

Auditor specialization, accounting information quality and investment efficiency

Highlights

We test how the auditor specialization moderates the effect of accounting information quality on investment efficiency.

We examine the underinvestment and overinvestment problems.

We used a logistic analysis to determine the impact of the auditor specialization and accounting information quality on the investment efficiency.

We investigate the causal relationships between investment efficiency, auditor specialization and accounting information quality from the dynamic simultaneous-equation models.

We discuss how the auditor specialization and accounting information quality can reduce the underinvestment and overinvestment problems and outline specific implications for future research.

Abstract

This study is examined how the auditor specialization moderates the effect of accounting information quality on investment efficiency, i.e., whether the effect of accounting information quality on investment efficiency is increasing or decreasing with the presence of the specialist auditor.

The reached result reveals that the accounting information quality appears to help decrease the overinvestment problem. Similarly, the auditor specialization has been discovered to help greatly in improving investment efficiency, while reducing the underinvestment problem. We further find that the accounting information quality and the auditor specialization are two mechanisms with some degree of substitution in enhancing investment efficiency. The accounting information quality is positively associated with investment efficiency for firms whose auditor is an industry specialist.

In addition, to check the robustness of the main results, this paper investigates the causal relationships between investment efficiency, auditor specialization and accounting information quality from the dynamic simultaneous-equation models.

Graphical abstract

