668)	**(-2.937)**	**(-2.756)**	**(-0.703)**	**(-2.382)**	**(-1.246)**
APLH_CFO	-0.526	-0.070	0.060	-0.317	-0.134	-0.071
	(-1.152)	(-0.234)	(0.166)	(-0.751)	(-0.428)	(-0.150)
ROA×APLH_CFO	**0.047**	**0.011**	**-0.057**	**0.100**	**0.015**	**0.034**
	(0.801)	**(0.395)**	**(-1.606)**	**(1.571)**	**(0.512)**	**(0.418)**
BIG4			0.487	0.986	0.698*	-0.031
			(1.317)	(1.092)	(1.810)	(-0.052)
ROA×BIG4			0.175***	0.105	0.092**	0.135
			(4.905)	(1.386)	(2.532)	(1.606)
TOPCLNT	-0.496	-0.366			0.026	-0.887**
	(-0.820)	(-1.431)			(0.094)	(-2.049)
ROA×TOPCLNT	-0.056	-0.054**			-0.082***	-0.005
	(-0.781)	(-2.158)			(-3.126)	(-0.071)
PTNR_TENURE	-0.027	0.029	0.047**	0.024		
	(-0.768)	(1.507)	(1.986)	(0.918)		
ROA×PTNR_TENURE	0.009*	0.004*	0.008***	0.003		
	(1.853)	(1.903)	(3.192)	(0.812)		
PTNR_BUSYNESS	0.014	-0.097	-0.052	-0.040	-0.057	-0.109
	(0.217)	(-1.592)	(-0.954)	(-0.339)	(-0.969)	(-1.192)
ROA×PTNR_BUSYNESS	0.002	-0.014**	-0.009	-0.007	-0.010*	-0.004
	(0.276)	(-2.286)	(-1.584)	(-0.867)	(-1.706)	(-0.441)
SIZE	0.118	0.710***	0.872***	0.353**	0.609***	0.708***
	(0.787)	(9.596)	(10.008)	(2.203)	(7.910)	(4.819)
ROA×SIZE	-0.001	-0.008	-0.025***	-0.001	0.006	-0.058***
	(-0.047)	(-1.391)	(-3.679)	(-0.054)	(1.019)	(-2.923)

DEBT	3.306***	-0.271*	-0.361**	0.172	-0.127	0.224
	(3.442)	(-1.917)	(-2.318)	(0.272)	(-0.850)	(0.656)
ROA×DEBT	-0.046**	-0.036***	-0.070***	0.019	-0.049***	0.010
	(-2.370)	(-5.948)	(-10.781)	(0.780)	(-8.259)	(0.308)
MTB	-0.188	-0.291***	-0.231**	0.008	0.061	-0.606
	(-1.303)	(-2.986)	(-2.512)	(0.029)	(0.671)	(-1.620)
ROA×MTB	0.032***	0.046***	0.033***	0.024	0.022***	0.070***
	(3.079)	(8.665)	(6.462)	(1.279)	(4.558)	(3.226)
AGE	0.091	0.376**	0.026	0.630*	0.261	0.578
	(0.313)	(2.473)	(0.144)	(1.972)	(1.639)	(1.633)
ROA×AGE	0.014	0.071***	0.089***	0.023	0.062***	0.041
	(0.437)	(4.697)	(4.961)	(0.769)	(4.165)	(0.901)
LOSS	0.294	-1.626***	-0.649	-1.995***	-1.173***	-1.398**
	(0.542)	(-4.623)	(-1.557)	(-5.715)	(-3.193)	(-2.023)
ROA×LOSS	-0.313***	-0.343***	-0.241***	-0.514***	-0.299***	-0.506***
	(-3.992)	(-10.136)	(-5.772)	(-6.609)	(-8.343)	(-4.839)
SALESGR	-0.201	0.260	0.444	-0.083	0.236	0.069
	(-0.446)	(1.104)	(1.639)	(-0.205)	(0.946)	(0.120)
ROA×SALESGR	0.043	-0.050***	-0.052***	-0.039	-0.037**	-0.124***
	(0.960)	(-3.236)	(-3.014)	(-0.934)	(-2.339)	(-2.731)
GEOSEG	-0.074	-0.423**	-0.543***	-0.272	-0.324**	-0.604
	(-0.443)	(-2.409)	(-3.075)	(-1.027)	(-2.054)	(-0.856)
ROA×GEOSEG	-0.015	0.055***	0.045***	0.041	0.017	0.109
	(-0.794)	(3.657)	(2.788)	(1.532)	(1.211)	(1.037)
PRODSEG	-0.058	-0.173	-0.434***	0.085	-0.245*	-0.099
	(-0.395)	(-1.321)	(-2.905)	(0.474)	(-1.877)	(-0.493)
ROA×PRODSEG	-0.022	0.022	0.016	-0.001	0.007	-0.002
	(-1.278)	(1.510)	(1.073)	(-0.056)	(0.544)	(-0.072)
OCF_SD	-0.028	-0.011*	-0.017**	-0.009	-0.014**	-0.004
	(-0.670)	(-1.827)	(-2.423)	(-0.874)	(-2.241)	(-0.255)
ROA×OCF_SD	-0.000	-0.002**	-0.001	-0.001	-0.001	-0.005
	(-0.043)	(-2.295)	(-0.763)	(-0.338)	(-1.214)	(-1.287)
SALES_SD	0.769	-0.289	0.557	-1.143	-0.283	-0.272
	(0.830)	(-0.838)	(1.285)	(-1.625)	(-0.778)	(-0.345)
ROA×SALES_SD	-0.148	-0.040	-0.074*	-0.039	-0.014	-0.149

	(-1.291)	(-1.257)	(-1.704)	(-0.492)	(-0.425)	(-1.377)
INDPC	0.025	0.020*	0.006	0.032**	0.012	0.024
	(1.416)	(1.918)	(0.521)	(2.393)	(1.105)	(1.480)
ROA×INDPC	-0.004*	-0.001	-0.002*	-0.001	-0.001	-0.003
	(-1.762)	(-1.104)	(-1.820)	(-0.446)	(-0.791)	(-1.245)
Constant	1.886	-1.324*	-0.938	-1.327	-0.708	-1.273
	(1.040)	(-1.663)	(-1.005)	(-1.140)	(-0.830)	(-0.766)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	3427	12925	7355	8997	10765	5587
Adj. R-squared	0.346	0.105	0.173	0.121	0.143	0.18
F-stat	24.996***	30.604***	39.423***	109.414***	35.852***	17.033***

This table presents the results of analysis of financial reporting quality with cash flow predictability as per as per model (2), for subsamples based on auditor type (*BIG4*, columns (1-2)), client importance (*TOPCLNT*, columns (3-4)), and audit partner tenure (*TNR_SHORT*, columns (5-6)). The dependent variable represents operational cash flows for the subsequent financial year scaled by lagged total assets (*OCF_NY*) in all columns. The main explanatory variables of interest are *ROA×APLH_CEO* and *ROA×APLH_CFO*, representing interactions of current year earnings (*ROA*) with *APLH_CEO* or *APLH_CFO*, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in all columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 5 - Panel C: APLH and small earnings increases - Subsample tests						
	Big 4 Auditor		**Client Importance**		**Audit Partner Tenure**	
	(1)	(2)	(3)	(4)	(5)	(6)
	BIG4=1	*BIG4=0*	*TOPCLNT=1*	*TOPCLNT=0*	*TNR_SHORT=1*	*TNR_SHORT=0*
Dependent variable	*MEET_LAST*	*MEET_LAST*	*MEET_LAST*	*MEET_LAST*	*MEET_LAST*	*MEET_LAST*
APLH_CEO	**0.072**	**0.083****	**0.092****	**0.063**	**0.107*****	**0.046**
	(1.021)	**(2.556)**	**(2.177)**	**(1.536)**	**(2.937)**	**(0.928)**
APLH_CFO	**0.113**	**-0.048**	**-0.075***	**0.034**	**0.002**	**-0.039**
	(1.619)	**(-1.480)**	**(-1.744)**	**(0.863)**	**(0.067)**	**(-0.792)**
BIG4			0.018	-0.044	0.042	-0.139**
			(0.200)	(-1.115)	(1.000)	(-2.227)
TOPCLNT	-0.048	0.076***			0.064**	0.077*
	(-0.516)	(2.748)			(1.986)	(1.773)
PTNR_TENURE	-0.005	0.002	-0.003	0.003		
	(-0.789)	(0.642)	(-0.993)	(0.966)		
PTNR_BUSYNESS	-0.007	0.002	-0.016	0.001	-0.003	0.007
	(-0.684)	(0.248)	(-1.441)	(0.201)	(-0.393)	(0.787)
SIZE	0.082***	0.026***	0.033***	0.030***	0.027***	0.029**
	(3.860)	(3.158)	(2.952)	(2.949)	(3.007)	(2.292)
DEBT	-0.283**	-0.071**	-0.075*	-0.085**	-0.109***	-0.040
	(-2.401)	(-2.327)	(-1.707)	(-2.041)	(-3.087)	(-0.902)
MTB	-0.045***	-0.115***	-0.098***	-0.088***	-0.094***	-0.077***
	(-2.955)	(-6.860)	(-4.734)	(-6.711)	(-7.471)	(-3.831)
OCF	-0.007***	-0.001	-0.002	-0.002*	-0.002**	-0.002
	(-2.676)	(-1.486)	(-1.631)	(-1.790)	(-2.514)	(-1.391)
AGE	-0.019	-0.020	-0.011	-0.032*	-0.019	-0.026
	(-0.532)	(-1.304)	(-0.510)	(-1.716)	(-1.121)	(-1.071)
LOSS	-0.166*	-0.296***	-0.327***	-0.238***	-0.291***	-0.274***
	(-1.732)	(-7.943)	(-6.377)	(-5.027)	(-6.867)	(-4.633)
SALESGR	0.044	0.164***	0.213***	0.103***	0.163***	0.123***
	(0.612)	(6.866)	(6.012)	(3.547)	(6.214)	(3.028)
GEOSEG	-0.031	-0.067***	-0.046*	-0.066***	-0.072***	-0.031
	(-1.201)	(-3.468)	(-1.924)	(-3.415)	(-4.056)	(-1.175)
PRODSEG	0.004	-0.002	-0.007	0.014	0.016	-0.007

	(0.185)	(-0.123)	(-0.397)	(0.863)	(1.085)	(-0.341)
OCF_SD	-0.002	-0.000	-0.001	0.001	0.001	-0.003
	(-0.363)	(-0.023)	(-0.804)	(0.610)	(0.744)	(-1.187)
SALES_SD	-0.098	-0.171***	-0.131**	-0.201***	-0.162***	-0.210***
	(-0.618)	(-4.110)	(-2.208)	(-3.572)	(-3.416)	(-2.881)
INDPC	0.003	-0.001	0.001	-0.001	-0.000	0.000
	(1.252)	(-1.014)	(0.642)	(-1.104)	(-0.137)	(0.289)
Constant	-1.629**	-1.286**	-0.639	-1.044**	-0.966***	-0.776
	(-2.047)	(-2.383)	(-1.275)	(-2.427)	(-5.411)	(-1.606)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	4012	15448	8754	10706	12782	6678
Pseudo R-squared	0.079	0.041	0.054	0.04	0.038	0.048
Model Chi-squared	20787.16***	34917.68***	35053.23***	25490.56***	33502.12***	20839.25***

This table presents the results of analysis of financial reporting quality with small earnings increases as per model (3), for subsamples based on auditor type (*BIG4*, columns (1-2)), client importance (*TOPCLNT*, columns (3-4)), and audit partner tenure (*TNR_SHORT*, columns (5-6)). The dependent variable indicates instances when the client firm just meets or beats its previous year earnings (*MEET_LAST*) in all columns. The main explanatory variables of interest are *APLH_CEO* and *APLH_CFO*, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in all columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent z-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 6 - Panel A: APLH and discretionary accruals - IV and Entropy Balancing Approaches			
	2SLS IV Regression		
	First-stage	Second-stage	**Entropy balancing**
	(1)	(2)	(3)
Dependent variable	*APLH_CEO*	*DA_PADJ*	*DA_PADJ*
APLH_CEO^		**0.028*** **	
		(3.595)	
APL_OFFDIST	**0.202*** **		
	(13.813)		
APLH_CEO			**0.006*** **
			(3.353)
BIG4	-0.011	-0.004*	-0.006**
	(-0.781)	(-1.726)	(-2.220)
TOPCLNT	0.008	0.005***	0.007***
	(0.825)	(3.292)	(3.515)
PTNR_TENURE	-0.001	0.000***	0.000
	(-0.972)	(2.616)	(1.568)
PTNR_BUSYNESS	0.005***	-0.000	0.000
	(2.809)	(-0.092)	(1.341)
DA_PADJ_PY	0.016	0.050***	0.038***
	(1.111)	(6.552)	(3.705)
SIZE	-0.011***	0.003***	0.003***
	(-3.735)	(6.254)	(4.370)
DEBT	-0.000	-0.007***	-0.007***
	(-0.113)	(-4.844)	(-4.030)
MTB	-0.001	0.000	0.000
	(-0.352)	(0.310)	(0.499)
OCF	-0.000	-0.003***	-0.003***
	(-0.470)	(-19.487)	(-16.144)
AGE	-0.013**	-0.004***	-0.007***
	(-2.302)	(-3.415)	(-4.537)
LOSS	-0.003	-0.030***	-0.030***
	(-0.411)	(-16.369)	(-11.982)
SALESGR	-0.003	-0.010***	-0.007**
	(-0.924)	(-4.625)	(-2.428)
GEOSEG	-0.001	0.002*	0.002
	(-0.205)	(1.733)	(1.565)
PRODSEG	0.005	-0.002**	-0.001
	(1.106)	(-2.303)	(-1.569)
OCF_SD	-0.000	-0.000	-0.000
	(-1.491)	(-1.132)	(-0.749)
SALES_SD	-0.005	0.011***	0.014***
	(-0.428)	(3.488)	(3.319)
INDPC	0.000	-0.000	-0.000
	(0.238)	(-0.642)	(-0.985)
Constant	1.170***	0.065***	-0.005
	(15.226)	(4.376)	(-0.750)
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
N	41771	41771	41771
Adj. R-squared	0.060	0.134	0.155
F-stat	190.810***	61.309***	40.881***

This table presents the results of 2SLS IV regression (columns (1-2)) and entropy balancing (column 3) approaches for the analysis of financial reporting quality with discretionary accruals. Column (1) presents the coefficients for the first-stage model in the IV regressions, with *APLH_CEO* as the dependent variable. Column (2) presents the coefficients for the second-stage model in the IV regressions, with *DA_PADJ* as the dependent variable and the predicted value of *APLH_CEO* (*APLH_CEO^*) as the explanatory variable of interest. Column (3) presents the coefficients of the entropy balanced-weighted regression as per model (1). All variables are defined in Appendix A. Fixed effects are included for industry and year in all columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 6 - Panel B: APLH and cash flow predictability - Entropy Balancing Approach	
	(1)
Dependent variable	*OCF_NY*
ROA	0.270***
	(3.153)
APLH_CEO	0.113
	(0.601)
ROA×APLH_CEO	**-0.067****
	(-2.510)
BIG4	-0.013
	(-0.051)
ROA×BIG4	0.156***
	(4.668)
TOPCLNT	-0.370*
	(-1.703)
ROA×TOPCLNT	-0.021
	(-0.671)
PTNR_TENURE	0.074***
	(4.535)
ROA×PTNR_TENURE	0.001
	(0.380)
PTNR_BUSYNESS	0.003
	(0.077)
ROA×PTNR_BUSYNESS	-0.010*
	(-1.733)
SIZE	0.598***
	(8.254)
ROA×SIZE	-0.007
	(-0.757)
DEBT	-0.099
	(-0.159)
ROA×DEBT	-0.040**
	(-2.110)
MTB	-0.224
	(-1.080)
ROA×MTB	0.040***
	(2.949)
AGE	0.473***
	(2.940)
ROA×AGE	0.054***
	(2.651)
LOSS	-0.686*
	(-1.842)
ROA×LOSS	-0.216***
	(-4.323)
SALESGR	0.863***
	(2.900)
ROA×SALESGR	0.035
	(1.522)
GEOSEG	-0.341**
	(-1.966)
ROA×GEOSEG	0.017
	(0.771)
PRODSEG	-0.242***

	(-2.660)
ROA×PRODSEG	0.004
	(0.319)
OCF_SD	-0.011
	(-0.659)
ROA×OCF_SD	0.001
	(0.666)
SALES_SD	-0.430
	(-0.986)
ROA×SALES_SD	-0.101**
	(-2.315)
INDPC	-0.009
	(-1.370)
ROA×INDPC	-0.000
	(-0.738)
Constant	0.156
	(0.202)
Industry FE	Yes
Year FE	Yes
N	38355
Adj. R-squared	0.111
F-stat	52.011***

This table presents the results of entropy balancing approach for the analysis of financial reporting quality with cash flow predictability as per as per model (2). The dependent variable represents operational cash flows for the subsequent financial year scaled by lagged total assets (*OCF_NY*). The main explanatory variable of interest is *ROA×APLH_CEO*, representing interactions of current year earnings (*ROA*) with *APLH_CEO*, which indicates audit partner's language homophily with the CEO. All variables are defined in Appendix A. Fixed effects are included for industry and year. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 6 - Panel C: APLH and small earnings increases - IV and Entropy Balancing approaches			
	2SLS IV Regression		
	First-stage	Second-stage	**Entropy balancing**
	(1)	(2)	(2)
Dependent variable	*APLH_CEO*	*MEET_LAST*	*MEET_LAST*
APLH_CEO^		**0.041****	
		(2.028)	
APL_OFFDIST	**0.203*****		
	(14.072)		
APLH_CEO			0.054***
			(2.809)
BIG4	-0.009	-0.014***	-0.061*
	(-0.618)	(-2.700)	(-1.884)
TOPCLNT	0.008	0.018***	0.091***
	(0.838)	(4.476)	(4.128)
PTNR_TENURE	-0.001	0.000	-0.001
	(-1.061)	(1.548)	(-0.398)
PTNR_BUSYNESS	0.005***	-0.000	0.002
	(2.750)	(-0.135)	(0.394)
SIZE	-0.011***	0.005***	0.028***
	(-3.918)	(4.132)	(4.291)
DEBT	-0.002	-0.013***	-0.145***
	(-0.407)	(-7.392)	(-4.422)
MTB	-0.000	-0.015***	-0.095***
	(-0.014)	(-12.562)	(-6.775)
OCF	-0.000	-0.000***	-0.001*
	(-0.732)	(-2.680)	(-1.719)
AGE	-0.012**	-0.004	-0.000
	(-2.236)	(-1.557)	(-0.014)
LOSS	0.007	-0.059***	-0.294***
	(0.728)	(-11.234)	(-8.220)
SALESGR	-0.003	0.030***	0.147***
	(-0.718)	(10.551)	(7.943)
GEOSEG	-0.001	-0.009***	-0.053***
	(-0.232)	(-3.880)	(-3.235)
PRODSEG	0.005	-0.001	-0.015
	(1.161)	(-0.768)	(-1.370)
OCF_SD	-0.000	-0.000	-0.001
	(-0.772)	(-0.543)	(-0.614)
SALES_SD	-0.001	-0.035***	-0.157***
	(-0.086)	(-6.585)	(-4.421)
INDPC	0.000	-0.000**	-0.002**
	(0.243)	(-2.260)	(-2.571)
Constant	0.256***	0.183***	-0.817***
	(3.935)	(6.351)	(-5.476)
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
N	42816	42816	42816
Adj. R-squared	0.061	0.021	-
F-stat	198.259***	35.996***	-
Pseudo R-squared	-	-	0.037
Model Chi-squared	-	-	48252.77***

This table presents the results of 2SLS IV regression (columns (1-2)) and entropy balancing (column 3) approaches for the analysis of financial reporting quality with small earnings increases. Column (1)

presents the coefficients for the first-stage model in the IV regressions, with *APLH_CEO* as the dependent variable. Column (2) presents the coefficients for the second-stage model in the IV regressions, with *MEET_LAST* as the dependent variable and the predicted value of *APLH_CEO* (*APLH_CEO^*) as the explanatory variable of interest. Column (3) presents the coefficients of the entropy balanced-weighted regression as per model (3). All variables are defined in Appendix A. Fixed effects are included for industry and year in all columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 7: APLH and audit fees, total fees, and ratio of NAS fees paid to auditors

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Dependent variable	*AUDFEE*	*AUDFEE*	*AUDFEE*	*TOTFEE*	*TOTFEE*	*TOTFEE*	*NAS*	*NAS*	*NAS*
APLH_CEO	**-0.031*** **		**-0.023** **	**-0.028** **		**-0.025*** **	**0.020*** **		**0.015** **
	(-2.840)		**(-2.338)**	**(-2.349)**		**(-3.249)**	**(3.267)**		**(2.243)**
APLH_CFO		**-0.034*** **	**-0.027*** **		**-0.024*** **	**-0.019** **		**0.020*** **	**0.001**
		(-2.633)	**(-2.698)**		**(-3.222)**	**(-2.474)**		**(2.838)**	**(0.056)**
BIG4	0.403***	0.482***	0.468***	0.445***	0.518***	0.507***	0.048***	0.027***	0.031***
	(19.825)	(19.741)	(17.405)	(20.585)	(46.179)	(44.178)	(7.367)	(3.218)	(3.807)
TOPCLNT	-0.104***	-0.131***	-0.135***	-0.118***	-0.147***	-0.146***	-0.029***	-0.026***	-0.025***
	(-10.621)	(-10.784)	(-9.111)	(-11.069)	(-20.726)	(-20.257)	(-6.102)	(-4.215)	(-4.271)
PTNR_TENURE	-0.004***	-0.003***	-0.004***	-0.003***	-0.002***	-0.002***	0.002***	0.002***	0.005***
	(-4.653)	(-3.070)	(-6.307)	(-3.279)	(-3.854)	(-3.185)	(6.587)	(3.099)	(9.976)
PTNR_BUSYNESS	-0.013***	-0.011***	-0.011***	-0.013***	-0.012***	-0.010***	0.000	-0.003**	0.000
	(-6.279)	(-4.007)	(-3.406)	(-5.980)	(-7.960)	(-6.237)	(0.391)	(-2.077)	(0.214)
ARLAG	-0.062***	-0.060***	-0.050***	-0.085***	-0.079***	-0.082***	-0.047***	-0.032***	-0.046***
	(-6.389)	(-5.077)	(-4.395)	(-8.242)	(-11.473)	(-11.624)	(-11.728)	(-5.966)	(-8.996)
FOREX	-0.000	-0.001**	-0.001**	-0.000*	-0.001***	-0.001***	-0.000	-0.000***	-0.000**
	(-1.595)	(-2.033)	(-2.617)	(-1.711)	(-5.288)	(-4.871)	(-1.453)	(-2.874)	(-2.476)
FCF	-0.002***	-0.001***	-0.001***	-0.002***	-0.001***	-0.001***	-0.000	-0.000	-0.000
	(-9.530)	(-4.404)	(-3.010)	(-9.870)	(-5.541)	(-5.359)	(-0.391)	(-1.290)	(-1.294)
CURRATIO	-0.000	0.000	0.000	-0.000	0.000	0.000	-0.001***	0.000	-0.000
	(-0.366)	(0.006)	(0.079)	(-0.583)	(0.170)	(0.471)	(-4.041)	(0.238)	(-1.285)
INVENTORY	0.031	0.070	0.067	0.032	0.066***	0.047**	-0.005	-0.037*	-0.068***
	(0.802)	(1.555)	(1.181)	(0.751)	(2.919)	(2.053)	(-0.303)	(-1.880)	(-3.715)
TRADEREC	0.030	0.057	0.042	0.028	0.047**	0.036	-0.058***	-0.067***	-0.064***
	(0.794)	(1.234)	(0.629)	(0.689)	(2.142)	(1.597)	(-4.226)	(-3.821)	(-3.933)
MNA	0.058***	0.066***	0.058***	0.064***	0.072***	0.065***	0.005	-0.001	0.001
	(6.214)	(5.188)	(3.698)	(6.548)	(8.030)	(7.129)	(0.979)	(-0.082)	(0.162)
EXDISC	0.022***	0.028***	0.029***	0.034***	0.037***	0.042***	0.033***	0.022***	0.025***
	(3.017)	(2.864)	(3.119)	(4.381)	(5.513)	(6.160)	(7.442)	(3.485)	(4.281)
ROA	-0.001**	-0.002***	-0.002***	-0.001**	-0.002***	-0.002***	0.000	0.000	0.000
	(-2.315)	(-2.860)	(-2.688)	(-2.102)	(-4.256)	(-4.640)	(1.429)	(0.141)	(1.200)
SIZE	0.230***	0.252***	0.249***	0.260***	0.280***	0.275***	0.031***	0.027***	0.025***
	(45.269)	(43.131)	(22.268)	(48.306)	(103.662)	(100.572)	(20.815)	(13.112)	(12.948)

DEBT	-0.005	-0.005	-0.009	-0.005	-0.005	-0.002	0.017***	0.010	0.024***
	(-0.560)	(-0.426)	(-0.838)	(-0.537)	(-0.904)	(-0.353)	(2.838)	(1.176)	(2.751)
MTB	0.037***	0.031***	0.032***	0.038***	0.031***	0.030***	-0.003**	-0.003*	-0.007***
	(7.626)	(6.358)	(6.111)	(7.258)	(11.795)	(11.106)	(-2.435)	(-1.800)	(-4.850)
OCF	-0.000	0.000	0.000	-0.000	0.000	0.000	-0.000**	-0.001**	-0.000**
	(-0.431)	(1.353)	(1.351)	(-1.200)	(0.939)	(1.013)	(-2.129)	(-2.241)	(-2.179)
AGE	0.032***	0.028***	0.029***	0.039***	0.034***	0.030***	0.010***	0.008**	0.003
	(4.684)	(3.820)	(3.167)	(5.334)	(8.922)	(7.788)	(3.614)	(2.174)	(0.891)
LOSS	0.002	0.015	0.008	0.000	0.009	0.002	-0.001	-0.013*	-0.010
	(0.221)	(1.012)	(0.413)	(0.020)	(0.912)	(0.191)	(-0.121)	(-1.660)	(-1.320)
SALESGR	0.007	0.005	0.003	0.008	0.004	0.006	0.000	-0.001	-0.003
	(1.438)	(0.733)	(0.400)	(1.553)	(0.560)	(0.729)	(0.056)	(-0.156)	(-0.561)
GEOSEG	0.088***	0.086***	0.085***	0.094***	0.092***	0.089***	0.007**	0.010***	0.009**
	(9.461)	(7.662)	(5.658)	(10.201)	(17.962)	(17.088)	(2.458)	(2.781)	(2.421)
PRODSEG	0.031***	0.030***	0.024**	0.037***	0.031***	0.031***	0.001	-0.003	0.002
	(4.070)	(3.333)	(2.230)	(4.558)	(8.101)	(7.754)	(0.554)	(-1.184)	(0.937)
OCF_SD	-0.000	0.000	0.000	-0.000	0.000	0.000	0.000	0.000	0.000
	(-1.506)	(0.062)	(0.079)	(-1.207)	(0.293)	(0.192)	(1.566)	(0.334)	(0.577)
SALES_SD	0.008	0.025*	0.025**	0.005	0.020**	0.017*	-0.019***	-0.021***	-0.023***
	(0.720)	(1.764)	(2.032)	(0.379)	(2.063)	(1.802)	(-3.479)	(-3.020)	(-3.428)
INDPC	-0.000	0.001	0.001	-0.000	0.000*	0.001**	0.000**	-0.000	0.000
	(-1.102)	(1.028)	(1.221)	(-0.888)	(1.701)	(2.000)	(2.332)	(-0.967)	(0.774)
Constant	-1.112***	-1.302***	-1.304***	-1.195***	-1.368***	-1.308***	0.103***	0.127***	0.163***
	(-16.946)	(-16.220)	(-10.643)	(-17.226)	(-30.807)	(-28.738)	(4.068)	(3.579)	(4.858)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	31627	16827	15810	31627	16827	15810	31627	16827	15810
Adj. R-squared	0.737	0.764	0.755	0.757	0.783	0.777	0.106	0.1	0.099
F-stat	188.875***	213.32***	443.296***	220.964***	1375.666***	1221.989***	90.201***	33.005***	44.02***

This table presents the results of analyses with measures of auditor remuneration. The dependent variables represent the natural log of audit fees (*AUDFEE*, columns (1-3)), natural log of total fees (*TOTFEE*, columns (4-6)), and the ratio of fees for non-audit services (*NAS*, columns (7-9)) paid to the auditors, respectively. The main explanatory variables of interest are *APLH_CEO* and *APLH_CFO*, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in all columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical

significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.

Table 8: APLH and audit report lag

	(1)	(2)	(3)
Dependent variable	*ARLAG*	*ARLAG*	*ARLAG*
APLH_CEO	**0.024***		**0.020****
	(1.782)		**(2.021)**
APLH_CFO		**0.027****	**0.029*****
		(2.002)	**(3.038)**
BIG4	-0.053**	-0.108***	-0.112***
	(-2.361)	(-4.674)	(-7.800)
TOPCLNT	0.088***	0.091***	0.091***
	(7.323)	(6.934)	(10.687)
PTNR_TENURE	-0.003***	-0.002**	-0.002***
	(-3.305)	(-2.213)	(-3.207)
PTNR_BUSYNESS	0.001***	0.001***	0.001***
	(4.875)	(3.995)	(5.928)
AUDFEE	-0.126***	-0.107***	-0.096***
	(-6.760)	(-5.516)	(-8.642)
NAS	-0.091***	-0.077***	-0.096***
	(-7.031)	(-4.601)	(-8.333)
FOREX	-0.001**	-0.000	-0.000**
	(-2.183)	(-1.099)	(-2.030)
FCF	0.001***	0.001*	0.001*
	(2.710)	(1.842)	(1.860)
CURRATIO	-0.000	0.000	0.001
	(-0.497)	(0.236)	(0.982)
INVENTORY	0.019	-0.021	-0.036
	(0.406)	(-0.414)	(-1.412)
TRADEREC	0.152***	0.172***	0.184***
	(3.319)	(3.714)	(7.216)
MNA	0.020**	-0.005	-0.001
	(2.127)	(-0.462)	(-0.137)
EXDISC	-0.048***	-0.038***	-0.039***
	(-4.695)	(-3.232)	(-4.384)
ROA	-0.006***	-0.004***	-0.004***
	(-8.258)	(-5.459)	(-6.952)
SIZE	-0.010*	-0.015**	-0.012***
	(-1.723)	(-2.101)	(-3.221)
DEBT	0.049***	0.052***	0.057***
	(4.035)	(3.837)	(4.980)
MTB	-0.032***	-0.029***	-0.030***
	(-7.480)	(-6.651)	(-10.357)
OCF	-0.001***	-0.001	-0.001**
	(-3.466)	(-1.240)	(-2.249)
AGE	-0.041***	-0.039***	-0.045***
	(-5.453)	(-4.878)	(-9.568)
LOSS	0.041***	0.030**	0.036***
	(3.503)	(2.038)	(3.035)
SALESGR	-0.008	-0.002	0.001
	(-1.239)	(-0.208)	(0.083)
GEOSEG	0.004	0.003	0.000
	(0.555)	(0.394)	(0.083)
PRODSEG	0.008	0.01	0.004
	(1.309)	(1.529)	(0.952)
OCF_SD	0.000	-0.000	0.000
	(0.741)	(-0.173)	(0.313)

SALES_SD	0.014	0.028	0.029**
	(0.793)	(1.531)	(2.464)
INDPC	-0.003***	-0.004***	-0.004***
	(-8.056)	(-6.554)	(-9.899)
Constant	4.886***	4.949***	4.958***
	(93.318)	(85.139)	(148.412)
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
N	31627	16827	15810
Adj. R-squared	0.227	0.270	0.258
F-stat	62.548***	58.406***	176.620***

This table presents the results of analyses with audit report lag. The dependent variable represents the natural log of number of days taken to complete the audit process (*ARLAG)* in all columns. The main explanatory variables of interest are *APLH_CEO* and *APLH_CFO*, which indicate audit partner's language homophily with the CEO or the CFO, respectively. All variables are defined in Appendix A. Fixed effects are included for industry and year in all columns. The sample selection process is detailed in Table 1 – Panel A. Values in parentheses represent t-stats. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The estimations are based on robust standard errors corrected for heteroscedasticity and client firm-level clustering.