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## Senior Management Team Stability as a Hidden Factor in Audit Risk

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### Abstract


This article examines the role of senior management team stability as a hidden factor in the formation and transmission of audit risk and attempts to clarify the behavioral and institutional dimensions of this variable in risk assessment processes through conceptual analysis. The audit literature shows that managerial stability can act in a dual way: on the one hand, it improves the quality of internal controls, strategic coherence, and reduces unintentional errors, and on the other hand, in the absence of independent oversight, it can intensify the concentration of power, reduce auditors' professional skepticism, and increase the risk of management fraud. The analysis of the Iranian situation suggests that the concentrated ownership structure, the relative weakness of supervisory institutions, and the professional limitations of auditing provide the basis for the emergence of hidden effects of managerial stability, causing auditors to rely on the experience and gradual understanding of the management team to assess audit risk. This paper shows that systematically identifying and analyzing the stability of the senior management team, along with paying attention to the institutional and cultural conditions of the organization, is essential to improve the accuracy of risk assessment, enhance the quality of the auditor's professional judgment, and reduce the likelihood of audit failure. Finally, the results of this literature review emphasize that management stability should not be viewed solely as a structural feature, but rather as a latent and influential variable, playing a key role in assessing audit risk and improving internal control processes, and highlighting the need to integrate it into the conceptual and practical frameworks of auditing in Iran.

**Keywords:** Senior management team stability, Audit risk, Internal controls.

## 1 | Introduction

Audit risk, as one of the fundamental concepts in the auditing literature, has always been the focus of attention of researchers, supervisory bodies and the auditing profession, because the quality of the auditor's professional judgment and the reliability of financial reports are directly dependent on the way in which audit risks are identified, assessed and responded to. In recent decades, the auditing literature has moved away from focusing solely on technical and procedural variables and has increasingly addressed behavioral, organizational and

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institutional factors affecting audit risk. In the meantime, the role of senior management and its characteristics as one of the most important sources of risk creation or reduction has received more and more attention [1]. One of the less studied but very influential dimensions in this area is the stability of the senior management team; a factor that indirectly, covertly and gradually affects the auditor's judgment, the risk of fraud and the effectiveness of internal controls [2]. The stability of the senior management team means the continuity of key management members over relatively long periods of time and the maintenance of cognitive, behavioral, and decision-making coherence at the highest level of the organization. Theoretical research shows that stable senior managers create more predictable behavioral patterns, stabilize organizational decision-making procedures, and provide a relatively more stable information environment for stakeholders, including independent auditors [3]. These characteristics can, on the one hand, reduce uncertainty and facilitate the assessment of audit risk, and on the other hand, in the absence of appropriate monitoring mechanisms, create the basis for the formation of excessive confidence, weakening professional skepticism, and increasing hidden audit risks [4]. The professional judgment literature in auditing shows that auditor decisions are strongly influenced by behavioral contexts and interpersonal relationships with management. Auditors in continuous interactions with management, especially in long-term relationships, may experience cognitive biases, normalization of deviations, and reduced sensitivity to warning signs [5]. Stability of the senior management team, by creating repetitive and predictable interactions, can reinforce or weaken these biases. On the one hand, the auditor's deeper understanding of stable managers allows for more accurate judgments and more realistic assessment of risks, and on the other hand, it may lead to reduced challenging and tacit acceptance of management's assumptions [6]. In the area of fraud risk, studies have shown that a significant proportion of financially significant frauds have their roots in the behavior and decisions of senior management, and internal controls will be effective only when management has a genuine commitment to transparency and accountability [7].

The stability of the senior management team can be considered a sign of organizational maturity and control coherence, but at the same time, it may lead to the concentration of power, reduce effective supervision and weaken the independence of control units. From this perspective, management stability is not a purely desirable or undesirable variable, but a two-faceted factor whose effect on audit risk depends on the institutional context, ownership structure and quality of corporate governance [8]. The importance of this discussion is doubled in the Iranian context. The concentrated ownership structure, the high share of state-owned and quasi-state companies, institutional interference in management appointments and the relative weakness of independent supervisory institutions have caused the stability or instability of the senior management team in many companies to be a result of political and institutional considerations rather than economic logic. In such an environment, managerial stability can lead to the perpetuation of ineffective or even opportunistic behaviors rather than strengthening internal controls, especially when accountability and professional oversight mechanisms are not functioning properly [9]. On the other hand, the ongoing instability of the top management team in many Iranian firms, especially in state-owned companies, has increased information uncertainty, weakened internal controls, and increased audit risk. Frequent changes in managers lead to policy discontinuities, poor documentation, reduced accountability, and incomplete transfer of organizational knowledge; factors that directly affect the quality of auditor judgment and the effectiveness of audit planning [10]. In such circumstances, the auditor is forced to face a higher level of inherent and control risk and to devote more resources to identifying and assessing risk. Despite its importance, the audit literature has rarely addressed the stability of the senior management team as a "hidden factor" in risk assessment models. Most research has focused on individual Chief Executive Officer (CEO) characteristics, earnings management incentives, or formal corporate governance structures, while team dynamics, the continuity of management relationships, and their cumulative effects on organizational behavior and auditor interactions have been less comprehensively examined [3]. This research gap is particularly acute in environments such as Iran, which have specific institutional characteristics.

## 2 | Senior Management Team Stability: Definitions, Dimensions, and Theoretical Position

Senior management team stability, as one of the central concepts in the literature on strategic management and corporate governance, refers to the continued presence, cohesiveness, composition, and sustainability of the role-playing of key members of the senior management team over a meaningful period of time. This concept goes beyond the individual persistence of the CEO and includes the collective stability of senior managers, such as the Chief Financial Officer (CFO), Chief Operating Officer (COO), and other members who influence the organization's macro-decisions. Theoretical literature shows that stable management teams, through the accumulation of shared experience, the formation of common language and cognitive frameworks, and the reduction of intra-team conflicts, create relatively stable and more predictable decision-making patterns [11]. These characteristics directly affect the quality of strategic decisions and indirectly affect the organization's control and information environment. From the perspective of top management theory, organizational behaviors and decisions are a reflection of the cognitive, experiential, and internal dynamics of the top management team, and the stability of this team plays a key role in the continuity of organizational orientations [3]. In this framework, the stability of the top management team is viewed as a mechanism for reducing intra-organizational uncertainty that can enhance coordination between units, coherence of financial policies, and consistency of control procedures. However, path dependence theory suggests that excessive stability may lead to cognitive lock-in, resistance to change, and persistence of ineffective procedures [12]. Therefore, managerial stability simultaneously has functional capabilities and structural risks.

In the corporate governance literature, the stability of the top management team is often analyzed in interaction with monitoring mechanisms.

Research shows that managerial stability has positive effects when it is accompanied by effective board oversight, audit committee independence, and information transparency [13]. In the absence of these mechanisms, stability can lead to concentration of power, reduced accountability, and weakened internal controls. From this perspective, top management team stability is not a neutral variable, but its effect depends on the quality of oversight institutions and ownership structure [14]. The dimensions of top management team stability can be explained along several main axes. The temporal dimension refers to the length of time team members have been together, the compositional dimension refers to the stability of key roles and responsibilities, and the behavioral dimension refers to cognitive coherence and shared decision-making patterns. Research shows that temporal stability without behavioral coherence does not necessarily lead to desirable outcomes and may even exacerbate hidden conflicts and organizational inefficiencies [15]. Therefore, analyzing the stability of the senior management team requires simultaneous attention to the structure, behavior, and institutional context. In the context of auditing, the theoretical position of the stability of the senior management team can be explained mainly in the literature on organizational behavior and auditor professional judgment. Stable management teams create a more predictable information environment for the auditor, which can facilitate the assessment of inherent and control risk [16]. However, frequent and long-term interactions between the auditor and a stable management team may lead to the normalization of deviations and reduced sensitivity to warning signs, especially when there are economic and institutional pressures on the auditor [4]. Analysis of the Iranian context suggests that the concept of stability of the senior management team is tied to specific institutional characteristics. In many Iranian companies, especially state-owned and quasi-state enterprises, management stability or instability is more a function of political, institutional changes, and non-economic considerations than of performance or competence. This situation means that management stability does not necessarily mean organizational maturity or improved internal controls, and in some cases, it even leads to the consolidation of inefficient practices and reduced accountability. Conversely, frequent management instability also exacerbates audit risk by weakening organizational memory, breaking down internal controls, and increasing information uncertainty. Overall, the stability of the senior management team should be considered as a multidimensional and contextual construct whose theoretical position lies at the intersection of the strategic management, corporate governance, and

auditing literature. A thorough understanding of the definitions, dimensions, and implications of this concept, especially in the Iranian institutional context, is a prerequisite for analyzing its role as a hidden factor in audit risk and can provide a richer conceptual framework for evaluating management behavior, auditor professional judgment, and the effectiveness of internal controls.

### 3 | Audit Risk in Modern Auditing Literature

Audit risk in modern auditing literature is considered a dynamic, multidimensional, and contextual concept that goes beyond the classic definition of “probability of an adverse opinion” and addresses the complex interaction between technical, behavioral, organizational, and institutional factors. In the traditional approach, audit risk was considered the product of inherent risk, control risk, and detection risk, and the main focus was on evaluating processes, transactions, and internal controls [17]. However, modern auditing literature shows that this classic framework, without considering human and behavioral factors, is unable to fully explain audit failures and financial scandals [18]. A major development in the audit risk literature began when researchers highlighted the role of auditor professional judgment and social interactions with management as potential sources of risk. Behavioral studies show that auditors do not make decisions in a vacuum, but rather their judgment is influenced by economic pressures, long-term client relationships, organizational norms, and senior management characteristics [19]. In this framework, audit risk is no longer simply a technical calculation, but a reflection of the quality of judgment, the degree of professional skepticism, and the auditor’s ability to resist bias and pressure [5]. The emerging literature emphasizes that many audit risks are “hidden” in nature and do not manifest themselves in the form of financial indicators or obvious control weaknesses. These risks often arise from behavioral characteristics of management, organizational culture, and power dynamics at the top of the organization [18]. Meanwhile, the stability of the senior management team, as one of the less considered factors, can gradually and indirectly affect the level of audit risk, without being clearly reflected in the initial formal assessments. Recent research shows that auditors, when faced with stable management, may underestimate the level of inherent and control risk due to accumulated knowledge and reduced uncertainty, even in situations where the objective evidence has not changed significantly [16]. This phenomenon, which is rooted in cognitive mechanisms and gradual learning, can lead to excessive optimism and a reduction in the severity of audit tests. From this perspective, the stability of the senior management team can act as a hidden factor in reducing or increasing the perceived audit risk. In contrast, the instability of the senior management team is considered in the modern audit literature as a sign of increased inherent risk, as frequent changes of managers are associated with disruptions in internal controls, poor documentation, and increased likelihood of error or fraud [10]. However, the new literature warns that excessive focus on managerial instability may lead to ignoring hidden risks arising from long-term stability and concentration of power [4].

Therefore, the relationship between management stability and audit risk is not linear and simple, but strongly depends on the institutional context and oversight mechanisms. This conceptual shift can also be seen in new standard-setting approaches. By emphasizing understanding the entity, its environment, and management behavioral factors, the international standards on Auditing call on auditors to more deeply assess the risks arising from organizational culture and management attitudes toward internal controls and financial reporting [20]. Although the text of the standards does not explicitly mention “senior management team stability,” concepts such as management attitude, leadership style, and behavioral history implicitly place this factor in the spotlight. Analysis of the Iranian context shows that audit risk in practice faces additional complexities. The concentrated ownership structure, the relative weakness of independent oversight institutions, the prominent role of the government and quasi-government in the economy, and the limitations of the audit profession have led to many audit risks being behavioral and institutional in nature. In such an environment, senior management team stability can operate in two opposing ways: on the one hand, in companies with weak corporate governance, long-term management stability may lead to the consolidation of informal power networks, reduced accountability, and increased fraud risk; On the other hand, in companies with a stronger supervisory structure, management stability can help improve internal controls and reduce audit risk. One of

the fundamental challenges for auditors in Iran is distinguishing between “functional” and “problematic” stability of the senior management team. Modern auditing literature emphasizes that the auditor should go beyond superficial indicators and pay attention to qualitative analysis of management dynamics, history of interactions, how management responds to audit questions, and the level of acceptance of professional challenge [18]. Ignoring these factors can lead to inaccurate assessment of audit risk and undermine the quality of professional judgment.

#### **4 | Top Management Team Stability and Management Fraud Risk**

Management fraud risk is recognized in the audit and finance literature as one of the most complex and costly forms of financial reporting risk because, unlike employee fraud, it is usually committed by individuals who have decision-making authority, extensive access to information, and the ability to circumvent internal controls. In this context, the characteristics of the top management team, including its stability or persistence, have gradually become the focus of researchers’ attention, as management’s opportunistic behavior is often shaped by stable relationships of power and trust [14]. The agency theory literature suggests that the greater the distance between managers’ and owners’ interests and the weaker the monitoring mechanisms, the greater the incentive for management to manipulate financial information [8]. The stability of the top management team in such circumstances can lead to the accumulation of power and reduced accountability. Managers who remain at the helm of an organization for long periods of time gradually acquire a deep understanding of the weaknesses of control systems, audit procedures, and sensitivities of regulatory agencies, and this knowledge can become a potential tool for concealing fraud [21]. From a behavioral perspective, research suggests that long-term managerial stability can lead to the development of “overconfidence” among stakeholders, including auditors, boards of directors, and investors. This gradual trust reduces the likelihood of effective professional skepticism and paves the way for aggressive earnings management or outright fraud [22]. In such a situation, the risk of management fraud arises not through obvious control weaknesses but through established and normalized relationships. In contrast, some studies emphasize that the stability of the top management team does not necessarily lead to an increase in fraud risk and, in environments with strong corporate governance, can help improve the quality of financial reporting. Stable managers in these circumstances have less incentive to commit fraud due to concerns about long-term reputation and reputational costs [23]. However, recent literature emphasizes that the effect of management stability on fraud risk is strongly dependent on the institutional context and the effectiveness of monitoring mechanisms [23]. International fraud assessment frameworks also implicitly emphasize the role of top management. The Committee of Sponsoring Organizations (COSO) report on fraud risk management states that the “tone at the top of the organization” and the ongoing behavior of management are the most important factors shaping the ethical culture and the likelihood of fraud [24]. Long-term stability of the top management team, if coupled with weak board oversight, can set the tone so that manipulation and concealment become the norm for the organization. Empirical studies of earnings manipulation suggest that many major financial frauds occur not during management transitions but rather in the final years of long senior management tenures, when managers are both more technically skilled at manipulation and under pressure to maintain an image of past success [25]. These findings suggest that managerial stability can be nonlinearly related to fraud risk. In the Iranian context, this issue takes on more complex dimensions. The concentrated ownership structure, the presence of major state or quasi-state shareholders, and limited board independence in many companies mean that stability of the top management team is often associated with a concentration of power and reduced accountability. In such circumstances, stable managers may develop a network of formal and informal relationships that make it difficult for auditors and regulators to detect and expose fraud. In addition, institutional constraints on the audit profession in Iran, including economic pressures, intense price competition, and the dependence of some audit firms on large clients, can exacerbate the effect of management stability on fraud risk. Auditors who work with a stable management team for years may inadvertently develop familiarity bias and underestimate the warning signs of management fraud [5]. Overall, the literature suggests that the stability of the senior management team can act as a double-edged sword in the risk of management fraud. In the absence of effective corporate governance and independent oversight,

this stability becomes a hidden factor in increasing fraud risk, while in stronger institutional environments, it can play a deterrent role. For auditors in Iran, understanding this distinction and paying attention to the behavioral and institutional dimensions of management stability is a fundamental condition for realistic assessment of management fraud risk and improving the quality of professional judgment.

## 5 | Management Stability and Internal Control Effectiveness

The effectiveness of internal controls is considered in the accounting and auditing literature as the backbone of financial reporting reliability and audit risk reduction and is directly influenced by the characteristics and behaviors of the senior management team. Conceptual frameworks of internal control, particularly the COSO framework, emphasize that the control environment and the “tone at the top of the organization” underlie the functioning of other components of internal control [26]. From this perspective, management stability is not only a structural characteristic, but also a behavioral and cultural factor that can gradually affect the effectiveness of internal controls. Recent research suggests that the stability of the senior management team can lead to improved design and implementation of internal controls because stable managers have a deeper understanding of the organization’s operational processes, key risks, and historical weaknesses [27]. This accumulated knowledge, when coupled with ethical commitment and accountability, allows for the gradual refinement of controls and the reduction of structural deficiencies. From this perspective, managerial stability can act as a strengthening factor for internal controls. However, recent literature warns that this same stability, in the absence of effective oversight, may lead to a reduction in the dynamism of control systems and the normalization of ineffective practices. Experienced managers may become attached to the controls they have designed and resist changing or updating them, even when the business environment or operational risks have changed [28]. In such circumstances, internal controls remain seemingly stable, but their actual effectiveness diminishes. Empirical studies of significant internal control weaknesses show that many of these weaknesses are observed in organizations where the senior management team has remained unchanged for long periods. These findings suggest that excessive stability can lead to the development of “management color blindness” to emerging risks [29]. As a result, internal controls will not be able to timely identify new errors and deviations. From an audit perspective, the effectiveness of internal controls is always assessed in interaction with the auditor’s judgment. Research shows that auditors tend to overestimate the effectiveness of internal controls when faced with stable management teams, due to a history of cooperation and positive past experience [16]. This cognitive bias can lead to reduced substantive testing and increased undetected risk, especially when controls are formally documented but weakened in practice. In new corporate governance frameworks, the role of the board of directors and audit committee in containing the negative consequences of management stability has been highlighted. Research shows that audit committee independence and financial expertise can moderate the effect of top management team stability on internal control weaknesses [30]. These findings emphasize that management stability leads to improved controls when accompanied by active and independent oversight. Analysis of the Iranian context shows that the effectiveness of internal controls is strongly influenced by the stability or instability of top management. In many Iranian companies, especially large state-owned and quasi-state enterprises, management teams remain unchanged for long periods. In the absence of independent and ongoing assessments of internal controls, this stability can lead to the entrenchment of informal practices, the circumvention of controls, and the weakening of the control environment. On the other hand, in more private companies or companies that are subject to more active capital market supervision, managerial stability can provide a good opportunity to institutionalize effective internal controls. Stable managers in these companies, if accountable to the board of directors and supervisory bodies, are able to gradually align control systems with international standards. However, the weakness of corporate governance requirements and the limited powers of audit committees in Iran have prevented this potential from being fully realized. Overall, the literature shows that the relationship between managerial stability and the effectiveness of internal controls is not a simple, linear relationship, but rather a function of the institutional context, the quality of supervision, and the organizational culture. For auditors in Iran, assessing internal controls without considering the dynamics of senior management team stability can lead to

inaccurate estimates of audit risk. Simultaneous consideration of management history, quality of oversight, and control flexibility is a prerequisite for realistic assessment of the effectiveness of internal controls in stable management environments.

## 6 | Management Stability as a Latent Variable in Audit Risk Assessment Models

Audit risk assessment models in the classical literature focus on obvious and observable variables such as transaction complexity, industry nature, internal control structure, and history of material misstatements. These models, whether in the form of the traditional audit risk equation or risk-based frameworks, rely primarily on documentable data and objective evidence [17]. However, recent developments in the audit literature indicate that relying solely on these obvious variables cannot fully explain audit failures and cases of failure to detect material misstatements [18]. A major criticism of conventional audit risk assessment models is their neglect of latent and qualitative variables that arise from the behavior, motivations, and power dynamics at the senior management level. Meanwhile, the stability of the senior management team is considered a latent variable that does not appear directly in quantitative equations, but can affect the overall level of audit risk by affecting inherent risk, control risk, and even detection risk [5]. The behavioral audit literature shows that auditors rely heavily on professional judgment and implicit cues in the risk assessment process. Long-term management stability can be perceived as a positive cue and lead to reduced uncertainty and increased predictability in the auditor's mind, even when objective evidence does not support such a result [16]. This implicit perception, without being explicitly recorded in the risk model, can affect the level of testing and the allocation of audit resources.

From the perspective of agency theory, the stability of the senior management team can have two opposing effects on inherent risk at the same time. On the one hand, managerial stability may lead to a reduction in unintentional errors and improved operational processes; on the other hand, concentration of power and reduced supervision may increase management's incentive and ability to manipulate financial reporting [14], [8]. This dichotomy makes the true effect of managerial stability difficult to measure in standard risk models. Recent research shows that many qualitative variables related to management, including leadership style, history of interaction with the auditor, and stability of the senior management team, are implicitly and informally included in auditors' judgments, but are not reflected in formal documentation of risk assessment [19]. This gap between subjective judgment and formal recording of risk is considered a potential source of vulnerability in the audit process. Within the framework of modern auditing standards, especially standards based on understanding the business entity and its environment, attempts have been made to increase auditors' attention to behavioral and cultural factors. However, standards often limit themselves to general statements and do not provide specific practical tools for quantifying or recording variables such as management stability. As a result, this factor remains a latent variable in risk assessment models. In the Iranian context, the role of management stability in the assessment of audit risk is increasingly obscured. The concentrated ownership structure, long-term relationships between managers and auditors, and the limitation of mandatory auditor rotation in some sectors cause the stability of the senior management team to have a more profound effect on the auditor's professional judgment. In many cases, the auditor's long-term recognition of a stable management team is treated as an implicit substitute for objective evidence and is not reflected in the risk assessment. Furthermore, the relative weakness of corporate governance disclosure in Iran limits the possibility of extracting reliable indicators for measuring management stability and its consequences. In such an environment, the stability of the senior management team remains an unwritten assumption in the auditor's mind, rather than being an explicit analytical variable that enters the risk assessment model. This situation can lead to an underestimation of audit risk, especially in companies with long-term management stability and weak oversight.

## 7 | Conceptual Analysis Focusing on Iranian Institutional and Organizational Conditions

A conceptual analysis of senior management team stability and its effect on audit risk requires a simultaneous focus on institutional and organizational factors, because environmental characteristics and organizational structures play a decisive role in how the effects of management stability emerge and are transmitted. The audit and strategic management literature suggests that the institutional environment, including laws, regulations, regulatory bodies, and reporting standards, provides a framework within which management behavior and auditor interactions make sense [18]. In the absence of effective institutional inputs, even stable management teams may engage in opportunistic behavior, increasing the risk of fraud or misrepresentation of financial information. From an organizational perspective, senior management team stability is associated with creating organizational memory, strategic coherence, and improving coordination between units [11]. These features can have positive effects on the quality of financial information and internal controls, especially when management team members interact with each other on a regular basis and shared decision-making frameworks are established. However, recent literature warns that long-term stability without independent oversight can lead to the entrenchment of ineffective practices, reduced accountability, and increased hidden risks [12], [4]. In the Iranian context, institutional and organizational conditions have specific features that exacerbate or moderate the effect of management stability. The concentrated ownership structure, the prominent role of the government and quasi-government in firms, the relative weakness of independent oversight institutions, and the professional constraints of the audit are factors that shape the interactions between the management team and the auditor. In such an environment, the stability of the senior management team is often associated with a concentration of power and reduced accountability, and auditors may reduce their sensitivity to fraud signals in order to maintain professional relationships or reach out to clients [5]. Furthermore, the lack of disclosure and transparency in many Iranian companies means that formal information about management team performance or changes in its composition is limited. As a result, auditors rely on implicit cues and past experience to assess audit risk, and management stability is included as a hidden factor in risk assessment models without being clearly recorded and documented [16]. From a fraud risk perspective, conceptual analysis suggests that management stability can operate in a dual manner.

In organizations with weak oversight, long-term stability may create a network of informal relationships that reduce the possibility of detecting and exposing financial misstatements. In contrast, in companies with active boards, independent audit committees, and adequate information transparency, managerial stability provides an opportunity to institutionalize controls and improve the quality of financial reporting [30]. International literature also shows that senior management team stability, as a latent variable, affects inherent risk, control risk, and detection risk [18], [19]. These effects are particularly prominent in environments with high uncertainty and limited supervision. In Iran, the lack of complete risk assessment mechanisms, lack of institutionalization of internal standards, and institutional pressures make this latent variable more important, and without considering it, audit risk assessments remain incomplete. Conceptual analysis also shows that the interaction between managerial stability and organizational culture is of particular importance. In organizations where a culture of accountability and ethical values are institutionalized, management stability can lead to reduced human error and strengthened internal controls. Conversely, in environments where concentration of power and lack of accountability prevail, management stability provides the ground for manipulation, concealment, and weakening of control systems [22]. From an auditing perspective, considering the institutional conditions of Iran, including auditors' economic dependence on large clients, market pressures, and legal constraints, suggests that the stability of the senior management team can cause cognitive bias in professional judgment. Auditors, especially in organizations with a stable management team, may underestimate the importance of warning signs and underestimate the actual level of risk [16]. Finally, a conceptual analysis focusing on the Iranian context suggests that the stability of the senior management team should be considered as a key and hidden factor in the assessment of audit risk. Integrating this variable into conceptual models and assessment frameworks, taking into account Iran's institutional and organizational

characteristics, can improve the accuracy of risk prediction, the quality of auditor professional judgment, and the effectiveness of internal controls. Ignoring this factor, despite the positive appearance of managerial stability, may lead to underestimation of hidden risks and failure in the audit process, highlighting the need to address it in future studies and risk modeling.

## 8 | Conclusion

In the modern audit literature, the stability of the senior management team is recognized as a hidden factor in the formation and transmission of audit risk, and its effects on risk assessment processes, auditors' professional judgment, and the effectiveness of internal controls are significant. Conceptual analysis shows that this behavioral and institutional variable operates beyond quantitative indicators and financial data and can indirectly change the level of audit risk by reducing uncertainty, building professional trust, and stabilizing relationships between management and the auditor [18]. In environments where management stability is combined with independent oversight and accountability, this feature can strengthen internal processes, improve the quality of financial information, and reduce unintentional errors. Stable managers with a deep understanding of processes, operational risks, and weaknesses in internal control systems are able to gradually create effective control frameworks that have a positive effect on reducing audit risk [27]. However, the literature warns that excessive management stability without appropriate monitoring mechanisms can lead to the entrenchment of ineffective practices, reduce auditors' professional skepticism, and increase hidden risks. This phenomenon is particularly seen in companies with concentrated ownership structures and weak boards, suggesting that the effects of management stability on audit risk can be dual [12], [4]. Analysis of the Iranian context suggests that the stability of the senior management team is of particular importance, as institutional and organizational structures create constraints on independent oversight. The economic dependence of auditors on large companies, concentration of ownership, and poor information disclosure provide the basis for the emergence of hidden risks.

In such circumstances, auditors rely on previous experience and gradual knowledge of the management team to assess audit risk, which makes management stability act as a hidden and influential variable [5]. Examination of the relationship between management stability and management fraud risk also suggests that this characteristic can act in a nonlinear manner. In environments with weak supervision and high concentration of power, management stability may lead to increased risk of fraud and distortion of financial reporting, while in environments with effective corporate governance, stability can deter and stabilize legal and ethical behavior of managers [14], [30]. Also, the stability of the senior management team has a significant effect on the effectiveness of internal controls. Stable managers, with full knowledge of past processes and weaknesses, are able to design and institutionalize coherent and efficient control systems, but in the absence of independent monitoring and effective feedback, this stability can block organizational learning and reduce the flexibility of controls [28]. In the audit risk assessment process, managerial stability, as a latent variable, exerts its effects by reducing or increasing uncertainty, changing the assessment of inherent risk and control risk, and affecting the auditor's professional judgment. This feature makes traditional quantitative risk assessment models unable to fully capture these effects and highlights the need to pay attention to behavioral and institutional variables [16]. In Iran's institutional conditions, the lack of complete supervisory mechanisms and professional restrictions increases the importance of managerial stability and causes this latent variable to play a decisive role in the quality of risk assessment and auditor performance. In addition to examining quantitative indicators, auditors must also pay attention to qualitative analysis of management team interactions, collaboration history, and responses to professional questions in order to assess the true level of risk. The overall conclusion is that the stability of the senior management team is a hidden and multidimensional factor that can both have a deterrent and positive effect on audit risk and, in adverse institutional conditions, increase hidden risks, reduce professional skepticism, and weaken internal controls. Identifying, analyzing, and including this variable in risk assessment frameworks, especially in Iranian institutional and organizational environments, is essential to enhance audit quality, reduce the likelihood of audit failure, and improve auditors' professional decision-making. Finally, the literature shows that

simultaneous attention to managerial stability, institutional conditions, organizational culture, and the role of independent oversight is a prerequisite for realistic assessment of audit risk, and a thorough understanding of these relationships can help policymakers, boards of directors, and auditors to reduce the likelihood of fraud and financial misstatement and improve the quality of financial reporting while maintaining professional trust.

## Author Contributions

Akram Afsay initiated the study and formulated the central research question, as well as structuring the conceptual analysis. Hassan Shafikhani contributed to synthesizing the literature, refining the theoretical arguments, and strengthening the analytical narrative. Both authors were involved in drafting, revising, and finalizing the manuscript.

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## Data Availability

As this study relies on theoretical exploration and prior scholarly works, no primary dataset was generated. All referenced materials are publicly accessible through the cited sources.

## Conflicts of Interest

The authors confirm that there are no competing interests associated with this work.

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