

Audit Engagement Partner Ideology, Ideological Homophily, and Audit Quality

Online Appendix

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Appendix A: Variable Definitions

Variable	Definition
DISCRETIONARY ACCRUALS	<p>Discretionary accruals estimated using a performance adjusted model (Kothari et al. 2005) by including ROA in the modified Jones model. We then estimate the model by year and industry (first two-digit of SIC code).</p> $\frac{TA_{it}}{ASSETS_{i,t-1}} = \alpha_0 + \alpha_1 * \frac{1}{ASSETS_{i,t-1}} + \alpha_2 * \frac{\Delta SALES_{it} - \Delta AR_{it}}{ASSETS_{i,t-1}} + \alpha_3 * \frac{PPE_{it}}{ASSETS_{i,t-1}} + ROA_{i,t} + \varepsilon_{it}$ <p>Where TA_{it} is total accruals which is change in non-cash current assets minus the change in current liabilities, excluding the current portion of long-term debt, depreciation, and amortization. $\Delta SALES_{it}$ is the change in sales, and ΔAR_{it} is the change in net accounts receivable. PPE_{it} is the level of gross property, plant, and equipment. $ASSETS_{i,t-1}$ is lagged total assets. ROA_{it} is return on lagged total assets. We use the absolute value of the residuals from the above model.</p>
PARTNER REP	<p>The audit engagement partner's net Republican index. It equals the audit engagement partner's lifetime sum of the dollar amount of contributions made to Republican candidates and the Republican Party net of their contributions to Democratic candidates and the Democratic Party, divided by their total partisan contributions made.</p>
EXECUTIVE REP	<p>Top 5 managers' net Republican index. It is a weighted average of the top five managers' individual indices, with weights based on the ranks of their compensation (Hutton et al. 2014). It is bounded by 0 and 1.</p>
AUDIT COM. REP	<p>Audit committee member net Republican index. It is a weighted average of all audit committee members' individual net Republican indices, with weights based on the ranks of individual audit committee members' credentials. Committee member ranks equal 4 if the member is an audit committee financial expert and the audit committee chair, or the weight equals 3 if the committee member is the committee chair only, or the weight is equal to 2 if they are a financial expert only, or otherwise the weight is equal to 1.</p>

Variable	Definition
PARTNER & EXEC ALIGN	Ideological homophily index between the audit engagement partner and the client's top five executive team. It measures the distance between PARTNER REP and REP_EXEC. It is computed as $[1-ABS(PARTNER REP- REP_EXEC)/2]$.
PARTNER & AC ALIGN	Ideological homophily index between the audit engagement partner and the audit committee members. It measures the distance between PARTNER REP and AUDIT COM. REP. It is calculated by $[1-ABS(PARTNER REP- AUDIT COM. REP)/2]$.
REPUBLICAN_EXEC_ALIGN	An interaction between PARTNER & EXEC ALIGN and an indicator variable equal to one if both PARTNER REP and EXECUTIVE REP (top 5 managers) are greater than zero.
DEMOCRAT_EXEC_ALIGN	An interaction between PARTNER & EXEC ALIGN and an indicator variable equal to one if both PARTNER REP and EXECUTIVE REP (top 5 managers) are less than zero.
REPUBLICAN_AC_ALIGN	An interaction between PARTNER & AC ALIGN and an indicator variable equal to one if both PARTNER REP and AUDIT COM. REP are greater than zero.
DEMOCRAT_AC_ALIGN	An interaction between PARTNER & AC ALIGN and an indicator variable equal to one if both PARTNER REP and AUDIT COM. REP are less than zero.
SIZE	Size of the client firm. This is measured as the natural log of the client company's total assets.
MARKET TO BOOK	Market-to-book ratio. This is measured as the ratio of the client company's market value of equity at the fiscal year-end divided by the client's fiscal year-end book value of the firm.

Variable	Definition
LEVERAGE	Leverage ratio. This is measured as the ratio of the client company's total current liabilities and long-term debt divided by over total assets at the end of the fiscal year.
LAGLOSS	Loss indicator variable. This is an indicator variable that is equal to 1 if the firm's income before extraordinary items of the prior fiscal year is less than zero, or otherwise it is equal to zero.
Z-SCORE	Altman's (1983) Z score. It is equal to $0.717 * \text{working capital}/\text{total assets} + 0.847 * \text{retained earnings}/\text{total assets} + 3.107 * \text{EBIT}/\text{total assets} + 0.42 * \text{Book Value of Equity}/\text{total liabilities} + 0.998 * \text{Sales}/\text{total assets}$ for a given fiscal year. A lower Z-score indicates a higher risk of bankruptcy.
CFO	Cash flow from operations. This is measured as the client company's net cash flows from operating activities, scaled by total assets, for a given fiscal year.
SALES GROWTH	Sales growth. This is measured as the client company's change in sales divided by beginning sales for a given fiscal year.
SALES VOLITILITY	Volatility of sales. This is measured as the client company's standard deviation of sales over the past three fiscal years.
CF VOLITILITY	Volatility of operating cash flows. This is measured as the client company's standard deviation of cash flows from operating activities over the past three fiscal years.
AUDIT COM. SIZE	Size of the audit committee. This is the number of audit committee members at the end of a given fiscal year.
AUDIT COM. FINEXP	The percentage of audit committee members who qualify as audit committee financial experts under SEC standards at the end of a given fiscal year.
AUDIT COM. OPTIONS	The average across all audit committee members' percentages of total compensation represented by stock option compensation for a given fiscal year.
AUDIT COM. AGE	Average age of audit committee members at the end of a given fiscal year.

Variable	Definition
AUDITOR BIG4	Indicator variable that is equal to one if the client company was audited by a Big 4 audit firm, or it is equal to zero otherwise, for a given fiscal year.
AUDITOR NAT. LEAD	Indicator variable that is equal to one if the client company was audited by an audit firm that is the number one auditor in an industry, in terms of aggregated audit fees in a given fiscal year, or it is equal to zero otherwise.
AUDITOR OFF. LEAD	Indicator variable that is equal to one if the client company was audited by an auditor from an office that is the number one auditor, in terms of aggregated client audit fees in an industry within that city in a given fiscal year, or it is equal to zero otherwise.
AUDITOR OFF. SIZE	Size of the auditor office. It is the measure of office size based on the number of SEC registrants audited by a practice office in a given fiscal year.
CEO AGE	The age of the CEO at the end of a given fiscal year.
PARTNER GENDER	Gender indicator of the audit engagement partner. It equals to one if the audit engagement partner is male, and zero otherwise, for a given fiscal year.
CEO GENDER	Gender indicator of the client's CEO. It equals to one if the client's CEO is female, and zero otherwise, at the end of a given fiscal year.
GENDER DIVERSITY	Difference between the gender of engagement partner and CEO. It is the absolute value of the difference between CEO GENDER and PARTNER GENDER.
MATERIAL WEAKNESS	Internal control weakness indicator variable. Indicator variable that takes the value of 1 if the firm reported a material weakness in internal controls over financial reporting in either management's assessment or the auditor's report for a given fiscal year, or it is equal to zero otherwise.
AUDITOR TENURE	The number of continuous years that the firm has been audited by the current auditing firm, as of the end of the fiscal year.

Variable	Definition
RELIGIOSITY	Religiosity. The percentage of the population of the auditing firm's county who self-identify as religious adherents, as reported on the Association of Religion Data Archive's (ARDA) dataset, divided by the U.S. Census population for the county.
LNTAXFEE	Natural log of the total tax fees paid to the financial statement auditor in the given fiscal year.
RESTATEMENT	Indicator variable that is equal to one, if the client company subsequently restated its financial statements of a given fiscal year, and it is equal to zero otherwise.
Other variables	Definition
SMALLBOARD	Indicator variable that is equal to one, if the number of the independent directors of client company is smaller than the sample median in a given fiscal year, and it is equal to zero otherwise.
CEO_CHAIR	Indicator variable that is equal to one, if the CEO of client company is also the chair of the board in a given fiscal year, and it is equal to zero otherwise.
ID_PORTION	The percentage of the independent directors on the board of the client company of a given fiscal year.
ID_TENURE	The average tenure of the independent directors of client company in the given fiscal year.
ID_HOLD	Indicator variable that is equal to one if the ratio of shares held by independent directors over the common shares outstanding of client company in the given fiscal year is greater than the sample median, and zero otherwise.
PARTNER & EXEC & AC ALIGN	The ideological similarity between engagement partner, top executives, and audit committee. It is Euclidean distance between each group's ideology indices: $1 - \frac{1}{8} * [(PARTNER\ REP - EXECUTIVE\ REP)^2 + (PARTNER\ REP - AUDIT\ COM.\ REP)^2 + (EXECUTIVE\ REP - AUDIT\ COM.\ REP)^2]$

Appendix B

I. Tests adding state fixed effects to specifications of Table 4 and Table 5

Table B1 The effects of political ideology on discretionary accruals with state fixed effects

	Predicted sign	Original Sample			Entropy balanced		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	-0.009*** (0.003)	-0.009*** (0.003)	-0.008*** (0.003)	-0.010*** (0.003)	-0.007** (0.004)	-0.008*** (0.003)
EXECUTIVE REP	–	-0.006* (0.005)	-0.005 (0.005)	-0.006 (0.005)	-0.008 (0.005)	-0.010** (0.005)	-0.008** (0.005)
AUDIT COM. REP	?	0.000 (0.005)	0.000 (0.005)	0.001 (0.005)	0.002 (0.005)	0.002 (0.005)	0.002 (0.005)
PARTNER & EXEC ALIGN	+		0.011** (0.005)			0.030*** (0.008)	
PARTNER & AC ALIGN	+			0.018** (0.007)			0.026*** (0.008)
SIZE	–	-0.006*** (0.001)	-0.006*** (0.001)	-0.006*** (0.001)	-0.007*** (0.001)	-0.007*** (0.001)	-0.006*** (0.001)
MARKET TO BOOK	+	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000** (0.000)	-0.000** (0.000)	-0.000** (0.000)
LEVERAGE	+	0.051*** (0.014)	0.051*** (0.014)	0.052*** (0.014)	0.094*** (0.013)	0.094*** (0.013)	0.090*** (0.012)
LAGLOSS	+	0.009* (0.005)	0.009 (0.005)	0.008 (0.005)	0.005 (0.005)	0.004 (0.005)	0.005 (0.005)
Z-SCORE	+	0.006** (0.003)	0.006** (0.003)	0.006** (0.003)	0.010*** (0.003)	0.010*** (0.003)	0.009*** (0.002)
CFO	–	-0.005 (0.031)	-0.004 (0.031)	-0.005 (0.031)	0.021 (0.030)	0.022 (0.029)	0.023 (0.028)
SALES GROWTH	+	0.002	0.002	0.002	0.009	0.009	0.008

		(0.011)	(0.011)	(0.011)	(0.010)	(0.010)	(0.009)
SALES VOLATILITY	+	0.013	0.012	0.011	-0.015	-0.014	-0.014
		(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
CF VOLATILITY	+	0.247***	0.252***	0.253***	0.341***	0.348***	0.317***
		(0.084)	(0.084)	(0.084)	(0.073)	(0.073)	(0.070)
AUDIT COM. SIZE	?	0.005**	0.005**	0.005**	0.005**	0.005**	0.005**
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
AUDIT COM. FINEXP	-	-0.001	-0.001	-0.001	-0.004	-0.004	-0.003
		(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
AUDIT COM. OPTIONS	?	-0.018*	-0.018*	-0.018*	-0.010	-0.011	-0.009
		(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
AUDIT COM. AGE	?	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AUDITOR BIG 4	-	0.027***	0.027***	0.027***	0.035***	0.036***	0.035***
		(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.007)
AUDITOR NAT. LEAD	-	0.007**	0.007**	0.007**	0.003	0.003	0.003
		(0.003)	(0.003)	(0.003)	(0.004)	(0.004)	(0.003)
AUDITOR OFF. LEAD	-	-0.006*	-0.006*	-0.005*	-0.007**	-0.007**	-0.007**
		(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
AUDITOR OFF. SIZE	-	-0.003	-0.003*	-0.003*	-0.004**	-0.004**	-0.004**
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
CEO AGE	?	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000*
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
PARTNER GENDER	?	-0.008	-0.008	-0.008	-0.015*	-0.017**	-0.014*
		(0.007)	(0.007)	(0.007)	(0.010)	(0.010)	(0.009)
CEO GENDER	-	-0.012**	-0.012**	-0.012**	-0.020**	-0.021**	-0.020**
		(0.007)	(0.007)	(0.007)	(0.010)	(0.010)	(0.009)
GENDER DIVERSITY	?	0.007	0.007	0.007	0.012	0.013*	0.011
		(0.007)	(0.007)	(0.007)	(0.010)	(0.010)	(0.009)
MATERIAL WEAKNESS	+	0.010	0.010	0.010	0.008	0.008	0.009
		(0.009)	(0.009)	(0.009)	(0.007)	(0.007)	(0.007)

AUDITOR TENURE	–	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.001*** (0.000)
RELIGIOSITY	–	0.021 (0.032)	0.020 (0.032)	0.019 (0.032)	0.008 (0.030)	0.005 (0.030)	0.006 (0.029)
LNTAXFEE	–	0.013 (0.000)	0.014 (0.000)	0.013 (0.000)	0.015** (0.000)	0.016** (0.000)	0.015** (0.000)
Industry Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
State Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
N of observations		2252	2252	2252	2252	2252	2252
Adjusted R-square		0.183	0.184	0.185	0.198	0.202	0.201

*Table B1 presents the effects of political ideology on firms' discretionary accruals after adding state fixed effects to the specifications in Table 4. Column (1) includes our baseline results of estimating equation (2) after adding state fixed effects. Column (2) adds to the baseline model in column (1) the ideological alignment between the engagement partner and the firm's executive team, while column (3) adds to the model the ideological alignment between the engagement partner and the firm's directors on the audit committee. Columns (4-6) use the same specifications in columns (1-3) but applied to a sample of entropy balanced firms. Each specification (columns 1-6) includes year, industry and state fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

Table B2 The effects of political ideology on restatement with state fixed effects

Panel A. Tests on the full sample

	Predicted sign	Original Sample			Entropy Balanced		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	-0.261 (0.273)	-0.287 (0.288)	-0.292 (0.289)	-0.083 (0.197)	-0.234 (0.206)	-0.183 (0.196)
EXECUTIVE REP	–	-0.217 (0.275)	-0.240 (0.285)	-0.226 (0.278)	-0.710 (0.493)	-0.586 (0.356)	-0.623 (0.489)
AUDIT COM. REP	?	0.134 (0.291)	0.139 (0.294)	0.146 (0.301)	-0.060 (0.316)	0.077 (0.327)	0.079 (0.334)
PARTNER & EXEC ALIGN	+		0.517* (0.441)			0.946** (0.450)	
PARTNER & AC ALIGN	+			0.311 (0.459)			0.341 (0.524)
SIZE	–	-0.031 (0.078)	-0.023 (0.079)	-0.028 (0.078)	-0.133* (0.089)	-0.072 (0.086)	-0.082 (0.086)
MARKET TO BOOK	+	-0.001 (0.005)	-0.001 (0.005)	-0.001 (0.005)	-0.001 (0.006)	0.002 (0.006)	0.002 (0.006)
LEVERAGE	+	-0.560 (0.711)	-0.525 (0.707)	-0.535 (0.709)	-0.684 (0.835)	-0.501 (0.746)	-0.521 (0.749)
LAGLOSS	+	-0.044 (0.277)	-0.047 (0.276)	-0.051 (0.278)	-0.215 (0.358)	-0.245 (0.301)	-0.247 (0.305)
Z-SCORE	+	0.088 (0.128)	0.086 (0.127)	0.082 (0.127)	-0.048 (0.146)	0.021 (0.147)	0.017 (0.145)
CFO	–	-1.519 (1.492)	-1.457 (1.499)	-1.463 (1.489)	-3.557* (2.057)	-3.915** (1.800)	-3.998** (1.787)
SALES GROWTH	+	-0.285 (0.493)	-0.284 (0.491)	-0.278 (0.491)	0.332 (0.615)	0.428 (0.556)	0.452 (0.559)
SALES VOLATILITY	+	-1.535*	-1.571*	-1.548*	-1.461	-2.261**	-2.298**

		(1.077)	(1.079)	(1.079)	(1.293)	(1.167)	(1.183)
CF VOLATILITY	+	5.797**	5.988*	5.890**	7.537**	6.708**	6.555**
		(3.390)	(3.400)	(3.387)	(4.505)	(3.973)	(3.981)
AUDIT COM. SIZE	?	0.093	0.093	0.094	0.098	0.070	0.069
		(0.093)	(0.093)	(0.093)	(0.104)	(0.097)	(0.097)
AUDIT COM. FINEXP	-	0.190	0.195	0.192	0.033	0.204	0.199
		(0.172)	(0.172)	(0.172)	(0.225)	(0.208)	(0.208)
AUDIT COM. OPTIONS	?	0.561	0.564	0.562	0.935*	1.080*	1.086*
		(0.536)	(0.538)	(0.534)	(0.569)	(0.578)	(0.570)
AUDIT COM. AGE	?	0.025	0.026	0.025	0.018	0.037**	0.035*
		(0.016)	(0.016)	(0.016)	(0.017)	(0.018)	(0.018)
AUDITOR BIG 4	-	-0.041	-0.026	-0.043	-0.601*	-0.816**	-0.849**
		(0.374)	(0.372)	(0.374)	(0.444)	(0.437)	(0.442)
AUDITOR NAT. LEAD	-	-0.284*	-0.288*	-0.285*	-0.491**	-0.249	-0.253
		(0.198)	(0.198)	(0.198)	(0.253)	(0.232)	(0.232)
AUDITOR OFF. LEAD	-	0.269*	0.263*	0.269*	0.431**	0.457**	0.459**
		(0.202)	(0.203)	(0.202)	(0.230)	(0.238)	(0.237)
AUDITOR OFF. SIZE	-	-0.097	-0.095	-0.093	0.066	0.058	0.061
		(0.098)	(0.097)	(0.097)	(0.120)	(0.117)	(0.118)
CEO AGE	?	0.003	0.003	0.003	0.004	0.005	0.004
		(0.005)	(0.005)	(0.005)	(0.007)	(0.006)	(0.006)
PARTNER GENDER	?	-0.706	-0.725	-0.711	-0.974	-0.967	-0.927
		(0.545)	(0.541)	(0.548)	(0.590)	(0.589)	(0.597)
CEO GENDER	-	-0.314	-0.322	-0.313	-0.473	-0.589	-0.577
		(0.548)	(0.543)	(0.550)	(0.606)	(0.605)	(0.611)
GENDER DIVERSITY	?	0.390	0.411	0.388	0.725	0.921	0.871
		(0.552)	(0.548)	(0.554)	(0.607)	(0.607)	(0.610)
MATERIAL WEAKNESS	+	-0.120	-0.124	-0.127	-0.499	-0.498	-0.516
		(0.406)	(0.405)	(0.408)	(0.439)	(0.432)	(0.436)
AUDITOR TENURE	-	-0.020**	-0.020*	-0.019*	-0.009	-0.010	-0.011
		(0.012)	(0.012)	(0.012)	(0.016)	(0.015)	(0.015)

RELIGIOSITY	—	-2.059*	-2.053*	-2.061*	-0.668	-0.891	-0.904
		(1.482)	(1.462)	(1.476)	(1.633)	(1.580)	(1.619)
LNTAXFEE	—	0.014*	0.015*	0.014*	0.011	0.009	0.008
		(0.010)	(0.010)	(0.010)	(0.011)	(0.011)	(0.011)
Industry Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
State Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
N of observations		2195	2195	2195	2195	2195	2195
Pseudo R-square		0.084	0.070	0.070	0.097	0.101	0.098

Panel B. Tests excluding observations in fiscal year 2019

	Predicted sign	Original Sample			Entropy Balanced		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	-0.295* (0.180)	-0.330* (0.211)	-0.347** (0.200)	-0.168 (0.183)	-0.264 (0.217)	-0.201 (0.207)
EXECUTIVE REP	–	-0.213 (0.292)	-0.236 (0.307)	-0.227 (0.296)	-0.628 (0.497)	-0.576 (0.483)	-0.643 (0.576)
AUDIT COM. REP	?	0.129 (0.300)	0.140 (0.305)	0.150 (0.316)	0.067 (0.334)	0.099 (0.338)	0.093 (0.349)
PARTNER & EXEC ALIGN	+		0.692* (0.463)			1.197*** (0.462)	
PARTNER & AC ALIGN	+			0.475 (0.488)			0.856** (0.510)
SIZE	–	-0.067 (0.080)	-0.056 (0.082)	-0.063 (0.081)	-0.146** (0.086)	-0.132* (0.088)	-0.143** (0.087)
MARKET TO BOOK	+	-0.001 (0.005)	-0.002 (0.005)	-0.001 (0.005)	-0.001 (0.005)	-0.001 (0.006)	-0.000 (0.006)
LEVERAGE	+	-0.716 (0.751)	-0.663 (0.746)	-0.673 (0.749)	-0.704 (0.806)	-0.631 (0.800)	-0.661 (0.801)
LAGLOSS	+	0.033 (0.282)	0.031 (0.282)	0.023 (0.284)	-0.184 (0.303)	-0.195 (0.302)	-0.197 (0.307)
Z-SCORE	+	0.064 (0.134)	0.061 (0.133)	0.055 (0.133)	0.024 (0.153)	0.020 (0.152)	0.013 (0.151)
CFO	–	-1.818 (1.597)	-1.707 (1.607)	-1.719 (1.593)	-4.690*** (1.842)	-4.452*** (1.846)	-4.606*** (1.831)
SALES GROWTH	+	-0.120 (0.509)	-0.122 (0.505)	-0.108 (0.506)	0.431 (0.587)	0.379 (0.582)	0.421 (0.583)
SALES VOLATILITY	+	-1.795 (1.140)	-1.823* (1.149)	-1.818* (1.144)	-2.699** (1.220)	-2.662** (1.220)	-2.729** (1.232)
CF VOLATILITY	+	5.189* (1.140)	5.413* (1.149)	5.349* (1.144)	6.192* (1.220)	6.431* (1.220)	6.333* (1.232)

		(3.542)	(3.558)	(3.543)	(3.967)	(3.956)	(3.965)
AUDIT COM. SIZE	?	0.147	0.149	0.149	0.121	0.124	0.119
		(0.098)	(0.099)	(0.098)	(0.102)	(0.103)	(0.103)
AUDIT COM. FINEXP	—	0.211	0.216	0.213	0.237	0.249	0.244
		(0.178)	(0.178)	(0.179)	(0.218)	(0.218)	(0.217)
AUDIT COM. OPTIONS	?	0.731	0.749	0.734	1.498***	1.495**	1.480**
		(0.565)	(0.567)	(0.561)	(0.580)	(0.590)	(0.579)
AUDIT COM. AGE	?	0.036*	0.038*	0.037**	0.051**	0.054**	0.052**
		(0.022)	(0.022)	(0.022)	(0.024)	(0.024)	(0.024)
AUDITOR BIG 4	—	-0.018	0.002	-0.024	-0.843**	-0.797**	-0.843**
		(0.397)	(0.394)	(0.396)	(0.474)	(0.469)	(0.475)
AUDITOR NAT. LEAD	—	-0.128	-0.127	-0.128	-0.078	-0.068	-0.084
		(0.202)	(0.202)	(0.202)	(0.242)	(0.240)	(0.241)
AUDITOR OFF. LEAD	—	0.306*	0.298*	0.309*	0.583**	0.585**	0.588**
		(0.218)	(0.219)	(0.218)	(0.255)	(0.258)	(0.256)
AUDITOR OFF. SIZE	—	-0.107	-0.107	-0.100	0.062	0.061	0.069
		(0.102)	(0.101)	(0.101)	(0.126)	(0.124)	(0.125)
CEO AGE	?	0.002	0.003	0.002	0.004	0.004	0.004
		(0.005)	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)
PARTNER GENDER	?	-0.684	-0.708	-0.689	-0.944	-1.012*	-0.953
		(0.554)	(0.551)	(0.560)	(0.617)	(0.615)	(0.622)
CEO GENDER	—	-0.257	-0.271	-0.261	-0.546	-0.596	-0.571
		(0.555)	(0.551)	(0.559)	(0.629)	(0.631)	(0.635)
GENDER DIVERSITY	?	0.309	0.334	0.303	0.901	0.973	0.902
		(0.561)	(0.559)	(0.566)	(0.633)	(0.636)	(0.637)
MATERIAL WEAKNESS	+	-0.122	-0.126	-0.131	-0.501	-0.486	-0.501
		(0.414)	(0.414)	(0.417)	(0.446)	(0.444)	(0.448)
AUDITOR TENURE	—	-0.023**	-0.023**	-0.022**	-0.012	-0.011	-0.011
		(0.013)	(0.013)	(0.013)	(0.016)	(0.016)	(0.016)
RELIGIOSITY	—	-2.341*	-2.327*	-2.359*	-0.534	-0.532	-0.572
		(1.537)	(1.508)	(1.529)	(1.673)	(1.616)	(1.673)

LNTAXFEE	—	0.019** (0.011)	0.020** (0.011)	0.019** (0.011)	0.015* (0.012)	0.016* (0.012)	0.015* (0.012)
Industry Fixed Effects		Yes	Yes	Yes	Yes	Yes	0.021*
Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	(0.011)
State Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
N of observations		2016	2016	2016	2016	2016	2016
Pseudo R-square		0.072	0.074	0.073	0.111	0.111	0.111

*Table B2 presents the coefficients and standard errors from a logit model estimating the effects of political ideology and ideological alignment variables on the probability of financial statement restatement; but after adding state fixed effects to the specifications in Table 5. Panel A tabulates the tests results based on the full sample, and Panel B excludes the data in fiscal year 2019. Column (1), in both panels, include our baseline results of estimating equation (2) after adding state fixed effects. Column (2) adds to the baseline model in column 1 the ideological alignment between the engagement partner and the firm's executive team, while column (3) adds to the model the ideological alignment between the engagement partner and the firm's directors on the audit committee. Columns (4-6) use the same specifications in columns (1-3) but applied to a sample of entropy balanced firms. Each specification (columns (1-6)) includes year, industry and state fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

II. Moments differences before and after Entropy balancing

Table B3 Moments differences before and after Entropy Balancing

Panel A. Moments differences before Entropy Balancing

	Conservative		Non-Conservative		Difference in means
	Mean	Variance	Mean	Variance	
	(1)	(2)	(3)	(4)	(5) = (1) - (3)
SIZE	8.126	2.233	8.336	2.693	-0.210***
MARKET TO BOOK	3.893	100.600	4.351	79.300	-0.458*
LEVERAGE	0.239	0.022	0.239	0.018	0.000
LAGLOSS	0.151	0.128	0.146	0.125	0.006
Z-SCORE	1.898	0.957	1.729	0.875	0.169***
CFO	0.111	0.005	0.106	0.005	0.006*
SALES GROWTH	0.074	0.029	0.083	0.025	-0.009*
SALES VOLATILITY	0.095	0.010	0.073	0.007	0.022***
CF VOLATILITY	0.029	0.001	0.028	0.001	0.001
RELIGIOSITY	0.480	0.012	0.464	0.014	0.015***
INHERENT RISK	0.243	0.021	0.223	0.022	0.020***

Panel B. Moments after Entropy Balancing

	Conservative		Non-Conservative		Difference in means
	Mean	Variance	Mean	Variance	
	(1)	(2)	(3)	(4)	(5) = (1) - (3)
SIZE	8.126	2.233	8.128	2.235	-0.002
MARKET TO BOOK	3.893	100.600	3.894	100.500	-0.001
LEVERAGE	0.239	0.022	0.239	0.022	0.000
LAGLOSS	0.151	0.128	0.151	0.129	0.000
Z-SCORE	1.898	0.957	1.898	0.958	0.000
CFO	0.111	0.005	0.111	0.005	0.000
SALES GROWTH	0.074	0.029	0.074	0.029	0.000
SALES VOLATILITY	0.095	0.010	0.095	0.010	0.000
CF VOLATILITY	0.029	0.001	0.029	0.001	0.000
RELIGIOSITY	0.480	0.012	0.480	0.012	0.000
INHERENT RISK	0.243	0.021	0.243	0.021	0.000

*Table B3 presents the moments differences between conservative and non-conservative groups before and after the entropy balancing procedure. Panel A reports the first two order moments difference before the entropy balancing, whereas Panel B reports those after entropy balancing. Column (5) on both panels reports the t-test of equal means, where *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level, respectively.*

III. Tests based on PSM sample

PSM sample matching process

To determine the robustness of our results, we also build a Propensity Score Matched (PSM) sample to re-estimate the effects of political ideology and ideological alignments on audit quality measurements. We use a three-step matching approach (Guo and Fraser, 2010). The first step involves using a probit model to estimate the propensity score of whether a firm is managed by conservative executives, controlling for a number of firm characteristics.¹ Similar to Rosenbaum and Rubin (1984), we use a stepwise

approach to select the variables included in the model. We then trim the sample of firms to those with common support across the two groups, which involves trimming the firms with propensity scores below the 1st percentile among conservatives and trimming those with propensity scores above the 99th percentile of non-conservative firms. Our results are less sensitive to the choice of matching algorithm (Dehejia and Wahba, 2002) in the next stage, when using a common support. The second stage then matches, with replacement, each of the 923 firm-years with a conservative management team to the nearest neighbor with a non-conservative management team. The third stage then involves the multivariate analyses conducted below, based on our PSM sample of 1,846 firm-year observations.

To re-estimate the effects of political ideology and ideological alignments on audit quality, based on the PSM sample, we use the same model specifications in equations (2)-(4) to re-estimate the effects on Discretionary Accruals and the probability of Restatement. The results are tabulated in Tables B4 and B5.²

Table B4 The effects of political ideology on Discretionary Accruals and Restatement based on PSM Sample

	Predicted sign	Discretionary Accruals			Predicted sign	Restatement		
		(1)	(2)	(3)		(4)	(5)	(6)
PARTNER REP	–	-0.011*** (0.003)	-0.011*** (0.003)	-0.010*** (0.003)	–	-0.195 (0.167)	-0.223 (0.185)	-0.286 (0.222)
EXECUTIVE REP	–	-0.001 (0.005)	-0.000 (0.005)	-0.001 (0.005)	–	-0.029 (0.280)	-0.002 (0.295)	-0.007 (0.281)
AUDIT COM. REP	?	0.001 (0.005)	0.002 (0.005)	0.002 (0.005)	?	-0.178 (0.294)	-0.175 (0.299)	-0.156 (0.318)
PARTNER & EXEC ALIGN	+		0.020*** (0.008)		+		0.604* (0.466)	
PARTNER & AC ALIGN	+			0.015** (0.007)	+			0.754* (0.484)
SIZE	–	-0.005*** (0.001)	-0.004*** (0.001)	-0.004*** (0.001)	–	0.002 (0.072)	0.013 (0.072)	0.009 (0.072)
MARKET TO BOOK	+	-0.000* (0.000)	-0.000** (0.000)	-0.000** (0.000)	+	-0.011** (0.007)	-0.012** (0.007)	-0.012** (0.007)
LEVERAGE	+	0.037** (0.015)	0.039** (0.015)	0.038** (0.015)	+	-0.458 (0.802)	-0.434 (0.792)	-0.414 (0.793)
LAGLOSS	+	0.021*** (0.006)	0.020*** (0.006)	0.020*** (0.006)	+	-0.542* (0.341)	-0.556* (0.341)	-0.560* (0.345)
Z-SCORE	+	0.007** (0.003)	0.007** (0.003)	0.008*** (0.003)	+	0.082 (0.109)	0.078 (0.109)	0.082 (0.109)
CFO	–	0.020 (0.034)	0.019 (0.034)	0.019 (0.034)	–	-1.457 (1.405)	-1.309 (1.417)	-1.384 (1.401)
SALES GROWTH	+	-0.006 (0.011)	-0.005 (0.011)	-0.006 (0.011)	+	0.131 (0.567)	0.158 (0.557)	0.161 (0.562)
SALES VOLATILITY	+	0.014* (0.011)	0.014* (0.011)	0.014 (0.011)	+	-1.806* (0.567)	-1.817* (0.557)	-1.845** (0.562)

		(0.020)	(0.020)	(0.020)		(1.116)	(1.108)	(1.101)
CF VOLATILITY	+	0.144	0.147**	0.144*	+	4.249	4.505	4.344
		(0.089)	(0.089)	(0.089)		(4.053)	(4.055)	(4.077)
AUDIT COM. SIZE	?	0.005**	0.005**	0.005**	?	0.136	0.141	0.139
		(0.002)	(0.002)	(0.002)		(0.103)	(0.104)	(0.104)
AUDIT COM. FINEXP	-	0.003	0.003	0.004	-	0.361**	0.362**	0.369**
		(0.003)	(0.003)	(0.003)		(0.185)	(0.185)	(0.186)
AUDIT COM. OPTIONS	?	-0.029***	-0.028***	-0.029***	?	0.348	0.370	0.372
		(0.010)	(0.010)	(0.010)		(0.610)	(0.617)	(0.601)
AUDIT COM. AGE	?	0.001***	0.001***	0.001***	?	0.024	0.025	0.024
		(0.000)	(0.000)	(0.000)		(0.015)	(0.015)	(0.015)
AUDITOR BIG 4	-	0.013*	0.013*	0.013*	-	-0.091	-0.059	-0.060
		(0.010)	(0.010)	(0.010)		(0.396)	(0.394)	(0.400)
AUDITOR NAT. LEAD	-	0.007**	0.007**	0.007**	-	-0.281*	-0.284*	-0.296*
		(0.003)	(0.003)	(0.003)		(0.205)	(0.205)	(0.203)
AUDITOR OFF. LEAD	-	-0.011***	-0.011***	-0.011***	-	0.069	0.056	0.068
		(0.004)	(0.004)	(0.004)		(0.217)	(0.216)	(0.216)
AUDITOR OFF. SIZE	-	-0.004***	-0.004***	-0.004***	-	-0.034	-0.042	-0.035
		(0.002)	(0.002)	(0.002)		(0.087)	(0.087)	(0.087)
CEO AGE	?	-0.000	-0.000	-0.000	?	0.003	0.003	0.002
		(0.000)	(0.000)	(0.000)		(0.006)	(0.006)	(0.006)
PARTNER GENDER	?	-0.015**	-0.015**	-0.015**	?	0.114	0.087	0.089
		(0.008)	(0.008)	(0.008)		(0.476)	(0.475)	(0.487)
CEO GENDER	-	-0.013*	-0.013**	-0.013*	-	0.327	0.318	0.326
		(0.008)	(0.008)	(0.008)		(0.472)	(0.469)	(0.478)
GENDER DIVERSITY	?	0.015**	0.015**	0.015**	?	-0.373	-0.358	-0.371
		(0.008)	(0.008)	(0.008)		(0.474)	(0.472)	(0.482)
MATERIAL WEAKNESS	+	0.013*	0.012*	0.012*	+	0.352	0.347	0.337
		(0.010)	(0.010)	(0.010)		(0.413)	(0.410)	(0.416)
AUDITOR TENURE	-	-0.001***	-0.001***	-0.001***	-	-0.019**	-0.018*	-0.018*

		(0.000)	(0.000)	(0.000)		(0.011)	(0.011)	(0.011)
RELIGIOSITY	–	0.045***	0.043***	0.044***	–	-0.924	-0.973	-0.962
		(0.014)	(0.014)	(0.014)		(0.866)	(0.872)	(0.869)
LNTAXFEE	–	0.000	0.000	0.000	–	-0.011	-0.011	-0.010
		(0.000)	(0.000)	(0.000)		(0.010)	(0.010)	(0.010)
Industry Fixed Effects		Yes	Yes	Yes		Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes		Yes	Yes	Yes
N of observations		1846	1846	1846		1830	1830	1830
Adjusted and Pseudo R-square		0.193	0.196	0.195		0.056	0.058	0.059

*Table B4 presents the effects of political ideology and ideological alignments on client audit quality, based on a PSM sample. Column (1-3) presents the results of effects on discretionary accruals on PSM sample. Column (1) includes our baseline results of estimating equation (2). Column (2) adds to the baseline model the ideological alignment between the engagement partner and the firm's executive team, while column (3) adds to the model the ideological alignment between the engagement partner and the firm's directors on the audit committee. Columns (4-6) use the same specifications in columns (1-3) but use Restatement as dependent variable. Each specification (columns (1-6)) includes year and industry fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

Table B5 The effects of party alignment on Audit Quality with PSM sample

Panel A. The effects of party alignment between engagement partners and executives

	Predicted sign	Discretionary accruals	Restatement
		(1)	(2)
PARTNER REP	–	-0.009*** (0.003)	-0.100 (0.262)
EXECUTIVE REP	–	0.001 (0.005)	-0.109 (0.357)
AUDIT COM. REP	?	0.001 (0.005)	-0.162 (0.308)
PARTNER & EXEC ALIGN	+	0.021*** (0.008)	0.643* (0.464)
REPUBLICAN ALIGN	?	-0.004 (0.007)	0.280 (0.420)
DEMOCRAT ALIGN	?	-0.000 (0.008)	0.001 (0.641)
Control variables		Yes	Yes
Industry Fixed Effects		Yes	Yes
Year Fixed Effects		Yes	Yes
N of observations		1846	1830
Adjusted and Pseudo R-square		0.193	0.085

Panel B. The effects of party alignment between engagement partners and audit committee

	Predicted sign	Discretionary accruals	Restatement
		(1)	(2)
PARTNER REP	–	-0.010*** (0.004)	-0.268 (0.262)
EXECUTIVE REP	–	-0.001 (0.005)	-0.010 (0.282)
AUDIT COM. REP	?	0.002 (0.006)	-0.156 (0.347)
PARTNER & AC ALIGN	+	0.014** (0.007)	0.857** (0.494)
REPUBLICAN ALIGN	?	-0.001 (0.007)	0.212 (0.373)
DEMOCRAT ALIGN	?	0.000 (0.008)	0.278 (0.556)
Control variables		Yes	Yes
Industry Fixed Effects		Yes	Yes
Year Fixed Effects		Yes	Yes
N of observations		1846	1830
Adjusted and Pseudo R-square		0.192	0.084

*Table B5 presents the results of estimating the relations between measures of audit quality and audit engagement partner ideology, measures of audit engagement partner-client leadership ideological homophily, and indicators of the party represented by the homophily while using a PSM sample. Panel A presents the results of estimating the differential audit quality effects of conservative versus liberal engagement partner-executive team homophilies. Panel B presents the results of estimating the differential audit quality effects of conservative vs liberal engagement partner-audit committee team homophilies. The results in columns (1) present coefficient estimates when the measure of audit quality used was the absolute value of discretionary accruals. The results in columns (2) present coefficient estimates when the measure of audit quality used was the probability of restatement. Each specification includes the same controls used in Tables 4 and 5 (not reported). Heteroscedasticity robust standard errors are reported in parentheses. *, **, and ****

denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.

IV. Robustness test of the use of residuals as a dependent variable

Table B6: Adding first-stage regressors to the second-stage discretionary accruals model

	Predicted sign	Original Sample			Entropy Balancing		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	-0.008*** (0.003)	-0.008*** (0.003)	-0.008*** (0.003)	-0.009** (0.002)	-0.009** (0.002)	-0.008** (0.002)
EXECUTIVE REP	–	-0.005 (0.005)	-0.005 (0.004)	-0.005 (0.005)	-0.004 (0.003)	-0.003 (0.003)	-0.003 (0.003)
AUDIT COM. REP	?	-0.001 (0.005)	-0.001 (0.005)	-0.000 (0.005)	0.000 (0.003)	0.001 (0.003)	0.002 (0.004)
PARTNER & EXEC ALIGN	+		0.012** (0.007)			0.011*** (0.003)	
PARTNER & AC ALIGN	+			0.016** (0.007)			0.018*** (0.007)
SIZE	–	-0.006*** (0.002)	-0.006*** (0.002)	-0.006*** (0.002)	-0.007*** (0.000)	-0.006*** (0.000)	-0.006*** (0.000)
MARKET TO BOOK	+	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
LEVERAGE	+	0.044*** (0.014)	0.044*** (0.014)	0.045*** (0.014)	0.038*** (0.006)	0.039*** (0.006)	0.039*** (0.006)
LAGLOSS	+	0.007 (0.005)	0.007 (0.005)	0.006 (0.005)	0.009 (0.007)	0.009 (0.007)	0.009 (0.007)
Z-SCORE	+	0.008*** (0.003)	0.008*** (0.003)	0.008*** (0.003)	0.009*** (0.001)	0.009*** (0.001)	0.009*** (0.001)
CFO	–	0.018 (0.034)	0.018 (0.034)	0.018 (0.034)	0.038 (0.044)	0.038 (0.044)	0.038 (0.046)
SALES GROWTH	+	-0.018	-0.018	-0.018	-0.021*	-0.021	-0.021

		(0.017)	(0.017)	(0.017)	(0.009)	(0.009)	(0.009)
SALES VOLATILITY	+	-0.002	-0.002	-0.003	-0.002	-0.003	-0.003
		(0.018)	(0.018)	(0.018)	(0.011)	(0.011)	(0.011)
CF VOLATILITY	+	0.269***	0.272***	0.272***	0.239***	0.241***	0.243***
		(0.081)	(0.081)	(0.081)	(0.021)	(0.021)	(0.022)
AUDIT COM. SIZE	?	0.004**	0.004**	0.004**	0.003**	0.003**	0.003**
		(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)
AUDIT COM. FINEXP	-	-0.001	-0.001	-0.001	-0.002*	-0.002*	-0.002*
		(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.002)
AUDIT COM. OPTIONS	?	-0.015	-0.015	-0.015	-0.023**	-0.023**	-0.023**
		(0.010)	(0.010)	(0.010)	(0.005)	(0.006)	(0.006)
AUDIT COM. AGE	?	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AUDITOR BIG 4	-	0.016**	0.016**	0.016**	0.018**	0.019**	0.018**
		(0.008)	(0.008)	(0.008)	(0.004)	(0.003)	(0.004)
AUDITOR NAT. LEAD	-	0.006**	0.006**	0.006**	0.006**	0.006**	0.006**
		(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
AUDITOR OFF. LEAD	-	-0.005	-0.005	-0.004	-0.003	-0.003	-0.003
		(0.004)	(0.004)	(0.004)	(0.003)	(0.002)	(0.002)
AUDITOR OFF. SIZE	-	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
		(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)
CEO AGE	?	-0.000	-0.000	-0.000	-0.000**	-0.000**	-0.000**
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
PARTNER GENDER	?	-0.009	-0.009	-0.009	-0.011***	-0.011***	-0.011***
		(0.007)	(0.007)	(0.007)	(0.004)	(0.004)	(0.004)
CEO GENDER	-	-0.013**	-0.013**	-0.014**	-0.018**	-0.017**	-0.018**
		(0.007)	(0.007)	(0.007)	(0.005)	(0.004)	(0.005)
GENDER DIVERSITY	?	0.006	0.006	0.006	0.010**	0.010**	0.010**
		(0.007)	(0.007)	(0.007)	(0.005)	(0.005)	(0.005)
MATERIAL WEAKNESS	+	0.012	0.011	0.011	0.008**	0.008**	0.008**
		(0.009)	(0.009)	(0.009)	(0.004)	(0.004)	(0.004)

AUDITOR TENURE	—	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)
RELIGIOSITY	—	0.014 (0.013)	0.013 (0.013)	0.013 (0.013)	0.010* (0.008)	0.010* (0.008)	0.009* (0.008)
LNTAXFEE	—	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)	0.000** (0.000)	0.000** (0.000)	0.000** (0.000)
1/TA	?	-1.516 (2.460)	-1.395 (2.468)	-1.272 (2.470)	-0.319 (1.444)	-0.177 (1.486)	0.010 (1.516)
(Δ SALES- Δ AR)/TA	+	0.039** (0.022)	0.039** (0.022)	0.039** (0.022)	0.038** (0.017)	0.038** (0.017)	0.037** (0.017)
PPE/TA	+	0.020*** (0.005)	0.020*** (0.005)	0.020*** (0.005)	0.021*** (0.005)	0.021*** (0.005)	0.021*** (0.005)
ROA	—	-0.076*** (0.026)	-0.076*** (0.026)	-0.077*** (0.026)	-0.067*** (0.008)	-0.067*** (0.008)	-0.068*** (0.009)
Interactive terms		Yes	Yes	Yes	Yes	Yes	Yes
Industry-Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
N of observations		2260	2260	2260	2260	2260	2260
Adjusted R-square		0.167	0.168	0.169	0.178	0.178	0.180

Table B6 presents the effects of political ideology on firms' discretionary accruals by adding first-stage regressors to the second-stage discretionary accruals model (Chen, Hribar, and Melessa, 2018). Each specification (columns (1)-(3)) includes year and industry fixed effects (not reported). Column (1) includes our baseline results of estimating equation (2) by adding first-stage regressors of equation (1). Column (2) adds to the baseline model in column (1) the ideological alignment between the engagement partner and the firm's executive team, while column (3) adds to the model the ideological alignment between the engagement partner and the firm's directors on the audit committee. Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.

V. **Comparison of non-partisans who contribute equally with those who do not contribute**

Table B7 Panel A. Executives

	(1)	(2)	(3)
	Equal Donor	Non-Donor	Normalized Difference
GENDER*	0.902	0.885	-0.041
AGE*	57.948	55.231	-0.263
SALARY AND BONUS*	881.603	613.753	-0.232
SIZE	8.954	8.005	-0.395
MARKET TO BOOK	6.956	3.795	-0.195
LEVERAGE	0.222	0.241	0.094
LAGLOSS	0.149	0.154	0.011
Z-SCORE	1.651	1.880	0.181
CFO	0.101	0.108	0.079
SALES GROWTH	0.061	0.073	0.050
SALES VOLATILITY	0.072	0.094	0.179
CF VOLATILITY	0.026	0.029	0.095

Table B7 Panel B. Directors on the audit committee

	(1)	(2)	(3)
	Equal Donor	Non-Donor	Normalized Difference
GENDER*	0.792	0.793	0.0019
AGE*	62.452	63.561	0.1020
NUMBER OF SHARES*	122905.930	68859.171	-0.0351
FINANCIAL EXPERT*	0.668	0.575	-0.1342
SIZE	8.726	8.154	-0.2458
MARKET TO BOOK	6.075	3.829	-0.1740
LEVERAGE	0.286	0.237	-0.2210
LAGLOSS	0.100	0.151	0.1084
Z-SCORE	1.892	1.886	-0.0045
CFO	0.112	0.108	-0.0320
SALES GROWTH	0.061	0.076	0.0714
SALES VOLATILITY	0.087	0.091	0.0350
CF VOLATILITY	0.027	0.029	0.0615

*Table B7 compares descriptive statistics between the two types of “nonpartisans” in our sample. Panel A presents the comparison of the two types of “nonpartisan” executives, and Panel B presents the comparison of the two types of “nonpartisan” audit committee members. Column (1), in both panels, presents the mean value for individuals who donated less than 15% of their net political contributions to a particular party and column (2) represents the mean value for individuals who did not make any contributions. Individual characteristics are represented by a *, whereas the other characteristics are at the firm-level.*

VI. The effects of political ideology on audit quality excluding zero contributors (complete versions of Table 7)

Table B8 Panel A. The effects of political ideology on discretionary accruals excluding zero contributors

	Predicted sign	Original Sample			Entropy balanced		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	-0.010** (0.005)	-0.010** (0.005)	-0.010** (0.005)	-0.013*** (0.005)	-0.012*** (0.004)	-0.013*** (0.005)
EXECUTIVE REP	–	-0.013* (0.009)	-0.015* (0.009)	-0.013* (0.009)	-0.007 (0.008)	-0.014* (0.009)	-0.007 (0.008)
AUDIT COM. REP	?	0.014 (0.010)	0.014 (0.010)	0.012 (0.010)	0.009 (0.012)	0.009 (0.012)	0.004 (0.013)
PARTNER & EXEC ALIGN	+		0.021* (0.016)			0.043*** (0.016)	
PARTNER & AC ALIGN	+			0.018 (0.020)			0.031* (0.022)
SIZE	–	0.001 (0.003)	0.001 (0.003)	0.001 (0.003)	-0.003 (0.003)	-0.003 (0.003)	-0.003 (0.003)
MARKET TO BOOK	+	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
LEVERAGE	+	0.018 (0.038)	0.018 (0.038)	0.017 (0.038)	-0.006 (0.034)	-0.002 (0.033)	-0.008 (0.034)
LAGLOSS	+	0.009 (0.015)	0.009 (0.015)	0.009 (0.015)	0.007 (0.015)	0.004 (0.015)	0.007 (0.015)
Z-SCORE	+	0.010* (0.007)	0.011* (0.007)	0.0118 (0.007)	-0.000 (0.007)	0.002 (0.007)	0.001 (0.007)
CFO	–	0.060 (0.096)	0.057 (0.095)	0.051 (0.098)	0.182** (0.081)	0.148** (0.081)	0.157** (0.083)
SALES GROWTH	+	-0.040* (0.030)	-0.042* (0.030)	-0.037 (0.031)	-0.063** (0.029)	-0.066*** (0.028)	-0.060** (0.029)
SALES VOLATILITY	+	-0.058	-0.056	-0.063*	-0.088**	-0.092**	-0.097**

CF VOLATILITY	+	(0.049) 0.368*	(0.049) 0.383**	(0.049) 0.373*	(0.044) 0.458***	(0.044) 0.514***	(0.045) 0.463***
AUDIT COM. SIZE	?	(0.230) 0.004	(0.230) 0.004	(0.231) 0.004	(0.182) 0.001	(0.181) 0.002	(0.181) 0.001
AUDIT COM. FINEXP	-	(0.004) -0.006	(0.004) -0.005	(0.004) -0.005	(0.003) -0.004	(0.003) -0.004	(0.003) -0.004
AUDIT COM. OPTIONS	?	(0.007) 0.052	(0.007) 0.054	(0.007) 0.055	(0.007) 0.010	(0.007) 0.011	(0.007) 0.014
AUDIT COM. AGE	?	(0.039) 0.001	(0.039) 0.001	(0.039) 0.001	(0.032) 0.002**	(0.032) 0.001*	(0.032) 0.002**
AUDITOR BIG 4	-	(0.001) 0.031	(0.001) 0.029	(0.001) 0.027	(0.001) 0.048	(0.001) 0.039	(0.001) 0.041
AUDITOR NAT. LEAD	-	(0.027) 0.000	(0.026) 0.000	(0.027) 0.001	(0.051) 0.011	(0.050) 0.009	(0.051) 0.010
AUDITOR OFF. LEAD	-	(0.008) -0.003	(0.008) -0.002	(0.008) -0.002	(0.008) -0.004	(0.008) 0.000	(0.008) -0.003
AUDITOR OFF. SIZE	-	(0.011) -0.003	(0.011) -0.004	(0.011) -0.003	(0.009) -0.003	(0.009) -0.004	(0.009) -0.003
CEO AGE	?	(0.004) -0.000**	(0.004) -0.000**	(0.004) -0.000**	(0.004) -0.001**	(0.004) -0.000**	(0.004) -0.001**
PARTNER GENDER	?	(0.000) 0.026	(0.000) 0.028	(0.000) 0.026	(0.000) 0.013	(0.000) 0.016	(0.000) 0.012
CEO GENDER	-	(0.021) 0.037	(0.020) 0.039**	(0.021) 0.036*	(0.051) 0.014	(0.050) 0.020	(0.051) 0.011
GENDER DIVERSITY	?	(0.023) -0.045**	(0.023) -0.046**	(0.023) -0.044**	(0.051) -0.026	(0.051) -0.029	(0.051) -0.023
MATERIAL WEAKNESS	+	(0.022) 0.109***	(0.021) 0.108***	(0.022) 0.112***	(0.051) 0.110***	(0.051) 0.107***	(0.051) 0.116***
AUDITOR TENURE	-	(0.026) -0.004***	(0.025) -0.004***	(0.026) -0.004***	(0.029) -0.003***	(0.029) -0.003***	(0.029) -0.003***
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)

RELIGIOSITY	—	-0.053*	-0.054*	-0.054*	-0.050*	-0.049*	-0.053*
		(0.034)	(0.035)	(0.034)	(0.036)	(0.036)	(0.036)
LNTAXFEE	—	-0.002**	-0.002**	-0.002**	-0.002***	-0.002***	-0.002***
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Industry Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
N of observations		332	332	332	328	328	328
Adjusted R-square		0.525	0.528	0.526	0.374	0.388	0.376

*Table B8 Panel A is the complete version of Table 7 Panel A which presents the effects of political ideology on firms' discretionary accruals after excluding zero contributor partners, firms that all top executives are zero contributors, and firms that all audit committee member directors are zero contributors. Column (1) includes our baseline results of estimating equation (2). Column (2) adds to the baseline model in column (1) the ideological alignment between the engagement partner and the firm's executive team, while column (3) adds to the model the ideological alignment between the engagement partner and the firm's directors on the audit committee. Columns (4-6) use the same specifications in columns (1-3) but applied to a sample of entropy balanced firms. Each specification (columns (1-6)) includes industry fixed effects and year fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

Table B8 Panel B. The effects of political ideology on restatement excluding zero contributors

	Predicted sign	Original Sample			Entropy Balanced		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	0.118 (0.322)	-0.018 (0.355)	0.156 (0.350)	0.306 (0.397)	-0.252 (0.427)	0.537 (0.402)
EXECUTIVE REP	–	-0.241 (0.492)	-0.337 (0.530)	-0.127 (0.534)	0.530 (0.553)	-0.072 (0.652)	-0.498 (0.463)
AUDIT COM. REP	?	-0.273 (0.642)	0.040 (0.684)	-0.489 (0.673)	-0.279 (0.772)	-0.076 (0.804)	-1.002 (0.831)
PARTNER & EXEC ALIGN	+		3.051*** (1.264)			3.739*** (1.552)	
PARTNER & AC ALIGN	+			2.163* (1.548)			2.697* (1.667)
SIZE	–	-0.343** (0.208)	-0.282* (0.207)	-0.333* (0.218)	-0.396* (0.258)	-0.375* (0.261)	-0.147 (0.268)
MARKET TO BOOK	+	0.028 (0.028)	0.013 (0.029)	0.029 (0.031)	0.033 (0.038)	0.017 (0.038)	0.045 (0.042)
LEVERAGE	+	-4.465*** (1.795)	-4.498*** (1.832)	-4.676*** (1.889)	-6.137*** (2.478)	-6.435*** (2.634)	-5.839** (2.439)
LAGLOSS	+	1.457* (1.066)	1.477* (1.082)	1.523* (1.034)	1.014 (1.122)	0.960 (1.162)	0.225 (0.949)
Z-SCORE	+	-0.356 (0.441)	-0.214 (0.407)	-0.400 (0.471)	-0.048 (0.455)	0.167 (0.464)	0.137 (0.489)
CFO	–	7.810* (5.231)	6.334 (5.403)	7.376* (5.690)	4.626 (5.927)	1.828 (6.877)	-0.446 (5.779)
SALES GROWTH	+	-0.536 (1.495)	-0.501 (1.474)	-0.088 (1.414)	-0.984 (1.685)	-0.872 (1.530)	-0.272 (1.740)
SALES VOLATILITY	+	12.570*** (3.665)	12.663*** (3.606)	12.830*** (3.748)	13.360*** (3.622)	13.543*** (3.566)	9.911*** (3.348)

CF VOLATILITY	+	-1.767 (8.827)	-1.589 (9.541)	-0.090 (9.064)	0.874 (9.635)	0.028 (10.327)	1.609 (10.382)
AUDIT COM. SIZE	?	0.178 (0.240)	0.156 (0.246)	0.208 (0.255)	0.202 (0.262)	0.097 (0.272)	0.105 (0.266)
AUDIT COM. FINEXP	-	-0.351 (0.483)	-0.354 (0.508)	-0.333 (0.496)	-0.275 (0.581)	-0.376 (0.618)	-0.204 (0.556)
AUDIT COM. OPTIONS	?	-1.425 (1.382)	-1.242 (1.400)	-1.127 (1.398)	-0.468 (1.420)	-0.637 (1.453)	1.335 (1.395)
AUDIT COM. AGE	?	-0.064 (0.043)	-0.075 (0.047)	-0.063 (0.042)	-0.033 (0.046)	-0.045 (0.051)	-0.034 (0.043)
AUDITOR NAT. LEAD	-	0.162 (0.569)	0.194 (0.589)	0.228 (0.581)	-0.082 (0.634)	-0.160 (0.638)	0.124 (0.504)
AUDITOR OFF. LEAD	-	0.631 (0.654)	0.749 (0.666)	0.667 (0.674)	0.409 (0.686)	0.537 (0.679)	0.042 (0.677)
AUDITOR OFF. SIZE	-	-0.361* (0.248)	-0.334* (0.255)	-0.329* (0.247)	-0.266 (0.294)	-0.250 (0.300)	-0.307 (0.251)
CEO AGE	?	-0.030** (0.012)	-0.032*** (0.011)	-0.030** (0.012)	-0.038*** (0.013)	-0.044*** (0.013)	-0.034*** (0.011)
PARTNER GENDER	?	-6.419*** (0.823)	-6.401*** (0.876)	-7.298*** (0.854)	-6.317*** (0.977)	-6.125*** (1.069)	-5.695*** (0.932)
CEO GENDER	-	-3.385*** (0.933)	-3.574*** (0.928)	-4.428*** (0.878)	-3.112*** (1.061)	-2.863*** (1.056)	-3.742*** (0.915)
GENDER DIVERSITY	?	5.596*** (0.949)	5.944*** (0.944)	6.708*** (0.937)	5.636*** (1.029)	5.614*** (1.024)	5.862*** (0.844)
MATERIAL WEAKNESS	+	-0.143 (1.041)	-0.462 (0.990)	-0.081 (1.072)	-0.090 (1.105)	-0.473 (1.016)	-0.383 (1.081)
AUDITOR TENURE	-	-0.001 (0.035)	-0.011 (0.033)	0.004 (0.036)	0.034 (0.034)	0.035 (0.033)	-0.004 (0.037)
RELIGIOSITY	-	2.386 (3.282)	0.886 (3.376)	1.713 (3.232)	-0.148 (3.834)	-1.334 (3.770)	-1.383 (3.046)
LNTAXFEE	-	-0.023	-0.032	-0.024	0.007	0.003	-0.008

	(0.039)	(0.038)	(0.042)	(0.044)	(0.040)	(0.038)
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
N of observations	312	312	312	312	312	312
Pseudo R-square	0.251	0.277	0.261	0.305	0.337	0.267

*Table B8 Panel B is the complete version of Table 7 Panel B which presents the effects of political ideology on firms' probability of restatement after excluding zero contributor partners, firms that all top executives are zero contributors, and firms that all audit committee member directors are zero contributors. Column (1) includes our baseline results of estimating equation (2).³ Column (2) adds to the baseline model in column (1) the ideological alignment between the engagement partner and the firm's executive team, while column (3) adds to the model the ideological alignment between the engagement partner and the firm's directors on the audit committee. Columns (4-6) use the same specifications in columns (1-3) but applied to a sample of entropy balanced firms. Each specification (columns (1-6)) includes industry fixed effects and year fixed effects (not reported).⁴ Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

VII. Tests of the role of corporate governance in the effects of homophily on audit quality

Table B9 The effects of homophily on discretionary accruals after controlling for corporate governance variables

Panel A. Effect of homophily between partner and executives (*PARTNER & EXEC ALIGN*) on discretionary accruals

	Predicted sign	Original sample		Entropy balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.009*** (0.003)	-0.009*** (0.003)	-0.007** (0.003)	-0.009*** (0.003)
EXECUTIVE REP	–	-0.003 (0.005)	-0.004 (0.005)	-0.004 (0.005)	-0.003 (0.005)
AUDIT COM. REP	?	-0.000 (0.005)	-0.001 (0.005)	-0.001 (0.005)	0.000 (0.005)
PARTNER & EXEC ALIGN	+	0.012** (0.007)	0.012** (0.007)	0.027*** (0.009)	0.017** (0.008)
SMALLBOARD	?		-0.004 (0.006)		0.003 (0.006)
CEO_CHAIR	?		0.002 (0.003)		0.004 (0.003)
ID_PORTION	?		-0.014 (0.016)		-0.030** (0.014)
ID_TENURE	?		-0.000 (0.001)		-0.002* (0.001)
ID_HOLD	?		-0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2260	2260	2260	2260
Adjusted R-square		0.156	0.156	0.169	0.167

Panel B. Effect of homophily between partner and audit committee (*PARTNER & AC ALIGN*) on discretionary accruals

	Predicted sign	Original sample		Entropy balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.008*** (0.003)	-0.008*** (0.003)	-0.008*** (0.003)	-0.008** (0.003)
EXECUTIVE REP	–	-0.004 (0.005)	-0.004 (0.005)	-0.002 (0.005)	-0.003 (0.005)
AUDIT COM. REP	?	0.000 (0.005)	0.000 (0.005)	-0.000 (0.005)	0.000 (0.005)
PARTNER & AC ALIGN	+	0.016** (0.007)	0.016** (0.007)	0.023*** (0.008)	0.019** (0.009)
SMALLBOARD	?		-0.005 (0.006)		0.002 (0.006)
CEO_CHAIR	?		0.002 (0.003)		0.004 (0.003)
ID_PORTION	?		-0.014 (0.016)		-0.030** (0.014)
ID_TENURE	?		-0.000 (0.001)		-0.002* (0.001)
ID_HOLD	?		0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2260	2260	2260	2260
Adjusted R-square		0.157	0.157	0.169	0.169

Table B9 presents the effects of ideological alignment on firms' discretionary accruals before and after adding corporate governance variables as controls. Panel A shows the effects of ideological alignment between partner and top executives (PARTNER & EXEC ALIGN) on firms' discretionary accruals. Column (1) presents the results based on the model specification by equation (3), thus column (1) is same as column (3) of Table 4. Column (2) adds to the model in column (1) the corporate governance variables. The

corporate governance variables added include an indicator for whether the number of the independent directors is smaller than the median in our sample (*SMALL BOARD*), an indicator of whether the CEO is chair of the board (*CEO_CHAIR*), the portion of independent directors (*ID_PORTION*), a measure of independent director tenure (*ID_TENURE*), and an indicator for the percentage of independent directors' shares greater than the median (*ID_HOLD*). Columns (3-4) use the same specifications in columns (1-2) but applied to a sample of entropy balanced firms.

Panel B uses the same specifications in Panel A, but replaces the ideological alignment variable (*PARTNER & EXEC ALIGN*) with the alignment between partners and audit committee (*PARTNER & AC ALIGN*). Each specification (columns (1-4)) on both panels include the controls variables in estimating equation (3), and year, industry and state fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.

Table B10 The effects of homophily on restatement after controlling for corporate governance variables

Panel A. Effect of homophily between partner and executives (*PARTNER & EXEC ALIGN*) on restatement

	Predicted sign	Original Sample		Entropy Balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.278 (0.241)	-0.265 (0.218)	-0.184 (0.204)	-0.221 (0.196)
EXECUTIVE REP	–	-0.262 (0.266)	-0.263 (0.269)	-0.540 (0.403)	-0.404 (0.301)
AUDIT COM. REP	?	0.125 (0.282)	0.104 (0.284)	0.316 (0.322)	0.318 (0.305)
PARTNER & EXEC ALIGN	+	0.482* (0.327)	0.444* (0.330)	0.506* (0.379)	0.388* (0.278)
SMALLBOARD	?		-0.339 (0.310)		-0.079 (0.334)
CEO_CHAIR	?		0.015 (0.175)		0.123 (0.204)
ID_PORTION	?		-1.180 (0.851)		-1.673* (0.885)
ID_TENURE	?		0.012 (0.067)		0.017 (0.068)
ID_HOLD	?		-0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2242	2242	2242	2242
Pseudo R-square		0.045	0.047	0.068	0.068

Panel B. Effect of homophily between partner and audit committee (*PARTNER & AC ALIGN*) on restatement

	Predicted sign	Original Sample		Entropy Balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.286 (0.275)	-0.275 (0.264)	-0.168 (0.206)	-0.252 (0.203)
EXECUTIVE REP	–	-0.254 (0.258)	-0.257 (0.261)	-0.566 (0.390)	-0.558 (0.413)
AUDIT COM. REP	?	0.134 (0.291)	0.113 (0.292)	0.328 (0.333)	0.024 (0.294)
PARTNER & AC ALIGN	+	0.364 (0.450)	0.351 (0.452)	0.358 (0.534)	1.066** (0.500)
SMALLBOARD	?		0.012 (0.174)		-0.142 (0.305)
CEO_CHAIR	?		-1.207 (0.858)		0.153 (0.185)
ID_PORTION	?		0.011 (0.067)		-1.770** (0.871)
ID_TENURE	?		-0.000 (0.000)		0.023 (0.062)
ID_HOLD	?		-0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2242	2242	2242	2242
Pseudo R-square		0.045	0.047	0.068	0.062

Table B10 presents the effects of ideological alignment on firms' probability of restatement before and after adding corporate governance variables as controls. Panel A tabulates the effects of ideological alignment between partner and top executives (PARTNER & EXEC ALIGN) on probability of restatement. Column (1) presents the results based on the model specification by equation (3), thus column (1) is same as column (3) of Table 5. Column (2) adds to the model in column (1) the corporate governance

variables. The corporate governance variables added include an indicator for whether the number of the independent directors is smaller than the median in our sample (*SMALL BOARD*), an indicator of whether the CEO is chair of the board (*CEO_CHAIR*), and the portion of independent directors (*ID_PORTION*), a measure of independent director tenure (*ID_TENURE*), and an indicator for the percentage of independent directors' shares greater than the median (*ID_HOLD*). Columns (3-4) use the same specifications in columns (1-2) but applied to a sample of entropy balanced firms.

Panel B uses the same specifications in Panel A, but replaces the political ideology alignment variable (*PARTNER & EXEC ALIGN*) with the alignment between partners and audit committee (*PARTNER & AC ALIGN*). Each specification (columns (1-4)) on both panels includes the controls variables in estimating equation (3), and year, industry and state fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.

Table B11 The impact of a cohesive board on the relation between ideological homophily and discretionary accruals

Panel A. The impact of a cohesive board on the relation between partner-executive homophily and discretionary accruals

	Predicted sign	Original sample		Entropy balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.009*** (0.003)	-0.008*** (0.003)	-0.007** (0.003)	-0.008*** (0.003)
EXECUTIVE REP	–	-0.003 (0.005)	-0.002 (0.005)	-0.004 (0.005)	-0.002 (0.005)
AUDIT COM. REP	?	-0.000 (0.005)	-0.000 (0.005)	-0.001 (0.005)	0.000 (0.005)
PARTNER & EXEC ALIGN	+	0.012** (0.007)	0.014** (0.008)	0.027*** (0.009)	0.017** (0.009)
PARTNER & EXEC ALIGN*SMALL BOARD	?		-0.016 (0.018)		-0.001 (0.021)
SMALLBOARD	?		0.008 (0.015)		0.003 (0.018)
CEO_CHAIR	?		0.003 (0.003)		0.005 (0.003)
ID_PORTION	?		-0.012 (0.016)		-0.028** (0.014)
ID_TENURE	?		-0.001 (0.001)		-0.003** (0.001)
ID_HOLD	?		-0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2260	2260	2260	2260
Adjusted R-square		0.156	0.154	0.169	0.164

Panel B. The impact of a cohesive board on the relation between partner-audit committee homophily and discretionary accruals

	Predicted sign	Original sample		Entropy balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.008*** (0.003)	-0.008*** (0.003)	-0.008*** (0.003)	-0.008** (0.003)
EXECUTIVE REP	–	-0.004 (0.005)	-0.002 (0.005)	-0.002 (0.005)	-0.002 (0.005)
AUDIT COM. REP	?	0.000 (0.005)	0.000 (0.005)	-0.000 (0.005)	0.000 (0.005)
PARTNER & AC ALIGN	+	0.016** (0.007)	0.020** (0.008)	0.023*** (0.008)	0.022** (0.010)
PARTNER & AC ALIGN*SMALL BOARD	?		-0.027 (0.018)		-0.017 (0.023)
SMALLBOARD	?		0.017 (0.017)		0.014 (0.019)
CEO_CHAIR	?		0.003 (0.003)		0.004 (0.003)
ID_PORTION	?		-0.012 (0.016)		-0.030** (0.014)
ID_TENURE	?		-0.001 (0.001)		-0.003 (0.001)
ID_HOLD	?		0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2260	2260	2260	2260
Adjusted R-square		0.157	0.157	0.169	0.167

Table B11 presents the impact of a client having a small, cohesive board on the relation between ideological alignment and discretionary accruals. Panel A presents the effects of small board on the relation between ideological alignment between partner and

executives, and discretionary accruals. Column (1) is based on model specification of equation (4), which is same as column (2) of Table 4. Column (2) adds to the model in column (1) the interaction between PARTNER & AC ALIGN and SMALL BOARD and the additional corporate governance variables. The corporate governance variables added include an indicator for whether the number of the independent directors is smaller than the median in our sample (SMALL BOARD), an indicator of whether the CEO is chair of the board (CEO_CHAIR), and the portion of independent directors (ID_PORTION), a measure of independent director tenure (ID_TENURE), and an indicator for the percentage of independent directors' shares greater than the median (ID_HOLD). Columns (3-4) use the same specifications in columns (1-2) but applied to a sample of entropy balanced firms.

*Panel B uses the same specifications in Panel A, but replaces the political ideology alignment variable (PARTNER & EXEC ALIGN) with the alignment between partners and audit committee (PARTNER & AC ALIGN). Each specification (columns (1-4)) on both panels includes the control variables in estimating equation (3), and year, industry and state fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

Table B12 The impact of a cohesive board on the relation between ideological homophily and restatement

Panel A. The impact of a cohesive board on the relation between partner-executive homophily and restatement

	Predicted sign	Original Sample		Entropy Balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.278 (0.241)	-0.265 (0.190)	-0.184 (0.204)	-0.227 (0.197)
EXECUTIVE REP	–	-0.262 (0.266)	-0.281 (0.270)	-0.540 (0.403)	-0.389 (0.305)
AUDIT COM. REP	?	0.125 (0.282)	0.116 (0.284)	0.316 (0.322)	0.006 (0.305)
PARTNER & EXEC ALIGN	+	0.482* (0.327)	0.827** (0.481)	0.506* (0.379)	0.710* (0.525)
PARTNER & EXEC ALIGN*SMALL BOARD	?		-1.872* (1.006)		-1.542 (1.070)
SMALLBOARD	?		1.195 (0.859)		1.180 (0.920)
CEO_CHAIR	?		0.017 (0.176)		0.122 (0.204)
ID_PORTION	?		-1.131 (0.868)		-1.680* (0.919)
ID_TENURE	?		0.009 (0.068)		0.019 (0.068)
ID_HOLD	?		-0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2242	2242	2242	2242
Pseudo R-square		0.045	0.049	0.068	0.062

Panel B. The impact of a cohesive board on the relation between partner-audit committee homophily and restatement

	Predicted sign	Original Sample		Entropy Balanced	
		(1)	(2)	(3)	(4)
PARTNER REP	–	-0.286 (0.275)	-0.280 (0.195)	-0.168 (0.206)	-0.262 (0.203)
EXECUTIVE REP	–	-0.254 (0.258)	-0.266 (0.261)	-0.566 (0.390)	-0.574 (0.464)
AUDIT COM. REP	?	0.134 (0.291)	0.109 (0.290)	0.328 (0.333)	0.014 (0.293)
PARTNER & AC ALIGN	+	0.364 (0.450)	0.642* (0.500)	0.358 (0.534)	1.275* (0.780)
PARTNER & AC ALIGN*SMALL BOARD	?		-1.461 (0.983)		-1.058 (1.181)
SMALLBOARD	?		0.893 (0.856)		0.726 (1.010)
CEO_CHAIR	?		0.014 (0.174)		0.156 (0.186)
ID_PORTION	?		-1.164 (0.856)		-1.745** (0.867)
ID_TENURE	?		0.017 (0.068)		0.026 (0.063)
ID_HOLD	?		-0.000 (0.000)		-0.000 (0.000)
Controls		Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes
N of observations		2242	2242	2242	2242
Pseudo R-square		0.045	0.048	0.068	0.062

Table B12 presents the impact of a client having a small, cohesive board on the relation between ideological alignment and probability of restatement. Panel A presents the effects of small board on the relation between ideological alignment between partner

& executives, and probability of restatement. Column (1) is based on model specification of equation (3), which is same as column (2) of Table 5. Column (2) adds to the model in column (1) the interaction between PARTNER & AC ALIGN and SMALL BOARD and the additional corporate governance variables. The corporate governance variables added include an indicator for whether the number of the independent directors is smaller than the median in our sample (SMALL BOARD), an indicator of whether the CEO is chair of the board (CEO_CHAIR), and the portion of independent directors (ID_PORTION), a measure of independent director tenure (ID_TENURE), and an indicator for the percentage of independent directors' shares greater than the median (ID_HOLD). Columns (3-4) use the same specifications in columns (1-2) but applied to a sample of entropy balanced firms.

*Panel B uses the same specifications in Panel A, but replaces the political ideology alignment variable (PARTNER & EXEC ALIGN) with the alignment between partners and audit committee (PARTNER & AC ALIGN). Each specification (columns (1-4)) on both panels includes the controls variables in estimating equation (3), and year, industry and state fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

VIII. The effects on audit quality when partners, executives, and audit committee share similar ideology

Table B13 The effects of ideological alignment between partners, executives, and audit committee on audit quality

Panel A. The effects of ideological alignment between partners, executives, and audit committee on discretionary accruals

	Predicted sign	Original Sample			Entropy Balanced		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	-0.009*** (0.003)	-0.008*** (0.003)	-0.009*** (0.003)	-0.007** (0.003)	-0.008*** (0.003)	-0.007** (0.003)
EXECUTIVE REP	–	-0.003 (0.005)	-0.004 (0.005)	-0.003 (0.005)	-0.004 (0.005)	-0.002 (0.005)	-0.003 (0.005)
AUDIT COM. REP	?	-0.000 (0.005)	0.000 (0.005)	-0.000 (0.005)	-0.001 (0.005)	-0.000 (0.005)	-0.002 (0.005)
PARTNER & EXEC ALIGN	+	0.012** (0.007)			0.027*** (0.009)		
PARTNER & AC ALIGN	+		0.016** (0.007)			0.023*** (0.008)	
PARTNER & EXEC & AC ALIGN	+			0.030*** (0.011)			0.039*** (0.013)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
N of observations		2260	2260	2260	2260	2260	2260
Adjusted R-square		0.156	0.157	0.157	0.169	0.168	0.168

Panel B. The effects of ideological alignment between partners, executives, and audit committee on restatement

	Predicted sign	Original Sample			Entropy Balanced		
		(1)	(2)	(3)	(4)	(5)	(6)
PARTNER REP	–	-0.278 (0.241)	-0.286 (0.275)	-0.292 (0.189)	-0.184 (0.204)	-0.168 (0.206)	-0.194 (0.208)
EXECUTIVE REP	–	-0.262 (0.266)	-0.254 (0.258)	-0.263 (0.270)	-0.540 (0.403)	-0.566 (0.390)	-0.673 (0.483)
AUDIT COM. REP	?	0.125 (0.282)	0.134 (0.291)	0.111 (0.294)	0.316 (0.322)	0.328 (0.333)	0.177 (0.329)
PARTNER & EXEC ALIGN	+	0.482* (0.327)			0.506* (0.379)		
PARTNER & AC ALIGN	+		0.364 (0.450)			0.358 (0.534)	
PARTNER & EXEC & AC ALIGN	+			1.035* (0.680)			1.460** (0.746)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
N of observations		2242	2242	2242	2242	2242	2242
Pseudo R-square		0.045	0.045	0.046	0.068	0.067	0.072

Table B13 presents the effects of ideological alignment between partners, executives, and audit committee members on audit quality. Panel A presents the effects of ideological alignment of the three groups on discretionary accruals. Column (1) is based on model specification of equation (3), which is the same as column (2) of Table 4. Column (2) is based on model specification of equation (4), which is the same as column (3) of Table 4. Column (3) use the same specification of column (1) but replaces the homophily measure PARTNER & EXEC ALIGN with PARTNER & EXEC & AC ALIGN, which is the alignment between three groups. PARTNER & EXEC & AC ALIGN is Euclidean distance between each group's ideology indices (PARTNER REP, EXECUTIVE REP, AUDIT COM. REP). It is normalized to range between 0 and 1 and is equal to 1 minus 1/8 multiplied by the sum of the difference in each separate pairs' ideology scores squared. Columns (4-6) use the same specifications in columns (1-3) but applied to a sample of entropy balanced firms.

*Panel B uses the same specifications in panel A, but replaces the dependent variable (DISCRETIOANRY ACCRUALS) with the probability of restatement (RESTATEMENT). Each specification (columns (1-6)) on both panels includes the controls variables in estimating equation (3), and year, industry and state fixed effects (not reported). Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level for one-tailed tests, wherever a coefficient sign was predicted, or a two-tailed test elsewhere, respectively. All variables are defined in Appendix A.*

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Endnotes

¹ These firm characteristics include: cash flow from operations, size, leverage ratio, Z-score, market to book ratio, sales growth, volatility of cash flow, number of business segments, inherent risk, loss indicator, CEO's percentage of compensation, religiosity of firm's headquarters, and industry indicators.

² To control for industry effects in the PSM sample analyses, we use GIC sector codes, instead of the first two digits of the client company's SIC code, as the industry identifier. The reason is because there is insufficient variation in restatement (*RESTATEMENT*) observations across industries when using SIC identifier.

³ *AUDITOR BIG 4* is omitted in the logistic restatement regressions in Table B8, because this reduced sized sample contained zero firm-year observations audited by a non-Big 4 auditor where the financial statements were later restated.

⁴ To control for industry effects in the sample that excluding zero contributors, we use GIC sector codes, instead of the first two digits of the client company's SIC code, as the industry identifier. The reason is because there is insufficient variation in restatement (*RESTATEMENT*) observations across industries when using SIC identifier..